"Muthoot Capital Services Limited Q4 2019 Earnings Conference Call"

April 25, 2019

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Moderator: Ladies and gentlemen, good day, and welcome to Muthoot Capital Services Q4 FY2019 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. Vinodkumar 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 call, 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 Limited. Thank you, and over to you, Sir!

Digant Haria: Thanks everyone for joining. Thanks to the management for taking out time. I will hand over the call to Vinod Panicker who can take us through the financial performance for the quarter and after that Madhu Sir, you can give us some commentary about the business environment and how things are shaping up for us especially. Over to you, Vinod Sir!

Vinodkumar Panicker: Good morning friends. Thanks to all of you for joining us on this call. The intention is over the next one hour, may be tell you about the performance of the company over the last quarter and the year which went by, and may be take questions from you and may be give responses to our best ability and whatever, we cannot give today, we can always do it offline, and all our numbers are available with most of you.

Maybe to start talking about the performance of the current quarter, we had a total disbursement of about 605 Crores which was split into hypothecation loan of about 440 Crores and the other loans of about 161 Crores versus a total of about 502 Crores that we did in the immediately preceding quarter. That led to the loan book going up to about 2741 Crores versus about 2595 Crores that we had in the last quarter.

Of that we generated an income of about 136.7 Crores against the income of about 142.3 Crores that we did in the immediately preceding quarter. The immediate question, which lot of you could have today is with the growth in the book, why was there a drop in the income? Here, I want to stress upon something, which was in the media some days back that we had done one securitization, actually one was there, and apart from that there were three others that we did, all totalling to about 366 Crores in the last 15, 20 days of the month of March.

On the 366 Crores worth of securitization as per the RBI regulation, the income has to be recognized only when we physically get the money from the SPV which is normally in the next quarter or the quarter after the next. So, what actually happens is this 7.02 Crores and this is the biggest and largest securitization that we had done in any particular quarter, and therefore this income has been deferred to the next quarter, majorly to the next quarter some bit to the quarter after next and the amount involved here is some 7.02 Crores, which has not been taken as income, which is one of the main reasons for the income looking lower than the immediately preceding quarter.

There was delay in some of the disbursements because of the market condition and there was a lot of disbursements towards the end of March, so income does not get generated for those disbursements and that is the second reason.

Apart from the interest income, I would want to go into the finance expenditure. The finance expenditure was at about 44.7 Crores versus about 41.1 Crores. That has seen an increase. The overall interest rate has gone up a little bit from about 9.7% last quarter to about 10.1% in the current quarter. But apart from that there are two large amounts, which should find mention in my discussion with you guys that is the reason I am mentioning it.

Fourth quarter is a quarter when lots of banks have their renewals happening and they normally charge processing fee. In the current market condition, they have been charging higher processing fee. Apart from that, there were about 190 Crores of sanctions that we have received from banks of which one of them was a term loan of 100 Crores where we actually pay the processing fee upfront for the next three years. All put together, the processing fee for the current quarter was about 2.7 Crores, which is significantly higher than the same quarter last year where it was about 40 odd lakhs.

I mentioned about the 366 Crores of securitization on which there is a 1.4 Crores upfront amount, which has incurred, which is charged to the P&L. If you go down, there was one time charge to P&L that we had taken of about 76 odd lakhs of leave encashment and apart from that, we did a lot of marketing activities in the fourth quarter and we were seen across most of the channels in the last quarter. There was a cost of roughly 80-90 lakhs which was charged to P&L.

Last but not the least, in the current quarter, in spite of whatever we have seen on the top line and knowing fully well that this will impact the bottomline, we continued with our additional provisioning and we made a provision of about 4 Crores against the NPAs which is over and above what was determined by the RBI, including the provision of 4 Crores, the total additional provision that we have made on the books so far at the end of the current financial year was at about 18 Crores and we had a total provision coverage ratio of about 45.3%

This is what led to the profit being at about 18.3 Crores versus the 23 Crores that we had in the immediately preceding quarter and 21.5 Crores in the same quarter last year. On a full year basis, we believe the performance has been excellent with the disbursement growing may be by about 8%, but the loan book going up by about 22%, income going up by about 34% to about 535 Crores and profit after tax going up by about 54% to about 82.4 Crores.

This has led to the networth of the company going up to about 476 Crores and the book value of the share to about Rs.290 per share. The EPS in the current year is at about Rs.50 while in the current quarter it is about Rs.11. So, all in all, we feel that barring the accounting, this is the regulation which made us delay certain recognition of income and barring onetime expenses which are charged to P&L, we feel that the quarter as well as the full year was excellent.

I will now ask Madhu to take it over to give his views of the current quarter and the year that went by.

Madhu Alexiouse: Good morning all of you. I think for MCSL this was one of the milestone year, where we had record numbers, we had crossed disbursement of 2000 Crores. We have a book of about 2741 Crores, which is about 22% growth. We have been telling that whatever industry growth is there, we would definitely demonstrate double the growth and then of course, we have a record net interest and fee income despite market being not that great for NBFC sector. We maintained our margins, we maintained our fee income, we had pressure from sales in terms of interest rate, fee income, reducing PF, we maintained our margin very well. We were able to sustain our market share as well.

Just to give you a statistics, the CAGR for MCSL in the last three years is about 26% whereas the industry is about 10% for the last three years. So whatever we have been telling that we will grow double the industry, I think we are about 2.6 times the industry. Financials are in front of you. Vinod has shared.

Going forward, we look at next year with about 25% growth in terms of our disbursement. We have been sharing that we would venture into new product lines that is already there, used car. We are done with the pilot in Kerala. We are ready with the expansion in about 10 centers, which would happen in Q1. In terms of new products, CV is something, which already we have announced that around Q1 we will launch it. Pilot is ready around Q1-Q2. Before Onam, I think we would be ready with our consumer durable products.

In terms of our plan, in terms of our projections and guidance that we had given, we are on track. We have said that in terms of geographic expansion, we would grow outside south. That also we have been able to kind of grow in a big way. West has grown by 50%, north has grown by 50%, and east is almost double the book now.

In terms of our commitments to all of you to the market, to our investors, we are on track as far as our strategic plans are concerned, our expansion plans are concerned, our new product introduction is concerned. Last two years, we had embarked in digitalization of our processes which is very much there. Our customer app is now up and running, more than 70000 downloads. A lot of customers they pay their installments through customer app now.

In terms of our commitment, I think we have delivered. I would open the forum right now, Digant if you can facilitate the discussion further, we will open this forum for Q&A. I think a lot of you would be having questions, every quarter we have, we interact with you, we would be glad to really give clarity on your questions.

Digant Haria: Thanks very much and we can start the Q&A please.

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

Pranav Mehta: Good morning Sir and congratulations on a good performance in a challenging year. Sir I had a question on your growth outlook for next year. This 25% growth in the face of it looks slightly aggressive given the growth rates in the primary two wheeler sales. Now I understand there are plans for geography expansion? You might target to grow double the industry rate, but even considering all that it looks slightly aggressive, so if you can just layout your plan in more detail that will be helpful?

Madhu Alexiouse: I would reply to your query supporting through a couple of statistics that would give more credibility to what I am trying to tell and how we intent to grow. There are two trends. One, in terms of rural and urban divide; the rural market we have seen that last three years, it was on the growth path. I have told this in many calls that rural sector is something where the sales are improving and increasing. We have reasons to believe that and data tells that in terms of monsoon and in terms of agricultural output, things are going to be normal in rural sector. MCSL and our flagship company that is Muthoot Fincorp Limited are distribution reach in Tier 3 and Tier 4 centers is very high. We are highly concentrated in these centers, so we are in a sweet spot as far as tapping this rural sector is concerned. In fact, the urban share has consistently come down from 38% last three years to 36%, so majority of the sale is growing rural sector. One of the reasons for this is the prices that are going up in the two-wheeler vehicles that is pushing people for an economy segment adapting or adopting economic segment vehicles where motorcycles are playing a major role. One of the reasons why Bajaj sale is going up is the economy segment where the customers prefer buying that because the overall prices are going up. The second trend that is coming out is the motorcycle. Very clearly the motorcycle sales had been on the up. The motorcycle share used to be 62% last year. Now it is about 68% of the overall sales. Approximately 1.44 Crores motorcycles were sold this year compared to 1.25 Crores last year, so there is a very clear trend coming out that rural trend and the motorcycle trend are going up and we are at a very sweet spot because the distribution is actually there point number one. Point number two, the penetration of financing in two-wheeler is very low. Probably in the organized sector people are more skewed towards urban areas, bigger cities, Tier 1, and Tier 2 centers, so the penetration is low and with the prices going up you are aware that from April 1, 2019 now it is mandatory to have ABS. About six months ago, you saw insurance price going up. Next year, we will see Euro-VI not in two-wheeler almost all the segment of passenger vehicles, we will have Euro VI norms implemented, so two-wheeler Euro VI norms comes and there is again price escalations, so the prices in two-wheeler is going to go up, which means that requirement for financing is definitely going to go up. It is another sweet spot for us because in rural areas or in the areas where we operate many customers are new to credit. They are has not been taking finance and with the price escalation naturally the requirement for finance would be much be stronger compared to people in the urban sector, so we feel that the penetration per 100 vehicles, the penetration is likely to go up this year, which would help us. Despite whatever happens to industry or how the growth is going to be in the industry, the requirement for finance would be on the high given the prices of the vehicles that would go up and moreover we believe that once the government is in and all the packages, there would be definite upturn in people's sentiments and they will come back and start buying the vehicles, which was slightly on the lower side as far as Q4 is concerned, so we have very strong reasons to believe that the financing piece would be stable and given our expansion plan, given our reach in the rural, Tier III and Tier IV centers, we are in a sweet spot to really exploit this opportunity, so we are very confident of this about 25% growth we are very confident.

Pranav Mehta: Sir the second question was on the margin outlook? We have seen that cost of funds has gone up by almost 60 BPS in the last two quarters, so first of all where do you see this trend now going into FY2020 and to compensate for that are we planning any increase in our loan interest rates?

Madhu Alexiouse: I think Vinod would pitch in here.

Vinodkumar Panicker: I will first answer the cost of funds part of it and then I will get into the yield part of it. On the cost of funds, we expect that while things are improving a lot, we still expect that in the current quarter, which could possibly be the last of the increases we would expect another 20 BPS to 30 BPS of cost going up in the current quarter and then may be start going down or stabilize there. This is our understanding of the market. On the yield, we are confident that if it is 20 BPS, 30 BPS or 50 BPS that can definitely be passed onto the customers because we have said that in the past that even if 1% kind of increase for the customer per month, the increase is on a 50000 to 60000 loan would be about Rs.40 to Rs.50, which is not very significant from his point of view, but then for us it could be a lot of money because we are talking about 600000 to 700000 customers, so we will definitely be able to control the margins varieties at the current year and going forward maybe deliver similar kind of numbers or even better numbers as we go along.

Pranav Mehta: Sure Sir. Thank you and all the best.

Moderator: Thank you. The next question is from the line of Dhaval Gada from DSP Mutual Fund. Please go ahead.

Dhaval Gada: A couple of questions. First if you look at slide 10 and 11, our volume growth is negative for full year as well as for the quarter vis-à-vis the industry at about 5% to 6% volume growth and now we understand that Honda had meaningful production cut in Q4, but if you even look at 2Q and 3Q our volume data the growth rates were negative, so what gives you the confidence that we will achieve 25% disbursement growth, which at least in my mind would require 10% to 12% volume growth, so that is the first part and I just wanted to link this with the slide 8 of the presentation where you have given the sourcing cost? I was looking at one data since the time you have shared this 1.3% sourcing cost is probably the lowest from the time the data is available so has this had an impact on volumes and why are we doing sort of or reducing the sourcing cost, so what is driving this, so those are the two questions?

Vinodkumar Panicker: Dhaval, with regard to your 25% growth why we are confident of achieving it, I think Madhu covered it in the reply to Pranav.

Dhaval Gada: Would you comment on volumes that is the more important one?

Vinodkumar Panicker: When we are talking about 25%, we are talking about a total volume of roughly about current year it was about 3.3 lakh in numbers. They are saying that it could be in the range of about 4.3 to 4.4 lakh kind of in terms of numbers maybe when we make our projections we look at a lower ticket size. That is the reason numbers are larger, but we are fairly confident that the numbers would also be more. It would not be the ticket size only because 25% increase in ticket size would take the LTV beyond 100% and that is not the intention that we have, number one. Number two, you mentioned about sourcing cost at about 1.3% because the overall market conditions were what it was, we did not want to may be look giving a higher sourcing cost or making higher incentive to the field just to get more volumes because that is not our intention because that will end up giving us may be volumes, but may be the profile may not be great. The portfolio may not remain good. That is the reason why we have always stayed away from increasing. Normally in the Q4 the volumes are high therefore the sourcing cost is in the 1.5% to 1.6% range, which is the normal rate. In fact that is what we are expecting a project even for the next year saying the cost would be in the 1.5%, 1.6%, 1.7% rate, so this 1.3% what has happened is the only reason for that is the lower volumes, nothing else.

Dhaval Gada: Vinod Sir actually the reason and help me understand this the reason I asked is also was if you look at our mix of growth in two-wheeler this quarter, it has come more from dealer network? Now my understanding is that dealer is relatively more costly compared to the branch network that we have, so the fact that we have grown from the dealer network and the fact that the sourcing cost has come down that is what I was not able to triangulate, so have we actually cut down payouts for the dealers as well?

Vinodkumar Panicker: No, we have not. See, the structure that we normally follow is there is something, which basis the volume. Actually he will get something; he does, why he gets something. He crosses that he gets something. Now when we are saying that or when you yourself admitting that the market condition was such that the volumes are lower he does not go beyond the particular level and that is why his percentage of incentive remains lower. That is the reason why the figure is at 1.3%. I am just giving you a very simple example if I say that up to 5% there is no incentive beyond 5% you get let us say incentive and the fellow does only 4% then I do not need to give any money. When the market is good the fellow would have done 6% or 7% or 8% or 10%.

Dhaval Gada: Understood and just one more thing on volumes coming back Sir the question was to Madhu here at the start of the year did you expect that the branch channel will show a degrowth in volumes like, I know it is market condition as well, but where you satisfied with the overall performance that you say even in the West, North and East region not just South?

Madhu Alexiouse: If you look at the volumes whether it is branch or whether overall MCSL there are two very important things that we should consider one is the Kerala disbursement after the floods two to three months got impacted. In Kerala generally it is about Onam and then pickup happens till the Diwali and beyond that and then the Christmas comes, so one impact was there. Second was in Tamil Nadu we had taken a portfolio correction where we had consciously slowed down so south a mild degrowth came from that as well and this year now we will rebuild our Tamil Nadu portfolio, so these two states where we had one was a national issue and the other we had proactively taken some corrective actions in the coastal belt. There were a lot of issues. You heard about Titli and Gaja and all those things so certain coastal areas we had taken a conscious decision to tighten the credit to slow down to have 100% FI and we were okay that we would not go aggressively there and we will do business keeping in mind our portfolio quality, so these two corrections has definitely impacted the business from MFL and otherwise also for us on an overall basis, but MFL business besides two states they have been absolutely fantastic in terms of our projection they have done it, so we are not worried in terms whether the market is impacting us, whether because of market slowdown it is impacting our volumes. We are actually not worried about it. There were two very specific reasons, which we are aware, which we are conscious and so we are okay with that.

Dhaval Gada: And just lastly on the new product, you talked about timeline for launches etc., but in terms of preparation and cost associated, so how that would sort of play out in the next two, three quarters, so I am sure there would be some upfronting of expenses that would probably happen, so just some color on how the opex will like for next year, building in the normalized sourcing cost etc. yes?

Vinodkumar Panicker: The biggest advantage that we have is that all these new products that we are going to launch, we would launch parallelly through our fincorp branches, so almost 40% to 45% of the business is expected to come from there, where my opex is 0. And the expansion plan that we have we duly reckon what is our distribution capability there and then we build that up, so we are not really worried about opex as of now. Let us say I am talking about the pre-owned car right now, used car right now we did pilot in Kerala, almost 40% business comes from branches where we have 0 cost, we had to pay only sourcing fees, across Kerala now we have spread out. Now Q1 is about significant centers in South and couple of centers in North and West and around H1 end or Q3 we would be above 20 centers across we will have a national presence as far as used car is concerned, so in terms of balancing the key distribution cost, the key opex is the distribution cost, which we are hopeful that we will be better than the industry, so as of now I can give you broad guidance that that is not a factor, the factor would be how we are able to penetrate the market soon. Given the network that we have we are fairly confident that the customer walk-in from the branches and our pilot experience says that there is a very good response in terms of customer who walk-in and they want the second hand car. The philosophy or the hypothesis that we did before starting this product was this is our customer base, what is the next aspirational requirement and that is where the whole focus is, whole vision is and that hypothesis is working out well for us. So in terms of sourcing, in terms of good market activities, in terms of distribution, we have a very sweet spot as far as the whole business model is concerned.

Dhaval Gada: Just lastly any update on franchise model sourcing for two-wheeler, have we sort of progressed on that front?

Vinodkumar Panicker: Franchise model last year we did almost Rs.10 Crores plus as a testing pilot, which is doing absolutely fantastic in terms of expanding it further that would happen in Maharashtra, as of now Maharashtra and Gujarat that is going to happen this year, so may be around post Q1 we would be able to give you a bigger picture what is it that we are looking at, but all the postulate that we decided that these are the parameters that should workout well as far as franchisee is concerned we are very happy about it. More importantly the market penetration in terms of going directly and going through franchisee we had been able to penetrate much faster, we are very gung-ho about that particular model and so may be around post Q1 we will come back and tell what is it that we have planned through them. As of now pilot is done we are kind of very comfortable about it.

Dhaval Gada: Perfect. Thanks and all the best.

Moderator: Thank you. The next question is from the line of Jatin K from Alpha Capital. Please go ahead.

Jatin K: Most of my questions have been answered, just one question. I would like to know your views on the credit cost in this whole business as in we have expanded a lot geographically, so may be currently credit cost outside of south are low, do you think that and as in if we mature enough there outside south would our credit costs increase and what would be your rough estimate as in probably three, four years down the line when we mature outside south, what would be our annual credit cost for this business?

Vinodkumar Panicker: Jatin, I think I will handle this query. The credit cost over the last five years or so has been, last four years at least within the range of about 2, 2.5 kind of thing. In fact, in the current year also it is at 2.5, which is including the additional provisioning that is we have done, if that is excluded the cost comes to about 1.8% and we are reasonably matured, I would say still a long way to go in non-south market, but then we are reasonably matured because we have been there for the north and east at least for the last 3, 3.5 years and west at least for the last 5, 6 years and basis that the credit cost overall has been in the range of about 2% and we have no reason to believe that the numbers will go up in anyway, in fact even in this current quarter apart from the additional provisioning that we did, credit cost has also come on account of the floods in Kerala where we ended up with an increase of about Rs.17 Crores in the month of August, which has now come down to about Rs.5 Crores, but then we spend a lot of money to actually collect the roll back the NPAs, which had become NPA during the floods, so because of the geographical spread we do not expect any major cost to come up.

Madhu Alexiouse: To partially answer to your question, we have a very strong risk management committee, which reviews portfolio month-on-month basis up to the pincode levels, so how the trend is behaving from 0 bucket, from NPA perspective, from 0 bucket perspective, from six month lag perspective they review it month-on-month and corrective steps are taken immediately. It is not that some number throws up and then the corrective actions happen. It happens month on month and one of the things that we have been telling from our digitalization process, from our new LOS perspective we were telling was all these inputs, all these learnings come back to the credit decisioning in a very short period of time and which kind of autocorrects the kind of customers that is approved, the customers that comes into the portfolio, so there is a lot of background that happens in terms of maintaining certain level of NPA, certain level of credit cost, so it is not a ultimate number, but it is an ongoing process, so there is a auto check mode within the organization as far as risk management is also concerned.

Jatin K: Sir and on you said, guided for 25% disbursement growth how would that reach to AUM level, how much would be the AUM expected by the end of this year?

Vinodkumar Panicker: November 2017 when we done a QIP we had actually told the investors at that point of time that we hope to double the book from there on till by end of 2020, we should be very close to that. That would be at about close to Rs.3500, we should be somewhere close to that.

Jatin K: Our next QIP would be coming in next year, coming this year?

Vinodkumar Panicker: Your guess is as good as mine. We have to see for a couple of quarters before we take a call on that.

Jatin K: That is it from my side. Thank you.

Moderator: Thank you. The next question is from the line of Ashutosh Mishra from Ashika Group. Please go ahead.

Ashutosh Mishra: Congratulations for the good set of number Sir. I just want to understand now we are planning to grow at 25% on disbursement, so what is our strategy on the liability front, how we are planning to raise the resources and what was our experience in the last six months? Are we changing anything on that front?

Vinodkumar Panicker: First part on the 25% how to grow I think Madhu had given elaborate responsible to Pranav on the first query which, on am saying that how the growth will happen, we had talked about geographical expansion and maybe getting a lot of additional volumes from the Muthoot Fincorp branches which has got about 3500 branches across the country. We had given a whole lot of information. Maybe separately we can do a detailed call may be post this call and may be take you through any other apprehensions if you have on the 25% part of it. Now to answer your second part on the sourcing, we did have our own set of issues may be for about two, three months in the last two quarters out of the six months about 3.5 months we had our own set of issues because banks were not willing to fund, but in the fourth quarter things started improving and if numbers are anything to go by, we actually collected about Rs.631 Crores of sanctions from various banks and both in form of be it term loans be it working capital limits or by way of securitization. Securitization, itself I think we collect something like Rs.366 Crores and about Rs.75 Crores of sanctions, which we have got we had still note utilized which we intend to use in this current month or may be early next month. So going forward we expect things to stabilize, the proposals which are in the pipeline that too come through and going forward we are fairly confident that we will have enough cash at our disposal to meet the numbers that Madhu is talking about.

Ashutosh Mishra: On a repayment from the customer, how much normally we get back every month through EMIs?

Vinodkumar Panicker: I do not think your question was not clear, your clarity is not there, can you speak through handset rather than I think you speaker phone?

Ashutosh Mishra: Basically I want to understand how much normally we get through EMI payment every month?

Vinodkumar Panicker: Roughly may be last quarter if numbers are anything to go by, if you have seen the presentation the collection was about Rs.488 Crores, Rs.488 Crores translates to about Rs.160 Crores odd a month which is the EMI collection.

Ashutosh Mishra: Thank you Sir.

Moderator: Thank you. The next question is from the line of Varun Rao from MayBank Asset management. Please go ahead.

Varun Rao: I just wanted to check on your capital allocation plans for the new product lines that you are planning to enter, so I just wanted to know in terms of other than sourcing part is concerned, what synergies do you see in these businesses if you can just explain in detail?

Vinodkumar Panicker: The flagship company of the group is Muthoot Fincorp which has roughly about 3500 branches across the country. We actually use the infrastructure of those 3500 branches. In fact roughly 45% of the new product to used cars sourcing happens through the Muthoot Fincorp branches and for the new products which would come, it is the Muthoot Fincorp branches which are available across the country, which will play major role. Apart from the other methods that we would adapt, which would be digital.

Madhu Alexiouse: So in terms of synergies, very clearly distribution is one of the piece, the other piece is kind of customer base that we have close to 25 lakh plus customer base we have, how we kind of leverage that in terms of giving offering them the right product, so that is why I say what is the next aspirational requirements, we have enough captive customers, so one of the reasons why we feel we will grow, one of the reasons why we are confident about new product with respect to how the industry is that we have captive customer base, now how we leverage that is where all the digital, all the CRM, all the analytics is playing role and that is how the strategy is going to be, so in terms of delivering these numbers we would operate differently compared to traditional NBFC, which is there in the market and we have all the infrastructure that is there. We only need to leverage and put the right infrastructure in place.

Varun Rao: Thanks. Just one last question on the capital raise plan, so for 25% disbursement growth how many years can you sustain without raising equity captive if you were not raise the capital how many more years can you sustain this kind of growth?

Vinodkumar Panicker: Technically if you ask me if you do securitization, we can sustain for much longer time, but then our intention of capital raise is dual thing, one is to get in additional funds and second more importantly get good investors on board, because when you guys come on board, you guys inform us these are the things that needs to be done. That helps us may be do coarse correction as we go forward. So having the QIP or any fund raising purpose is not to get funds only, it is more to get good investors on board. So to meet the current numbers, we can manage even without raising funds let me put it that way.

Varun Rao: Thank you.

Moderator: Thank you. The next question is from the line of Digant Haria from Antique Stock broking. Please go ahead.

Digant Haria: I think there was no one in queue, I thought I can take a minute on asking, if Madhu Sir you can tell us a little more about how the dealer dynamics are shaping up because the reports are always, there is a lot of inventory buildup and there is a difference between the wholesale sales reported by the OEMs and the actual retail sales and there was also a popular belief that the financing penetration should go up significantly, so any thoughts on this that how do you see these trends playing up? Thank you.

Madhu Alexiouse: The sales that is reported and which is published by SIAM is the wholesale data that is the billing from OEMs to the dealers and last year after October I think the sales has consistently been coming down and around Q4 the fall kind of slowdown, these are all wholesale numbers and the last report we had was that as on March 31, 2019 there was a inventory of about six weeks average, so one-and-a-half months stock was there in the market, which is yet to be sold at that point in time, so these are wholesale numbers and given that if you calculate the market share and the areas where we operate. On the overall basis, we would be around 2% market share, overall number of vehicles sold in the areas where we operate, but from the organized financing sector which is about Rs.31000 Crores, we would be about 5%, so we have consistently maintained our market share. We had opportunity in Q3 around Q4 when lot of NBFCs were vacating the market especially in two-wheeler product, we took a conscious decision not to chase those market share, because NBFCs were vacating the market, their customer profile and the customer profile that we wanted were totally different, so we did not want to do any kind of mistake while chasing growth, while chasing market share, we wanted to avoid any kind of additional risk to our portfolio, you have seen our portfolio performance also, and one of the facts that why people come and take securitization through us is the fact that people have belief in our portfolio. So we did not want to do anything short-term which would impact our portfolio in a big way, so while the market got vacated we did not consciously touch that customer base because we know that then the collection effort goes up, the collection cost would go up, so we avoided that. And especially when the market is coming down, there is a tendency to go aggressive payouts, go aggressive in terms of giving us aggressive pricing to the customer by reducing the IRR, reducing the PF. We held our forte, we did not do that, we said this is the reasonable costs that I have, this is the reasonable opex I am having and I will maintain my margin and I will play in my margin so we played to the rules of the game rather than going all out and doing whatever we could do because we were very clear that given the slowdown we had to be more careful and the fact about 1.5 months inventory is there also tells that the sales figures that you guys track is the sales could be much lower than that point one. Point number two we need to factor into lot of things, one is the price escalation, second is what has happened let us say April 1, 2019 where there is partial introduction of new technology in the vehicle and March 31, 2019 there will be further improvement in the vehicle and the value goes up and the cost goes up. There would be impact may be around let us say April 1, 2019 when the price goes up as of now the cost of the two-wheeler is at a situation where the financing need is very high compared to last year so the finance penetration is definitely going to go up. The trend of rural growth I said and in two-wheeler industry about 60% is new to credit about 70% is new to credit so doing those customers would benefit us more because we understand that market, we know how to tap those customers, we have about 75000 customers walk-in, in our flagship companies branches we understand that we deal so we are in very fantastic position to tap that segment, which would give us great advantage compared to competition so industry there would be some kind of impact in terms of prices of the vehicle but we see it has opportunity so that there is a totally different view we are having about the whole issue, we see it has a big opportunity for us and so that is why in terms of our strategy and Q4 we invested in lot of advertisement that had happened, it was conscious decision that we need to build our brand further. We had invested in our brand and this year also there would be a lot of go-to market activity to address our grass root level penetration and because I said that we have the opportunity to increase our finance penetration we would invest in lot of ground level activities and that would happen through our branches, through our ground teams. So this is about this particular year. In terms of let us say beyond Q1 once we have government at the centre I hope that kind of Q4 concerns that was there that would totally go off. I had repeatedly told on all the calls that this two-wheeler is basically a business model of bottom of the pyramid customer. It is not convenience, it is not luxury, but it is part of their livelihood and India cannot live without this and the pricing can be anything. The general public in this country cannot live without this, we are more than Rs.2 Crores since like last year we have sold about Rs.2.11 Crores, which is a big number actually, from a very high denominator we are again calculating what is the growth from that, but already the number is very high so I think that there is a huge opportunity only thing is how the distribution works, how the entire technology of that company is stitched with this distribution and the fund availability of that organization. These are two to three things which should play next year and we are very strong fundamental as well as our distribution is concerned, our technology is concerned, currently whatever fund we are having, we are very confident that this particular year whatever industry behaves we are very solidly placed to tap at least 25% growth as we go forward, and I said that one of the key things, we have kept in mind is our risk management matrix, which I want to assure all of you guys once again that is something which is non-compromisable for us, we tightly believe that in retail finance absolutely having the risk management matrix on track is very important, otherwise the portfolio can go haywire in matter of days and in matter of weeks.

Digant Haria: Thank you for this detailed explanation and all the best.

Moderator: Thank you. The next question is from the line of Atul Mehra from Motilal Oswal Asset Management. Please go ahead.

Atul Mehra: Thanks for opportunity. Sir just one question around the NBFC book that we have, so what is the size in the book at this point and in your growth going forward and generally as a strategy, is this going to be part of your future strategy or would you look to say run down this book over the period of time?

Vinodkumar Panicker: Out of Rs.2741 Crores total NBFC or the corporate loan book is about Rs.370 odd Crores, which is about 13% odd, we would want to in fact when the second and third retail product comes and then the loyalty loans, which was again retail loan, once that is also there, we would expect the percentage of the corporate loan book or the NBFC loan book to be in the range of 8% to 10% or may be lower than that. We do not intend to run it down fully neither do we intend to grow basis that. This 1% here and there would happen but we have always maintained it would be in 8%, 10% range and it would continue to be that going forward.

Atul Mehra: Sir in the third quarter, this quarter book stood at Rs.250 Crores right?

Vinodkumar Panicker: It was Rs.250 Crores because Q3 and may be first one-and-a-half months in the Q4 also there was no disbursement done by us because when things were tight we were wanting to be very cautious, in fact that was the philosophy that we work on, be as cautious as possible and we said that though intention should be to ensure that we fund the core business which is two-wheeler financing business and we ensured that we do not do anything else, we concentrated only on two-wheeler business.

Atul Mehra: Sir given that you have plans to get into others segment as well so would not you think that something like corporate level of distraction for you at some point because once you are building or retail business why get into something which is completely different kind of business side?

Vinodkumar Panicker: No, it is business as usual. We are not changing anything and the corporate loan per se I think the final consumer these cases are also retail customers. These are given mainly to segments where we are not directly present in and we have seen that this is yielding reasonably good amount of returns and also we have seen that because of the kind of business models that we have lent to and since they are also in the retail there is good amount of cash flow and that is the reason on a Rs.370 Crores we are happy to say there is zero delinquency, there is not a single day default in any of the cases.

Atul Mehra: Sir second question is in terms of between Muthoot Fincorp and us what are the lines of businesses that they will get into or is there anything that has been agreed upon formally saying that these are the lines of businesses they will be doing and these are the lines of businesses that we will be doing?

Vinodkumar Panicker: There are four NBFCs in the group. Muthoot Fincorp is the flagship company with roughly about 3500 branches, they predominantly they are into gold loan and they also do assembly lending. Muthoot Capital Services we do some negligible portion of corporate loans, but two-wheeler is the major portfolio. Any other asset, which would come up in fact Madhu did mention about used car, Madhu did about consumer durable that would happen on the books of Muthoot Capital and any new products which would be the form of an asset which is for a retail customer that would happen on the books of Muthoot Capital. Muthoot Microfinance which is the third company in the group is as their name suggests it is into microfinance lending and then there is Muthoot Housing Finance, which is in the affordable housing so it is very clearly laid down who will do what.

Atul Mehra: Got it, and there is no plan as of now to get all the entities together in one entity?

Vinodkumar Panicker: No. I do not think that is the intention of the promoters.

Atul Mehra: Great Sir. Thanks for answering and wish you all the best.

Vinodkumar Panicker: Thank you. The next question is from the Dhaval Gada from DSP Mutual fund. Please go ahead.

Dhaval Gada: Just one more thing, I mean you were mentioning about opportunities around cross-sell and fee income related products, third party products any progress on that front and any plans into FY2020 on that side.

Madhu Alexiouse: Cross-sell definitely is one of the important initiatives that we want to start, one was on the credit life shield which right now we do about 83% for our existing two-wheeler customers that is you know along with the two-wheeler we give insurance whereby if anything happens to the borrower that loan amount is paid by the insurance company, so we are covered as far as our principal outstanding is concerned, if anything happens to customer point number one. That is about 83% month-on-month. We have piloted couple of more products may be post Q1, I would be able to give you additional information it is related to the general insurance that is with the prices going up for insurance, we thought to ensure that the customer has a genuine and good insurance company and services we have tied up with couple of insurance company to ensure the vehicle for the customer, although customer pays the premium, there is incentives and things like that through insurance companies so that is three dealerships we are piloting that where we have reasonably good penetration about 70%, 80% of the sales that happened with the dealership gets insured through our tie up. There are couple of more things that would happen. Importantly, this year we have a very big plans to do business so Fincorp branches. There is lot of activities that would happen there. There is lot of engagement initiatives that is happening there so cross sell through them for two-wheelers and used car would be another big initiatives that would happen, so schemes like for the pre-approved loans for existing MPG customer, Muthoot Corporation Group customer, pre-approved loans, two-wheeler loans, used car loans, lot of things are in pipeline, maybe post Q1 we would be able to throw more light, but just to answer short, cross sell is one of the key initiatives, we will do, it is gradually building up, first step was insurance, one is done properly, the second is under pilot and lot of other things are in pipeline.

Dhaval Gada: Perfect. Thank you.

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

Kashyap Jhaveri: Thank you very much for the opportunity. Two questions, one on slide #29 when we give this ticket size that is based on the disbursement number right for the quarter?

Vinodkumar Panicker: Yes, 58920 that is basis disbursement for the quarter.

Kashyap Jhaveri: Sir one question over there, if I look at now the volume that we would have financed now there is an 11% growth in the ticket size, so there would be a decline of roughly about 17%, 18% odd in the volume number, so that overall disbursement declined from Rs.482 Crores to Rs.444 Crores, which is about 8%. Now during the same period if I look at industry number, you know seemingly there is about 22% odd decline for the overall industry, so our improvement in market share is fairly about 10, 20 basis points. Would you think that given the size that we finance every quarter, which is about 75000 to 80000 vehicles more aggressiveness in terms of volume number would also be is quite achievable versus what we have done so far?

Vinodkumar Panicker: Can you please repeat once again because questions have got mixed up actually, one is about LTV, the second piece we could not get?

Kashyap Jhaveri: LTV growth is about 11.5% YOY, which means in terms of volume that we would have done in terms of number of vehicles that would have seen a decline of about 18% odd, I am just doing Rs.444 Crores divided by 58920?

Vinodkumar Panicker: No. I think the numbers that you are saying is not fully correct, while the LTV, the average ticket size has gone up from 52993 to 58920. The number of vehicles that we have financed actually it has gone down by 18% that you are talking about, it has gone down from about 3.36 lakhs to about 3.29 lakh, so that is about 2% in volume terms.

Kashyap Jhaveri: This is for the full year?

Vinodkumar Panicker: You are talking about the year-on-year or if you want to look at?

Kashyap Jhaveri: Yes Q4 to Q4 last year?

Vinodkumar Panicker: Q4 to Q4 then you are talking about 90000 odd versus 75000 odd.

Kashyap Jhaveri: Yes that is what I am so 75000 would be this quarter right?

Vinodkumar Panicker: 75000 would be this quarter, yes.

Kashyap Jhaveri: I am saying for the Q4 the decline in volumes is roughly about 17% odd, 75000 versus 90000 or 91000?

Vinodkumar Panicker: Okay.

Kashyap Jhaveri: For the quarter if I look at, the overall industry sales have declined by about 22% odd up to 125cc, I am not calculating anything beyond 125cc at this point of time, so what I am saying is that given that you have about 2%, 2.2% market share and which is not very high, a fairly more aggressive stands over there would be something that you can because see I am just looking at also zone wise disbursement number and in west as well as in east where we do not have a fairly large market share, there also disbursements have actually declined. These are the new territories that we are entering and ideally there should have been some strong growth, which we saw until let say Q2 of last year also?

Madhu Alexiouse: I will try to kind of answer this question. The significant drop that has happened in Q4 is between Hero and Honda. And those are the staple products left out for NBFC, okay, otherwise for example Bajaj. The only companies which showed growth was Bajaj in Q4, but predominantly it is done by Bajaj none of the NBFCs or banks are significantly present in Bajaj counters. So whatever is left out in that particular thing, for example Honda the drop was about 26%, okay and I mentioned that scooter sales has drastically gone down, which is actually reflective of how Honda has done. And overall industry the decline is about as per my calculation is about 9% to 10%. And this is wholesale value. Initially, I told these are wholesale value, these are not retail values. And so with this decline in growth and about six weeks inventory lying with dealers. So definitely there were concerns, retail concerns as far as Q4 is concerned. So I am saying that what degrowth you are looking at the industry, it could be much more than that given the inventory that was there, some reports tell me that the inventory was up to the eight week level, okay. So whatever Q3 growth we were seeing probably that landed up in end inventory in Q4 and then the Q4 sales started declining because dealers were having excess vehicle and these numbers what they are reporting is what OEM, the manufacture bills to the dealer. So manufacture can build any number of vehicles to show the growth, right. So their concerns as far as key manufactures are concerned except Bajaj, we showed the growth and I said in my initial remarks that at the economy segment, at the entry level segment, in the rural areas, motorcycle did well; one of the reasons why Bajaj could make those numbers or show that growth. Although the denominator is not that big but Hero Honda definitely impacted the numbers.

Kashyap Jhaveri: Second question is on your collection agency payout, which is now sort of still continues to rise, any future outlook over there when it could sort of stabilize like what it did first let us say all four quarters of last year, when could this again stabilize back?

Vinodkumar Panicker: If you look at a full year picture, the overall collection cost, let us not split it up with this way or that way because we have not grown the number of employees in the collection team, so the collection is coming from collection agencies and post the floods, we needed to be aggressive, in fact at the end of the second quarter results, I had actually made very clear over the next couple of quarters, you could see a spike in the collection cost. In spite of that if you look at an overall full year kind of number, the collection costs overall has gone up by about 40% and actually the collections have also gone up in the same rate, it has gone up from about 1200 Crores to 1750 Crores for the full year. And on a full year basis, I mean for the current quarter it is at about 4% and on a full year basis if you look at it, it could be in the 3%-3.5% kind of range. So we believe that there would be couple of quarters where the cost will go up, other quarters the cost will go down, but we will try and ensure that the overall cost of collection is in the 3%-3.5% kind of range.

Kashyap Jhaveri: Okay. So on full year basis, one could look at 3%-3.5% and what happened for let us say in the Q3 or Q4 will not be an aberration?

Vinodkumar Panicker: We should not take it as a benchmark, because that is something, which we had clearly said it would be there because we wanted to bring down the NPAs, which had risen post the Kerala flood.

Kashyap Jhaveri: Sure. But on a full year basis, 3%-3.5% is more likely the number than what we saw for H2 of this year?

Vinodkumar Panicker: 3.25%.

Kashyap Jhaveri: Thank you very much Sir.

Moderate: Thank you. The next question is from Manav Vijay from Essel Finance. Please go ahead.

Manav Vijay: Thank you for the opportunity. Just wanted to ask you one thing you have mentioned growth rate of around 25% for FY2020, just wanted to understand under a what conditions we would want to slowdown this growth and let us say and it is actually slow down what impact it could have on your opex and secondly on your GNPA?

Vinodkumar Panicker: We have said we will grow by 25% and initially I mentioned that we have a CAGR of about 26% as of now, so I said that we will continue that 25%.

Manav Vijay: No. I understand. All I am asking to let us say, in case you guys decided to slow down, what reasons could then be?

Madhu Alexiouse: No. I have also shared the trends. What trends are emerging, when the market is down and you look at trends, what are the trends and you re-strategize how you are going to tap this trend, I shared how rural is growing up, our motorcycles are growing up, I told about our expansion strategy, so we are fairly confident about this. We are not saying that there would be any slow down and I said that the finance penetration is to go up given the prices, I mentioned about once the government is in place, things would be more stable, more focus as far as markets are concerned, so I think reasonably, there are lot of merits that is there to achieve these kinds of growth.

Vinodkumar Panicker: And we are actually factoring in the overall growth in the two-wheelers to be in the 5%-6% range only and this is that we are factoring in, so there is no real reason for us to possibly slow down and we are fairly confident that the funding which is currently coming in that will continue to dealer.

Manav Vijay: Okay. Thank you and all the best.

Moderate: Thank you very much. That was last question in the queue. I would now like to hand the conference back to the management team for closing comments.

Madhu Alexiouse: Thank you so much for being with us. I think the market was quite tumultuous last year post Q1 with the floods it started, I call it two types of disasters were there. One is natural disasters, which started from Kerala then we had all the cyclones getting southern parts of Southern Coastal belts, then we had manmade disasters starting from IL&FS and then the NBFC crisis, it is a tumultuous year but definitely MCFL team could shore up some positive numbers. As I said in the earlier comment that it is a milestone here for us. We are young at 25 years. This is a Silver Jubilee Year of Muthoot Capital Services. We have various milestones including 2000 plus Crores disbursement, we have 2700 plus book, in the non-south market we are 500 Crores plus and one more thing I wanted to share was we had been awarded Best Automobile Financing Company that we will be sharing with you shortly, so lot of good things have happened for us. Thanks to all of you for putting that confidence and also most of you talk to us offline and you kind of advice us what is a right strategy, we thank you for that and I am wishing all of you all the best and still if something is there in your mind, please you call Vinod, call me and we are open to taking your call, we are open to taking your mails and we will confirm it back. Thank you so much once again and all the best for the new financial year.

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