"Muthoot Capital Service Limited
Q3 FY2019 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to Muthoot Capital Service Q3 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. 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 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. Thank you and over to you Sir!

Digant Haria: Hi. Good afternoon to all of you. Firstly apologies for starting this call at 12, I think we had to reschedule this on Friday so some of you guys would have locked in at 11:30, so apologies for that. Second is before we start the concall I just thought I will highlight a few important points or the backdrop in which this performance should be evaluated. First is that the two-wheeler market, which degrew around 16% in terms of primary sales from Q2 to Q3. Second is we had the NBFC crisis all of us know about it and third is there was a huge flood in Kerala in the month of August and the spillovers of which lasted till September and October, so these were the three things I thought I will highlight. As of now without wasting any time I will handover to Mr. Vinod Panicker who will take us through numbers and then we can have Madhu Sir also giving his comment and then we can open the floor for questions. So over to you Vinod!

Vinod Kumar Panicker: Good afternoon my friends, nice to being with you again. We declared our results on Friday and we believe that in spite of all the issues that Digant flagged at the beginning of the conversation I think we have kind of with the decent set of numbers. We had a total disbursement of about 502 Crores compared to about 541 Crores in the immediately preceding quarter and about 526 Crores in the same quarter last year, so a drop of 7% and 5% respectively, but the overall AUM was at about 2596 Crores versus 2515 Crores, an increase of about 4% or 5% and versus the last year in the same quarter a growth of about 31%.

At the revenue level the growth was 8% with an income of about 142 Crores versus about 132 Crores that we had in the same quarter last year and 35% higher versus the same quarter last year 132 Crores versus immediately preceding quarter and 105 Crores, which was there in the same quarter last year, the growth was 35%. The finance expenses in the current quarter, it was kind of a quarter where the costs have gone up. The finance cost went up to about 41 Crores versus about 38.4 Crores a growth of about 7% and 28% versus the same quarter last year. The operating expenses that we had mentioned when we had actually spoken with all of you after the Kerala floods before the last quarter that there would be a spike in the collection cost that has actually happened and basis of which the operating cost actually went up to about 52.8 Crores versus about 48.6 Crores in the immediately preceding quarter and about 41.7 Crores in the same quarter last year.

Loan loss provision, we continued our conservative approach and as we had told you about four to five quarters back saying that our intention is by 2020 provision coverage ratio about 50% on the NPA. So while the NPA grew only by about 4 Crores versus the immediately preceding quarter, we actually made a provision of about roughly 6 Crores about 2.5 Crores was additional provision, which was about 10% lower than immediately preceding quarter, but about 75% higher than the same quarter last year. All this is like to a total bottomline of about 23.3 Crores a growth of 16% versus immediately preceding quarter and 48% higher than the same quarter last year.

On a nine month basis, the overall disbursement is at about 1529 Crores, a growth of about 11% versus the nine months of last year. The revenue of 398 Crores is more or less equal to the same figure that we achieved the whole of last year; full year was about 398 Crores. For the first nine months the growth was 43%, finance expenditure went up by about 29% at 116 Crores, operating expenses was higher by 25% at 145 Crores, loan loss provision was 65% higher at about 38 Crores and that is including about 13 odd Crores, which was on account of additional provisioning that we have done in the first three quarters. All leading to a close to 100% growth in the first nine months, we went up from 32.2 Crores to 62.1 Crores.

At the opex to NIM level, we are at about 52% more or less equal to the immediately preceding quarter, but significantly better than the same quarter last year when it was about 57%. Loan loss provision including the higher provision that we have done is at about 2.4% and excluding that it comes to about 2%.

Return on asset, we have been maintaining the trend of 4%, so this quarter it is at about 4.3%, last quarter at about 3.8% and the same quarter last year at about 4%. Earning per share has been good at about 14.2% and 12.2% in the immediately preceding quarter and same quarter last year it was at about 10.4%. On an overall basis for the first nine months the earning per share is at about 39 Crores versus 19.6. The return on asset is 4% plus and loan loss provision including the additional provision is at about 2.5% excluding that it would be in the 2.1%, which is similar to what we have done in the last three to four years. I now ask Madhu to take it forward.

Madhu Alexiouse: Good afternoon once again everybody and you would have listened to what Vinod has said and we have published the results as well. I think the numbers that we have put up now is one of the excellent set of results despite tremendous headwinds that were there in the last two quarters besides Kerala flood there were cyclones in southern part of the country, floods had impacted Karnataka, so definitely southern part of the country was impacted, then followed by liquidity crisis then there was escalation of insurance cost, which impacted the two wheeler sales, so all around there was a drag as far as two wheeler sales is concerned and as Digant said the degrowth was about 16%.

Despite that we have been able to deliver these set of numbers, I think it was 360 degrees stress test for us and despite that the figures are there in front of you. On disbursement, I wanted to quote here as far as two wheeler disbursements are concerned, though the market degrew by about 16% we had ever highest disbursement of 493 Crores as far as two wheelers are concerned, ever highest for any quarter for us and it is about 5% growth compared to last Q3. This is despite the degrowth of the market, but on a year-on-year basis nine months we have grown by about 11%, so the fact that we have been telling that we would outgrow industry, we would be ahead of industry, something which we had committed and we are trying to deliver that in fact there is a steady growth in the book. The portfolio quality had been stable. There is improvement in the portfolio as far as Kerala is concerned, so all details are there in our figures.

Most importantly to assure you and to tell you that while Q3 had a huge opportunity for us to take more market share in terms of lot of NBFCs slowing down the disbursements and some of them actually moving out of two wheeler business, we had the option of gaining more market share, but we were very cautious given the market that was there. We had adopted a very cautious lending strategy especially with the fact that we never knew how long the liquidity freeze would last, so we maintained a lot of caution, we focus on the quality, we focus on collections, we focus on tightening our operation cost, you would see opex to NII on a very contained, it is a contained number. So we focused on lot of qualitative stuff rather than running around market share and end up into portfolio quality issues. So just to reassure you that what we have done in Q3 is keeping in mind market, keeping in mind all the inconsistencies that have erupted suddenly and so when say it was a stress test we are really very careful in investing whatever money we had.

Besides this, all the testimony to our resilient and stable business model, we have been talking about digitalization, we have been talking about expanding outside, so these are the times when you get tested and you are able to show these numbers. So just to give a brief perspective that whatever we have been telling in our earlier calls, in our earlier results I think this was a stress test where we have been able to deliver this numbers and of course Q4 is going to be a much, much ahead of this and I hope that while we end the year we would be able to deliver the guidance that we have said during the start of the year, worst is behind I think we are looking ahead in growing of business in a big way and of course there are a lot of other products, which we have outlined to be launched as we go forward in Q4 and next year Q1 and Q2. So much from my side, Digant I open this forum for any questions, which we can take right away or is there anything else you want me to cover I will do it right away.

Digant Haria: So I think we can start the question and answer session.

Moderator: Sure Sir, Thank you. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of line of Rajesh Kothari from AlfAccurate Advisors. Please go ahead.

Rajesh Kothari: Good afternoon Sir and congratulations for good set of numbers in challenging times. My first question is in terms of disbursement other loans, which is reduced to 9 Crores in Q3 FY2019 versus 72 Crores in Q2 FY2019 can you please explain what is the nature of this other loans and a little bit brief profile of the borrower?

Vinod Kumar Panicker: This is Vinod. The other loans are essentially corporate loans, which are given to smaller NBFCs. Now first to explain why the number is lower, Madhu did mention about the quarter having some bit of liquidity crunch and we are deciding to be conservative, we are deciding to go slow, so we decided that we will give preference to our core business, which is two wheeler financing and therefore we did not do any disbursements in other corporate loans. Now the profile of the customer, it is smaller NBFCs maybe with a loan book of anything between about 100 to 400, 500 Crores. That is the profile of the customer and all of them would be into retail financing, which would be MFIs which could be used vehicle loans, it would be a combination of all these things.

Rajesh Kothari: And what would be the credit rating profile of the borrowers?

Madhu Alexiouse: It could be BBB, it could be BBB-, and it could be in that range.

Rajesh Kothari: What would be the minimum below which you will not lend?

Madhu Alexiouse: No. Let us say if there is less than 100 Crores the person did not get the rating. Even if there are things that where the person does not have a rating or even if he has rating we have our own method of due diligence and this is that only the loan is given. The rating only to our comfort.

Rajesh Kothari: And yield of that is higher than your own core business loan?

Madhu Alexiouse: No. It was significantly lower. It would be in the range of 14% to 15%, but in the costs are much lower than that, so NIM would be more or less same. The ROA would be more or less same.

Rajesh Kothari: ROA is same, but in terms of the yield you are saying would be how much?

Madhu Alexiouse: In the range of 14.5 to 15.

Rajesh Kothari: And cost would be?

Madhu Alexiouse: Cost would be the cost of interest cost. The cost of funds plus whatever cost of manpower. Apart from that there are no other costs.

Rajesh Kothari: Sir what is the incentive to do this business, I am just trying to understand if the yield is lower why to do this business?

Madhu Alexiouse: It is a business, which is available for us to do and that is reason we are doing and it definitely helps us with the topline, it helps us with the bottomline.

Rajesh Kothari: Considering this NBFC related issues you tried to squeeze it, but in terms of the NPA what kind of NPA you are seeing in other loans. At present how much of it is in your total book as on now?

Madhu Alexiouse: It was roughly 250 Crores and NPA is zero.

Rajesh Kothari: Coming to your core business, can you tell me…

Moderator: This is the operator, Mr. Kothari, may we request you to come back in the queue for a followup please.

Rajesh Kothari: This is a related question. See if I can ask?

Moderator: Yes Sir. You may go ahead.

Rajesh Kothari: Sir on your core business, can you give some colour, how do you see the industry now, is it coming back to normal or it is still industry is facing the challenges?

Madhu Alexiouse: I think January is the month where we are expecting it to bounce back. December was very tepid because the model change happens, when we started this year that we had projected that the total industrial volume that is TIV of two wheeler would be about 2.25 Crores and last year the sale was about 2 Crores, so we are expecting it to be somewhere about at least 2.2 is something, which would happen, so I am expecting Q4 to be one of the best quarters as far as this year is concerned. Of course when the new model starts coming in that is the 2019 models that would start coming in from already it would have come actually with the dealer, I think when the walk-ins would improve and number of units of sale would start increasing and JFM generally that is January, February and March is generally the best quarters for vehicle sales and I think that Q4 is something where it would bounce back, so 2.2 Crores is something which I think my calculation says is where the industry would hit.

Rajesh Kothari: Thank you Sir.

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

Kashyap Jhaveri: Congratulations on great set of numbers. I have one question on slide #9 in our presentation, which shows on wise a disbursement of hypothecation loans. Now if I divide the value of disbursement by the account and if I look at the growth in the ticket size between Q3 this year and Q3 last year, in zone west, north and east I am seeing a significant rise of about 21%, 16% and 19% in the ticket size and where you gets more interesting is that if I look at this number for branch and dealers separately, the dealers have shown significantly higher increases over there. One part of it could be due to with the insurance, but I am not able to understand why such significant rise of about fairly high double digit in the ticket size number?

Vinod Kumar Panicker: The ticket size has not gone up, same quarter last year it was in the range of about 52000, 53000, now the ticket size is about 57000, 58000, last time may be the LTV would have been in the 73%, 74% range, now it is about 77% range, so there is no increase, which has happened in fact if you have looked at the slides may be if you go towards the fag end you will see the LTVs and the ticket sizes of the last five quarters has been put out and you will see that the ticket size both in LTVs, there will be 2%, 3% increase and in case of value there would be 4000, 5000 kind of increase, some of it has to got to do with the increased cost of the vehicle.

Kashyap Jhaveri: I understand, on the blended average basis it is Rs.58260 number, but if I look at only these three segments where the presence is smaller, which is west, north and east then the increases were 18% to 20%. If I look at south it is just about 9%, which makes the total average at 9.7%, but within west, north and east, the increase is about 18% to 21%. I am just referring to slide #2, you can compare to me in the later part of the presentation.

Madhu Alexiouse: I will give you clarity. We will definitely discuss it back, but I will leave some figures for you. The average cost of insurance is about Rs.7000 today, it used to be approximately Rs.2000 okay, so that increase is about Rs.5000, so out of Rs.5000 my LTV increase is less than Rs.3000, so the on-road price has increased because insurance cost has gone up the accessories prices have gone up. There would be slight change in the pricing of the vehicle then goes up or down, so everything taken together the impact on the ex-showroom price or the on-road price would have been at least Rs.7000 to Rs.8000 okay. So on that we would have contributed around Rs.3000 on an average across the country.

Kashyap Jhaveri: But if you can just share some thought on this geography wise later part of the presentation that would be great?

Madhu Alexiouse: Yes sure, we can look that and come back.

Vinod Kumar Panicker: Is it possible that we do this verification for you post the call and maybe we get onto a call as we do usually.

Kashyap Jhaveri: One last question on slide #21 where you have given your spread analysis if I look at revenue from operation that has gone up from about 25.5% to 27.5% in the first three quarters of this year, which has also helped you significantly on the spread side can you explain the increase in your loan yields?

Madhu Alexiouse: This would be in relation to mainly hypothecation loans where we had increased ROA from November 1, 2018 basis the increased cost of funds by about 1% point in all the new loans, so that is something, which would have helped us and in the immediately preceding quarter may be because of the Onam and things like that what we had done in some cases we had reduced the processing fee and things like that, so that is what would have seen increase in terms of number two. Number three would be last time there was a higher NPA compared to the immediately preceding quarter of something like Rs.16 Crores odd we went up from Rs.101 Crores to Rs.118 Crores odd, so when that happens there is a income reversal, which happens. Last quarter would have seen that reversal of income, which all is netted of when we work out what is the revenue from operations, which was not that distant like I said at the beginning of the call that the NPA increase was only about Rs.4 Crores versus Rs.17 Crores, so the income reversal is also much lower, so it is a combination of all these factors, which have led to revenue being at about 27.2 versus 26.5.

Kashyap Jhaveri: Would it be possible for you to disclose OEM wise growth?

Madhu Alexiouse: OEM wise growth, I think we can do that in fact lot of splits can happen may be again we can possibly do hit post the call, you can possibly send us a e-mail what is it that you are wanting, we can send you the details that is not a big issue.

Kashyap Jhaveri: That is it from my side Sir. Thank you very much and once again congratulations Sir.

Moderator: Thank you. The next question is from the line of Pranav Mehta from Value Quest. Please go ahead.

Pranav Mehta: Good afternoon and congratulations on a very good performance in a difficult quarter. First couple of things wanted to check with you. First I wanted an update on our liquidity situation now and you mentioned in your opening remarks that you have been cautious on growth this quarter because of funding challenges, so basically wanted an update on how is the situation now and just a followup on that, with whatever is happened in the NBFC space, what is the change in on the ground competitive scenario that we are seeing in the two wheeler market?

Vinod Kumar Panicker: I will answer your first part of the question. Second part Madhu will respond to you. On the liquidity front, let me may be correct whatever understanding is there. We did say that we were cautious and we were cautious because we do not know what to expect in the rest of the quarter and that is the reason we were cautious. It is not that we had in the major liquidity issue, we never had anything that is the reason, we have may be disbursed Rs.502 Crores, here I would want to mention two, three things, the banks that we have been working for a long time and all the banks have been very supportive that is seen from the cost of funds also going up only from 9.4% to 9.7%, which is not the case with the market number one. Number two is, we are a retail player, our collection is about Rs.150 Crores to Rs.160 Crores every quarter, so that is also every month and that is also adding significantly to our cash balance and towards the end of the quarter in fact this quarter if you have seen the slide, we got about Rs.211 Crores of additional sanctions, Rs.151 Crores of that was we have securitization and direct assignment, the two sanctions came towards the fag end and the last two days of the quarter, which will be utilized by us in the current quarter, this quarter has started off well with one sanction already coming in many more in the pipeline, which should some of it should come this month, balance would come in the next month. We do not see any liquidity issues, we set that in the previous quarter's concall, we are reiterating whatever we said in the last call.

Madhu Alexiouse: Coming to competitive scenario, Q3 definitely lot of players had actually stopped disbursement even in two wheeler products, banks had a business as usual kind of approach they were funding the way they were doing earlier. As of now I still think that some of the players have not recovered back yet and Q4 I believe that everyone would move with caution because I do not think so that everything is hunky-dory now and people would continue or people would become aggressive again, so only a few players especially banks and a couple of leading NBFCs, Muthoot Capital we had been consistent in the market we maintained market share, the competition between the top segment NBFC banks would continue, so I am not saying that competitive scenario is not as intense as it used to be there, competition is there, A,B, some of the NBFCs moved out or have slowdown, but that does not mean that we would go aggressively behind those market share because it may not suit to our type of customers, our profile of customers, which we may like to avoid and I think that Q4 is something where whatever guidance we are saying we will be able to give that irrespective of how the competition is there in the market.

Pranav Mehta: Right Sir so sharing the light of the current market scenario how do you see growth planning out in Q4, you just mentioned but I have going into FY2020?

Madhu Alexiouse: As I said, market would grow around 10% and earlier we were saying above 13%, but now we say about 10%, you have a seen book, we have been growing more than double as far as our book is concerned, we will continue the growth trend even disbursement also we believe will double the growth of the industry and that had been our vision that we should outgrow the industry in at least twice book should be at least 35% is something which we are thinking it should grow. 2020 we had said that we would end up with the book of about 3600 to 3700, which we believe we have a very good view that will be able to do above Rs.4000 Crores that is what we intent to do by 2020 given our all the technology and other distribution channels that we were working out is now up and running. I think the transaction would happen next year and Rs.4000 Crores is something, which we think that would be delivered next year.

Pranav Mehta: Have we taken any contribution from any new products in this Rs.4000 Crores target?

Madhu Alexiouse: As of now not much whatever happens from the new product would be additional.

Pranav Mehta: Thank you Sir and all the best.

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

Umang Shah: Thanks for taking my question. Congratulations on a good set of numbers in a challenging quarter. Madhu, I just wanted to understand the competitive scenario with the banks leading NBFC present on the same quarter, they have lower cost of fund as compared to us let us say HDFC bank has a lower cost of fund as compared to us so what is the reason trying to understand the strategy, what is the reason, they do not lower the yields to gain market share?

Madhu Alexiouse: I could not get your question, because they would be on the lower yield as far as market is concerned. Umang we should look market like this that the customers to HDFC would be a totally different segment than what we look at, we look at customers Tier-3, Tier-4 centres, HDFC would look for our customer who is having banking track record who is there existing customers so naturally they pass on better interest rates for them so already there is a difference interest rates what HDFC offers and what the offers?

Umang Shah: Got it and Sir in how many counters would be kind of rough estimate that how many counters would be encounter HDFC Bank or so participating?

Madhu Alexiouse: I think competition with banks is HDFC would be at least 60% to 65% of the counters.

Umang Shah: Got it and basically their the customers which we cater to HDFC to a different is what you are saying?

Madhu Alexiouse: Yes they cater to customer who is having all the papers, all the details, he will be having proper track record with some companies, he will be having bank statement average balance of let us say Rs.30000 and he will be more urban customer, CIBIL hit would be there so lot of parameters are there and specially HDFC banking customer would be something, which they target.

Umang Shah: Got it Sir. Sir what is your average TAT?

Madhu Alexiouse: See if customer comes to a counter, there are two tags, one is pre-sanction, and then second is post-sanction and if customer is able to give all the details correctly, we would take 10 minute to fill the data in the system that is mobile app that our team uses and it takes maximum five minute to approve so 15 to 20 minutes is something which we are able to revert to customer yes or no provided he provides all the information and if he is able to provide all the papers after the sanction including all the credentials in terms of his address proof, his identity proof, any other papers that we ask his cheque or NLCH whatever details we ask if he is able to provide, it takes maximum two hours for us to disburse so same day is something which we would be able to deliver the vehicle to the customer including disbursement to the dealer that is the situation that we focus on but if customer is not able to provide papers then it may shift to the other day, but that is actually customer issue rather than our issue, but given the NTC that is new to credit in two-wheeler industry, which is about 61% and mostly in Tier-3, Tier-4 centers, we are very active there giving a TAT of two to three hours is one of the best in the industry to this kinds of customers. If a customer has CIBIL and all the data it takes us 10 minutes to actually close the deal, but the customer who does not have all the details and ensuring the two to three hours we are able to disburse is an excellent TAT so this is the situation that happens with customer who has everything but generally during the day things can be processed and customer can go with the vehicle the same day.

Umang Shah: Got it Sir. Sir just a follow up to this how do we compare against the competition on TATs?

Madhu Alexiouse: I think leaving two to three players, they are around us, otherwise I think we are among the top 3 or 4 as far as TAT is concerned.

Umang Shah: Got it Sir. That is it from my end Sir. 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. Great set of numbers. Sir most of my questions have been answered. I just wanted to again ask a question that you have already replied that you will reiterate your guidance so specifically to Rs.300 Crores disbursement over the next two quarters so that also remains firm, right? Sir in the last quarter, are you suggested Rs.1400 Crores of disbursements over the next two quarters so this Q3 has been Rs.500 Crores, are we okay with Rs.900 Crores in Q4?

Vinod Kumar Panicker: We should be more in Rs.750 Crores range.

Agastya Dave: Okay fine Sir. Perfect and Sir the second question was the growth that you have roughly indicated for the next year, how much of that would be coming from your existing locations and how much of that will be coming from new location? I understand new product contribution would be minimal as you say, but in terms of locations how do you see that panning out and hence a related questions, how do you see cost of income panning out over the next two to three years, will this like dramatic trend of reduction this year that we have seen I am pretty sure this is hard to replicate but make level that we will asymptotically approach? That is it from my side Sir. Thank you.

Vinod Kumar Panicker We are currently in about 18 states so may be we might increase the number of count of states may be one or two, but when these 18 states is roughly going to deliver the growth that we are talking about so we are fairly confident that the numbers that Madhu mentioned sometime back of roughly 3600, 3700 maybe even going to 4000 is something which we are capable of and will deliver may be by the end of next year. On the cost-to-income ratio, which you mentioned I think if I got question right?

Agastya Dave: Yes Sir cost-to-income ratio long-term where do you see that approaching is settled out so for every company it settles down at a particular level based on the business point of view?

Vinod Kumar Panicker We have always said it would be 55% range, we are at today about 52%, we do not see changing much from that, we should continue to be in 50%, 52%, 53% in that range.

Agastya Dave: Perfect Sir and just to go to back to the previous one, I did not mean number of states I meant number of locations so in the state whether you are already I am pretty sure you are going deeper, so how much of the growth is expected to come from the very local new locations?

Vinod Kumar Panicker The existing locations that we are present in or existing dealerships that we are in that will definitely give an increased volume but then some bit of it would come from the newer locations now right now when we do not want to possibly try to split the two, revenue look at the location, will look at the state and within the state will keep on expanding as we go along.

Agastya Dave: Sure Sir. Thank you very much Sir. Good luck for the next quarter Sir. Thank you.

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

Jignesh Shial: Thanks for the opportunity. Just two questions, one that we understand that you have been cautious during Q3, as far as market share gain is concerned, but can you tell us that what will be the strategy in Q4 or Q1 FY2020, will you be fine with gaining market share if yes tell who are the players who are basically according to you would be the loosing market share that is my first question?

Vinod Kumar Panicker: See in fact if you at between Q2 and Q3 we have gained market share because we were at 1.4%, Q1 we were at 1.5%, we went down to 1.4% post Kerala floods and other things, Q3 we have again gone back to 1.6%. So, maybe just as a carry forward of my response to the previous caller's query, when we increase our locations we will definitely look at increased market share.

Jignesh Shial: Understood, but basically where I am coming to is we have been seeing that banks have been anyhow been gaining market share in respective segments but the customer segment itself is different, but in the existing market itself we have seen a little better traction whereby weaker NBFCs or smaller NBFCs losing market share and you guys are gaining it or such trend is a temporary one and over a period of time you will see in the existing market share gain would be do to with volumes rather than gaining market share from somebody else.

Madhu Alexiouse: I will give you a perspective on this. Headroom, we need to look at the headroom that is there for the two-wheeler business. One is that this nine months what we have witnessed is that the economy segment growing very well, which is the entry point for any customer because of the price, we have seen premium also growing but the volumes are not that big. For me the segment the growth comes from rural, Tier 3, Tier 4 centres where we are present. When we talk about headroom in two wheeler businesses it is about the incremental penetration that would happen in this industry as we go forward. We spoke about increase in insurance cost, there are going to be some regulatory changes whereby BS6 would come into force and there are other features that would become standard fitment for the two wheelers and we expect the cost to go up by another 10000 to 15000. We believe that and because this is an entry level commuting for the Indian citizens we expect this industry to grow. We are not saying that it would be stable or it would reduce, we believe, our assessment is this industry would grow. There could be some temporary issues like whatever happened in past two quarters but this industry would grow, point number one. Point number two, prices would go up. So when prices go up there is an about 65% cash customer who has enough cash of 50000 or 60000 and they go and buy in cash. Those customers would get into financing piece and so penetration of 35% or 37% would start going up, I believe that more and more OEM focus would be to come into economy segment, so entry level commuting segment can buy their products, so there would be improvement in product as far as very stable product with very price advantage that is where they will focus, so I think that in terms of finance penetration, in terms of entry level segment that would expand the market which is rural and Tier 3 and Tier 4 centres there would be a huge market available for the finance companies. So it is up to the finance companies based on their distribution capabilities, their capability to asset those customers, the turnaround time in terms of their processes, their capability to collect. For example, Muthoot Capital is one of the companies or the only company, which has got an in-house collection team as well. So we are very confident going out and spreading out anywhere in the country because business model is like that. How is the collection model of that company so these three or factors would determine how any of these companies would move forward and that is where the market share lies and that is where the incremental share for anyone lies, and we believe that we are very prepared for that. In the last many of our calls, we have been telling about our distribution network, our branch network, flagship company, branch network about 3600 plus branches of Muthoot Fincorp Limited so given the setup, the business model that we have got we are very confident in growing our market share as we go forward.

Jignesh Shial: That answers my question. The second question I just had upon overall cost of funds which has inched up from 9.4 in Q2 to 9.7 how would you see it happening in Q4 of this year? Are you seeing this 9.7 stabilizing or you are still seeing a pressure coming up and overall cost of funds has been inching up further for you guys? How is the scenario?

Madhu Alexiouse: Yes we expect the price to the cost to go up by another 20 to 30 BPS and they may remain steady post that till the time it starts going down, which could be some time away.

Jignesh Shial: Will you be able to pass it on the end customer whatever increase happens?

Vinod Kumar Panicker: One of the other calls I had queries; I had actually mentioned that we have increased the rate of interest by about 1% point already.

Jignesh Shial: Perfect. That sounds good. Thanks a lot for the answers and all the best.

Moderator: Thank you. The next question is from the line of Rajesh Kothari from AlfAccurate Advisors. Please go ahead.

Rajesh Kothari: Sir in the last question just on which an analyst has asked you mentioned that customer profile with respect to 65000 and cash component and therefore debt, can you just tell little bit further, I did not understand that point?

Madhu Alexiouse: What happens is out of 100 customers about 35 or 37 customers prefer taking loan and other segment of customers they come and they buy the two-wheeler cash down, they pay fully in cash, the higher penetration of finance is mostly in urban cities and Tier 1 centres, Tier 2 centres where the customers are bankable customers and they are able to get finance immediately at the counters, so the growth, the conversion of cash customer to finance would happen much more than what is happening now because the prices would escalate, which means that when the price escalates the customer may not have that much cash to buy a two-wheeler, but they will have down payment to give a margin money of 30%, 35% and take loans from the finance company and that is how the penetrations, so 35%, 37% of finance penetration is likely to go up and we have been telling this last one, one-and-a-half years that given the regulatory changes and the technological changes that would happen the prices would go up and the time has come, I mean next year definitely it should look like prices going up and the finance penetration going up.

Rajesh Kothari: So you do not see that as a challenge that you know 65% of your total customer, when they are paying in full cash do they have a bankable record to fund by any NBFC?

Madhu Alexiouse: Yes, it is a mix of customers, these cash customer does not mean that they are the people who do not have bank account, they would just to avoid the hassle of finance, they would just like to avoid another loan in the book, so we cannot say that all the 65% is not bankable customers.

Rajesh Kothari: Understood. The major question was next year when you are looking at closer to 3500 to 4000 Crores kind of a total AUM at the end of next year can you little bit talk about what would be the primarily growth driver in terms of number of points within Muthoot where you have already present, how you are planning to increase that number of points, during last 12 months there might be many new points, which you would have added and we probably only 6, 9, 12 months old, so they not yet matured in terms of so what is typical your experience that once you start with a say particular distribution point within 12 months and then 36 months how do you see the ramp up, so if you can give little bit more details about how you are going to achieve that number, that would be really useful?

Madhu Alexiouse: I will keep it very short and sweet. Last two years we have expanded to almost 20 states now, okay, we are there in 20 states. We have close to 7000 plus touch points right now and majority of it has been developed last two to three years. Vinod mentioned about our market share 1.6%, so you can imagine the potential to grow all these touch points, potential to grow within these states, so the expansion has happened in recent times only what is left out is how we penetrate deeper into these areas, A, B, how we increase our counter share, so when we enter a place or when we enter a dealership we enter with one person and as the dealership relationship improves there would be two people, three people, four people depending on the volume of the dealers, so this gradually happens. Day 1 I do not put 4 person in the dealer counter despite whatever sales he does, so these are gradual process and that is what is going to bring in growth, so wherever we have put our infrastructure, distribution now that has to reward us and that is one of the reasons despite the market degrowth we have been able to show some kind of growth compared to any other players.

Rajesh Kothari: Great. Thanks Sir. Thank you very much.

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 Sir for another opportunity. In the opening remarks you had mentioned something about other expenses moving up because of the Kerala related floods, collection charges you used to give a slide in your presentation about other expenses split, could you help us with what exactly or how much was the increase in the collection and then business sourcing incentive in the quarter versus Q2?

Vinod Kumar Panicker: Versus Q2 the collection expenses were up by about Rs.3.5 Crores, which is more or less the total growth between Q2 and Q3. Business sourcing expenses was more or less same because Q2 is a quarter win, we normally have provisioning for the Onam schemes and other dealer incentives relating to that, so that was more or less stagnant, where it was slightly lower by about whatever Rs.10 lakhs, Rs.20 lakhs, but this collection cost is something, which went up by about 2.5 Crores.

Kashyap Jhaveri: Okay and another question on your disbursements in south, which is down about 19% YOY, which is much sharper than what we have seen in the previous quarter also, what would you attribute that to such sharp decline of about 19%?

Vinod Kumar Panicker: It is mainly to do with we had mentioned last year, it is comparison is versus the same quarter last year that October was one of the best months because Onam was in September last year and it just continued in October. This time there was actually speaking no Onam because post the floods, while it stabilized, it did not go to the level that it should have gone, so that is the reason you are seeing this, may be you should see some bit of improvement in the current quarter and may be in the coming quarters it will improve significantly, so my request is do not go by -19 for a quarter, because that would keep happening because let us say the kind of floods, Kerala has seen was unprecedented, something which happened once in 100 years kind of thing.

Kashyap Jhaveri: Right and just one last question you mentioned your PCR target of 50% is FY2020?

Vinod Kumar Panicker: Yes we did say that yes.

Kashyap Jhaveri: Thank you.

Moderator: Thank you. The next question is from the line of Agastya Dave from CAO Capital. Please go ahead. As there is no response we take the next question from the line of Umang Shah from Saif Partners. Please go ahead.

Umang Shah: Thanks for the opportunity again Sir. You mentioned that 65% of your dealerships, there are banks which are present as well and then you also mentioned that your TAT is close to 15 to 20 minutes, so I am trying to understand if our customer comes why does HDFC Bank or any other bank reject that customer and why do you accept it and what do you in those 15, 20 minutes in terms of field investigation and whatever you do which makes you accept that customer versus HDFC reject that customer?

Madhu Alexiouse: It does not happen that HDFC rejection would come to me. If it is rejected in HDFC for some reason it would get rejected at my end also. The segment of customers that banks would do and the segment of customer that I will do would differ I meant that.

Umang Shah: So that is what I am trying to understand the difference in that customer segment you did touch upon it, but if you would give more colour?

Madhu Alexiouse: When the customer comes to the dealer point, first the selling of the vehicle happens, okay vehicle is sold, where the dealer executive is involved and he convinces the customer about the model, colour, cost everything and then based on the customer profile, he will bring it to whether he fits into bank or whether he fits into NBFC or whether he fits into local financier, he decides and brings to the counter, so the first interaction happens with the dealer executive rather than straightaway to any of the finance company, it does not happen that customer comes first to HDFC counter then he goes to it does not happen, customer is not alone, he always escorted by the dealer executive and why does dealer has four finance company in his counter, because he knows that he will get four or five different types of customer and different finance company would cater to these four segments.

Umang Shah: Got it Sir. So trying to understand the customer segment between you and HDFC or the other banks what the exact difference?

Madhu Alexiouse: It is about customer's quality in terms of paperwork and HDFC would be giving a very low rate of interest, because he could be the existing customer or because he would have shown an income tax return or he would be having a bank balance of Rs.50000, so there are lot of differentiation that happens at the counter.

Umang Shah: How much of our customer segment would be CIBIL hits and non-hits?

Madhu Alexiouse: We have hit of about 55%, 52% to 55% we have the hits.

Umang Shah: And for HDFC that would be higher as what you are saying?

Madhu Alexiouse: It could be, because they are offering at 18% and definitely I have not interested offering that kind of interest rate in the market.

Umang Shah: Got it Sir. Thank you Sir.

Moderator: Thank you. As there are no further questions from the participants, I would now like to hand the conference over to Mr. Digant Haria from Antique Stock Broking.

Madhu Alexiouse: Before we close, I wanted to announce one thing. Indeed I am really glad and very proud to share the appointment of former member SEBI and former Chief Secretary Government of Kerala, Dr. K.M. Abraham on the board of MCSL, as an Independent Director. In fact it is an honour to have him on board. He is one of the most distinguished administrators with exceptional experience, knowledge in financial and developmental domains. I thought I have announced this in the call. We are broad-basing our board and we believe induction of Dr. K.M. Abraham would definitely help MCSL to go to the next level.

Digant Haria: Thank you everyone for joining this call, taking out this time in the busy result season. Thanks. Hope to see you all next quarter. Have a good day.

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