"Muthoot Capital Services
Q2 FY2019 Earning Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Muthoot Capital Services Q2 FY2019 Earning 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 telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Digant Haria from Antique Stock Broking Limited. Thank you and over to you Mr. Haria!

Digant Haria: A very good afternoon to all of you. Thanks for taking out this time. I understand it is a very turbulent time for all of us. We have the entire Muthoot Capital management to discuss Q2 earnings, but I would just like to add this that last quarter for Muthoot Capital there were two big events, which happened. One was the Kerala floods, which were probably the worst seen in many, many decades and second towards the end of the quarter, we had this bond market crisis escalating into equity markets and NBFCs have been caught in that crossfire, so I would request the management to speak a few lines on both of these events and then maybe we can start the Q&A session on earnings call and other aspects of the business, so over to you Madhu Sir.

Madhu Alexiouse: Good morning. Friends, I think we should get into the results first and then Digant as you suggested we will definitely cover how in terms of floods, how we have been able to bounce back, how it is showing up in our results and then we can get into Q&A.

First let me request Vinod to run us through the financials and then we can discuss further on this Vinod!

Vinod Kumar Panicker: Good morning friends. It is nice to be with you guys again. I am very happy to present the current quarter numbers in spite of whatever Digant mentioned Digant mentioned about the two crises, which has happened in the last quarter, so I will possibly talk in two parts. First I will just put across the financials and then like Digant requested, I will touch upon the liquidity part before Madhu takes over, so I will just take some time and then maybe get into this details.

It was a decent quarter for us. We had a total disbursement of about Rs.541 Crores a growth of about 12% on a quarter-on-quarter basis and about 14% growth over the same quarter last year, which led to the loan book going up to about Rs.2515 Crores versus about Rs.2367 Crores in the immediately preceding quarter and about Rs.1700 Crores at the same time last year versus the last year, the growth was about 47%. The interest income was at about 132% or 6% higher than the preceding quarter, but about 40% higher than the same quarter last year. Finance expense is still has been kept under check for the time being and the growth was at about 3% at about Rs.38.4 Crores versus the last year the growth was at about 27%.

Net interest income therefore grew to about Rs.93.7 Crores versus about Rs.86.9 Crores last quarter, a growth of about 8%, but by 46% higher than the same quarter last year, which was at about Rs.64.4 Crores. Operating expenses saw a bit of increase at about 12% versus the last quarter and 17% over the last year. I will talk about this in the next line, which is loan loss provisions separately and later on Madhu will touch upon it with specific emphasis on Kerala.

Loan loss provision went up by about 17% versus the last quarter at about Rs.13.8 Crores and was more than double over the same quarter last year leading to a profit after tax of about Rs.20.1 Crores versus about Rs.10.4 Crores last year and Rs.20.6 Crores in the immediately preceding quarter. On a half-year basis, the disbursement has been about Rs.1027 Crores, a 21% growth over the same versus the last year. The loan book has grown by about 47%. The interest and other fee income at Rs.256 Crores have gone by about 47%. The interest cost has gone up by about 30% at Rs.75.7 Crores leading to a net interest income of about Rs.180 Crores versus Rs.115 Crores last year a growth of about 56%.

Operating expenses was higher by about 24% and loan loss provision higher at about 61%. Loan loss provision was Rs.25.6 for the first half leading to a profit of Rs.40.7 Crores for the first half versus Rs.16.5 Crores for the same tenure last year a growth of about 147%.

On the loan loss provision, the main reason for the increase was two. One, is in the current quarter, we saw the Kerala floods coming and when we spoke to all of you most on the August 27th, 2018 we had said that we expect the Kerala NPA to go up by about Rs.20 odd Crores and overall about Rs.15 Crores to Rs.16 Crores would be the growth. The NPAs did grow by about Rs.16.5 Crores versus the last quarter, which led to the increase in the provisioning number one. Number two is we have made additional provision of about Rs.3.8 Crores in the current quarter also as we had committed that by end of FY2020 we would have a provision coverage of about 50% odd.

The operating expenses going up one of the reasons or there are two reasons. The main reason would be a couple of Crores increase in the cost vis-à-vis the last quarter in the collection expenses. This is something, which we had told when we spoke to you on the August 27, saying that we would need to have a little more emphasis on collection and that would lead to a bit of increase in the collection cost, but that could be temporary. It could be for a couple of months, so we see that did happen in September. We see it happening in October also post, which it will go back to the normal levels. The second reason for operating expenses going up is there has been the Onam season, there are certain schemes, which are run for the dealers for which there are additional schemes and addition incentives, which are provided for them in the books, so that is how the couple of expenses have increased, but then there are reasons for it and we know how to get out of it also and that you will see in the next quarter when we give out the numbers. This has led to the current quarter opex to net interest income going to 52% versus 50% last quarter, but it was at about 65% in the same quarter last year.

The return on asset was even now in spite of all these things has been at 4.1% versus 4.2% last quarter and at 3% in the same quarter last year. The earnings per share for the first half were in fact about Rs.24.8 versus about Rs.12 at the same time last year, so all in all we feel it was a decent quarter, but maybe had the floods not been there had God been little more kind to us we would have been better in terms of the topline and the bottomline.

On the liquidity front, Digant had asked to comment on so I would possibly take a couple of more minutes before I hand it over the Madhu. Liquidity wise we do not see a major issue and we are still confident that this is the bank balance and the undrawn sanctions, which are there with us and the sanctions, which are there in the pipeline and the queue for the second transition that we are seeing now basis the banks wanting to do more securitization and because of the kind of results that we have given on the 15 securitizations that we have done till date, we do not see any liquidity issue and we are fairly confident that whatever numbers that we have committed on a full year basis be it out at the AUM level or be it at the bottom line level, we are fairly confident of achieving both.

One of the reasons why we are possibly not having major issue is we have never depended on the money market for raising our finds. Between bank borrowings and securitization roughly more than 90% of our funds come. Then when you add the public deposits then you are talking about figure of 93% to 94%. Subordinated debts, which are for a significantly longer period you add that to it, you are talking about 97% odd. In terms of money market exposures in terms of commercial papers, we have only got one, which is off Rs.50 Crores on a total borrowing of close to Rs.2000 Crores so all in all we feel that liquidity wise we will not have an issue and may be if there are any queries, which any one of you have either during the call or subsequently after the call, we are more than happy to answer each of them. I now request Madhu to take it forward.

Madhu Alexiouse: First of all, at the outset, I wanted to thank Antique Broking and all other investor friends who are there for contributing towards the flood relief. I think about Rs.25 lakh was contributed towards that one-day trading income of about 40% was contributed through Antique Broking. Millions of thanks to each of you and that is going to our Muthoot Pappachan Foundation and it would reach the people who really need that kind of help and support while the rehabilitation work is still going on. Thank you once again.

For the Q2, the key two takeaways that I would like to share is that one on the portfolio quality. I think when the flood happened, a lot of people were concerned that Kerala based NBFCs or banks how they are going to fair and we had come back to each of you on August 27, and we had told you what kind of impact we would have on collections. I am happy to tell you that the impact that we told the actual impact is much lower than that and I will share some September figures with you, which also gives us lot of confidence that things are bouncing back much faster than what we thought.

In the month of September when we closed our collections our zero bucket collection efficiency. Zero bucket is the bucket where the collections are from regular customers who are not defaulters was 98%, which had gone down to 93% in the month of August, so there is a drastic improvement as far as the normal collections are concerned. I tend to believe that 98% of the customers are on track and they are out of the problem. On the bucket one also we have seen a bucket one where the customers have missed one installment we have seen a drastic improvement there. In the month of August, it was 65%, which has bounced to 83% so these two parameters industry standard wise also they are much higher and we are seeing that the regular portfolio is back to normal. The money is coming. We have compared the total collection that we do month-on-month in the month of September, our total collection was Rs.152 Crores, which was much higher compared to barring August even it was better than June and July. There is a huge turnaround as far as collections are concerned. The projections NPA that we gave, it is much lower than that. We can elaborate and discuss more on that as we go forward in this call.

The second and most important thing is in terms of our overall NPA coming down from approximately 6.6% last year to 5.6%, there had been a deliberate and very focused approach towards portfolio quality. You are aware that I have been coming and tell that we have unique blend of collection model whereby through our branches we have collection setup of more than 3500 branches are collecting for us. Customers can reach them and pay there. We have in house collection team, which does collections, which not many of our big players in two wheelers business have that and of course we have agencies across the country collection agencies across the country.

Some of the significant changes that we have brought in which is helping in our portfolio quality is on data driven credit or digital driven credit, which is transforming the way we look at credit so lot of improvements there is helping. It is further helping us in our conservative lending giving loan to the right people and taking out all manual thoughts and manual interventions. One of the things that Vinod touched upon is about operating leverage that operates to NII compared to last year it has come down drastically. We had a very tight focus on that. Barring the collection cost, which has impacted during the month of August all other costs are within the control and we are very hopeful that we will continue to below 50%, which we are trying so opex to NII or operating leverage is somewhere still we feel there is a scope. Our new product on used cars once we start going out into major centers that also would bring the opex down very drastically, so these are one or two pointers, which was very key for Q2 and just to give you the confidence that the Kerala thing is back to normal. We have really, really bounced back well and as we go through the Q3, we have a firm belief and the statistics tells us that the Kerala NPAs are going to go down.

One more pointer I would like to give that of the regular customers in Kerala, the people who were not able to pay in the month of August almost 80% of them more than 80% of them paid in the month of September, so the litmus test about our portfolio is very clearly seen here at without much followup majority of the regular customers have come back and paid us. We are very confident. We are very clear that this is the product, which will grow irrespective of whatever has happened in the past, I think we are looking ahead. All our guidance that we have given we are not changing anything and we are confident of this year's results. Vinod you want to add anything or we will hand it over to Digant?

Vinod Kumar Panicker: I think we will leave it to Digant to take it forward.

Moderator: Thank you so much. Ladies and gentlemen, we will now begin with the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. We will take the first question from the line of Kashyap Zaveri from Emkay Global. Please go ahead.

Kashyap Zaveri: Good afternoon and congratulations for a good set of numbers. My first question is on growth number. If I look at our disbursement in two wheeler our hypothecation loan that number is now stagnant between Rs.450 Crores and Rs.460 Crores for about now almost four quarters now so Rs.450 Crores to about Rs.480 Crores. If I look at slide number 27 in the presentation, which gives us the number of hypothecation loans that number was 83750 in the same quarter of last year it is actually a decline? Given that the cost of owning the vehicle is rising due to insurance as well as some in FY2020 due to BSVI related expenses also are we still confident that we can grow our two wheeler loan book in this year as well as next year what could be the growth numbers that you put?

Vinod Kumar Panicker: Kashyap, thanks for raising this point. I think we actually started by saying in fact Digant started by saying that there were two disasters in this quarter. The first one is something, which directly impacted us. Let us put this way saying that because of the floods happening and we being more cautious in the second half of August and in the month of September, the disbursement would have been about Rs.60 odd Crores lower. It would have been about Rs.60 odd Crores lower. This is seen in the numbers. In fact all the other figures that you have raised right now saying that on a quarter versus last year and other things, the numbers are looking lower. Last year, it was a normal year where you saw lot of growth in South, but in this year I would say that we would have lost Rs.60 Crores to Rs.90 Crores and that has led to lower disbursements and if it had not been the case, we would have possibly crossed Rs.500 Crores mark in this quarter number one. Number two is while South volumes are about 3% odd lower you would see that the non-south region have started going up and going up significantly and the percentage of non-south as a percentage of total volumes is at about 26% odd versus about 15% odd that it was last year, so it is so clearly a strategy that we had started about two to two and a half years back saying that no we will derisk south, so if south numbers have gone down this quarter could have been Rs.60 odd Crores higher. Let me put it that way, but then I think it is only because of the Kerala floods, which I think we have to give due weightage to. We could have gone all out and done disbursements, but then we would have Madhu specifically said that portfolio is something, which is very close to our heart, so we will not want to do disbursement just for the sake of increasing the numbers.

Madhu Alexiouse: Kashyap, just to add here our non-south growth had been very significant for example north has grown by about 60%, east is doubling, and west is about 75% where the growth should have happened in the month of August and September there it happened and I think Q3 is the time when all the festivities and everything is there is the time to bounce back, so hopefully Q3 should be better. In terms of overall sales in the market industry also the growth was about 10%, so about 1.15 Crores two wheeler has been sold, so we are hopeful that this year without any doubt that it will be 2.2 Crores plus, so overall if you look at it is going to look very good compared to last year in terms of percentage growth, provided August, September if you remove it then it is looking really good.

Kashyap Zaveri: A related question on this increased cost of owning vehicle due to insurance are we tweaking anything in terms of LTV as well as in terms of tenure of the loans or something like that?

Vinod Kumar Panicker: As of now there is on the high end two wheelers there is a pressure LTV should be increased and things like that, but we are predominantly Tier 3 and Tier 4 players or distribution or customers are base there, so mostly the entry level bikes or scooters is where our focus is where the impact of insurance is let us say 4000 to 5000. We are trying to work as team of that, but the impact as far as LTV is concerned on due to insurance may be much lower for us compared to the market where the focus is on high segment, but definitely we cannot rule out the insurance factor that would come into on-road price we are looking at that and schemes would be rolled out accordingly.

Kashyap Zaveri: Second question is on your provision. I am looking at slide number 9 if I look at additional NPL provision, which we are doing to jack up the provision coverage ratio for FY2020 do you have any number in mind in terms of presales?

Vinod Kumar Panicker: We had said that earlier we hope to be at about 50% odd in terms of provision coverage ratio.

Kashyap Zaveri: But that is for this year?

Vinod Kumar Panicker: No 2020, we had said 2020.

Kashyap Zaveri: Last question is on slide number 23, if I look at your yield at cost analysis the hypothecation loan the yield is down from 26.5% in Q2 2018 to about 24% in Q2 FY2019, now if I look at the slide 26, which gives us IRR on disbursement basis that number in the bottom chart on slide number 26 is from 23.8% to 24.1%, how do we corroborate or how do we sort of reconcile these numbers?

Vinod Kumar Panicker: These numbers are basically rounded off so that a 0.1% kind of variance could be there, but now to come back to your 26 versus 24, Q4 is possibly the best quarter of any year where your NPAs go down significantly and other things, whereby you reverse a lot of unrealized income, which you written off in the past. This is the quarter, which we started by saying either a higher delinquency since you are referring to the chart one of the earlier charts talks about in the current quarter unrealized income of about 1.6 Crores, which was reversed.

Kashyap Zaveri: I am looking at Q2 to Q2?

Vinod Kumar Panicker: Q2 to Q2 okay, last Q2 was a normal Q2. This Q2 I will not call it as a normal Q2 reason being the Kerala floods where NPA went up by about – it went up from Rs.104 Crores to roughly about Rs.121 odd Crores about 17 odd Crores it went up, so therefore the income reversal is higher; therefore, the income is lower on a larger base, which is why the percentage looks lower. Madhu is adding one thing, which is very clearly to be pointed out, we are not reduced our cost of lending or lending price.

Kashyap Zaveri: Okay, sure. I will come back in the queue for more questions.

Vinod Kumar Panicker: Thanks Kashyap.

Moderator: Thank you. We would take the next question from the line of Sudip Dugar from Stewart and Mackertich. Please go ahead.

Sudip Dugar: Hi Sir and thanks for the opportunity. In slide 4 we see that the loan loss provision stands at around 13.8 Crores, but again in slide 7 if we see provisions as on Q1 and Q2 the difference, the figure turns out to be just Rs.8 Crores, so how do we explain this Rs.6 Crores difference?

Vinod Kumar Panicker: The loan loss provision Sudip, thanks for the query. See 13.8 Crores is including the loan loss provision, it includes the write-off on account of repossessed asset, loss on sales of repossessed asset, now which is other slide you are talking about, you are talking about, which is the other side you said?

Sudip Dugar: Slide 7?

Vinod Kumar Panicker: Which number are you talking about?

Sudip Dugar: This 38.9 and 46.8?

Vinod Kumar Panicker: So that is only provision, loan loss provision has got two components, one is provision, second is the loss and sale of repossessed assets that was about 5.2 odd Crores, this is more of a balance sheet item, slide number is 7 is more of a balance sheet item that is more of a P&L item, so while the gap is 8, which you are right, it is about 8 odd Crores, you are right in saying that, but that is something like 5.2, 5.3 odd Crores is on account of loss on sale of repossessed assets that is where the difference is coming.

Sudip Dugar: Another question is slide 9 the figures which we have for FY2017 and FY2018 are these cumulative figures or for the year specific?

Vinod Kumar Panicker: That is for the year as a whole.

Sudip Dugar: For the year as a whole the figure for?

Vinod Kumar Panicker: Cumulative, okay I correct, it is not a balance sheet figure, it is a P&L figure.

Sudip Dugar: It is P&L figure, so this provisions plus the provision of the earlier years adding up will go to the balance sheet, but Sir these figures I checked the investor presentation as on the balance sheet of FY2018, these figures do not add up in the provision heading?

Vinod Kumar Panicker: No my friend, we have given only two year figures.

Sudip Dugar: No not for this year, I checked it with the previous quarter suppose for FY2018 they are 13.8 and for these two quarters we have made around 28 Crores more for Q1 FY2019 and Q2 FY2019?

Vinod Kumar Panicker: Come again.

Sudip Dugar: Sir for FY2018 the cumulative…

Vinod Kumar Panicker: This is not cumulative, this is I said it is a P&L item, it is not cumulative, it is not a balance sheet item, it is a P&L item, it is they are saying what is impact on profitability, we have not said this is what was the, end of FY2018 the provision in the books was about, I think it was something like...

Sudip Dugar: If I change what I am saying like currently on slide 5 we see that the provision as on September 30 is 58.9?

Vinod Kumar Panicker: Sudip, I think we can possibly do this call separately, but for this 58.9 Crores is not the provision for NPAs only, these are provisions for my other expenses and things like that. This is only one sheet where I can give the number, so we try and put two, three things in the same line, so may be if we can do a call post this call we can possibly give you the breakups or you can supply this separately write to us asking for any breakups that you need.

Sudip Dugar: Okay, sure. Thanks Sir. Thank you.

Moderator: Thank you. We would take the next question from the line of Trupti Agarwal from White Oak Capital. Please go ahead.

Parag Jariwala: This is Parag here. You have mentioned, basically you have your, in the presentations you have given the breakup of borrowings, I have two questions, one is that in terms of bank loans, which quarter ended, in the last quarter the average was around 9.4. What I am asking is that in terms of bank loan our average cost of fund last quarter was around 9.4 and also for the borrowing as a whole the funding cost is around 9.4, so can you just tell us that incrementally if you have to borrow from banks as well as from CP what rate it would be at present, at least, let us see in last 10 to 15 days?

Vinod Kumar Panicker: When we are speaking to banks they are talking about higher figures, may be in the range of 9.7%, 9.75% somebody talking about 10%, so I am saying that over a period of time, we will need to look at a mix, which reduces the cost and we will continuously do that, in fact if you see we have in spite of so much of pressure over the last, which has been there for the last nine months or so we have tried and ensured that the cost has remained in the sub 10% kind of it is 9.4%, 9.5% kind of thing and while under one head may be bank loan it will go up, as you all know we will try and cut it elsewhere may be we will increase the quantum of public deposits and try and reduce the cost, we will do some other transactions that will reduce the cost, you also mentioned about commercial paper, which I do not see, we have not done much and we do not intend doing that much because we do not believe in short-term kind of transaction.

Parag Jariwala: So mainly this Rs.50 Crores of CP you think that it will get run down in this kind of a market it is not appropriate to borrow through CP?

Vinod Kumar Panicker: Out of Rs.2000 odd Crores, Rs.50 Crores is what is there in the form of CP that runs down on the December 14 post that may be in the near future it may not be there.

Parag Jariwala: You said that bank loan has gone up by 30 to 40, but have we kind of taken a loan from bank post this correction and whatever happened to IL&FS and etc., or we have not borrowed in last couple of two, three weeks?

Vinod Kumar Panicker: We did the securitization transaction on the September 28 or September 29. I do not remember the date, but that was post the crisis, which came up on the September 21, so that transaction was at 9.75%, so which is about what 20, 30 BPS higher than what, 30, 40 BPS higher than the last transaction that we did.

Parag Jariwala: We have not borrowed anything through bank or subdebt post that?

Vinod Kumar Panicker: No.

Parag Jariwala: Okay and how, the response from the bank in terms of – I agree that there are undrawn section limits which you already said, but obviously the discretion of bank is obviously there right, so, how do you see in case of we have to borrow incrementally from bank, are they getting more choosy, are they lending more to the better rated companies, etc., or you think you would be able to, so one is the cost aspect, the another is the quantum aspect?

Vinod Kumar Panicker: Quantum we do not see it as a challenge, I think that is what I have said in the opening remarks, quantum we do not see it as a challenge and banks are very positive when we are talking to us in terms of the sanctions, which are there in the pipeline, so please do not see it as a big challenge, which is where basis that is only we have the courage to possibly say at the beginning that we plan to meet our committed numbers at the end of the year.

Parag Jariwala: And when we raise through public deposit we have to keep around 15% SLR as well that is the mandatory?

Vinod Kumar Panicker: We have to keep 15%, but let me put it this way the delta between the two is not very much because there were times when we used to possibly take public deposits at 9% or 10% or so and we used to get to 8% so there used to be a delta of 3%, today on 15% today that is not the case. So ours is at 8.5% that range. It is 7.5% kind of thing for your SLR deposits.

Parag Jariwala: Understood and the last thing, can you quantify the under owned sanctions from bank?

Vinod Kumar Panicker: On October 2, it was about roughly 300 Crores, 302 Crores to be more precise.

Parag Jariwala: Thank you so much Sir. Thank you.

Moderator: Thank you. We will take the next question from the line of Jasprit from Alpha Capital. Please go ahead.

Jasprit: Thanks for taking my question. My first question would be in terms of disbursements our south region saw degrowth this year, so would it be possible for you to break the south into Kerala and non-Kerala?

Vinod Kumar Panicker: The disbursement between Kerala August and September let me put it first. Kerala showed degrowth of about 24% whereas rest of India grew by almost 26%. On H1 basis, while two-wheelers disbursement grew by 16% Kerala degrew by 3% and rest of India grew by close to 40%. So the effect of Kerala degrowth is only 3% for H1 despite Kerala degrowth we have shown a growth of 16% in two-wheeler disbursement but rest of India has grown by almost 40%.

Jasprit: In terms of any guidance for this coming year as in how are we expecting things to go?

Vinod Kumar Panicker: We are looking at a book of about 3100 Crores which we are very confident and that is what we have been giving as a guidance that 3000 Crores plus is something which we wanted this year and that is going to happen.

Jasprit: Great to know Sir. Sir, in terms of our cost of funding, the yields have been falling for the last two quarters and earlier also there was a yield fall, so why is the reason for yield being falling as you said you have not reduced any costs?

Madhu Alexiouse: What happens is when there is an increase in NPA, the income which we have accounted for against you reverse it so when in the current quarter we have said that the NPAs have gone down. You have seen it for yourselves, so we reversed that and that income is what is divided by the AUM or the average AUM. So therefore there is a reduction in percentage. Otherwise we have not reduced the any of the lending prices. In any of the schemes we have not reduced it.

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

Rajesh Kothari: Just wanted to know that in terms of because of the recent NBFC crisis what we are seeing do you see more competitors coming to two-wheeler kind of segment because the duration is lesser compared to other segments where duration is longer? That is number one. Number two, how do you see your south mix going forward compared to non-south over the next two to three years?

Vinod Kumar Panicker: First question whether the competitors would enter this two-wheeler business or not, getting into two-wheelers is not just about tenure of the loans or it is a shorter tenure loans, but there are other important factors that go into play into two-wheelers business especially the operating expenses are very high, collection costs are very high, so any new entrant who comes into this field until they are not able to manage these few aspects they would not make money and that is why you are seeing not many people have not been able to enter into two-wheeler business, those who have entered has actually ventured into other products as well because from two-wheeler they may not be able to make money and that is one of the reasons why we keep on harping about our digital distribution that we have created within our ecosystem, our branches which sources business for us close to 18% of our business is sourced by Muthoot Fincorp branches which is our flagship company and so there is a very low cost of distribution attached there. Today anywhere in the country I can launch or start sourcing the business just by having a smartphone in my executive’s hands and a loan can be processed. So there are a lot of key aspects that gives us advantage and that is why we are able to show bottomline when we talk about two-wheeler business Muthoot Capital is one of the companies which on a standalone basis has been showing profits or bottomline consistently in two-wheeler products, for others these kinds of benefits if they are able to bring in then they will be able to make money otherwise it would be very tough to make money in two-wheeler business especially collections, your one installment is not more than 2500 or 3000 and collection cost per installment for a traditional NBFC is nothing less than Rs.300 or Rs.400 and it becomes unviable if that is the collection cost. And that is where we excel in the market and we have been able to show that kind of profitability, so it is going to be very tough for people who are coming into this product. They maybe there for three months or six months or nine months not beyond that it is very difficult to make money for them. And related to how much south can degrow, we want that south and non-south business to be at 55%, 45% that range. That is south would continue to be about 50% to 55% at least 55% and the other zones would be about 45%. Kerala has close to 1000 branches, Muthoot Fincorp branches, which sources business for us. So Kerala would remain a very significant contributor to our overall scheme of things, so 55% is something which south would end up finally in the next couple of years or three years.

Rajesh Kothari: It is 55% or rather right now south is about 75% of your overall share of disbursements, that is on HYP but if you look on total HYP plus the others, what is the total south share right now?

Vinod Kumar Panicker: Right now south is approximately South India as a percentage of our overall book is around 69.9% or 70%.

Rajesh Kothari: How this 69% will be divided, say Kerala will be how big of this 69%, top 5 please?

Vinod Kumar Panicker: Kerala in a different context, Kerala on an overall book is 37%.

Rajesh Kothari: Second would be?

Vinod Kumar Panicker: Then Tamil Nadu, Karnataka, Andhra and Telangana they follow.

Rajesh Kothari: One more question, actually I missed your opening remarks in the conference call. The recent issues on NBFCs do you see any adverse impact on you and how do you see way forward because in your way forward guidance you had mentioned that you are monitoring the situation closely and there are some concerns which you might see. So, can you just give in terms of way forward? Can you elaborate on what you have mentioned already in your presentation?

Vinod Kumar Panicker: What we have said is we are never dependent on money market for funding, which is what possibly helped us and we would continue to do the same. That is number one. Number two is we have said that we will be trying to ensure that our portfolio quality is excellent, which will ensure that our costs go down, our profitability goes up and that we have also said that our collection is possibly one of the best in the industry this is why the investors for securitization transactions find it attractive to do securitization transactions with us, which will also help us in getting funding. So all in all, we feel that we are in a position where we can dominate, we are in a position where we can work towards achieving the commitments or meeting the targets or commitments that we have given at the beginning of the year.

Rajesh Kothari: So, in terms of your sanctions, which you have unrolled did you see any impact on the sanctions, which are not drawn by you, but the restrictions might be there from the banks or you do not see such situation?

Vinod Kumar Panicker: As I said, we did not find any negatives from the lenders.

Rajesh Kothari: Who are your main bankers?

Vinod Kumar Panicker: State Bank, PNB, that accounts for about 400-odd Crores, then there are others at about 100-odd Crores that is Syndicate Bank is about 100 Crores, then there are South Indian Bank is about 100 Crores, then Canara Bank about 75 Crores, Indian Bank about 50 Crores, ICICI about 25 Crores, Indian Overseas Bank at about 50 Crores, Laxmi Vilas about 25 Crores, HDFC at about 100 Crores, Kotak 25-odd Crores, TMB, Tamilnad Mercantile Bank Limited at 35 Crores. Just to name a few there are Central Bank at 100 Crores.

Rajesh Kothari: Thank you.

Moderator: Thank you. The next question is from the line of Pritesh Cheddha from Lucky Investments. Please go ahead.

Pritesh Cheddha: Sir, any changes in the gross outlook on the loan book for FY2019 and in FY2020 considering that there are couple of headwinds in the two-wheeler especially on the cost of ownership of two wheelers what would be your growth outlook for FY2020?

Vinod Kumar Panicker: So, as far as growth trajectory is concerned right now we do not foresee any challenge growth of about 40% to 45% is something which is very much possible and we are confident that we will deliver that. Specifically let me answer your question on the escalating cost part. Yes, there would be cost escalations and as we get into Euro VI norms there would be further escalations of cost in the two-wheelers but the crux here is that not more than 28% or around that people also financing as far as two-wheelers is concerned, with the escalation of cost we believe that the finance penetration would go up and especially given the fact that it is going to improve the quality of the vehicles and we are not just cause that which is just there and does not improve the value of the vehicles it would improve the value of the vehicles also, even the insurance fees that has come it would improve the value of the vehicle when it goes for sale, so there is a positive point here in terms of increase in finance penetration at the same time the value or the quality of the vehicle improves, this year H1 the total sales was about 1.15 Crores two wheelers and we were expecting it to be 2.25, we are seeing that that number is going to happen about if you say 40% or beyond that if the finance penetration happens next two years there is a huge headroom for us to grow there besides any growth that happens from 2 Crores and above and also escalations in the financing amount and finance penetration that is huge growth potential for two wheeler business. I have answered your query.

Pritesh Cheddha: Just I think let us say for you the growth driver was, you know the industry volume growth plus market share gains for you plus finance penetration, rising in two wheelers and new products, which is four wheeler replacement from next year, but let us say for the first three growth driver hypothetically if the industry volumes do not grow still do you think you have a case of whatever 40% to 50% loan book growth considering finance penetration and new market share?

Vinod Kumar Panicker: Absolutely because our expansion is not yet complete. If you look at non-south areas where we are growing there is a tremendous growth. So there are certain markets where still we need to increase our market share where we are 0. There are markets where we have just entered and our market share is negligible level so I think, when I say headroom for us we have to become really a big all India player, which we are in the making. So, irrespective of the industry growth we have no other options but to grow in the markets where we are not there, so it is imperative for us irrespective of the industry whatever happens we will definitely go and that is our strategy and I had been mentioning about distribution network that we are creating, I think that that is something which would give us some greater penetration into dealerships in terms of our turnaround time, in terms of our disbursement time, all these things are kind of getting corrected, which would help us gain market share in markets where we are not predominantly present. So for us it is imperative. There is no other way that we will grow and increase our market share.

Pritesh Cheddha: What is the progress in the business in the Muthoot Fincorp branches?

Vinod Kumar Panicker: Muthoot Fincorp currently where we were active in some 2400 branches, we are close to 3000 branches where we are present. Our business growth from Muthoot Fincorp had been if you remove Kerala the growth had been almost 38% so the fact that we are going out of south, out of Kerala Muthoot Fincorp is there, people know us, people have started kind of entertaining us, started doing business with us is a big sign and it is a very good sign. We were expecting it to be let us say more than 50%. We are at 40%, rest of Kerala or rest of south that is a good sign. Predominantly lot of branches from Fincorp has to come in East, from North, they have new licenses to expand there, so we will go full hog in these areas which is not our traditional areas Muthoot Fincorp has 70000+ customer walk-in daily and we have just touched the tip of it. There is a big, big room there to grow and there is a team, which strategizes along with them as you go forward yes, they will contribute in a big way and it would be non-south areas where we will grow.

Moderator: Thank you. The next question is from the line of Sneha Ganatra from Subhkam Ventures. Please go ahead.

Sneha Ganatra: During the call you mentioned that opex has been rising due to the Onam issue, how do we see for the next two quarters opex to be and where do you see cost to income to be settling?

Vinod Kumar Panicker: The net interest income we had set it has gone up because of two things, one is the collection cost going up and second we said that during the Onam season we do certain schemes for dealers, which increases the cost, so next quarter also you would see some bit of that, but the collection cost increase you could possibly see only the month of October and then it would go back to where it was normal because from about 3% I think it has gone to some 3.6% of collection in the current quarter versus the immediately preceding quarter, so that will go back to where it was in the previous quarter, which was a normal quarter. Where would the opex to net interest income be? We had always given a guidance of about sub 55%, we are currently at about 52%, so I think 50%, 52% that would be the range that one should look at.

Sneha Ganatra: When you are mentioning your loan book growth of Rs.3100 Crores, we are confident that our disbursement would be growing by 60% in second half? Considering the repayment of the similar what we have seen in the Q2 levels?

Vinod Kumar Panicker: We are hopeful of disbursement of roughly about Rs.1400 odd Crores in six months that is starting October that should take us to Rs.3100 Crores.

Sneha Ganatra: Okay, so are we confident on that numbers Rs.1400 Crores?

Vinod Kumar Panicker: We are fairly confident about it.

Sneha Ganatra: Last question where do we see spreads to be settling by the end of FY2019 considering the recent spike in the cost of funds also?

Vinod Kumar Panicker: Margin has been at about 13.5%, 14%, it should continue to be in that range. One of the slides, I do not know whether you have been referring to be slide, but one of the slides to October, the net interest margin, I think it is about 13% point something I think it should settle between 13% and 14%.

Sneha Ganatra: All the best.

Moderator: Thank you. The next question is from the line of Devang Patel from Trust Wealth. Please go ahead.

Devang Patel: What kind of interest rate increases have you taken since September between September and October since you are expecting the yields to be steady?

Vinod Kumar Panicker: We have not taken an interest rate increases, we are talking about in the lending right?

Devang Patel: Would you be looking to take interest rate increases because your cost of funding is going up or is there competitive pressures, which prevents you from taking that?

Vinod Kumar Panicker: We will take it at the appropriate time and let us see even if you increase by 100-basis points you are talking about Rs.50, Rs.55 a month I do not think it will hurt those borrower.

Devang Patel: Is there a material difference in the yields in south and non-south region?

Vinod Kumar Panicker: I do not think so, there is any significant difference because when we talk about consumer finance, when we talk about small ticket loans, I think across the country the behavior is same except that if you want to do very aggressive business in metros, cities and you want to be placed out of big dealers until that is your motive, your yields can be almost similar across the country.

Devang Patel: Right side that is from my side.

Moderator: Thank you. Ladies and gentlemen that seem to the last question for today. I would now like to hand the conference over to the management for their closing comments. Over to you members of the management for your closing remarks!

Madhu Alexiouse: Thanks once again for joining in this concall and if there are any questions anything, which is still unanswered I would request you to kindly reach out to us. You can come through Antique as well. We will be very happy to clear all your queries. Let me not take away the shine from the whole results around August and September, we were very worried but the bounce back that has happened is tremendous and the September month collection figures and sales figures have given the confidence and that is why we are talking confidently that this year would be another great year for us. Manmade challenges are there, there are issues I think we would be able to handle it. Business model perspective, the resilience that our business model is showing the first litmus test on our business model happened last two, three months. We have successfully come out of it. Let me sure you that we will continue this kind of growth and I said that our prime focus is portfolio quality and we will continue that. We do not want to grow everywhere, but spoil our portfolio, we will continue to see this kind of quality and we have geared for that and once again thanks for all the contributions towards the flood relief that you had given and let me hand over to Vinod to having final comments on this.

Vinod Kumar Panicker: Thanks to all of you for being on the call. The last one thing, which I would want to possibly end by saying we do think, which we feel is right over a period of time if anyone of you feel that there is something, which ought to be done differently. Our request is may be we are just a phone call away. We need not get into this quarterly concall for any discussion. Anybody is free to call any time, right to us any time we will be more than happy to attend to it. Thanks a lot. Have a great day.

Moderator: Thank you very much ladies and gentlemen on behalf of Antique Stock Broking we conclude today's conference. Thank you for joining us. You may disconnect your lines now.