"Muthoot Capital Q3 FY2018 Earnings Conference Call"

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Moderator: Good day ladies and gentlemen and welcome to the Q3 FY2018 Earnings Conference Call of Muthoot Capital hosted by Antique Stock Broking. 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: A very good morning to all of you were connected on the call. Special thanks to the management for giving out time to talk to the investors and obviously investors to make it a point to login on this Monday morning. Muthoot Capital reported a very strong set of numbers and I think in November they completed their maiden QIP issue also. I am sure there are lots of interesting things to talk about. Without wasting any further time, I will hand over the call to Mr. Vinod Panicker who is the CFO after that we will have comments from Mr. Madhu Alexiouse, who is the COO and we also have Mr. Bimal and Mr. Sanjay who are also the part of the call. So over to you Vinod Sir!

Vinod Kumar Panicker: Good morning my friends. Thanks a lot to all of you who have actually taken out time on a Monday morning to spend time and understand from us about our company and the result that we declared on Saturday.

Very happy to give a great set of numbers in fact with the disbursement growing by about 10% to about 526 Crores in the current quarter and growing by about 68% versus the same quarter last year when we did about 314 odd Crores, which led to a total on-book AUM of about 1704 Crores, which is a growth of about 19% versus the immediately preceding quarter and 53% growth over the quarter that was there last year, which all led to income of about 105 Crores versus about 94 Crores that we did in the immediately preceding quarter against a 70 Crores that we did in the same quarter last year.

The finance expense was up by about 6% and moved from our 30 odd Crores to 32 Crores and that same number was close to 27 Crores in the same quarter last year. The growth was about 21% versus an increase of about 15% in the income and about 40% in the average AUM that led to a net interest income of about 73 Crores, which is about 13% higher than the same number last quarter and by about 68% versus the same number last year.

Operating expenses versus the last quarter was more or less same, which is a number, which possibly had worried most of you and we had said that no we will put it back on track to a large extent in the current quarter and significantly better in the fourth quarter. It grew by about 50% versus the same quarter last year when the expenditure was at about 27.9 Crores this quarter being at about 41.7 Crores.

Loan loss provision was more or less in line with the quarter, which went by the previous quarter the growth was about 4% and it was about 25% higher than the same quarter last year, but then we are talking about a difference in the norm that we moved from a four-month recognition norm to a three-month recognition norm. All this leading to a PBT of about 24.3 Crores, which is 53% higher than the same figure in the immediately preceding quarter and about 144% higher than the same quarter last year and that leading to a PAT of about 51% higher than the immediately preceding quarter at about 15.7 Crores and 143% higher than the same quarter last year. So all in all it is a great set of numbers, which has made more attractive by three, four attractive ratios. The Opex being at about 57% versus about 64.8% that it had last quarter and 64.1% that it had in the same quarter last year. Loan loss provisioning was at about 1.8% versus about 2% last year and same 2% in the same quarter last year. Return on asset was very attractive at about 4% versus 3% last quarter and about 2.3% that it clocked a year back.

Earnings per share these are the restated number because there was a QIP in between of 165 Crores where the equity increased a bit. It is at about 10.4 per share versus about 7.6 per share that it had last quarter and about 4.7 that it had in the same quarter last year. On an overall basis the AUM was at about 1980 Crores the difference between that and the on book being the securitised portfolio, which earns a significant amount of income, which helps a lot in the ROA and also helps in the overall interest cost. The overall AUM, the average AUM was at about 1865 Crores, which is up 15% versus the immediately preceding quarter and about 54% year-on-year. So all in all, we feel it is a great set of numbers and I would actually now ask Madhu to speak about the operations in detail.

Madhu Alexiouse: Good morning to all of you. Thank you for logging in to the investor call, this morning. This year in the beginning of the year we had said that we would be focusing on getting around 2000 Crores book with a disbursement of 1800 plus Crores. As of end of nine months the figures are in front of you we are already on track towards that number and we are confident that whatever we had given the projection in the earlier part of the year, we would be able to deliver that.

Very importantly the key success to our business had been the contribution of the digitally driven distribution that we developed last nine months basically we had been able to reach nook and corner of the country. We are now present in more than 15 states and whatever we said in terms of our expansion and growing our market share there, we had been able to successfully do it. Our numbers in terms of market share had been increasing every quarter-on-quarter. We started Q1 with 1.34% of market share, which is now around 2% in Q3, while the market is growing by 13% on an average, we had been growing more than 50% so naturally we had been hitting into the market share of our competitors. We had been expanding across the numbers shows that.

This had been successful as I said digitally driven distribution model where our capability to turnaround loans from about 50000, 60000 a quarter it has gone up to about 1.2 lakhs loan per quarter so that had been the key success factor, which has helped us and we had been from the starting of the year, we had been very aggressively focusing on productivity and quality of our portfolio, productivity of the number of people employed and the productivity of business that they have to generate, we had been highly focus on that and because of a digital technology we had been able to do that and I will say that about 1.2 lakh loan on an average every quarter, we had reached to that level just doubled from wherever we were last year, we had doubled the productivity at the same time we have kept our operating cost or operating team at the similar level compared to last year.

Without significantly increasing our resources, we had been able to increase the business basically channelizing our digital capability or technological capability besides we have been highly focused on best practices of the market, we have inculcated that as a result we have been able to show these numbers and in the beginning, I said that we are confident that this year we should be able to deliver the promises that we had made in the initial part of the year. This is on the business front.

On the book quality also we are very highly focus on book quality and we want to deliver the best of the quality in the market, in the industry. As far as book quality is concerned, we have improved our NPAs we have actually reduced our NPAs drastically compared to when we started this year and we will continue to reduce it. We are measuring our NPAs on the absolute number basis and while we discuss and when the Q&A starts, we would be able to give you for more inputs on that.

We had been able to deliver on asset quality and third and most important thing how do we look at the new products, yes there are two or three products, which is now under pilot study one of them is likely to get launch in Q4. We promised in the Q4, we would have one more new product. It would happen and while we start next financial year, we will have at least two more new products in our stable to deliver future numbers.

We are working on lot of new channels. It is also work-in-progress maybe around Q1 when we need for the yearly investor meet, we will be able to throw more light on that so I am saying that overall basis yes whatever we promised this financial year we would deliver. We are on track of that and I am happy to tell you that we are in a very excising phase in this organization where we have very clear view of what we are going to do to in the next two or three years and we are very positive about the retail finance business. The group is positive towards this. Our flagship company, Muthoot Fincorp with their 3500 plus branches had been one of the cornerstone of our success and that still being there

I think we are confident of delivering much better results than what market is delivering what competitors are delivering.

This is from my side and I will hand it over to Digant. Digant if there is any Q&A we can get into it and if there is any specific questions on operations it is welcome right away.

Moderator: Thank you very much. We will now begin with the question-and-answer session. The first question is from the line of Giriraj Daga from KM Vesaria Family Trust. Please go ahead.

Giriraj Daga: First of all, congrats on a very strong performance, really commendable. I have a couple of just a data point question and a few questions on next year outlook. So first is 3000 Crores AUM guidance it is inclusive of off balance sheet right?

Vinod Kumar Panicker: Yes.

Giriraj Daga: So we are mostly right now already on third quarter also we are more broadly achieved that 2000 Crores of AUM?

Vinod Kumar Panicker: It is also to about 2100 Crores so we are almost there kind of.

Giriraj Daga: Second is that like what kind of number you would like to have, growth number for FY2019?

Vinod Kumar Panicker: We are hopeful of continuing with the same trend actually next year also.

Giriraj Daga: So something like a 50% growth?

Vinod Kumar Panicker: 40% to 50% growth. See the Q3 when you compare with the same quarter last year, last year was a demonetization quarter so even it to maybe discount some bit of it but then on an overall basis 40% to 50% is not going in it.

Giriraj Daga: Next question related to NPA like when I see our coverage ratio it is about like 29% what kind of coverage ratio would be comfortable for fourth quarter and next year fourth quarter?

Vinod Kumar Panicker: Coverage today is close to 28.6% or 29%. We would slowly be accelerating that and as we go along maybe in a couple of years we will look at a much significantly higher number.

Giriraj Daga: Last one Sir. If you can give the NIM for the quarter and for the nine months? Particularly I would be like really helpful if you can give me the on book NIM and then we can have fees income separately which is coming from our off balance sheet item?

Vinod Kumar Panicker: You are superficially talking about NIM in absolute terms.

Giriraj Daga: NIM margin.

Vinod Kumar Panicker: It is about 188 Crores.

Giriraj Daga: No that is the absolute number I am saying NIM percentage Sir?

Vinod Kumar Panicker: Would be about 14%.

Giriraj Daga: But that includes the income from the off book balance sheet also?

Vinod Kumar Panicker: No I am talking about on-book NIM.

Giriraj Daga: Thank you Sir.

Moderator: Thank you. The next question is from the line of Saurabh Ginodia from Stewart & Mackertich. Please go ahead.

Saurabh Ginodia: Good morning Sir. Congratulations Madhu Ji and Vinod Ji for good set of results. I had a question on the new product launches as you have mentioned that in Q4 we are going to launch our new product in the next financial year also we are looking to launch couple of new products. So if you can just share your thought process with respect to this launch of new products?

Madhu Alexiouse: As a vision of the group, we believe that our customer base is lowest of the pyramid. We call our customer as a common man of the country and from that perspective any product that these customers needs we are open to launching those products. Once we have two-wheeler spread across the country what is the next aspirational product that these customers have that is where our entire thought process is right now. To give you a concrete answer that what is it that we are piloting right now, we are piloting right now used car product for these customers segments. This would be getting piloted in Q4 and around Q1 we would be able to do a full-fledged launch across the country. Now these are the products where almost all banks and NBFCs are operating but we would like to operate in a smaller ticket size product whereby the next aspiration of the customer of the two-wheeler customer would be towards let us say 4 lakh or 5 lakh kind of car and he is able to buy that from the secondary market. So our focus is there as of now on a concrete product. Q1 maybe I will be able to throw some more light on what are the other products that we are working on but as of now yes used car finance is something, which is concrete we are on the table and on the go right now.

Saurabh Ginodia: And we would be able to maintain such high levels of NIMs going forward in the new products also?

Madhu Alexiouse: Yes, very much possible because I said that when we operate in a market our distribution capability, our reach, our set of customers we would be much better than the what competitors are offering or what competitors are going to make out of these products so two-wheeler it is difficult to compare a used car product and a two-wheeler product, but if you ask me used car product compared to market yes I will be able to generate much better NIM and much better ROA in used car product compared to the market. So if you are comparing in two-wheeler it would be difficult it is not a apple-to-apple comparison but if you compare it with market yes we would be able to generate much better ROA from our set of customers our set of distribution, our set of digital process that we are planning to launch. Having said that it is important to see that Muthoot Capital as a Muthoot Pappachan Group as a whole, the network that we have got is across the country so there is no additional investment for me as far as network is concerned, point number one and point number two I would be able to restrict my operating cost on this product because I already have a well established network, I have a well established digital platform, I have a best established reach Tier III and Tier IV cities where most of my customers reside and where the competitors may not be able to reach so fast so that is where the whole game is and we would be able to make much better money than what market is going to make.

Saurabh Ginodia: And do we needs to invest on people on the same employee base will help?

Madhu Alexiouse: The skill set in this product is more on credit and risk. There is where what we are going to invest, otherwise we have a distribution and digital platform everything is ready to launch this product.

Saurabh Ginodia: Nice to hear that all the best.

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

Jatin K: Congrats for such a fabulous set of results. My first question is this year we have grown much faster than our history and we are also guiding for a much strong FY2019 compared to our history so I wanted to understand what is the key reasons that we as in we are growing much faster than our history? Is it all because you are talking about digital? Is it all because of digital or there are many more reasons to that?

Madhu Alexiouse: We should look at the headroom that Muthoot Capital has got. The headroom for Muthoot Capital is the entire distribution network that is there which our flagship company point number one. Point number two, the market itself had been growing robustly, I am talking about two-wheeler sales. It had been growing robustly throughout the year. Most importantly for us we put our formula together in terms of our digital processes because of which we were able to turnaround our productivity almost in fact we were able to double our productivity compared to our previous times. So across the kind of reengineering that we have done in our processes plus the expansion that aggressively that we have put in place these are certain factors, which has helped us to outgrow the market and my firm belief is that this better than market performance is going to continue because there is still huge headroom which companies like Muthoot Capital can exploit. We have been able to reach only about 70% of our network. So there is a huge scope that we can grow and with whatever strategy we have put in place and we need not do anything new as of now whatever we are doing we are doing right, we need to just continue this and we will be able to deliver a similar kind of growth as we get into the next financial year.

Jatin K: That is great to know Sir. Sir growing such fast has its own set of collection challenges so how are we ensuring that our collection efficiencies does not go down with this such fast growth?

Madhu Alexiouse: So, in collections also we have created two, three verticals. We are doing certain things, which industry is not doing as a result that our collection costs are coming down. If you look at our overall NPA our absolute NPAs had been coming down, let us say from 110 Crores we have come down to below 95 Crores. We are tracking on absolute number basis. So the metrics that we are using the channels that we have created for collections is something, which maybe last four or five months that we have created would definitely help us stand firm on our asset quality piece and specially the focus is on lower buckets, bucket 0 and bucket 1, lot of effort is going on that, lot of investment is going on that, lot of digital processes are getting into it, call centers are getting involved into it. So given the numbers that we are growing aggressively we know, which particular bucket to focus as far as collections are concerned and we are well equipped to handle that and mostly the lower bucket collections is driven as a quality process that is where our focus is that ensuring the right process is in place and we have been successful in that and what is why you are seeing that there is no spike in NPA in terms of absolute numbers as well. So let me give you the confidence that while the number grows while we expand, there is a very strong focus on collection and collection is something, which I personally monitor and will continue this at least next two to three years because that is where we build our foundation and once we have the right set of customers, customers whose repayments are excellent with us that customer would become a repeat customer for us. That is one of the key strategy that we will have in future that how to sell more to the existing customer. As an overall strategy also it is very important for us to ensure quality collections happen because that is going to be the future sales as well for us. Let me assure you that on the growth versus collection yes lot of efforts are there in collection lot of processes are set in collections.

Jatin K: Sir you have given FY2019 loan growth guidance. So any guidance we can expect for ROA and NPA also?

Vinod Kumar Panicker: ROA we should be able to maintain an overall annual ROA of 3.25% plus and NPA I would say that like Madhu said that we do track ourselves on absolute number basis, we should be in percentage terms not more than 5%. Next year onwards there is no issue of change of norms because till this year over the last three years the norms were changing year-on-year. So next year there is no such issue. So I think on a three-month basis we should be at about 5% or below that.

Jatin K: We will increase PCR next year?

Vinod Kumar Panicker: Yes, we intent.

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

Moderator: Thank you. The next question is from the line of Rohan Mandora from Equirus Securities. Please go ahead.

Rohan Mandora: Good morning Sir. Thanks for the opportunity. Sir this is in contribution with an earlier question asked with respect to the new product launches that we do. So I just would like to understand the thought process behind like what are the typical criteria that we look for while evaluating a new products and whatever timelines that goes in designing whether we should go ahead with the product launch or not?

Madhu Alexiouse: I could not get our initial part of the question if you can just repeat it?

Rohan Mandora: Sir with respect to the new product launches which we do. What are the three key criteria that we look into while designing whether we should go ahead with the launch of the product or not?

Madhu Alexiouse: As I said we always are guided by the vision of the group where we say common man is our customer so what is it that would go good with them and so we said that let us say used car we said this is the ticket size and things like that. Key to any product launches we look at what is the ROE that I would be able to generate on that point number one. Point number two, what is the upside that is possible given my network so we are testing these products in our network right now so that we are very clear what is the upside we would be able to reach through our network rather than going in open market appointing brokers and things like that. Third and most important thing, we look at next two or three years what is the numbers that we would be able to generate on these particular products so these are the two or three parameters that we are looking at because given the skill set that we need to launch this product we already have it, we have the processes in place, we have system in place, we have digital solution available to it the only thing that we need to look at is how it becomes a financially viable product, which we have done it. Once we test it with our network, with our set of network and I say that I am not going to go to open market and start selling it just beside the competitor. I am not going to do that. I would test in my network if it is going through and making sense in terms of the volumes then we will launch this product and we are confident that this would go through because these are the markets, which are unserved markets, these are the markets where not many people have been able to do it successfully and I think we would be able to get the best of the quality customers in areas where we are going to operate. So we are going to test it in Kerala initially and then we will spread it out to couple of other places in north and east and once we are very convince that okay ROE wise, ROA wise this is delivering the number in line with our corporate objective, it would get launched around Q1.

Rohan Mandora: Sir what would be the risk adjusted ROA or ROE we would be looking at from these new products like in say two to three years timeline what would be the internal cutoff that we may have?

Madhu Alexiouse: It should be in line with whatever we are delivering currently.

Rohan Mandora: Sir another question was on the presentation if you look at the average LTV that has increased from 70%-odd to 77% in the last one year so just want to understand this is the initial disbursement time average LTV or the portfolio level average LTV?

Vinod Kumar Panicker: It is the LTV at the time of giving the loans. This normally has actually slowly started inching up from about for 71%-odd to 76%, 77% in this quarter. This being the festive quarter, you run schemes, which maybe with a higher LTV. Secondly if you look at last one year the prices also had been slightly increased and while we enter next year the prices are still going to go up because there are some features, which Government of India is going to make it mandatory in the two-wheelers, which would spike the price by another Rs.5000 to Rs.10000 so while we discuss about the product the prices are kind of getting revised year-on-year compared to previous couple of years so there is a pressure on price also here.

Rohan Mandora: Sir what will be the average LTV we would be comfortable with at a peak level?

Vinod Kumar Panicker: Around 78% to 80% below 80% is something, which is comfortable for us.

Rohan Mandora: Thanks a lot Sir.

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

Pritesh Chheda: I want a couple of updates. One we were talking about the digital processing platform that we launched in FY2018 by Muthoot Fincorp Sir is that done? Second how much of our AUM now accounts from Muthoot Fincorp generating the business and what is our incremental targets there in terms of how much of the business to come from Muthoot Fincorp?

Madhu Alexiouse: The digital process that I am telling is already launched. We had prepared a two-phase launch. First phase one is already done it is up and running. Phase two is something, which we are launching in the month of February and March. So as we start the Q1 next year we would be ready with the full end-to-end digital process of our loans whether it is two-wheelers or used cars or any other products. As far as Muthoot Fincorp numbers are concerned, they contribute close to 18% to 20% of our overall business. Last year they had contributed around 208 Crores. This year we expect it to be 350 Crores plus. They intent to double their business that they are doing with us so as we go forward this is the growth we are looking from Muthoot Fincorp because we have not been able to exploit the entire network only partial of the network has been exploited. There is a scope of around 35%, 40% more penetration that can happen through MFL branches and that is one of our key strategy that how to increase numbers from MFL branches. So overall digital yes we are already there, it is up and running and that is one of the reasons why productivity has gone up and second MFL branches it would continue to contribute close to 20% to 25% of our overall business.

Pritesh Chheda: Double means this 20% will go to 40% that is how one should look at eventually?

Madhu Alexiouse: No the overall denominator is also increasing so 20% becoming 40% is difficult because the overall business from other channels are also increasing by every year-on-year by 40%, 50%.

Pritesh Chheda: You need not increase your infra right, your infra and your network is capable of supporting what kind of business?

Madhu Alexiouse: Our infrastructure is about 80% that is through dealers.

Pritesh Chheda: No my question is if you want to support 50% growth, part of it or let us say higher growth will come still from Muthoot Fincorp because you said you have to first access more on their branches right but the other part of the business, which is dependent upon your network do you need to invest behind people, infra, network, Opex to generate that business or they will be operating there as well?

Madhu Alexiouse: Yes so currently whatever channels we have got, one of the channels is dealer business, where my investment is only people and digital process. We will have another two or three channels ready up and running in Q4, which would start contributing to business from Q1 next year onwards. There are two channels that is the Muthoot Fincorp branches and then the dealers. There are actually another two or three more channels that would get added as we close this financial year. I may not be able to give you the details right now because it is work-in-progress so once that happens then the growth that would happen through our infrastructure would be commensurate to whatever growth we are planning through our Fincorp branches. So the pertinent question here is that to fuel the growth that we need in next financial year, do I need to invest in infrastructure and things like that, yes some investment would go into it but not significantly so much to grow the kind of growth that we are looking for because the channel that we are looking at is not infrastructure agnostic it is more of digital processes, digital reach that we are planning and that is how it is going to be the future of our business sourcing.

Pritesh Chheda: Between there is some leverage in Opex line as well?

Madhu Alexiouse: Sorry.

Pritesh Chheda: Between there is some leverage in Opex line?

Madhu Alexiouse: Yes very much.

Pritesh Chheda: Thank you very much Sir and all the best.

Moderator: Thank you. The next question is from the line of Minaz Vora from Value Quest Investments. Please go ahead.

Minaz Vora: Good morning and congrats on the good set of numbers. My question is on the collection charges. We see that this quarter it was about 12 Crores do we see this number coming down in the coming quarters?

Vinod Kumar Panicker: The number should remain steady. If you see as a percentage of the overall collection the number has come down from 4.9% to about 4.03%. We expect it to go down a little bit that is what we had committed in the previous last quarter's concall so number as a percentage could go down but then I would say in an absolute terms, it would remain more or less where it is because the overall collections will grow.

Minaz Vora: Thank you.

Moderator: Thank you. The next question is from the line of Parag Jariwala from White Oaks Capital. Please go ahead.

Parag Jariwala: Thanks for the first rating. My question is if you look at two-wheeler or a used car product, which is marketed to the below pyramid customers, generally if you look at while the NBFCs they run slightly are a meaningfully higher credit cost then what we are at right now. So my question is that what are we doing so differently, I agree about the your IT related system and etc., for sourcing and all those stuff but can it give such a significant advantage to us in terms of the NPL and the credit cost management?

Madhu Alexiouse: It is about the network so there are set of customers who gives us the cheque and cheque gets cleared and there is a set of customers whose cheque gets bounced and so there has to be an effort to collect that amount pertaining to that particular cheque. Given our network, given our branch network, the density of the network that we have got, it gives lot of ease to the customer to reach out to branches and pay us. Let us look at the competition what the competition is going to do? The competition is going to put a person to go and collect from the customers because they do not have any networks whereas what we do is that our team is able to talk to the customer and direct team to closest branch and he goes and pays there. So there is a lot of facility and facilitation that happens with these customers, the collection team plus we have lot of other regional sources to reach these customers and then reach respective branches where he can make the payment. So this is something which we are evolving, which we have been able to develop successfully whereby in the lower buckets whenever cheque bounce happens or the collection is not happening, we have been able to covert that customer to pay the amount in significantly lower turnaround time than what a competitor would do. The success is there, whether you are there around the customers to collect that money where you have a branch there around the customer to collect their money and how cost effective you are in collection that is where the whole game is and that is where we are trying to excel ourselves and put our efforts there.

Vinod Kumar Panicker: Also with the emphasis on NACH and more customers moving towards NACH the credit cost will go down further in fact this year itself you should see something by the end of the year you should see the overall numbers lower than the previous three quarters which was 2.2%.

Parag Jariwala: Thank you.

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

Digant Haria: My only question was that now it is almost 11, 12 months to this demonetization and all those things like what has there been any change in the customer behavior at the dealer counter like are there more inclined now to take the loans or is the share of number of vehicles, which gets financed is it more or less the same as in the past or we have seen any kind of improvement and with this some of it could be because of our past disbursement also so if you can just show some light on this customer behavior at the counter?

Madhu Alexiouse: I will answer this question in two parts. One the customer behavior at the counter and second customer behavior in terms of repayments so let me cover the latter one first. After the demonetization and government's push towards digital payments and online payments and push towards banking Jan Dhan and things like that the discipline of customers is improving day-by-day in terms of repayment through banks and that is helping us and the customers who are not able to really come around and do a banking transactions through education they are able to really bounce back and they shift from cash to NACH repayment mode or cheque repayment mode so that is a good sign that has happened last one year and this is going to be one of the game changer as far as retail financing business is concerned and we are very happy that these customers are able to really fall in line in terms of our national priority. The customers behavior at counter in terms of taking more finance, good change is changing and would change because as we go forward the prices of two-wheelers are going to go up and earlier the affordability of two-wheeler by buying cash the cash transaction used to be easier, people used to have more cash and they were able to buy 50000 vehicle or 45000 vehicle just pay the cash and take the vehicle, today that flow of cash is not there because of push on banking and digital payments and secondly on the pricing front also the costs are going up and I am telling that next year ABS would become a standard fitment for two-wheelers. So it is going to add another Rs.7000 to Rs.8000 on the costs. So whatever cost is today 50000 is going to become at least 60000, 65000 as we go forward into the next financial year. So both sides customer is now pressurized in terms of looking for finance options and moreover all the finance companies and specially people like us we have been able to turnaround the loan much speedier, much faster. If we are able to give approval in 30 minutes time all these things are contributing towards customer thinking that okay let me go for finance rather than go and get it on 100% cash so the proportion of financing, which used to around 35% in two-wheelers, I am seeing it as around 40% as we enter next financial year and it would further go up maybe next one or two years' time it would be at least 45% of the vehicle that you sold would get funded so that is the headroom that is the significant size of the market that would be available for retail finance companies.

Digant Haria: Thank you. Margaret you can take the next question.

Moderator: Thank you. The next question is from the line of Sandeep Chopra from Safe Enterprises. Please go ahead.

Sandeep Chopra: Madhu and team congratulations for a very strong set of numbers. Can you just repeat your loan growth target number for FY2019 I missed out that?

Vinod Kumar Panicker: We would not want to give any specific target as such but then I would say that we would want to grow at the same 40%, 45% over the next couple of years.

Sandeep Chopra: That is great. Thank you.

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

Sangam Iyer: Congratulations on a great set of numbers. I just wanted to understand in Q3 the yields that we have seen in Q3 is that now going to be the benchmark yields going forward for us or are we seeing any pressure in order to get this sustained growth of 40%, 45% we need to reduce the yield on assets going forward because it is come down sequentially pretty sharply?

Vinod Kumar Panicker: Q3 is the let us say the festive season and therefore there would be some amount of reduction but then going forward you should not see any pressure in fact even today we do not see any pressure on the yields as such.

Sangam Iyer: If I look at your last two years numbers when we look at Q2 to Q3 there is a fall but subsequently in Q4 there is a positive sharp uptake in your yields that I see like if I look at FY?

Vinod Kumar Panicker: What happens is there is when an account becomes NPA we normally reverse the income so what happens is the yield is essentially the income upon whatever is the average loan book. So what happens is when there is the reversed income gets reversed again because the collections are much better in Q4 the income goes up which actually takes the yield up.

Sangam Iyer: But in Q3 we did not see that kind of a slippages coming through it was similar to Q2 only right?

Vinod Kumar Panicker: Q3 I would say that because it being a festive quarter there would be some amount of schemes, which are with lower processing fee and things like that but that is not the norm.

Sangam Iyer: So we should see like the normal seasonality that we have seen in earlier years we should see the yields going back to the Q2 levels of around 20%?

Vinod Kumar Panicker: Definitely in fact, I am saying that no 14%, 14.5% is there to stay I do not see any reason for that to go down.

Sangam Iyer: Got it the spread you are saying?

Vinod Kumar Panicker: Yes I am talking about the spread.

Sangam Iyer: Sir going forward how should one be looking at the overall delinquency? Why I am trying to understand here is when we look at the overall two-wheeler numbers in the industry we are not growing at the pace at which we have been growing so definitely there is a market share gain that we are seeing in this segment so how should one be looking at this going forward? Is this an aggressive growth here, which could have some issue with regards to delinquencies going forward, or is it more strategic initiatives that we have taken that we are able to garner a higher market share and this kind of increase is going to be a sustained increase going forward. How should one read into this?

Madhu Alexiouse: I will again repeat and in earlier calls, I have said this the distribution network that we have got is unique in the industry, something which our competitors may not be able to replicate for long time and this distribution network helps us reach areas and customers where probably we could be reaching to the customers for the first time and the growth or the expansion that we are talking about is something where we were not there earlier so we entered new markets, we increased the penetration in the existing market through our existing networks so it is something were we out of our presence and out of our aspiration to grow we reach these markets and got our numbers. Now if you are comparing our growth with competitors' growth probably some of them would have reach at their peak as far as the distribution is concerned and for us and I said that even from our existing network we are at around 70% activation level. We still have a scope of about 30%, 35%, 40% of our network still to be tapped so we have a huge headroom to grow and it is not about taking away from competitors but reaching those places where even competitors have not been able to reach. So I am not saying that whatever gains we are made 100% we would have taken the share from the competitors but yes we have been able to reach areas where we want to grow, where we want to establish our business but we already have a network there point number one. Point number two our entire focus is on getting channel where our physical distribution is minimal. So any kind of digital capabilities that can reach customer directly is something where we are focusing. So when we talk about this it is agnostic of geographical reach and things like that but it is more about knowing your customer, understanding those customer and whether you are able to reach them digitally and that is where our entire focus is and when I say that we will be adding more channels, I mean those are the channels, which would contribute towards that and probably it is something where again we are not going to go beside our competitors and start competing with them but we will be at areas where probably the competitors would not have reached. So overall if you ask me that market two-wheeler market, the growth is restricted, it may impact the quality if you grow higher. We have reached places and we have gone to places where we already have our distribution network. We have only exploited those places. So for us it is our own customer base, for us it is the area where we know much better compared to our competitors. It is an area where I need not invest more but the customers walk-in are there into our network and if they come and ask I need a two-wheeler business rather than being dependent on the dealers to give us business so it is totally different game plan all together for us and if you ask are we totally dependent on dealer to get the business? No. My dependence on dealer to get business is not more than 65% to 70% whereas the competitors they have 100% dependence on dealers to get their disbursement target. So there is lot of difference between how the competitors are moving how we are moving differently and we will continue to move differently and definitely not beside the competitors.

Vinod Kumar Panicker: Sangam just to add a couple of more points to what Madhu said last year also we grew by about 40%, 45% last financial year that is number one. Number two is if you look at from April 2015 onwards you look at the last three years except for the quarters where the increase in NPA numbers was on account of the change in the norm and the Q3 of last year that was on account of demonetization on a quarter-on-quarter basis, month-on-month basis, the NPA numbers have been coming down so I do not think the growth has anyway affected the numbers or made the delinquencies higher.

Sangam Iyer: Correct Sir. I appreciate the elaborate explanation. One more small question that I wanted to understand is the repayment rate has gone down significantly from earlier period of 24%, 23% to 17% currently. Is this a new study that you have seen as the loan book is growing?

Madhu Alexiouse: Could you elaborate on that I think?

Sangam Iyer: So when I am looking at their repayment rate as a percentage of the opening portfolio for the quarter like earlier it used to be as high as 26% and all 25% like till last quarter it was as high as 28% so that has come down to 17%-odd when I say repaid during the quarter, which is this quarter it could be around 249 or 250 odd Crores. So that has also aided the jump in the loan book growth so otherwise if it had been the same rate we would have been again back to around 35% kind of a growth rate. So I was just trying to understand is this study new study that we are looking at the way the loan book is growing?

Vinod Kumar Panicker: I will be link it to what Madhu said sometime back saying that the cost of the vehicle has increased and somebody asking a question previously on the LTV going up the ticket size going up so these two three things if you add what was earlier 12 months and a 24 months loan there is a larger number in the 36 months category, 30 and 36 month category, which normally would mean that your run down will be slower that would be a norm if whatever Madhu said just now if that becomes the reality and that is definitely going to be a reality in the sense that the vehicle cost will go up and when vehicle cost goes up in a fellow once three year to repay the run downs will be slower.

Sangam Iyer: Got it Sir. That is very helpful. Thank you and all the best Sir.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to Mr. Digant Haria for closing comments.

Digant Haria: Thanks Madhu, Vinod and the whole team for the insight and thank you all for attending the call. Have a good day and hope to catch you all next quarter again. Thank you.

Vinod Kumar Panicker: Thanks Digant.

Madhu Alexiouse: Thank you everyone.

Moderator: Thank you. On behalf of Antique Stock Broking that concludes this conference. Thank you for joining us. You may now disconnect your lines.