"Muthoot Capital Services Q3 FY2021 Earnings Conference Call"

February 02, 2021

ANALYST: **MS. VIDHI SHAH - ANTIQUE STOCK BROKING LIMITED**

MANAGEMENT: **MR. VINOD PANICKER - CHIEF FINANCE OFFICER - MUTHOOT CAPITAL SERVICES**
MR. MADHU ALEXIOUSE - CHIEF OPERATING OFFICER - MUTHOOT CAPITAL SERVICES

Moderator: Ladies and gentlemen, good day, and welcome to Muthoot Capital Services Q3 FY2021 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. 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 Ms. Vidhi Shah from Antique Stock Broking Limited. Thank you and over to you Madam!

Vidhi Shah: Thanks, Mallika. A very good afternoon to all of you and thank you for participating in the call. Without much further ado, I shall handover to Vinod Sir to take us through the financials and then Madhu Sir will give then us border business outlook. Over to you Vinod Sir!

Vinod Panicker: Good afternoon friends. It is nice connecting with all of you once again. We are here to present the Q3 FY2021 financials to you and maybe at the end of the financials, address any other queries that you would have. We sincerely hope that all of you are perfectly fine and after the torrid time that all of us have gone through, now all of you are back on track and things are moving as it used to during the pre-COVID days. We are also as an organization limping back to normalcy which can be seen in the numbers that we have presented.

In the current quarter, we had a total disbursement of about Rs 326 Crores versus about Rs 116 Crores in the immediately preceding quarter, a growth of about 181%; percentage is not very material because last quarter there was hardly any business. It was only towards the fag end of August that we started disbursing and so the numbers were low versus same quarter last year, we are now down by about 30% as last time it was about Rs 465 Crores.

This led to an AUM of about Rs 2199 Crores on the books versus Rs 2235 Crores on the books at the end of the last quarter and it was down by about 18 % against the same quarter last year. This led to the interest income being at about Rs 121 Crores versus about Rs 143 Crores last quarter.

Here the income difference was on account of two-three factors; one was definitely the drop in the AUM comparing this quarter and average of the previous two quarters. Why I am saying in the average of previous two quarters because we had mentioned in the last quarter that the Rs 143 Crores Revenue was higher than the immediately preceding quarter, that is

Q1 FY2021, the income being higher on account of the interest what was permitted as per RBI for the moratorium period which was not done in Q1 and therefore it got accounted in Q2.Also in Q2 there was this interest on interest which was to the tune of about Rs 6.5 Crores and these were the main reason for the difference of about Rs 22 Crores - 23 Crores versus immediately preceding quarter.

The finance expenses have gone down by about Rs 3 Crores which was the combination of reduced utilization of fund because of the drop in the loan book and second being the reduction in that interest rates, so there was a reduction of about 6%. The net interest income was lower at about Rs 75.9 Crores versus about Rs 95.9 Crores in the immediately preceding quarter and also in the same quarter last year when it was at about Rs 92.9 Crores.

Now the operating expenses are at about Rs 45.6 Crores versus about Rs 36 Crores in this immediately preceding quarter and Rs 51.8 Crores in the same quarter last year and the loan loss provisioning because we had created sufficient provisioning in the last three quarters in the current quarter the additional provision that we needed to make was only about Rs 11.7 Crores, of which about Rs 10 Crores was on account of COVID provisioning. Here what we have done is we have tried to ensure that the provisioning that we do takes care of the NPAs not necessarily the ones recognized by us on the books but also the ones which should have been recognized by us if the Supreme Court protection on the DPD moment had not been there plus we have made some extra provisioning to ensure that there are no major surprises in the next quarter also. This led to the profit before tax being at about Rs 18.6 Crores versus Rs 21.3 Crores and the PAT at about Rs 14 Crores versus Rs 15.7 Crores. For the nine-month period, the disbursement was lower because for the first five months or so, there was no disbursement at all and whatever it was, there was negligible, so that was the drop of about 68% at about Rs 459 Crores to 460 Crores. The interest income was at Rs 396 Crores versus Rs 440 Crores, a drop of about 10%. Interest cost was gone down to about Rs 145 Crores versus Rs 171 Crores a drop of 15%. The net interest income at Rs 250 Crores I would say compares reasonably well with immediately and same cost nine months last year with a drop of about 7%. The operating expenses are down by about 25% in the first nine months mainly on account of no major expenses being there in the first 4-5 months of the current year.

The loan loss provision, is, as expected, significantly higher than the loan loss provision accounted last year for the first nine months at Rs 84 Crores versus Rs 48 Crores in the last year and profit after tax was at about Rs 57 Crores versus Rs 75 Crores and profit after tax was at Rs 43 Crores versus Rs 47 Crores in the nine months last year, a drop of about 7%.

The opex has gone up in the current quarter and is at 60% and it was at about 37.6% in the immediately preceding quarter and the same quarter last year was at about 56%. For the nine months period, it is at about 44% versus 54% and return on assets is at around 2.5% that has been more or less flat across the last 4-5 quarters. Our earnings per share is at about Rs 8.4. Maybe what we will do is, let Madhu talks about the business, then we can address any queries that you people have.

Madhu Alexiouse: Good afternoon once again and thanks to all of you for joining this call. As Vinod said initially in his talk, we have witnessed a very robust growth as far as Q3 is concerned. We have witnessed that not only the retail finance industry but two-wheeler specifically growing compared to Q3 last year. We have witnessed a growth of 13% to 15% from the industry perspective, I think the festive season that we had in the month of October and November, business did very well. We were able to really take full mileage out of that. In fact, there was shortage of vehicles during Q3. It continued. I will come to that may be subsequently, so from industry perspective, we have seen very good momentum and for Q4 also we feel that this growth would continue, and we are expecting Q4 to be at least 13% to 15% plus compared to last year Q4. This is about the two-wheeler industry.

From MCSL perspective, we are now operational across the country during the Q3 and during the last call also I said that we are there across the country across the counters. We are right now present at 2500 plus counterpoints besides all our branches, the Muthoot Fincorp branch 3500+ branches are there, we are fully operational from there. As I mentioned that there are certain areas, there are certain pockets where supply side is the issue and I believe that as we get into Q4 and as we go further this should get improved, so from activation perspective, from being present, we are there across the country right now.

On collections front also, we have seen a very robust uptick in collections in almost every bucket we have seen collection efficiencies improving and the most encouraging thing is from the zero bucket perspective where we are like what we were in pre-COVID level, we are at around 95% as far as zero bucket is concerned; in fact soft bucket is slowly limping back to what it was pre-COVID level number, so collections also we are seeing a very good improvement but a long way to go; I hope that Q4 is something where we should be able to come back to what it used to be pre-COVID level.

I will keep this talk very short so that we can cover more specific issues in the Q&A. We will be very keen to address specific questions so that it would benefit all. Over to you so that we can start Q&A.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Resham Jain from DSP Investment Managers. Please go ahead.

Resham Jain: Good afternoon Sir. Just a couple of questions to start with, first is on the overall environment as you mentioned 13% to 15% kind of higher growth is what you are expecting over Q4 of last year but there are certain sectors which have still not come back quite fully, so is there any constraints which you have put on your overall AUM growth certain segments, certain geographies there you will not be going full in terms of your lending any color on that would be helpful?

Madhu Alexiouse: Geographically, if you ask me, have we put any restrictions specifically no, but definitely we are doing by our risk and credit assessments on which are the areas which are affected badly and which are not affected badly, so that is a business as usual call, so it keeps on happening even if COVID was not there that kind of call every month and every quarter we keep on taking that. But to answer your question and to give you more insight about it, I think from the two-wheeler industry perspective and in fact for the automobile selling perspective, key thing is logistics, so there are two aspects of logistics; one, interstate transportation, the long distance transportation which has picked up very well and that is helping the transportation of vehicle far and wide across the country but the second part of logistics is supply chain piece where currently lot of OEMs are facing difficulties in terms of their input supplies. So certain manufacturers, certain point in time they keep on having the challenges because the OEM suppliers or the people around them are SMEs or MSMEs who manufacture shock absorbers or rims and things like that and they have to continuously supply to them, so they are also kind of impacted by this. They need to come back and they need to become normal. So, this is something which would gradually improve, and I believe that Q4 is the time when this also should get corrected. So, one is demand perspective. Demand is there. Customers are there. We have enough approvals to make up our numbers. The second side of the coin is whether the supplies are there enough or not. We saw during festive season that while customers were there, lot of dealers were not able to supply the vehicle but that is fine I mean the entire world has been impacted, so that was there in Q3. It is gradually improving that is the feedback we are having. So, to be very specific right now it is very important that we are there in all the locations where we are supposed to be and ensure that the vehicles are available at the dealer point and as we go forward, I think that should ease out. So, this is overall feedback from the supply side and the demand side perspective.

Resham Jain: Sir my second question is on overall AUM. When do you expect to reach your previous peak AUM which you have reached, so when do you expect you will be able to reach that number, if you can just give your product thoughts around that would be helpful?

Vinod Panicker: Resham, we started the year at about Rs 2650 or so, last year we had December quarter we had touched a peak of about Rs 2751, maybe to go back to the result our belief is it could take about six months to eight months, may be end of H1 would be safer timeline target for us to say, because the positive thing that we have seen in this quarter versus the immediately preceding quarter was that the drop that is there in the AUM is negligible. That drop will go away, growth will happen in Q4. That is for sure and there would be reasonable amount of growth in Q4 on the AUM compared to the current quarter but may be to go back to the level that the growth is substantial and all, it would be the next quarter I mean the first quarter of next year and may be towards the end you should possibly see us going back to the March 20 level of Rs 2650 and may be this some luck to last December level which was Rs 2751.

Resham Jain: Got it Sir. Thank you. All the best.

Moderator: Thank you. The next question is from the line of Saptarshee Chatterjee from Centrum. Please go ahead.

Saptarshee Chatterjee: Good morning and thank you for the opportunity. My first question is on the market share if we can talk about overall market share across your key states, how has that market share done in the quarter?

Madhu Alexiouse: I think it is too early to really talk about market share because in a specific state itself will be operational or OEM would be operational in certain dealership and he may not be operational in certain as a dealerships, but definitely from the total sales perspective our target market share is about 1.75% is what we generally target and we should be close to 1% right now because it is only Q3 that full fledged we started our sales and we should there about 1.75% as we close the year but I only want to tell that we should be mindful of the fact that all the locations are not equally functioning with their previous efficiency levels and it is more to do with dealerships and whether they have the supplies or not, whether they are open or not, there were areas where dealership were opening only for four hours or six hours, this keeps on happening but I hope that around Q4 this should be business as usual for all of us.

Saptarshee Chatterjee: Basically, I just wanted to understand that like you are saying 13% to 15% growth expected for Q4, so I am not asking for guidance but is it like you are expecting similar kind of growth for our disbursement in Q4?

Madhu Alexiouse: Definitely because last year Q4 by mid-March everything became standstill, I hope that Q4 will be powered by two things; one that all the locations would become very active from the OEM or dealer perspective and second that generally Q4 we come out with lot of marketing activities, sales promotional activities, which we could not do much last year, so I think from both perspective we should be able to garner a fairly good amount of growth I may not be able to tell you right now but yes, it should be much, much better.

Saptarshee Chatterjee: Very helpful and secondly on the like margin side if we can talk about what is the incremental yield and incremental cost of fund and therefore why do you think the interest should stabilize like quarter-on-quarter I have seen some without slowdown in the interest rate?

Madhu Alexiouse: I will request Vinod to respond to this.

Vinod Panicker: The yields have been more or less where it was earlier also may be 10 BPS here and 10 BPS there. It has been pretty constant. In fact, in one of our slides we have presented the yields over the last four quarters. This quarter it is at about 19.2% overall across everything, on hypothecation loan it has been at about 21.3% and if you see in Q1 it was at about 21.3%, so there is no major change in the yield in this quarter also, the main difference is in the cost of funds from about 10.3% which was at beginning of the year we have now gone to about 9.4% and we see that going down the again in Q4 because lot of things happened towards the fag end of Q3, so entire benefit could not be seen in Q3 and since these things were done in the month of January, you would see the benefit of that in Q4, while we are not giving any guidance we feel that we would see some bit of reduction on that 9.4% and the yield will remain more or less constant.

Saptarshee Chatterjee: Just last question if you can give some color of your South India disbursement like South Indian AUM of around 68% of AUM in South India any broad break up across state, is it possible?

Vinod Panicker: Saptarshee, actually we can get offline. We can give you the state wise break up may be just put in a mail.

Saptarshee Chatterjee: Sure Sir. Thank you.

Moderator: Thank you. The next question is from the line of Sarvesh Gupta from Maximal Capital. Please go ahead.

Sarvesh Gupta: Thank you Sir for taking my question. There are two or three questions that I had in mind. One is, till now whatever commentary came from you it looks like you are blaming the supply side for the lack of growth or the problems that are being majorly faced by your organization; however, if we look at the commentary and the numbers which are coming out from either lending firms or the commentary from the automobile companies, it is looking more like a demand side issue as well because there is a) divergence in the sales trends in the unorganized segment, in the lower ticket size segment even today I think a leading automobile manufacturer actually posted a lower growth compared to the last January for the lower ticket size motorcycle which presumably would be larger ticket target segment for your side, so that is one and secondly, again people are even on the other lending firms the pro forma NPAs or collection challenges, so these are standard across other firms also, so I wanted to understand but your commentary is more about your dealership being shut for half a day or supplies for the OEMs not coming properly and all that, so what is the issue right now, a) from your demand side and b) if you can throw some light on the collection side I mean on the reality is that you are facing and what are the problems right now?

Vinod Panicker: Sarvesh, actually please do not look at our statements as a complaint on the system. We have always been trying to mention a lot of the facts that are there on the ground as we see it, may be others would be having the problems that we are having but their other problems would be bigger in whatever they are mentioning, that those would be bigger problems, so let us leave at that but I would say that each one is having their own sufferings and I am sure what we are going through they would also be suffering they would not mentioned it. I think Madhu clearly mentioned that supply side is a problem. He also did mention the demand is not what it usually it used to be in pre-COVID days. It is coming back but obviously that it is not at the levels that it was in the pre-COVID days and last but not the least you did mention about dealer point being shut or running for few hours that is an unfortunate reality actually on the ground. If someone has not mentioned it, we do not know why but then I am sure that what we are stating is what we are hearing from the 3,000+ touch points that we are having and the 3,000 branches that we get our feedback from.

Madhu Alexiouse: Let me articulate once again Sarvesh, what I have said is that the constraints in market is still there. What is the magnitude and what kind of problems I have mentioned that one of the things which is pulling down would be logistic as I said, and I have said the positive side of the logistics and negative side of the logistics side both I have said. I have not blamed logistics for lack of growth because across the country for various products logistics impacting the way it should be. Let me come to two-wheeler specific. Now from the demand side we wanted to know what the things are and from various other commentaries you have understood that there is a demand side problem. Yes, there is the demand side problem and that is why the numbers that we could have delivered, it has not happened but we are looking at let us say Q1, Q2, Q3, how it has moved, so versus that or versus Q2 and Q3 where the movement is very high and excellent movement as far as dealership coming back to action, various areas coming into operation and people can freely visit, buy vehicles and things like that lot of customers have started coming out and the dealer walk-ins have improved. I mentioned about festive season in Q3 which went on very well which helped us to do a robust sale, both OEMs and the finance companies. Demand side would continue to be a challenge but definitely from Q1, Q2 it has moved very well to current levels. It is also very important if we look at let us say tractor sales or sales in the rural sectors, it was very robust and so other confidence comes from the fact that and most of our touch points, let us say about 80% of our touch points are in Tier-III, Tier-IV centers. I have been telling that in my earlier discussions that at Muthoot Capital Services we are focusing the bottom of pyramid and so our Muthoot FinCorp branches also are located in areas which is more closer to bottom of the pyramid type of customers and majorly we are in Tier-III, Tier-IV centers and that is where we feel that the demand would be. That is where we feel that the demand would bounce back much faster compared to urban sectors. Urban areas I still believe that there are challenges, employment challenges, customer cash flow challenges are still there. Transportation challenges are there in urban areas, for example, till now Mumbai let us say Mumbai local trains. That is a critical thing for that area to really pick up. So, from our perspective from MCSL perspective or from Muthoot Pappachan group perspective, we are majorly in tier-3, tier-4 centers and our confidence level comes from there where network or distribution network is. So, from that perspective, I had commented, I had mentioned about industry growing by 13% to 15%, it should definitely grow because we see at the dealer points, we see at the OEM levels that the demand is robust and the supplies are intermittent, certain areas, yes, if supplies are certain areas there could be issue and I also mentioned that it should get eased out as we get into Q4, which I believe I have all the reasons to believe that because OEM's would have also addressed that from their perspective and we get confidence from OEM whenever we talk to them that these things are easing out. I believe that Q4 should be the final quarter where all these problems would be there although in a lesser magnitude and as we enter Q1 and Q2, next financial year, I think it would be business as usual and we need not look that from there. Another thing what I wanted to tell was from the vaccination perspective that is also by Q1 close to 30 Crores people are getting vaccinated that is also very significant positive. In fact

I wanted to tell this during the initial discussion itself, which is a very positive sign like, 30 Crores people getting vaccinated and majority of the population of the country becoming immune, that itself would give a good boost to the economy especially to the retail products. So, this is what Sarvesh I wanted to actually convey. If there are more questions you can please ask me now.

Sarvesh Gupta: This was a bit surprising because I think what we are hearing from the other manufacturers is the premium segment is doing very well while the lower ticket size segment which will be probably more present in locations such as yourself would be doing worse off. Also, it is tying up with your market share loss, either you are being excessively conservative or the segments which you serve are being affected much more. But on the contrary, you are saying that your Tier-3, Tier-4 locations are expected to bounce back much faster etc., compared to the urban locations, So, that was a bit difficult to digest that I could not understand fully, so that was this question around this?

Madhu Alexiouse: On the premium I would like to improve that statement actually whatever people have said. Actually, the statement has to be something like this that the premium segment is coming back as a popular product. Like, the preference for the premium product especially from Royal Enfield and that kind of stuff that is coming back. During pre-COVID there was a movement from mid-level segment to the premium segment which during COVID went down now people have started preferring premium buying. So, it should have additional volumes that can add to, although the volumes are very less compared to the economy segment that self and you are right in saying that the tier-3, tier-4 centres economy segment sells more, and we are there so it should help us. So, that is definitely there but the expectation from premium segment or whatever has happened in the previous quarter it is very positive. So, we should definitely look that as we go forward the sales would be robust in that.

Sarvesh Gupta: On your collection side, this 101% collection efficiency but if you just do the billing efficiency for the particular month where have we reached and secondly, I think for S3 pro forma we have provided for around 60%. So, do you feel that this is adequate given that we have seen lot of slip ups from S1 and S2 into S3 which can also go going forward can also increase?

Vinod Panicker: The collection, if you look at purely the collection of the EMI's or installments versus the billing, it would be in the range of 97% - 98% the other would add up by way of other charges and other things which we have collected and which is as a percentage it is in line with what it was in the pre-COVID levels. To answer your question specifically on the provisioning and whether that is adequate we believe that is adequate because on an overall basis including let us say the pro forma GNPA we are reporting a total GNPA of roughly about Rs. 240 Crores–Rs. 250 Crores and against that we have got a total provision of about Rs.202 Crores on the book which we believe on an overall basis is adequate. The very reason why we, and in the initial commentary I did mention that we have made a provision of only about Rs.11 Crores in the current quarter it is mainly because we have made substantial provisioning in the previous quarters. So, we believe that the time has come for us to reduce the provisioning and may be stop it totally but being conservative we have made provisions.

Sarvesh Gupta: Do you expect any write backs in the H1 of next year?

Vinod Panicker: No, that is a continuous process that keeps on happening, that means you may be make provision, you reverse it, in fact between last quarter and this quarter there are about 4.5 Crores of provisioning that we wrote back because, accounts went from NPA into standard.

Sarvesh Gupta: No, as net write backs do you accept net write backs in H1 of next year?

Vinod Panicker: That is right, plus something would deteriorate, I would say that net write backs could happen but H1 would be too early because I think initially, we said that it could take some time for the things to stabilize and we feel that it could be six months to nine months before things actually start getting stabilized. We believe that it could be six months-nine months down the line that first quarter of next year would be too early that is our belief. But net write off will be coming but then it would possibly not get identified as something which was recorded as NPA during the COVID days.

Sarvesh Gupta: Okay, this 13% to 14% figure of growth that you mentioned is on the average AUM, correct?

Vinod Panicker: 13% to 14% that is on the topline.

Sarvesh Gupta: Okay.

Vinod Panicker: That is not AUM.

Sarvesh Gupta: Thank you and all the best.

Moderator: Thank you. The next question is from the line of Jehan Bhadha from Nirmal Bang. Please go ahead.

Jehan Bhadha: Good afternoon Mr. Madhu and Vinod. My first question is on the restructuring, have we done anything, or any part of our book has undergone restructuring?

Vinod Panicker: No.

Jehan Bhadha: Last quarter you had mentioned that around 9.5% worth of AUM has not made a single payment since COVID. So, what is that number right now?

Vinod Panicker: Out of the 618,000 live accounts, account which has not paid anything since the COVID actually started is some 9300 accounts totally.

Jehan Bhadha: Okay, and that would translate how much of A1?

Vinod Panicker: You just multiply it is about 30,000–35,000 on a total book Rs 2224 crores, actually this is about 0.11% of the total number.

Jehan Bhadha: Thank you that is it from my side.

Moderator: Thank you. The next question is from the line of Ashish Sood from InCred. Please go ahead.

Ashish Sood: Thanks for the opportunity. I have three questions; I will go one by one. Have you any plans of raising capital in FY2022?

Vinod Panicker: FY2022 there could be a requirement because currently the CAR is close to 27 %, the reason for that has been the slow growth right now. But, once we are confident that the growth will start and there would be a need to have capital so, we feel that FY2022 we will definitely need to look at capital raise.

Ashish Sood: Okay, sure and Sir second question is that have you seen that some NBFC's have vacated markets between the tier-3 and tier-4 cities in which you are targeting. So, is the competition reduced or it is more or less the same?

Vinod Panicker: At very local levels there could be local finances who would have moved out of it but as far as our competitors are concerned all are there. So, to answer your question I think everyone is there not many have vacated as far as recognized players are concerned.

Ashish Sood: Sir have you witnessed that cash purchase has gone up because we have lost market share, but industry has witnessed growth and some local players also gone out. So, has cash purchase increased or any other reason is there?

Madhu Alexiouse: Yes, cash purchase has definitely increased and that is why to some extent financing share has also reduced from the overall sales. But I think it is more to do with people preferring to buy the vehicle on an emergency or urgency whatever you call it and lot of logistical problem that would have been there and it is okay, in the sense that earlier also about 65% of the sale used to cash and right now plus – minus 3% to 4% that is fine and the key here is to monitor how the industry grows from here (a) and (b) which are the areas where it could grow. Okay, these are the two things and majorly urban centres are the centres where financing percentage used to be much high so lot of urban centres are not normally doing so that also could be the reason why financing share has come down.

Ashish Sood: Okay, because I was wondering at last call also, we have discussed that due to BS VI the vehicle prices will increase, and the finance penetration has increased. But actually, it is happening other way around so, do we have any change in that stance or we can expect the finance penetration to go to 40% let us say in next three year to four years?

Madhu Alexiouse: During this pandemic it is very difficult to guess while people have preferred cash compared to finance and that is what I am trying to address at the dealer point or wherever they go they will be in a hurry to take the vehicle rather than visiting dealer twice, thrice, local transportations are not there, then you are seeing increase in gold loans, people would have preferred taking a gold loan and having cash with them and then buying two wheeler from there. So, there are lots of factors that would have helped. On a business-as-usual basis when BS VI was launched, and the prices went up at that point of time also finance penetration went up, we have seen that statistics tell us that and business as usual happens when people are able to move around freely and they are not cared to visit dealership twice – thrice I think this should come back.

Ashish Sood: Okay, and just two small questions, so you have mentioned in the presentation that you have tightened credit norms. So, have you lowered the LTV, or it is more or less same?

Madhu Alexiouse: It is combination of lot of things including the zero score, including the customer's profession and things like that. We would have a slightly tighter credit norm and focus the segment which we were not focusing earlier. So, it is a combination of lot of things that we have done. LTV may remain almost similar because if you are not in line with LTV of the market then the customer may prefer other finance companies. So, that is not something where we can play around but we can refine the quality of customers through various other credit parameters.

Vinod Panicker: Actually, the LTV has gone down 2% - 3% but then the ticket size has gone up because the cost of the vehicle has gone up.

Ashish Sood: Yes, BS VI Sir. So, what is the current LTV if you can share?

Madhu Alexiouse: It is over 76%.

Ashish Sood: Okay 76%, and just one last question on the collection side. So, we have witnessed that cash collection has increased as compared to NACH. So, can we expect the similar trend going ahead because last quarter when we have discussed we are thinking that okay, other modes of payment other than cash fill inch up but now it is reverse happening so what is the call on that?

Madhu Alexiouse: The NACH bounce rate we are something like what is happening in the industry as well. I have been seeing lot of reports and it was surprising that bounce rate of NACH has gone up, NACH through bank. I think we will have to wait and watch how the trend moves and if more NACH collections happen I think that would be a great thing to happen, but we will have to wait for some more time and see whether the same trend continues or not. As of now it is really difficult to tell why actually for the collection against NACH, the bounce is high. It is across the industry we have witnessed that and probably one of the possible reasons is the cash flow of the customer is impacted and so he is not able to match the due date when NACH hits his bank and subsequently he pays cash and we have seen I have mentioned in my earlier address that zero bucket collections are at 95% plus which was at pre-COVID levels. So, I think lot of customers would prefer to give cash and they are not able to match the cycle date.

Ashish Sood: Thanks. That is from my side all the best.

Moderator: Thank you. The next question is from the line of Sai Kiran Pulavarthi from Sai Kiran. Please go ahead.

Sai Kiran Pulavarthi: Just quickly on slide number-8 you mentioned that interest will come lower than FY2021 is due to income considered on PoS during the moratorium period while based on re-payment schedule in Q3. I do understand that you explained to some extent in the opening remarks, but you can elaborate further that will be really helpful.

Vinod Panicker: Actually, I will just be elaborate on it as required by you. In Q2 maybe I will need to start from Q2; in Q1 when we accounted, we accounted basis the repayment schedule of the customers. In the repayment schedule the income that is accounted is based on reducing balance and that is how we had accounted. So, when we came into Q2, when we were finalizing the Q2 accounts it donned upon us that you need to be doing certain things one is, you need wherever the customer had an outstanding amount, you charge interest on that also that is of course permitted by RBI. So, that was one thing then there was instead of going on the reducing balance, it was the balance at the end of each month which was considered as the amount on which interest was to be charged, number two and last but not the least we did mention about drop in the AUM; there is drop in AUM as the average of first and second quarter was about Rs.2275 Crores and this was about Rs.170 Crores lower in the third quarter. So, on that there would be close to Rs.9 Crores – Rs.9.5 Crores of income. All these three facts put together the gap was around the difference of about Rs.22 Crores odd. So, that is the combination which led to the difference in the income between the Q2 that we reported of Rs. 143 Crores and the Rs. 120 Crores odd that we have reported in the Q3.

Sai Kiran Pulavarthi: Second question on the NII side I am sure you guys have mentioned that there is some accessibility on the balance sheet right. What could be the cost which you would take on your P&L due to the excess equity? I am sure as the growth comes in, but strain will also come down and then you can see some margin expansion also?

Vinod Panicker: I am extremely sorry can you repeat the question I do not think I got it?

Sai Kiran Pulavarthi: I am saying that your cash position as of December 2020 is Rs. 788 Crores in the normal circumstances you might not carry such kind of excess liquidity, as the balance sheet or the AUM grows your excess liquidity will come down and your margins might improve, is it a fair assumption to make?

Vinod Panicker: When we said that it makes more sense to even carry some cash on books rather than not draw the funds which are given to you by the bank. The additional cost that we have incurred is ~ Rs. 3.45 Crores in the first nine months so obviously we can say that once the business takes off and takes off well, we may not have to incur the additional cost that we are incurring just to hold the funds on our books. So, first nine months the cost was at about Rs. 3.45 Crores that is something which will definitely get reduced.

Sai Kiran Pulavarthi: One last question Sir when I look at some of the large two-wheeler financials in the industry, I would see that there is a need to growth on a quarter-on-quarter basis both in terms of the AUM and disbursements. Just one thing Sir, I do understand and appreciate that you guys are a conservative on all this stuff but what could give you the confidence to go back to the previous growth levels. What are the few things which you would like to monitor?

Madhu Alexiouse: I think as far as business is concerned, I do not think so we have held back ourselves it was around Q2 till Q2 I think we held back ourselves, Q3 we clearly came back into the market in a big way we will continue this. I mean there is nothing holding us back right now and I mentioned that what are the things that enthuses us, the centres where we are operating I think we are very confident about the economy there, positive economy and especially the rural one's we are very confident that should do very well as we go forward and I do not think and I mentioned that we have reached almost all the centres and all the dealer points where we are supposed to be and whatever expansion plans or other new states we were planning to go it is in Q4 that we will definitely go there. So, just to assure all of you that while we will think conservatively in the market, we will be aggressive we are not going to hold us back and I very clearly mentioned that versus Q2 - Q3 we are fully there, or we moved to be fully there and from now it is business as usual for us.

Sai Kiran Pulavarthi: One last question from my side is that you mentioned that we might repeat for the capital in FY2022 as such potentially once the growth comes back. So, what is the threshold tier-1 which you look at while considering the capital?

Vinod Panicker: Currently, the close to 27% car that I did mention is essentially tier-1 that is negligible portion of tier-2 there. Now, so we believe that if we are coming to about 20% - 21% in terms CAR that is the time when we should start looking for funds.

Sai Kiran Pulavarthi: 20% to 21% right.

Vinod Panicker: Yes 20% to 21%.

Sai Kiran Pulavarthi: Got it, understood. Thanks a lot Sir. Thank you very much. That is it from my side.

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

Vinod Panicker: Friends thanks for being on this call with us. We believe that we have been able to communicate most of things that you wanted to know, and we have been able to address all the queries that you have raised. Even after the call, if anyone of you feel that there is any additional data required, additional information needed we are just a call away or we are just a mail away you can choose what you want to do but whatever queries you have we will definitely be addressed. Thanks once again. Stay safe. Have a great time.

Madhu Alexiouse: Thank you all the participants and as we mentioned during our call that Q3 is where we have come back into the market and numbers show and I have clearly mentioned that from Q4 it is business as usual for us and I hope and I believe that as the vaccination drive improves and logistics improves, I think around Q1 we should be good to say that we are out of whatever issues we were facing for last one year and as I mentioned that while we think conservatively as far as market is concerned we will go very aggressive. May be around next call we would be able to give you more information on expansion plan and then we intent to go to the next level as far as our second-hand car business is concerned and couple of more new initiatives that we were piloting. I think we are through with that. So, when we meet in the next call, I think we will have more to add to whatever we have been discussing about two wheelers. Once again thank you very much to all of you. Stay safe and all the best to all of you for the financial year closing as well.

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