"Muthoot Capital Services Q1 FY2020 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Muthoot Capital Service Q1 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. Thanks for taking out time and it has been a tough macro environment for the country in general. So without wasting much time here, I will hand it over to Vinod and Madhu. They can take us through what are the trends that they are seeing and how is the company responding to those trends. Over to you Sir!

Vinod Panicker: Good afternoon my friends. This is Vinod Panicker. Thanks to all of you for being on the call with us. In fact this is first quarter when we have first time gone into Ind As and that is the reason why we have delayed the account by about 13-14 days from our normal timing.

To start with the financial numbers, this has definitely been a continuation of the previous quarter that in fact being relatively tough compared to the same quarter last year and lot of it gets reflected in the numbers that has come out. I would start by saying that the disbursement was more or less on par with the same quarter last year at about Rs. 486 Crores leading to a total overall book of about Rs. 2760 Crores versus close to Rs. 2350 Crores that we had same time last year. The interest revenue, it is now getting calculated on basis of Ind As, was at about Rs. 144 Crores versus about Rs. 114 Crores. The finance expenses rose sharply by about 41% at about 55 Crores. I will come to that in detail immediately after I give the overall numbers. The operating expenses was again higher by about 30% at about Rs. 44.5 Crores and the loan loss provisioning was at about 17 Crores. All this leading to bottom line of about Rs. 26.9 Crores before tax and the profit after tax of about 13.6 Crores.

Now if we try and dissect each of the number separately, I would want to take up the income first. The income has a one time gain which is on account of the direct assignment transaction that we did in the current quarter which is a figure of about Rs. 6.49 Crores. The income is also net, of about Rs. 2.33 Crores of unrealized interest income, which is on account of the increased NPA and we are not recognizing the unrealized interest on these NPAs. We have seen from many presentation that other NBFCs have put up, where they have actually included the income on NPAs into the books, we have not done because we feel that there is no certainty so it is appropriate not to account for it.. On the finance expenses at about Rs. 55 Crores, a growth of about 41% obviously worries all of you and also us.

But then I would want to dissect it into the two parts, the borrowing increased by roughly about Rs. 340 Crores at current cost of about 10.3%, the quarterly expenditure comes to close to 9 Crores, about 8.9 to 9 Crores, on the 340 Crores. Between the same quarter last year and this quarter, the interest cost went up by about 1% point from about 9.3% to 10.3% on borrowing of about Rs. 800 Crores without considering the increased borrowing, it comes to roughly about Rs. 4.5 Crores, this both itself is about 13.5 to 14 Crores, which is the reason for the increase in the finance expenses. Fortunately, the interest pressure has reduced, on the liquidity front we are reasonably well liquid and the cost we have seen coming down, so we should possibly not expect any increase going forward from here.

On the other operating expense, it has got two parts, one is the employee cost and second one is other expenses. On the employee cost, between the same quarter last year and the current quarter, we have increased our number of employees on and off roll by about 287. While the going has been tough for the last two to three quarters, we believed that if the employees are on roll and they start learning the things, when the market overall grows, they would be ready to increase the productivity many folds and that is the reason we increased the number by about 287 and that has seen the cost going up by about Rs. 4 Crores under the employee's expense head.

On the other expenses, the major expenditure increase has been on the collection front from about 11.8 Crores, it has gone to about 17.97 Crores, a growth of about 8 Crores, but one needs to understand over last one year, the collection for the quarter increased from about 386 Crores to about Rs. 484 Crores, a growth of about Rs. 98 Crores, which boils down to a cost of about 6% on the incremental collection. Obviously, that is one area that we can look at reducing the cost, which we are working on in the current quarter.

Last but not the least, is the deferred tax. We are one of the companies, which would come under the 25% tax bracket from the current financial year. In the past, the provisioning that we have done on NPA, against that we have created deferred tax asset to the tune of about Rs 16.5 Crores, apart from that during the transitions to Ind As, there has been an additional creation of deferred tax to the tune of about 17 Crores. This 33 Crores has been booked at the then applicable tax rate of about 34.944%, which is the tax plus the surcharge put together. With the reduction in the rate to 25%, including the surcharge to about 29.12%, there is an additional asset which is carried in the books to the extent of about 5% out of the 34.944%, which is about 5.4 Crores. In the current quarter, we have written down that 5.4 Crores, and that is the reason why you see the tax rate at about 49% versus the 29% that it should ideally be. So all these led to the PAT being at about 13.6 Crores versus about 17.5 Crores last year.

While the number looks lower, we believe that if all these numbers are considered together, actually the numbers are more or less on par versus last year. I would just now ask Madhu to take it forward.

Madhu Alexiouse: Good afternoon friends. I think I would like to slightly move back two or three quarters and there is a need to do a recap what has happened last one year, Q2 is when the Onam floods started in Kerala and then they were couple of more natural issues related to floods that is happening in Tamil Nadu and Karnataka and then Q3, Q4 you saw the insurance prices going up and then the liquidity crisis that happened and then prices going up around Q3, Q4 because of which the two wheeler industry came down.

Given that background, as we looked during the Q1, I think that slow down impact which was there in Q3, Q4, actually was steady as far as numbers are concerned so Q4 and Q1 sales where in line in a steady state basis, but definitely lower to Q1, the market has degrown by about 13%. Of course we have data pertaining to the vehicle registration that has happened, what is the two wheeler inventory that is there in the market. You would have seen the two wheeler OEMs results, you would have analyzed how the NBFC, the competitors for us, how they are reacting in the market. I would say that the numbers that we are seeing right now is something which is bottomed out. Q2 onwards the festive season starts specially Kerala where we are predominantly there, last year we did not have Onam because of floods, this year Onam would be there, I hope floods are not going to be there. For us, it is a plus and as we go forward in Q3, Q4 I think there is a huge upside for us as far as two wheeler business is concerned.

There are other important factors that we need to consider as far as Muthoot Capital is concerned. Last couple of years, we have been taking about our expansion, about our new products that we are going to launch, this quarter that is Q2 and Q3 we are getting into three more new states, so as far as expansion is concerned, we are not holding back anything, we are going ahead with our expansion, there had been no slow down as far as we are concerned to grow, our two wheeler business is concerned, we are in 20 states and UTs, we will be in 23 states. In Used car, last year, around Q4, we said we want to go into 10 centers, right now we are in eight centers, around H1 we will be in 10 centers, so we said that this financial year we will be active in 10 centers that is there. Consumer durable we are piloting Kerala before Onam we will pilot across Kerala so that product also is something, which we are highly committed that this year it should take off.

So against the background of whatever slow down and things like that as far as we are concerned, we are getting ready for what is the next level of growth that can happen, what is the next level of upside that MCSLhas got and ensure that we drive that plan.

Coming to how we have fared against the market, we have actually maintained our market share. As far as two wheeler sales is concerned MCSL retained it's market share, overall we are at about 1.63% market share, which is a good point. We did not go very aggressive on growth front, I want to make it upfront, during our last call also I had said that I am not going to chase growth, lot of people have vacated the market, I may not like to take additional risk because this is not the time that I should take a huge risk in the market so we have been very conservative as far as our lending is concerned. Focus had been on portfolio quality, portfolio improvement. Then on the technology front, we have involved lot of things as far as sourcing is concerned, underwriting is concerned, lot of automation is happening, so the focus had been how to ensure we have the right portfolio quality, risk written balancing, these are the aspects which we have been focusing, so I would say that we should not look at growth right now because with increased growth, I think there is a disproportionate increase in risk that would happen, so we have remained conservative during Q1 as well.

We will continue similarly as far as Q2 and Q3 is concerned, we will look at which are good growth areas, we will grow aggressively there, but contained in areas where the risks are disproportionately high. So I would say that Q1 was a mixed baggage for us in the sense that the trend remained as like Q4, we are not very worried as far as the top line is concerned because I said that the focus was on quality, the focus was on having the profitable growth, having the right quality growth, and I am seeing some positives in Q2 and Q3 with festive seasons, and with Euro 6 getting launched in around Q4, I think lot of cash customers may get converted to finance. Right now the cash customer is about 62 to 65%, in metros, they can be lesser but where we operate that is tier 3, tier 4 centers, the cash customer is around 64%- 63%, I think a lot of customers from that segment would convert into finance.

As I said, portfolio quality is something which we are working in terms of our processes, the process, the scorecard to tap new to credit customers that is one initiative that we are aggressively pursuing because with the increase in finance penetration, we need to really have the right quality customers coming into our fold, who have no credit background, so system wise also we are getting ready for that, so I think from here it is upside for us. From expansion perspective, from new product launch perspective, and once the monsoon is over and market opens up, I think it should be better quarters for us as we go forward. Digant over to you!

Digant Haria: Yes Sir. I think Steven we can start 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 Digant Haria from Antique Stock Broking. Please go ahead.

Digant Haria: I just thought that till the queue is announced, I can take this liberty of asking one question, so Sir the one thing which we constantly keep on reading is that at the dealer level there are lot of closures especially for the four wheelers, lot of dealers have closed down, so you can just tell us about what is happening at the dealer levels for two wheelers like are we not seeing enough walk-ins or there are walk-ins and the sales are not able to happen because NBFCs are not lending or it is just that, it is a combination of all these things. Any color on this would be really helpful.

Vinod Panicker: So Digant, definitely there is a demand problem. Demand issue is definitely there, and it started and in my recap I will say that around Q2 or Q3 when the insurance cost went up, customers kind of pulled back from their planned purchase and they postponed that, we will purchase it later, we also need to look at the fact that in future, Euro 6 would get launched and so there could be some more impact on the demand, but the positive side of the whole thing is that the total industrial volume of two wheeler is close to 2 Crores. Last year we sold Rs. 2 Crores 10 lakh. The basic commuting by any common man or person who is into small business like he could be having a pan shop, he could be having a small tea shop, for them this is a part of the business model, I mean they do this business with the help of a two wheeler, without that survival is difficult, so irrespective of how the price is going to impact the demand, the need to have two wheeler is very high as far as this country is concerned, so I am not seeing that from 2 Crores there would be a huge dip and whatever sales happens around 2 Crores about I said 60-63% customers they buy with cash, so there is a huge opportunity for finance companies to tap those customers with the increase in price naturally the margin money requirement would go up and so customer may intend to take finance at the dealership through a finance company.

Now coming to dealer point, dealers had been holding quite a big inventory as far as two wheelers is concerned, and they will have to clear this inventory lets say by Q3 or Q4 so that the Euro 6 model comes, all the OEMs are ready with Euro 6 models right now, so as Q4 comes, Euro 6 model would be there in the market, so before that they have to clear all the stock, I think there would be a very sweet spot for customers if they want to buy it immediately naturally they will have a price advantage compared to Euro 6, so they will save some money, so I am hoping that my projection is that around Q2, Q3 with festive season coming in, lot of customers may like to buy these vehicles rather than wait for a Euro 6 and pay higher for that. So all the pent up demand and the current inventory level that is there should get cleaned up by Q3 that is my study about the whole thing. Unlike cars, in two wheelers I am not going to say how many dealers would close, but definitely it may not be like what is happening in the four wheeler segment, two wheeler segment because there is a lower fixed cost, the working capital cycle is smaller so majority of the dealers are mid size or smaller size and there are lot of brokers operating in this segment who invest their money in terms of working capital and things like that. So the impact on two wheeler dealer is not going to be much but only positive that I see is that once the festive season comes may be around that will come to know how really sales is going to pick up, Q2-Q3 is very critical and during that time if inventory can be cleared up, I think then the dealers would be able to survive on a long term basis.

Digant Haria: Okay. Thanks. That is very useful. Steven you can take the questions from the queue. Thank you.

Moderator: Thank you. The next question is from the line of Agastya Dave from CAO Capital. Please go ahead.

Agastya Dave: Thank you for the opportunity Sir. Sir I just wanted to confirm that after all these adjustments that you are talking about is the transition part to Ind As completely done, there is nothing on the balance sheet that you need to adjust for going forward.

Vinod Panicker: No, we confirm that nothing is pending to be done. Whatever has been done is final.

Agastya Dave: And I could account three large impacts on the P&L one was Rs. 6.4 Crores, one off gain from DA, second was 2.33 Crores net off from NPA cost which you have not taken as income and the final one was the deferred tax, did I miss anything Sir, any other?

Vinod Panicker: No, I think you have covered everything, which is relating to the Ind As part of it, I separately mentioned about what was the operational part of it also because I had actually separately covered about the employee cost going up, collection cost going up and more importantly the interest cost, is the reason why it went up.

Agastya Dave: Yes Sir

Vinod Panicker: It is a combination of six factors.

Agastya Dave: Sir you mentioned that for the quarter incremental cost show funds was around 10.3% and then you mentioned that it is coming down, so where has it reached?

Vinod Panicker: No what I said was for the current quarter, the fund was 10.3%, versus the 9.3 which it was same time last year. Now, we have seen some element of stability, in the sense, couple of banks have actually reduced their rates by a little bit and most important was the announcement which SBI came out with yesterday saying that they are reducing the interest on the deposits, which would effectively mean that the lending rate should start coming down from now. By not a big number, but then obviously even if it remains stable, we are fairly comfortable. We have seen a long period, almost last nine month where we have seen it going up only, so I think we would be comfortable if it goes down or remains stable.

Agastya Dave: Correct. Now Sir just three smallest questions, one is that after all these adjustments, this is a hypothetical question, lets say your AUM grows by 25%, will that automatically mean that the NII goes up by 25% under Ind As, I am just talking about the accounting part, I am not talking about movement in cost of funds or movement in yields?

Vinod Panicker: AUM goes up by 25%?

Agastya Dave: NII automatically goes by 25% under Ind As or they are certain adjustments, which always keep on happening under the new accounting policy?

Vinod Panicker: No. We are confident that the NII would grow around the same, around the same percentage, may be a percentage point here or there, but definitely not beyond that.

Agastya Dave: Sir before going back to the queue, in the presentation, you have written that you are now again focused at 3600 Crores of AUM as we were talking about during last QIP. Two questions around that, so one is what is your plan on the QIP and the second is this growth number, this 3600 Crores AUM number, are you attempting to reach there by the end of this year or you are postponing it a little bit, how do you see the entire thing playing out because there are so many moving parts here, it is very tough to realize what kind of inherent growth can we have, so any comment on that would be great?

Vinod Panicker: First of all, on the presentation I do not remember putting a number of 3600.

Agastya Dave: Sir it is there in the last slide, I will give you the slide number, I think it is 29 and this is the last point way forward?

Vinod Panicker: We said 3500, what we have said is this is the number that we had given at the time of doing the QIP and a lot depends on Q2 like what Madhu said just now, the basis is if we are doing very well in Q2 during the festive season, we should be close to that in fact may be last quarter, at the end of the last quarter when we did a call, we have said that we are hoping to reach about 3400-3500 by the end of this year.

Agastya Dave: So, you are sticking with that?

Vinod Panicker: As of now we are not changing any guidance, number one, because we would want to see the current quarter and if in this quarter we do well, we are fairly confident we should do better in the next two quarters . Number two you asked about the QIP plan, we hope to do that in the third or fourth quarter which is what we had always said.

Agastya Dave: Perfect Sir, I will go back in the queue. Thank you very much Sir. Good luck for the next quarter.

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

Umang Shah: Hi Vinod. Hi Madhu. Thank you so much for taking my question. My first question is on given this Ind As changes, which happened, do you see a structural change in the ROA, ROE trajectory which the company delivers?

Vinod Panicker: Hi Umang. Vinod here. Over a period of time, we do not see anything, in fact, the way we look at Ind As we feel that over a period of time, it will stabilize the things may be one good quarter, one bad quarter, may not lead to a big negative or a major positive, so number should stabilize, should not change in a very big way. In fact, in one of the slide, that we had mentioned it also that if the deferred tax is not considered, the ROEs at about 2.7 in spite of the numbers having come down. On a normal basis, I think we should look at about 3% of ROA which is something which we have always committed.

Umang Shah: Got it. So Vinod you know my question here is with Ind As coming in, we will not be allowed to grow the processing fee upfront, so will that have any implications on the ROE going forward?

Vinod Panicker: No, which is what I said, I said that it will stabilize over a period of time, the ups and downs of a particular quarter will not impact that quarter.

Umang Shah: Got it and Madhu, one question I have here is on the disbursement growth, if you look at your peers like L&T they have delivered a disbursement growth of 14% Y-o-Y, if you look at Bajaj Finance there, two wheeler plus three wheeler AUM has gone up by 55-60%, so I would love to hear more about our commentary on how are we performing as compared to the peers given that our disbursements have grown at 3%?

Madhu Alexiouse: So, as I stated in the starting, Umang, that while we had the opportunity to grow in a big way, we have tried to be conservative. The issue here is that when market is going down, and dealer viability is a problem, and there is a increased effort by dealers to push more cases which may not be eligible and you also become aggressive the chances that you end up doing wrong businesses is very high, so you need to be, when the market is going down, it is good to be conservative, and the competitors that you have spoken just now, let say we will take the example of Bajaj they are a captive finance company, so their objective of funding would be totally different compared to what our is, we may like to really be very selective as far as our portfolio is concerned. And there is nothing wrong in couple of quarters or three quarters, you become conservative, wait for the market where you see signs that are okay, things are better, the cash flows are better for the customer, and then you get into more aggression as far as funding is concerned. And so what I said is that we had lot of other strategic objectives that we need to achieve, one of the thing was how we expand across the country, so three new states which we were to enter, we will enter this quarter Q2 and Q3, I said we have already planned, we will launch new products so we will focus there, and two wheeler will continue our conservative approach, till around Q2 or Q3 where we are very sure that now the cash flows are better for the customers, cash flows are better for the dealer and then push up our aggression. I hope this gives you some flavor in terms of how we are looking ahead as far as two-wheeler business is concerned.

Umang Shah: Vinod mentioned in his commentary that collection costs have gone up to Rs. 17.9 Crores but would love some commentary from you on despite this increase in collection costs, our NPA number has gone up from 5% to 5.8% or if you look at sequentially 4.9% to 5.8% so would love to hear some commentary on that?

Vinod Panicker: Umang, in fact in one of the slides which we have put, which I am sure you would have seen, Q1 is a quarter when we see a huge jump in the NPA numbers. In fact, over the last five to six years that I have been around here, I have seen the NPA numbers in Q1, after a robust Q4 collection and huge reduction in Q4 , normally sees a spike, April it shoots up like anything, May it stabilizes, June you see some bit of reduction, some bit means negligible reduction. Unfortunately, in the month of June this year, we saw a small increase, which is why the number looks elevated. Obviously we are very much concerned, but then what we have seen in the past, is that, over the next three quarters, these numbers come down and it will come down significantly. So between Q4 and Q1 we should not possibly look at the percentages. We were confident that the numbers will come over the next two to three quarters.

Madhu Alexiouse: This is typical to auto sector that during the Q1 there is always a spike in 90 plus because Q4 is where they focus very aggressively specially March, customers pay three or four installments together to come out of NPA and then wait for couple of months to gather more money and repay back. So it is there typically in commercial vehicles, in cars and two-wheelers, this is a typical scenario.

Vinod Panicker : It is basically a feel good factor for the company that even the customers may ensure that they feel that way. It is in slide 19 that we have uploaded that you will see this numbers.

Umang Shah: Thank you so much. This is useful commentary. One last question which I would like to get some commentary on is, growth going forward in south versus non-south and there how do we think about volume expansion, is it because of increasing dealership coverage, is it because of getting more business from a particular dealership and how should we think about potential for expansion in two wheeler dealerships in the non-south regions and south regions?

Madhu Alexiouse : Three states that we are expanding is east and north so we had been maintaining that the proportion of south business would come down because north and east would grow. So going forward, the opportunities, the touch points that is there is in these areas, it is important to mention that the branch network that we have, they are also expanding in north and east so we go together, we follow them or they follow us and we go together and do the business, so it is more of opportunity that is there and just getting there and starting the business there. At the same time at current dealerships level, current markets, despite whatever happened in the industry we maintained the market share in Q1. So that is the positive point we should look at overall sales and how you maintain your number, we have been able to maintain our market share, so in the current areas of operation, definitely there would be opportunity to have more penetration, more increase in business and we are confident that especially in Tier 3, Tier 4 centers with the elevation of price that would happen around Q4 with Euro VI more and more customer would ask for finance rather than taking the vehicle on cash. So, I think we have opportunity of expansion at the same times from the existing market we have a good opportunity to increase our penetration and our market share. So, for us upside, so I was mentioning upside, upside for us is huge, in my initial talk also I said upside for us is huge because we have the opportunity to expand, we have the opportunity to increase from Tier 3, Tier 4 centers, we are there plus we have the opportunity to launch new products and numbers there. So from that perspective we are good to go Q3, Q4 and make our numbers.

Umang Shah: Got it Sir. This could helpful Sir. All the best for the year. Thank you so much.

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

Kislay Upadhyay: Thank you for the opportunity Sir. If I look at both Ind-As and I-GAAP provisioning it has gone up by 27% and 41% Y-o-Y, and that combined with your commentary of in Q2 and Q3 would see improved cash flow even for the customers, have you been seeing stress which is not normal for a Q1 and can you give the slippage numbers for Q1 FY2019, Q4 FY2019 and Q1 FY2020?

Vinod Panicker: We would have been comfortable if the growth in the NPA would have been in the 18-19 Crores range, may be they were 3 to 4 Crores higher than what we had anticipated or wanted it to be but Q1 normally see the spike. I think when Madhu made a comment saying that we will be happy with the higher cash in the hands of the customer, I think the reference was with reference to the guys going in for new purchases and that is where the higher cash flow would have been useful. Today when you look at the cash flows that he needs to pay an EMI, in our case it is in the range of Rs.1800 to about Rs.3000, we believe it is too a smaller number for us to be really worried, we believe that because of the kind of business that we are in, and the kind of EMIs that we take from each of the customer, we do not think there is any major issue or the NPA increases on account of the cash flow of the customer. When we said that the NPAs would go down in the second and third and fourth quarter it is more to do with the trend that we see on a year-on-year basis.

Kislay Upadhyay: Okay and Sir even on year-on-year basis the loan loss in provision has up significantly by 27%, 41% if we see it with Ind-As or IGAAP?

Vinod Panicker: Which is were I think what we said. There are two things to it. One is definitely the NPA numbers have gone up and between Ind-As and I-GAAP, the major gap would be the incase of Ind-As you provide for almost the entire loan book except, we actually make a provision on the entire loan book, bucket by bucket you make a provision. In the I-GAAP you would have made a provision for the NPA and for the standard assets that is up to 90 days the provisioning was in the range of about 0.4%. It is in one of our slides, which is slide number 8, if you see there we have actually given the difference. In the I-GAAP the overall provisioning that we have done, as on end of June it was about 70 odd Crores, in Ind-As it is about 94 Crores.

Kislay Upadhyay: Okay. Sir the slippage number for Q1, Q4 and Q1 FY2020?

Vinod Panicker: Yes. Sorry.

Kislay Upadhyay: Sir could you give the slippage number for Q1 FY2019, Q4 FY2019 and Q1 FY2020?

Vinod Panicker: Q1 FY2019 the slippage was about 24 Crores, Q4 was about 17.8 or 18 Crores and Q1 is about 34 Crores, but my request is that you should also look at the book side and Q4 the numbers are normally lower because we have mentioned separately that the collections are very robust, the efforts are far more. Q1 is normally prone to slippages and this time we are admitting that slippages have been slightly more than what we would have wanted it to be.

Kislay Upadhyay: On the disbursement part, if I compare Q1 FY2019. Q4 FY2019 and Q1 FY2020 this seems to be flattish except that Rs. 161 Crores of other loans that we disbursed in Q4 FY2019, could you comment on this, what was this other loans and why did not we do as much in Q1 FY2019 or Q1 FY2020?

Vinod Panicker: These are corporate loans which forms about 10% of our book, as we worry about the liquidity, we feel that going forward since you do not know how things will be, is better to preserve cash and we try and reduce that disbursement significantly.

Kislay Upadhyay: Does it not mean to say that Q1 FY2020 we were more worried compare to Q4 FY2019?

Vinod Panicker: Q4 FY2019 obviously that was the last quarter of the year, and you had a target to achieve and that was time when we achieved close to Rs. 550-odd Crores of additional funds or sanctions coming in so that was used for the disbursements, number one. Q1 when we start the year, we would want to go slow and ramp it up over a period of time only, so Q1, Q2 we may not touch too much of other loans.

Kislay Upadhyay: Okay and just finally Sir, on the increasing financial penetration, if you could give the number of vehicle that we financed in Q1, Q4 and Q1 FY2020 that would be great.

Vinod Panicker: Last year Q1 of the current year and Q4 of the last year?

Kislay Upadhyay: Yes Sir.

Vinod Panicker: Okay. Q1 of the last year was about 85000 may be give or take a few hundreds, Q4 of last year was about 75346 to be very precise and Q1 of the current year it was 75,725.

Kislay Upadhyay: Thanks a lot. That is very helpful. All the best.

Moderator: Thank you. The next question is from the line of Rajeev Pathak from GeeCee Holdings. Please go ahead.

Rajeev Pathak: Just a couple of questions, one is on this under Ind-As, your securitization now gets booked as on balance sheet loans, so now would you be more willing to do assignment route than securitization, or what is your thought on that?

Vinod Panicker: RBI has not given any clarity on how it has to be done because of these two some other NBFCs and most of them are for RBI purposes, determining capital adequacy because that is the only thing, which needs to be seen right now. What they do is they still report Capital Adequacy basis I-GAAP in fact the COSMOS, which is uploaded into RBI website, is done on the basis of I-GAAP numbers so unless RBI comes in with any guidelines or clarification on how this has to be done, whether it has to be on book, off book, we will look at both the opportunities because we would need to see what the investor is comfortable with, we would need to see his comfort as well we have to see ours, so we will do both, not necessarily only direct assignment.

Rajeev Pathak: Because what is happening is that your net leverage is now going up to 4.5% plus versus what is it used to be like a 3.5% kind of number, so what is the upper threshold now that you keep for your leverage?

Vinod Panicker: In the past, we had gone to 6.5%, obviously we do not want to be that, we would want to be comfortably at about 5.5% t, we would be comfortable doing that.

Rajeev Pathak: This level of leverage you will be comfortable making like a 3.5% ROA?

Vinod Panicker: In the past, we have committed 3%-3.25% and I think we are fairly confident that once we get back to normal that 3.25% should come.

Rajeev Pathak: Okay. Just on book keeping question, what is the yield on loans?

Vinod Panicker: Overall yield on loans is in the range of about roughly 22.2%.

Rajeev Pathak: Thanks a lot.

Moderator: Thank you. The next question is from the line of Agastya Dave from CAO Capital. Please go ahead.

Agastya Dave: Thank you for the opportunity. Sir one request can you post the transcripts on the website going forward because the networks are pretty bad and at least I get disconnected multiple times and I lose your chain of thoughts and there is no way to go back and look at up so that is a small request Sir. Sir I have a question, you mentioned as you are saying once the BS-VI gets implemented, the cost of the vehicles are going to go up, so in the portfolio that you have, and average vehicle that you finance, what is this increased number going to look like, how is the price going to go up by?

Vinod Panicker: Approximately 8000 to 10000 is what we are expecting.

Agastya Dave: For this quarter Sir what was your average ticket size that you funded Sir? Not the cost of the vehicle, but your funding?

Vinod Panicker: Average ticket size that we funded was about 58000.

Agastya Dave: Sir on that it is fair to assume that if the total prices going to go up by 8000 let us say you will be funding somewhere close to 6000 of that incremental amount?

Vinod Panicker: Yes. Approximately 75% to 78% of that would get funded.

Agastya Dave: Sir just to reconfirm, so 58000 plus 6000 becomes 64000 and that 64000 includes the impact of the insurance as well the new safety norms plus the BS-VI.

Madhu Alexiouse: Yes. So two-wheeler is funded on the on-road price, so whenever a customer enters the dealer point, the dealer would add everything, ex-showroom price plus insurance plus RC plus everything he will add and then he gives consolidated offer to customer and on that the funding happens.

Agastya Dave: Perfect. Sir the next question was on just to gauge the consumer sentiment on the used vehicle side the pilot that you ran, and let us say if there are anyone, I mean I do not whether you do used two-wheeler financing, but on the used vehicle market what are you seeing Sir, what are the trends, is it that for the new vehicles people are just postponing their purchases hence your point of pent up demand is like very, very crucial going forward or there is a general retrenchment from purchases anyways whether it is used or unused.

Madhu Alexiouse: Let us not discuss used hand two-wheelers I will restrict my discussion to used cars. Used car is an evergreen market I mean it has no linkages to how the new car market is behaving because three to five years down the line the vehicle comes back to the secondary market for buying. Our experience as of now and we should not compare our experience with the market because we always keep on telling that the segment of customer that we operate is totally different from what others are doing. Our pilot tells us that average ticket size that we funded was close to 2.15 lakhs, which is very small ticket size so you can image the kind of customer based that we are having in the kind of vehicle that we are funding and the level of risk that we have so we are very happy with this particular ticket size but that is not the way to look forward because we want more customer to come which likely more robust vehicle like if they buy Swift or I20 and things like that, the ticket size would go up and the customer segment also slightly above from current levels of the segment that we have operating, so what I am trying to tell is that as far as used cars is concerned we have definitely built customer segment where not many people are operating, and we will be able to create that and majorly because of our branches where customer walk in and they are able to kind of get the offers across the desk, the customers had been of that bottom of the pyramid segment rather than going to the open market where people try to buy higher ticket size vehicles, so what I am trying to tell is we have created totally different segment of the market and I think it is from here that we build further.

Agastya Dave: Sir on this used vehicle pilot that you have done for four-wheelers, when will you have enough data to get a reasonably good idea what your PD and ECL numbers would look like going forward for this segment only or you have a reasonably good idea already.

Madhu Alexiouse: I think it is too early to predict that. We can come back to you may be around Q2, we can come back to you. That is why I was telling what is the ticket size that we are funding about 200000, 215000 so you can image the kind of risk that is in built into our portfolio right now, but the portfolio is not that big that we can predict ECL as of now.

Vinod Panicker: But as of now for making provision in the books we have gone by the two-wheeler PD or whatever numbers. And here we have gone by the two-wheeler numbers, which is definitely higher than used four-wheeler.

Rajeev Pathak: Final two questions, Sir this ETA provision, using a different discount rate that we have used from earlier 34% to 29% would not this get reversed again pretty so, because soon on later you will cross the threshold, you are just on the threshold of that income tax bracket, did we see a revision again?

Vinod Panicker: Our understanding is different and that is what we have been advised, saying that 2017-2018 if you are under Rs.400 Crores you get to the 25% bracket. They have not said that once you cross and we have crossed it last year also. Last year we have gone 535 Crores, it does not necessarily mean that we do not get the benefit. They need to come out maybe over the next two to three years they might come up with the higher number because even when Mr. Jaitley five years back when that announcement was made of going from 30% to 25%, our understanding was and our belief still is that everybody will go to the 25% bracket only because the revenues on the government should not get impacted, it has been done in a staggered manner. So they are picking up categories and the categories so we believe that it is here to stay.

Rajeev Pathak: Yes, because I was surprised that last year we did 534 so we are actually already out of that bracket?

Vinod Panicker: See that is not the case. They specifically said that guys who did less than 400 Crores, in 2017-2018 gets this benefit so we would have done 535 and this year we might get to 650, we would still get the benefit. Our understanding is that once you are there you continue there.

Madhu Alexiouse: In fact we had been even advised that if you are there you continue to be there unless the overall regulation itself changes, the tax changes for everyone.

Rajeev Pathak: Final question Sir, we also were funding some NBFCs I mean there was a portion of our AUM which was going for funding of NBFC so any risk there. I got disconnected when you are talking about it so I kind maybe have missed the comments, if you could repeat Sir. On your NBFC portfolio how are things looking like?

Vinod Panicker: Things are as it was any other time, but most importantly those funding is also to NBFCs which are into retail segments only. We have not funded to anybody who lends to a real estate or something like that. So, the way we see things for us we do not see the same for others also, number one and the way we continue to service the lenders, we are seeing the same with these NBFCs, when they are dealing with us.

Rajeev Pathak: Sir I believe you had zero slippages and zero NPAs in that book?

Vinod Panicker: Continues to be there.

Rajeev Pathak: Thank you very much Sir. Again the request Sir, if you could post the transcripts that would be of great help Sir. Thank you very much. Good luck for the future.

Vinod Panicker: Definitely, we will be doing after this call and as soon as we get it from our friends from Antique.

Rajeev Pathak: I really appreciate it. That would be of great immense help. Thank you very much. Good luck Sir. Good luck for the next work. Thank you.

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

Kislay Upadhyay: Thank you for the opportunity again Sir. My question is on liquidity, one of our peers actually Shriram City Union mentioned that even in this quarter, the sanctions were delayed and there was some bit of tight liquidity. We have not experienced the same it seems, any thoughts on why could this be?

Vinod Panicker: Why they are having liquidity issue, I would not be sure. They will be a right people to answer. We are having decent liquidity position. I would say it is because I think we mentioned it one of against one of the query, that we have been very cautious. In fact somebody raised query about the lending to NBFCs and Madhu specifically replied about the overall growth to one of the questions was raised, he said that we have been very conscious as far as disbursement goes, and we try and ensure that we have got sufficient cash in our hand so that God forbid something negative comes up, we are very well protected. So, I would say with a lot of confidence, that our liquidity there is no strain and we do not see any negative going forward.

Kislay Upadhyay: Are we seeing at least the sanctions taking more time than the used to do last year this quarter?

Vinod Panicker: We are seeing that. Let me put it in this way that we have also not been pushing beyond the point because we do not want to show too much of anxiety. It could actually impact the interest cost so I do not think if there is a delay it is something for us to be concerned about, because in this current quarter, in one of the slides we have mentioned that we have got sanctions of close to 222 Crores, which is reasonably good and if you see the growth in the loan book, the growth was close to about 20 Crores to 25 Crores only, so a lot of it is till lying with it.

Kislay Upadhyay: Thank you so much for the clarification. All the best again.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to the management for closing comments.

Madhu Alexiouse: Digant, is there anything from Antique side and then we can conclude.

Digant Haria: I think you can close the comments, Sir, best person to close it this time.

Madhu Alexiouse: As I mentioned that a few of the important things that is in our mind during this down turn is one conserve as much cash as possible which Vinod mention that we have limits. We have enough limits to manage this year's performance. Second, I said we will go after growth but only profitable growth. Third, I mentioned that we have a good upside. We still feel that our strategy on expansion is half done. We are pursuing that we will be accross the country very soon and the upside in terms of new products that we are going to launch. From technology perspective, lot of things are happening in terms of addressing the portfolio quality because with Ind-As and ECL coming in to play we need to take care of that so lot of analytics and technological intervention is happening. So in terms of our outlook for this entire financial year, I think we are very confident of sailing through this downturn is happening, our plans whatever we have said it is entire, we will pursue that and asset quality is something which will talk every moment, every second whether the quality of business, whether the quality of collection, whether the quality of processes that we have, the portfolio quality, how we plan it out so that we have better numbers as we go forward. So this is flavor that I have right now and this is only Q1 and lot of things is yet to unfold. Q2 is the major festive season for us. Onam is there and almost close to 300 dealers have already been tied up with Onam schemes for us who will give good counter share to us so that is already there plus then the Q3 comes in terms of Dusherra and Diwali and things like that. I think with this I would like to close and give me the confidence that during such tough times, it is better to be conservative and continue to build up your organization so that when the turnaround happens you are the first to grab the opportunity and get a disproportionate benefit with the growth, Over to you Digant!

Digant Haria: Thanks, every one for joining. Have a good day. Thank you.

Moderator: Thank you. Ladies and gentlemen on behalf of Antique Stock broking that concludes this conference. Thank you for joining us and you may now disconnect your lines.