# Transcript

## Conference Call of Muthoot Capital

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*Presentation Session*

***Moderator:*** Good morning ladies and gentlemen. I am Honeyla, moderator for the conference call. Welcome to Muthoot Capital Q4FY17 earnings conference call. We have with us today the management from Muthoot Capital represented by Mr. Madhu Alexiouse, COO; Mr. Vinod Kumar Panicker, CFO, Mr. R. Balakrishnan, General Manager, and Mr. Bimal, General Manager, North and East Operations. At this moment all participants are in listen-only mode. Later, we will conduct a question and answer session. At that time, if you have a question please press * and 1 on your telephone keypad. Please note this conference is recorded. I now would like to hand over the floor to Mr. Digant Haria of Antique Stock Broking for opening remarks. Thank you and over to you sir.

***Digant Haria:*** Good morning to all of you. Thanks for joining in the call and apologies for the delay of 6 minutes. Today we have with us the management from Muthoot Capital to discuss their quarterly performance. They reported the strongest ever quarter in their history, so I will hand over to Madhu sir to take you through what impact demonetization had and how have they recovered from that and what are the initiatives that lie ahead. Over to you Madhu sir.

***Madhu Alexiouse:*** Good morning dear friends and thank you Digant for this opportunity to talk to so many people at one go. What we will do is we will run through some of the important figures which probably Vinod would take us through and then I will pitch in and probably I will give in terms of what are the perspectives we are having about two-wheeler finance industry and what kind of growth we are looking forward to and how actually we are making this happen. I will pitch in later but let's go through the basic statistics I would like Vinod to share with you. Vinod please go ahead.

***Vinod Kumar Panicker:*** Good morning friends, Vinod here. Let me just briefly tell you about what has happened in the quarter. While all of you are fully aware of all the numbers, during the quarter, I think this quarter was the best ever quarter. Our total disbursements were about 423 crores versus 313 crores that we did in the preceding quarter and in the same quarter last year we did about 314 crores; so overall growth was about 34% in both the cases. The revenues were also great. In fact from about 70 crores last quarter we grew close to 80 crores and the preceding year last same quarter we were at about 63 odd crores; so the growth was about 26%. (Audio break) we were able to contain and in the current quarter versus the immediate preceding quarter we actually have a seen a dip of about 3%. All these have actually lead to an overall growth of about 70% in profit before tax and 73% profit after tax versus the immediately preceding quarter and about 63% growth against the same quarter last year. This has actually helped us grow the overall, full year numbers very well and we were happy to actually announce that from a (audio break) crores disbursal that we did last year, we did close to 1300 crores 1298 to be very precise this year which is a 40% growth of the hypothecation on the two wheeler loans growing by about 45% and the corporate loan growing by about 10% versus the last year. The AUM which we had reported, last year we reported about 1038. This year it is close to 1440 crores on a gross basis. Some amount of securitization has brought it down to about 1203 crores on the books and interest revenue has actually gone up by about 24% from about 220 crores to 284 crores. The finance expenses as in lower compared to the growth in the income and it is about 19 odd percent. Operating expenses, because when the volume is growing operating expenses have grown by 26% and that is at about 112 crores versus 89 crores last year. Loan loss provisions, mind you this is a year where we moved from a 150-day regime to a 120-day regime. The loan loss provision has grown from about 17 odd crores to about 22 crores which is a growth of about 27%. On an overall basis the growth has been about 31% growing from about 22.85 crores to about 30.1 crore.

On OPEX we were more or less equal to what we were last year but in the last quarter profits the AUM actually came down to about 59% and we hope to maintain that trend as we go along. Loan loss provisioning last year was about 2.2%; this year we have been able to maintain that at about 2.2% inspite of the movement from 150 to 120 days. Return on AUM has been fantastic. We actually grew from about 2.6% to 2.9% and the last quarter actually showing a number of about 3.9% versus 2.9% of the corresponding quarter last year. Earnings per share of 24% and ROE of about 18-1/2% for the year and about 25% for the quarter per se. So just wanted to thank all of you for all the support and I will just had it over to Madhu and he will get into the operational part of it.

***Madhu Alexiouse:*** Thank you Vinod, I think the people on the call would be interested to know what exactly we are doing because of which we are able to make this kind of results. I think Q4 is where we did a huge bounce back from Q3. There are two quarters where we didn't do the way we should have done that is Q1 and Q3. Q1 because we changed the NPA norms from 150 to 120 it dented our Q1. Q3 of course demonetization effect was there. Q4 is the quarter where we actually did a huge bounce back in terms of disbursement, in terms of improving our asset quality, in terms of whatever expansion we needed to do, we were able to reach out to all our areas where we intended to go. In two-wheeler industry, if you look at the ROA tree, one of the very important thing is besides the asset quality, how you are able to contain the acquisition cost and OPEX. I think Muthoot Capital is a very unique two-wheeler financing company which not many competitors would be able to imitate or come even closer to us. It is about the branch network that we have got across the country, they generate about 20% of the business for us, amount of collection for us because of which our collection costs are lower compared to market. Besides this the reach that we have developed specially in southern markets to semi rural or semi urban areas; we are able to manage a very good yield and fee income. These are certain aspects which has actually helped us to show a very good revenue plus margin for the Q4 and that strategy would continue actually because given our capability to reach the nooks and corner of the country through our branches through our own capabilities is something which is one of the key capability which other financiers may find it very difficult to do because if you look at most of the finance companies who are in two-wheeler business, they generally focus business through dealers and there they actually incur a lot of cost in terms of acquisition cost and then they put their collection team in place so collection costs are higher. Because we have branch network our net credit losses is lower because the reach the customer has to go to any branch and pay specially when demonetization happened and customer had to really search where he should go and pay, we were able to reach all our customers through our branches. So these are certain benefits which we are actually reaping now with the improved market conditions. The book quality which is sourced through our branches is also much better than the business that we source from market so these are certain aspects which are helping us to have a different level of ROA, a different level of margin compared to what market does.

When I was in Mumbai, I was meeting a lot of investors and some of the finance companies were kind of going slow in their two-wheeler business, I was telling that we were having a huge, huge headroom for two-wheeler business. One that industry itself is offering that opportunity because currently the sale is about 1.86 crores that happens across the country. We expect that by 2020 it should be 2.5 crores plus so another 7 million two wheeler additional sales would happen by 2020. The finance proportion would also be going up. We expect that it should go up to 45% to 50% of the industry. Third very important factor here is that the replacement cycle of two-wheeler is going down. As per our research we say within two years, that two wheeler replacements happens by the customer. So the opportunity to increase the existing customers, the number of existing customers you will churn out will be very high. So these are the three basic parameters when I say we are very bullish about headroom about this particular business. Market would offer huge opportunity. The question remains how you manage your other parts of the ROA. Other parts of the ROA I said, one is collection cost, I said what is our capability in maintaining collection cost. We talked about acquisition cost. We are confident that we are one of the lowest (not sure) company in terms of business acquisition. We have still scope to increase our acquisition cost but we have remained kind of lowest in the market. Third and most important thing is asset quality which we have shown that we have been able to contain it down to below 2%. Our NPL was less than 2% for Q4, a lot of improvement in collection as for as NPAs are concerned because I said our network on branches and things like that is very good and you know collection happens very well. Fourth and the most important thing is most of the investors would like to hear from us what is the new product that you will do? So I said with the lower replacement cycle we will be able to generate more customers….more existing customers and that is where our future plans are about how we leverage this existing two-wheeler customer to other related products in terms of loyalty loans to the existing asset itself like top up loan, we can venture into personal loans, we can venture into consumer durables. So there are a lot of opportunities within the two wheeler customers that we are exploring and that would also add to the business that we intend to do. With this existing customers itself we hope that with our current infrastructure without investing even an additional single rupee we should be able to generate business. We are very bullish in tapping the retailers. We are talking to a lot of retailers; you know the business through retailers which would give us additional business without much of investment in the distribution network.

So overall what I am trying to tell is that the components of ROA is something which we have tried to contain. We'll have a very strong focus on ROA to remain at around 3%, that is more than 3% Q4 was around 3.9% so that is where the game is. Every component of ROA is something which the organization would drive. That is probably one of the reasons why Q4 was looking good. I think the entire team is now getting aligned to all these factors. It is not about growing the book; it is not about increasing the disbursement it is about every component that we will be responsibly managing to get that ROA. One of the key things that R&D tries to reach is how to create share holder value. Yesterday we had a board meeting and talking about that. So share holder value is something which is on the top of the priority and everything related to delivering that value to the shareholder value is where the entire organization is aligned. If we are able to deliver the right value to the shareholders then I think it is something which the organization would be able to grow in a big way.

We have huge growth plans. I said 40% is something which is given the fact that the headroom that would get created in the two-wheeler financing business and of course additional products that we will do only for two wheeler customers. When I say new product, I will be talking only about new products for the existing two-wheeler customers. It is not about something new I will come with; definitely not as of now, it is not in the cards because there is a huge thing that we need to deliver to the two-wheeler customers. So this is about the brief perspective. Vinod if you would like to add something? Bala or Bimal if you would like to add something it will be nice. Bala is the business head for us for the south and west which is one of the highly performing zones and they have delivered what they have promised so here is Bala for all of you.

***R. Balakrishnan:*** Good morning. I think Madhu has covered almost all the areas. I would like to add important ideas what we have done in the last financial year. Out of 1125 crores, south and west alone disposed 1050 crores out of which Kerala contribution is about 512 crores, then most of the thing is 200 crores comes from MFL, almost 20%, almost 200 crores and the first time we are doing 200 crores through MFL branches. Mostly 50% have come from Honda contributions and 27% from Hero, so we are maintaining 77% from Honda and Hero distribution, TVS almost 5%, Suzuki 3% and Yamaha is 9%,. So those are the major highlights of last financial year. Then talking about….the industry has grown by 8% this financial year, almost 1 crore 80 lakhs vehicles have sold, almost 45% through finance sales. So after demonetization the finance sales have increased. So then last month we were awarded by HMSI, we had a rating in Delhi, were awarded the number one fast growing finance company in pan India and number one financiers in Kerala and we are the number one financiers in Kerala and Karnataka market. We are maintaining number one position for the last one-and-a-half years in Kerala and last eight months we are number one financiers in Karnataka. So our market share in Kerala is almost 44% in Kerala for the Honda market share and 27% for Hero. Bimal do you want to add anything?

***Bimal:*** Good morning everybody. Last financial year we did a disbursement of around approximately 85 crores out of which our Muthoot Fincorp branch contributions was roughly 15%. Since it has been 3-1/2 (not clear) In terms of NPA we have 0.005% hardly any NPAs in the North and East market. I think we have a good plan for the next financial year. We have a good base to build on and I think the next year number we will be meeting.

***Vinod Kumar Panicker:*** I think my colleagues have added or covered almost everything. Now I think we will leave it to Digant and you friends to tell what more you want to know from us.

***Digant Haria:*** Honeyla we can take the questions now.

*Question and Answer Session*

***Moderator:*** Yes sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press * and 1 on your telephone keypad and wait for your turn to ask the question. If you would like to withdraw your request, you may do so by pressing * and 1 again. Sir the first question comes from Anand Bawnani from Sameeksha Capital. Please go ahead.

***Anand Bawnani:*** Good afternoon sir and congratulations for amazing numbers. My first question was about the branches of MFL and the business from those branches. So you mentioned 200 crore business was sourced from MFL's branches, can you share with us the number of branches that we are currently leveraging and what is the potential going forth over the next two, three years?

***Madhu Alexiouse:*** We are having approximately 3500 branches across the country. If you ask me the leverage that we are doing, around 1500 branches is very actively giving us business but 2500 branches actually give us some kind of business. So the potential that we have got from these branches is like additional 40% from their current capacity. So while we are expanding, these are the branches which will deliver us additional numbers, additional quality numbers. So to answer your question, we are seeing that 60% is highly active branches and 40% is kind of in terms of business generation, kind of inactive. But all these branches if a customer walks into pay our installment, they accept our installment, they have the system to log into the business and every process happens online from the (audio break) any person in between, between branch and our process, it is seamlessly connected so they are able to do business very easily. So there is no hassle. It is a matter of the interest of those branches for us which is one of the key strategies that Fincorp branches are also having this particular year.

***Moderator:*** Thank you sir. The next question comes from Jatin Kalra, individual investor. Please go on.

***Jatin Kalra:*** Hello sir, congrats for a great set of results. My phone got cut in between so pardon me if my question you have already covered. I wanted to know about what is the loan book guidance for FY18? That would be the first question.

***Madhu Alexiouse:*** So we are looking forward to continue the same growth that we have done this particular year. That is approximately 40% of the books we plan to grow. We should be 2000 crores plus in terms of our book. Disbursement also we will be able to grow about 40%. So it is something what we have done this year we will continue at least next couple of years. And I said in my opening remarks, we are very bullish. We see a huge headroom for us to grow. While we have the distribution network across the country, the productivity is yet to go up. We have put our systems process in place, the numbers would follow.

***Jatin Kalra:*** Okay. And sir we were giving very good dividends, I guess we have not declared any dividend this year so is that conscious strategy for faster growth?

***Vinod Kumar Panicker:*** The way we thought this time was that we have shown our capability of showing growth by growing the book by about 40%. We hope to continue that in the next couple of years, two, three years. That's what Madhu also said just now. We feel that if we retain the cash in the business, borrow against that also and then grow the business in a much better way. In the past also when we have been discussing with friends like you, we have got suggestions also saying that dividend by itself if it is retained, you can grow faster. We felt that's a very fantastic strategy, we will use it to grow the business. That's a one-point agenda.

***Jatin Kalra:*** Okay, and sir any fund raising kind of…we are growing very fast so when would be need our (not clear) QIP or something?

***Madhu Alexiouse:*** You will hear about that soon.

***Jatin Kalra:*** Okay thank you sir that's it from my side.

***Moderator:*** Thank you sir. The next question comes from Anand Bawnani from Sameeksha Capital. Please go ahead.

***Anand Bawnani:*** Sorry sir, I got disconnected. I also wanted to understand about securitization potential. So currently I think in this quarter, we did a significant amount of securitization; so can you please highlight the number and the potential for the next two years to grow the business through securitization?

***Madhu Alexiouse:*** Currently out of the 1450 crores, about 236 crores is the securitized portfolio which is roughly about 19%. What we plan to do is maybe continue this process maybe look at securitization as a means to funding as well as to ensure that we have good capital adequacy ratio. We will continue doing that. We have done four in the current year totaling to about 378 crores, we hope to continue the same in the coming years also.

***Anand Bawnani:*** Sir I just got confused with the numbers. First you said 226 and then 378 crores…..

***Madhu Alexiouse:*** I said the yearend balance…..out of the 1450, I said out of the securitized portfolio was 236; during the year we did four securitization transactions totaling to 378 crores. Out of that 236 is what is balance at the end of the year.

***Anand Bawnani:*** Okay wonderful and sir if I were to see the ratio; so 378 out of 1440, what was the number for corresponding year….last year?

***Vinod Kumar Panicker:*** This is the first time we did it. The first transaction we did was sometime in August 2016, second in December, third in February and fourth in March.

***Anand Bawnani:*** Okay and….

***Moderator:*** Anand sir, sorry to interrupt. For more questions could you please join the queue by pressing * and 1 again?

***Anand Bawnani:*** Yeah okay.

***Moderator:*** Thank you so much sir. The next question comes from Pritesh Chheda of Lucky Investment Managers. Please go ahead.

***Pritesh Chheda:*** Your lines are not audible maybe a couple of questions maybe repeated. Sir you were giving a breakup of the states, which I could catch that

Kerala is about 500 crores booked for us and Karnataka is about 200 crores. What are the other top state's contributions if any you want to highlight? Second I wanted to know what is now the two-wheeler known as the presenter of the book? We had this aspiration also to be in MSME or SME lending. What is the status there?

***Madhu Alexiouse:*** I agree with you that from your side the voice is not audible but I could pick the gist of your question. Let me reply in my way, if I am missing out something please let me know. We said that Kerala by itself did about 500 crores out of the total disbursement of 1135 crores of hypothecation disburse that we did. Among other states, Karnataka did about 186 crores. About 100 crores was done from Tamil Nadu and then the other states were smaller quantity as we go along. The north and east we did together six states we did about 83 crores. That is out of the breakup list. The 200 crores which my colleague Balakrishnan mentioned was relating to the business which came from MFL, Muthoot Fincorp branches which is spread across the country. So it could be 100 in Kerala, 25 in Karnataka, so on and so forth.

***Pritesh Chheda:*** Okay. This arrangement you started when sir?

***Vinod Kumar Panicker:*** This is going on for at least for the last four, five years, the numbers are huge. Earlier we did have an arrangement, but the numbers were few. It was about FY13, or FY14, my memory says it is about 4%; it is now what we are talking about is 18%.

***Pritesh Chheda:*** FY15 was 4%, now it is 18%?

***Vinod Kumar Panicker:*** No I said, FY14 was 4% then I think it became something like 11% and then it became 18% and so on. This current year it was 18 odd percent.

***Pritesh Chheda:*** And how much is two-wheeler loan as a percentage of the total book now?

***Madhu Alexiouse:*** Out of the total loan book of 1440, two-wheeler is about 1257 or so, 182 is others.

***Pritesh Chheda:*** And you have this specific aspiration to grow in the SME, MSME lending so what is the status there?

***Madhu Alexiouse:*** The SME or MSME which we call as the corporate loans, we always ensure it is in the 10%-12% rate; we don't intend to increase beyond that.

***Pritesh Chheda:*** Okay.

***Madhu Alexiouse: Madhu Alexiouse:*** If we can we'll reduce the percentage as we grow our overall size but definitely not this price.

***Pritesh Chheda:*** Lastly I want to ask…

***Moderator:*** Mr. Pritesh sorry to interrupt sir, could you please join the queue for more questions?

***Pritesh Chheda:*** Ma'am just one question

***Moderator:*** We have more participants waiting on the queue if you don't mind please….?

***Pritesh Chheda:*** Okay.

***Moderator:*** Thank you so much. The next question comes from Mr. Veersingh from Share Capital. Please go ahead.

***Veersingh:*** Sir congratulations for a good set of numbers. My question is now Hero Fincorp is very active and Bajaj Finance is already there for the Bajaj auto vehicles. So how are you winning this problem for Hero Fincorp for Hero Motor Cycles?

***Madhu Alexiouse:*** Can you be a little bit louder please? We were not able to hear you.

***Veersingh:*** Sir earlier Bajaj Finance was doing the finance for the Bajaj auto vehicles, motorcycles; now Hero Fincorp is very active in this space also for Hero Motor Cycles or scooters; so two big Bajaj auto and Hero Fincorp have all subsidiaries, finance subsidiaries. So Honda and TVS are the two other (not clear), so how are you facing….how are the problems from these finance companies?

***Madhu Alexiouse:*** I will give you perspective about how the financing share is for the industry. Out of the 100% share, OEMs, that is Hero or Bajaj do 20% of the overall financing business, 30% is done by NBFCs and about 35% is which the banks do, HDFC and things like that. Balance around 10% is others including unorganized sectors. So OEMs at their best capability also will not be able to reach a level where they become a significant competition to NBFCs. Seen from the OEM perspective, they need all the finances, then only are able to increase their volume. They cannot depend on only their own Hero Fincorp or Bajaj Finance to fund their set of vehicles. So it is shared; whatever business happens is shared between banks, between NBFCs and between OEMs. Of course at counters there would be competition but overall all the players would be able to maintain their market share. Now, the question from financiers' perspective is which product we should focus. I will have a very clear cut priority that I will focus in Honda, I will focus in Hero, I will focus in X, Y, Z; I may not focus in certain segments because my net credit losses on those particular product maybe higher or lower, which his more attractive I will focus on that. So everyone selects their green area, where they will be able to make money and focus there. So everyone co-exists, point number one, point number two, from my perspective, I will see where I will make my money, where is my NCL, my asset quality is safer, I will invest there. You should also look at us from the perspective that the reach that we do in semi-urban area or rural area reach is much immense. So it is more that OEMs need us, than we need to go to them. I will give you an example. About 50 kms from Bangalore is Ramnagaram. Now, I have got a Muthoot Fincorp branch there which did close to 500 units last particular year. There is not even a single dealer there. There is no Hero dealer, there is no Honda dealer, no Bajaj dealer but we have done 500 units, there are sub-dealers. So it is more that OEMs need us to spread their numbers, to increase their numbers to use our distribution network which we have created across the country to get finances. So going forward, this industry as I said in my initial remarks, this industry is going to go about 2.5 crores TIB and approximately 50% vehicles would get financed. So both

OEMs and Finances will have to work together to actually reach the customers and fund it. So I see that as more win-win that we lose kind of model.

***Veersingh:*** Yeah, again if we talk about the competition, particularly in the south market where Muthoot Capital is very strong; now a lot of MFIs have a very wider reach in the rural areas even in the rural areas, MFIs have reaches in the small finance bank, so this can be another factor of competition for you sir if you talk about the branch network because they have an even deeper branch network compared to Muthoot Capital?

***Madhu Alexiouse:*** See in two-wheeler business it is not just about having a network or having a branch and customers coming in and buying the vehicle. In two-wheeler finance, it is more about turnaround time. Customer walks into the dealership and two hour's time dealer wants approval and sanction and payment so that he delivers the two wheeler to the customer. So if any player who is able to set the process right and he is able to disburse faster than anyone else, that particular financier would be able to get the business. So opening a branch, opening network, having deep pockets in this business is not important. Important is front-end. Front-end how strong you are, how cost effective….I said acquisition cost, I talked about process, I am talking about how soon you can deliver the vehicle to the customer that is where the success lies. That is where including our branch network which is able to kind of give the sanction to the customer across the table. We have system process in place where if a customer walks into (audio-break) we are able to kind of give them approval in 20 minutes time. S if that capability is there with any finance company they will be able to get some business, otherwise it is very difficult because dealers himself , if he allows the customer to walk out of the dealership without vehicle that dealer may lose that customer to some other dealership who is able to deliver the vehicle faster. So this competition is not just about the distribution network, it is about the setting the entire process right and I talked about corporates where this year we have brought it down by 7%, how we are doing it more cost effectively is where the whole game lies. So here and there, there would be a lot of competition but how stably they will be able to do, how long-term their thinking, how continuously they will be able to support the market in terms of two-wheeler finance is a big question mark. You will be hearing about a lot of companies pulling out from various….there are finance companies who have pulled out of Kerala; there are finance companies who have pulled out of Karnataka because they were not able to sustain. We have shown that we have been able to sustain over every quarter. So this game is a long-term game and all the aspects related to ROA should be addressed; then only you can be long-term, then only you'll be able to survive in this business.

***Veersingh:*** So sir my last question, here onwards we will have more focus on two-wheeler financing, or some other kind of loans that we are talking about?

***Madhu Alexiouse:*** See as I said, that two wheeler is something that we have set our model right. So as of now we will look at only two wheelers and the product linked to the two wheelers like giving them a top-up loan, like giving them a PL, like giving them consumer durable….so we will be totally focused on two-wheeler customers, two-wheeler business as of now. We will study what are the other products if we are able to replicate something what we have done in two-wheelers then we will look at those products. But as of now there is nothing that we are looking at besides two-wheeler and two-wheeler customers.

***Veersingh:*** Okay thank you very much sir.

***Moderator:*** Thank you sir. The next question comes from Sri Sankar from Prabhudas. Please go ahead.

***Sri Sankar:*** Hi I have got a couple of questions. When I look at your NPL disbursement etc., etc., it is basically south India, mostly in Kerala. So to what extent you can increase your two-wheeler disbursement in a state like Kerala?

***Vinod Kumar Panicker:*** See, Vinod here. I believe you got the presentation on time, what you had asked for?

***Sri Sankar:*** Yeah.

***Vinod Kumar Panicker:*** Sri Sankar, in Kerala we've done a lot 500 crores, maybe next year we will look at or we are looking at a very smaller growth in Kerala this year. But then a large chunk would come from other states where we have got limited presence or I would say there is lot more in those states for us to do. While we keep saying in south India we are well entrenched there is a lot of headroom in south India itself, maybe Karnataka. Tamil Nadu, Andhra and Telangana there is a lot of headroom. North and east, we have just scratched the surface; we are just one year old there. West, also Gujarat and Maharashtra, we are at the periphery there is a lot more to do. So wherein we are not looking at Kerala only for growth, we are looking at the entire country for growth. So we are currently in about 15 states, we will continue to show the kind of growth that we have done in the current year, may not be from the same geographies.

***Sri Sankar:*** Okay. Sir you have got your inherent strength in a state like Kerala, do you think that you will be able to extend the same strength into other geographies also whereby you will be able to have a lower cost?

***Madhu Alexiouse:*** So, in Kerala or let's say south, definitely we are having a leading share. One of the reasons why Kerala is something which we would like to remain wherever we are because we have a significant share there. The expansion is driven not by IT advancement and digital initiatives, we are not looking at opening branches, we are not looking at creating a brick and motor kind of distribution network. It would be driven absolutely by digital capabilities through tablets, through mobile apps. The processes the turnaround time, these are certain things which we will work very aggressively on but we will look at very low cost process and that is where our strength lies in keeping the cost lower. The movement of documents, the movement of paper work, logistics, all these things are taken into account while expanding our pilot going on, in terms of the solution how we ensure that at this we have the manpower cost rather than anything else. So we are working on a very low-cost distribution model in north, east and west. As we go forward that would be one of the key things; OPEX is one of the key things we are keeping in mind. In my opening remark I said that to make money ROA tree is important, two-wheelers and that is where our focus is. So point taken, the cost would be lower and it would be more towards how we put our IT together, our digitization together and have the solution. There is a lot of work already done on that so maybe next Q1 or Q2 we would be ready with that and you will see the kind of spread that we will have in the market in terms of reach, in terms of increasing the customer base outside south.

***Sri Sankar:*** I have one more question and after that I will go back to queue. You were mentioning earlier….I missed that particular part about which are the segments….which are the manufacturers where you have got share etc. Can you please repeat it?

***Madhu Alexiouse:*** We will remain focused….there are top four or five manufacturers who dominate the market. We would remain focused on top three or four. Top most is Honda, then Hero is there, we will remain focused on TVS and then probably Yamaha plus Royal Enfield because south is like a lot of customers buy bullet and we have a lot of schemes related to gold-link, (not sure) money and things like that for high cost bikes. So these are the manufacturers where we will remain focused. But I think predominantly Honda and Hero is where we will (not clear) and the asset quality is also quite good on these two products plus additional couple of other brands.

***Sri Sankar:*** Okay we choose, (not clear) Hero, Yamaha and TVS that's the top four….?

***Madhu Alexiouse:*** Enfield also I said, Royal Enfield.

***Sri Sankar:*** Okay I have got a couple of questions; I will come back in the queue. Thank you.

***Madhu Alexiouse:*** Okay sure.

***Moderator:*** Thank you sir. The next question comes from Mr. Nishant from Axis Capital, please go ahead.

***Nishant:*** Hi sir, one very small question, on page 20 of the slide you presented your cost of funds. It seems in the last five quarters, the cost of funds has not declined much. It has gone from 10.9 in Q4 of 16 to 10.5 now. Why is this sir? There has been a lot of reduction in the bank rates. An ancillary question to that is, 82% of our total external borrowings are from banks so any plans for the place (not clear) with NCDs and CPs?

***Madhu Alexiouse:*** Nishant I think I will answer your first question first. See, our problem lies in what you said in the second part of your question. What is happening is 82% of our borrowing is currently from banks and that has remained like that for a while now. Most of the banks have a one year MCLR and things like that. So while the rates went down in the first quarter, or coming down in the third quarter also there was some bit of reduction and fourth quarter there was a decent amount of reduction. Roughly 50% of the sanctions which we have, against them we have not got major reduction because the MCLRs were for a longer period, so as we go along over the next…..maybe by the next quarter I think most of them will be giving me the new rates or the lower rates. That is one of the reasons why the rates have gone down; it is not gone down in a big way. I agree with you it is 10.46 to be very precise. We would have been happy if it was closer to 10, number one and number two is, whether we are looking at replacing it with anything else, definitely we would look at replacing it with lower cost funds in whatever form we get and definitely first the group, we would need to look at tier 1.

***Nishant:*** Okay, no plans to pass on some of these benefits to your customer right? That will remain as a fixed rate interest loans.

***Madhu Alexiouse:*** It is currently fixed rate interest loans and it will remain that way.

***Vinod Kumar Panicker:*** There are certain things where we work on lower IRR but otherwise from the reduction there is nothing passé on because everything is EMI based and it is on fixed cost.

***Nishant:*** So a follow-on question to this. Logically sometime during this year, most of our bank borrowings which is 80% of our liabilities will re-price downwards and this could be material revision downwards. For example in this calendar year 2017, SBI started it off with a big 90 bits rate cut, so even if say most of it translates and 80% of your liabilities are bank borrowings we are likely to see a big downfall in your cost of funds but our overall combined yields more or less remain the same. Therefore we can have a case for re (not clear).

***Madhu Alexiouse:*** You can put it that way.

***Nishant:*** Yeah, so we have a case for new expansion this year right?

***Madhu Alexiouse:*** Expansion to some extent yes.

***Nishant:*** Why only to some extent? Why not sounding confident sir?

***Madhu Alexiouse:*** You should expect a decent amount of expansion but don't expect too much…let me put it that way.

***Nishant:*** Okay thank you sir.

***Madhu Alexiouse:*** We believe in delivering more than what we say.

***Nishant:*** Awesome, okay thank you sir.

***Moderator:*** Thank you sir. Next question comes from Mr. Pritesh Chheda from Lucky Investment Managers, please go ahead.

***Pritesh Chheda:*** Most of my questions have been answered now, thank you.

***Moderator:*** Thank you sir. The next question comes from Mr. Anand Bawnani from Sameeksha Capital, please go ahead.

***Anand Bawnani:*** Our arrangement with Muthoot Finance is it exclusive and if you can help us understand how much related to other participants do we pay customization cost to Muthoot Finance and how often do we revise it?

***Madhu Alexiouse:*** It is not Muthoot Finance, it is Muthoot Fincorp Limited. Muthoot Finance is the red one; so that is separate, we don't do any business with them. It is only the blue one that is Muthoot Fincorp that does gold loan. So it is exclusive. They do not source any business for any other company than Muthoot Capital.

***Anand Bawnani:*** Okay and in the earlier part of the concall you mentioned that we had a very low custom acquisition cost. Would it be right to presume that the significantly low custom acquisition cost is because we can leverage the branches of Muthoot Fincorp?

***Madhu Alexiouse:*** Can you come back again and a bit louder?

***Anand Bawnani:*** Is our advantage in terms of lower customer acquisition cost is significantly because of the leverage that we have from Muthoot Fincorp branches?

***Madhu Alexiouse:*** It is both ways. Of course Muthoot Fincorp acquisition cost is definitely lower but wherever dealerships, we are paying actually lesser amount compared to what market pays. One of the reasons is that how we are able to generate business on our own. B) How we are helping them to reach out to semi-urban areas. I gave you the example of 50 kmts from Bangalore. So dealers definitely see value addition that Muthoot Capital brings into their table. One of the responses I was telling at how this market is going to be. It is going to be both OEM and Finance companies working together to tap this business because with the increasing demand for two-wheelers finance would go up and the number of finances that are there, NBFCs would play a very major role in contributing to the success of OEMs. So dealers definitely see a lot of value in Muthoot Capital. Let's take Delhi. Around Delhi we will be having 50 Fincorp branches. Around Bangalore we have 150 plus branches, so you can imagine once all these branches become active, the kind of business we will be able to contribute to the market would be huge. So it is mutual that we have tried to maintain our acquisition cost lower at the dealership at the market compared to what competitors' offers at the same time we have been able to give business back to the dealers. So it is win-win that we have created because of which our acquisition cost has been lower.

***Nishant:*** Okay and sir this agreement with Muthoot Fincorp is it up for renewal anytime soon or when is it likely to be under consideration?

***Madhu Alexiouse:*** It is something which is not going to impact my ROA, let me assure you that. These deals are not that which is going to impact me in anyway because the kind of leverage I get in collections is immense, the quality of business that they give me is immense. So I have much more benefits compared to the acquisition cost. So let me assure you that it is not something even if it is revised it is going to hurt us, let me assure everyone of that.

***Nishant:*** Okay thank you sir. I will come back in the queue.

***Moderator:*** Thank you sir. The next question comes from Mr. Sri Sankar from Prabhudas, please go ahead.

***Sri Sankar:*** Sir you mentioned about your 3000 odd branches that you have of which around 1500 are actively giving business and totally 2500….

***Madhu Alexiouse:*** Please can you speak a bit louder?

***Sri Sankar:*** Sorry, 1500 branches are actively giving business. You also mentioned out of the 2500 another 1000 branches are giving certain amount of business. What do you mean of the 3,500, 40% of the branches are quite inactive, I didn't really understand that? Can you please explain?

***Madhu Alexiouse:*** Inactive branches would be branches where we have not been able to put the infrastructure in place. When we do expansions, to activate a branch and they kind of learn about the product and start giving us business it takes some time. There is a gestation period of learning. When the branches are allowed to do two-wheeler finance business, they need to be trained, they need to understand the system, process, they are allowed online login of the business. So it takes some time for them to actually take off. So the kind of expansion what we have done in the last six, seven months, a lot of branches need to come up to that curve; that is where some of the branches give lesser business because they are really in the process of really picking up backhand and the information that reaches to the existing customer that okay that branch if you go, you will get two-wheeler finance, that also information need to be percolated to all the customers. So that is the work in progress I would say that these branches need to become active. Earlier we were not there, now we are there, so they have to learn and then they have to start sourcing the business and give it to us. So these are all work in progress. So as the expansion goes very aggressive and as we are ready to take more business wherever we have expanded last six months or one year, these branches would become hyper active let me tell you that.

***Sri Sankar:*** Okay how many branches got added last year, say FY'16 and FY'17?

***R. Balakrishnan:*** We added almost 300 branches last financial year, earlier from 2512 we moved to 2812 active branches of which I am giving 1200 branches are giving more than 5 (not clear) month on month (not clear) 1200 branches.

***Sri Sankar:*** Sorry, I didn't hear you. You added 300 branches in FY…..?

***Madhu Alexiouse:*** I will explain that. Out of active branches that is 2,500, about 50% of them give us business which is more than 5 units which are very high active branches and balance they give us very less business which is now in the process of giving us more business. Besides that we have added additional around 350 branches, about 350 branches which have become active last year. So we are (audio break) where people have started giving us business, of which about 1215 branches are (audio break)

***Moderator:*** Hello sir?

***Madhu Alexiouse:*** We have responded we are waiting for Sri to respond.

***Moderator:*** Sir we lost the connection for Mr. Sri sir. That will be the last question for the day. Thank you sir. Ladies and gentlemen this concludes your conference call for today. Thank you for your participation and for using Door Sabha's conference call service. You may all disconnect your lines now. Thank you and have a good day everyone.

***Note:*** 1.This document has been edited to improve readability.
2. Blanks in this transcript represent inaudible or incomprehensible words.