"Muthoot Capital Services Q3 FY2020 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to Muthoot Capital Services Q3 FY2020 Earnings Conference Call, hosted by Antique Stock Broking. We have with us today the management from Muthoot Capital represented by Mr. Madhu Alexiouse, COO and Mr. Vinod Panicker, CFO. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Digant Haria from Antique Stock Broking Limited. Thank you and over to you Sir!

Digant Haria: A very good afternoon to all of you for having connected and good afternoon to the management as well. We will have Mr. Vinod Panicker to take you through the results post which we can open the floor for Q&A so that we can take maximum number of questions this time. So over to you Vinod Sir!

Vinod Panicker: Good afternoon everybody. Thanks to all of you for being on the call with us. We have just completed the third quarter of the current financial year and have got the results approved by the Board on Saturday and we would now want to apprise you about the numbers. While we have uploaded the presentation on the website and you would have gone through it, we thought that we can possibly talk about it in detail now.

It was a reasonably decent quarter for us with the disbursement being at about 465 Crores versus about 487 Crores that we did in the immediately preceding quarter and 502 Crores that we did in the same quarter last year; versus the last year there was a degrowth of about 7%, but then looking at the current scenario, which is plaguing both the economy and the two-wheeler industry, we feel that the performance is reasonable.

In terms of the AUM, on the book was at about Rs 2677, overall AUM being at about Rs 2751 versus Rs 2590 Crores of overall AUM at the same time last year, which means the growth, was at about 6% to 7%. The average AUM was at about 2678 Crores, which was higher than the same quarter last year by about 15% versus immediately preceding quarter by about 3%. This led to the interest income going up to about 151 Crores versus about 145 Crores in the immediately preceding quarter and 135 Crores in the same quarter last year. Here it needs to be noted that the 135 Crores was with one-time gain of about 4 Crores plus due to one direct assignment transaction that we did in the same quarter last year.

The finance expenses were at about 58 Crores, almost similar to what it was in the immediately preceding quarter, but it was about 25% higher than the same quarter last year. Here the reason is something known to all of us; where post last September after IL&FS and after that DHFL and all the other things, which have happened, NBFCs were seen negatively. Initially there was no disbursement happening, Subsequently disbursements were happening, but obviously at a much higher cost, it has impacted our cost. In the same quarter last year it was at about 9.75% this quarter we were at about 10.25%, in the immediately preceding quarter the cost was at about 10.32%, we said that we would come down in the current quarter, which we have done by about 7 bps, but now at the same time because of the higher utilization the overall interest cost is more or less same in the last quarter immediately preceding quarter.

The operating expenses was at about 51.8 Crores versus about 48.9 Crores in the immediately preceding quarter and 42.7 Crores in the same quarter last year; versus last year the growth was about 21% and against the immediately preceding quarter it was about 6% higher against the immediately preceding quarter. One of the reasons is the increased cost of collection due to the kind of issues in the market for which we needed to employ collection agencies at higher cost, the collection agencies were always there but then maybe with higher incentives, higher collection cost that increased the cost of collection. No doubt the overall collections have gone up from about 501 Crores to about 517 Crores in the current quarter.

The loan loss provisioning was more or less same as the immediately preceding quarter but significantly higher than the same quarter last year. Against the same quarter last year the cost is about 93% higher; one of the main reasons is after a huge growth in September 2018 quarter, December 2018 did see increase but reasonably low increase in the third quarter last year, which meant that the overall provisioning that was needed was at about 8.1 Crores in fact we did very little of repossessed sale also in that quarter because of the things just getting changed after the floods in Kerala.

In the current quarter we need to mention that we have done additional provisioning of close to 3 Crores in view of the expected delinquencies that we would see in the next quarter or so. Also because of higher surrenders or repossession of vehicles, there was higher cost of about roughly 1.7 Crores, which was all booked in the loan loss and provisioning. This led to the **profit before tax** against the immediately preceding quarter up at about 13%, but a negative of about 33% versus the same quarter last year and PAT of about 19 Crores versus about 14 Crores in the immediately preceding quarter while about 22% lower than the same quarter last year. On the PAT level versus the same quarter last year if the onetime gain is actually removed, which I said at the beginning of my comments of about 4 Crores plus, the negative is at about 8.8%.

On a nine-month basis, the disbursement is lower by about 6% while the AUM is up by about 7%, the revenues are higher by about 15%, cost of funds is up by about 32% because of the overall cost for the nine-month period being at about 9.5% last year and being at about 10.3% in the current year's first nine months.

The operating expenses are higher by about 26% at about 145 Crores versus 115 Crores, which is 26% higher, which was on account of 2/3 heads; one of the main heads being the cost of collection and increased employee cost. The increased employee cost is on account of the fact that, in spite of the market conditions we have ensured that wherever we needed to start business we have started the business, wherever we needed to put manpower we put manpower, so this actually meant that compared to the nine months last year in the current nine months there was increased cost of about 10 to 11 Crores in the manpower cost. Loan loss provision on a nine-month basis is higher at about 28% and profitability at the PAT level we were down 27%, at about 46.6 Crores.

I would now request Madhu to takeover and post that we will address queries one-by-one.

Madhu Alexiouse: Good afternoon. Thanks for joining this call. I think Q1, Q2 was something, which we felt is bottoming out and Q3 is testimony to the fact that the worst looks to be over and when I say worse looks to be over, we were expecting between BS3, BS6, there would be lot of confusion that is kind of settling down and we would see that Q4 this confusion would be much lower and we will see inventory getting cleaned up for BS4 by February and around March almost all OEMs would be ready with BS6 vehicle so I am seeing a smooth transition as we see Q4. Since there could be lot of questions around industry and our strategy going forward I will straightaway open up this for Q&A. I would request Digant to open up for Q&A because let it be more of interactive because we are at Q3 and how the strategy is panning out for next financial year is something, which would be in your mind so it would be better to get into one-on-one discussion as well. Digant you can take it forward.

Digant Haria: Yes, we can start the Q&A.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Agastya Dave from CAO Capital. Please go ahead.

Agastya Dave: Sir I had this question; you mentioned that the worse seems to be over, so what are the key monitorable matrices based on which you are saying this, is it just purely on a demand side or are you also seeing asset quality pressures improving and cost of funds improving, so on these three matrices how do you see the recovery if the worst is over, second question Sir this is from last quarter, last quarter I do not know whether I am missing something here, but our networth was 474.83 Crores and in the six months preceding that we obviously shown a profit and the networth number is flat so is there any balance sheet adjustment, which is happening which I will be missing, and my third question is on the fund raising that we were planning sometime back and obviously then this all this thing happened and our growth number has obviously came down, so is there any update on this fund raising side? Thank you, Sir!

Vinod Panicker: On the first two points that you mentioned, you mentioned about worse being over in terms of the business condition and the NPA part, my colleague Madhu will take those questions, the balance I will answer it.

Madhu Alexiouse: When I said worst is over when we look at degrowth of two-wheeler industry on an average it had been about 18% and this industry is about 2 Crores in India. Here as on December the total sales are around 1.4 Crores we are expecting another 40 lakhs to happen, 40 or 45 lakhs to happen in Q4. Q3 that is around let us say November and December people wait for the model to change and then they decide to buy and during first 10 days or 15 days there is a lull period because of Sharad and things like that and then the Pongal and other festival starts and then the buying picks up. The key concern in this industry specifically for auto industry was that how the BS4 to BS6 transition would happen. We are also concerned that what is going to impact the market in the sense that would people postpone their purchases till March and things like that. We have some clarity about how OEMs are going to function as far as this transition is concerned and we have a clarity that by January and February BS4 stock should get over, in fact lot of them have stopped the production as well and BS6 would get launched later by March of Q4, so there is a very clear clarity on how the transition is going to happen. Now the key here is that Indian two wheeler industry when I say it is 2 Crores and this year let us say it would be about 1.8, 1.85 we are seeing that this can be the lowest number that is going to happen in this country plus minus another 10 lakhs it may not go below this because that is our basic commuting that is available in this country, most economical commuting and specially for small businesses and small traders this is the key part of their business model, this is the key transportation in the rural sector. So, we are expecting that if 1.8 or 1.85 crore sale happen this year, this is the number maybe next year it happens and then goes up as we go forward so that is why I say worst in the sense from industry perspective the low is that could have happened in Q1, Q2 and Q3 is done and now the transition happens and then the number picks up. Another you are talking about economic indicators and things like that. During Q3, Q4 the rural economy actually starts improving because the crop suites are coming to the market, crops should be ready for them to sell it out into the market and so that rural cash flow we expect to improve as we go forward into Q4 and Q1. Traditionally Q1 and Q2 is H1 is a good time for two-wheeler because of improvement in rural cash flow. I am seeing that whatever bottoming out could have happened is something where which was around Q1 and Q2. As we go forward and enter into the next financial year, I think things would be much better. So, I am taking a relative view compared to last three quarters and how next three or four quarters would look like.

Agastya Dave: Also, on the asset quality side Sir?

Madhu Alexiouse: Asset quality during Q2 we were expecting that we should kind of reverse the NPAs, which did not happen and during our last call also we had mentioned that places like Maharashtra, South Karnataka, lot of places there were floods even in the month of September where the collection team were not able to even go out of their home to do the collection, they were not able to reach even to the customers place, which we saw that in the Q3 we were able to put our energy together and things actually happen very positive, we have seen improvement in collection efficiency in all the buckets, we have seen increase by about 1%, 1.5%, very encouraging collection efficiencies we are seeing and so of course it also helped in terms of NPA reversals. NPA that we added during this quarter was about 10 Crores, which is lower compared to last two quarters and net NPA that we have added is around 3 or 4 Crores so it is a good sign that, that reversal we are able to see and as we get into Q4 we are hopeful that we would definitely reverse it to what we were expecting somewhere around Q2 we should be able to out beat that. I said that rural cash flows would improve that would help us in our collection so from quality perspective also we are hoping that things would really, really bounce back as we go forward.

Vinod Panicker: Agastya just to take forward Madhu's discussion on the NPA part, the NPA looks slightly bloated at about 6%, one of the prime reasons for that is the denominator has not grown and if the denominator had grown, the number would not have looked as high as 6% because we started the year at something like sub 5%, overall book was at about 4.23%. So Q4 we will see the book size also going up, which will definitely ensure that the NPA numbers at the same level we are sure it will go down in absolute term, but even at a same level, it looks a much better number. In fact, Madhu also touched upon the quality of collection being better in the third quarter, in fact the slide we have uploaded if you could refer to slide #13, you will see that October, November, December there is a flattish kind of curve in terms of all the buckets maybe if you go through and then revert back maybe we can have a separate call on that. Now you have asked about the cost of funds, cost of funds are definitely going down, we did mention that actually if you saw a 7 bps reduction in the current quarter in fact the most significant thing that we need to possibly point out is the transaction that we did possibly on the last day of the quarter was a transaction, which we did with at a coupon rate of significant at about 9.4%, 9.5% and an overall cost of sub 10%. It was a PTC transaction and we are looking of doing something similar in the current quarter or possibly in the current month itself, that will definitely help us bring down our cost of funds. We are confident that the cost of funds, which is at about 10.25, should go down by at least 10 -15 bps in the current quarter that is one thing. The fund raising you mentioned about, we are currently having a capital adequacy of 21% plus and we had earlier planned doing a fund raising equity fund raise maybe in Q3 or Q4, but because the book has not grown, the capital adequacy is at a level, which is reasonably comfortable and hence we did not see a need to do that; God willing, market improving in the current quarter, improving further in the next quarter and the ground getting better, we would possibly need to look at fund raising 6 to 8 months down the line. So that is the time when we would possibly look at a fund raise. Last but not the least the query, which you had raised about the balance sheet networth figure. See you need to understand the balance sheet that we had uploaded on the website after the last financial year end, was basis IGAAP, which showed a figure of about 476 Crores. Now when you convert that into Ind-AS the figure of 476 becomes 447 because of certain adjustments if you look at the percentage and which we put up a couple of quarters back we had actually given the basis of that roughly about 30 Crores increasing under various heads so that is why it has gone down in terms of this. Last quarter the number was 474 Crores at the end of Q2 now that possibly answers your query, any additional query that you have we can do a separate call.

Agastya Dave: You have answered all my questions Sir. Thank you very much. Best of luck for next quarter Sir. Thank you.

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

Saptarshee Chatterjee: Sir my first question is on the new loan disbursements, if you can give some color on what happened to the market share movement and maybe across regions how we have gained or lost market share Sir?

Madhu Alexiouse: On the overall sales basis, our market share is about 1.67%, which is about 10 bps higher compared to last two quarters. On the financed business, the number of vehicles that is financed by organized sector our share hovers around 4.5% plus minus 25 bps from market share perspective. On the growth front, we can look at our growth from two perspective, one that region wise how we have grown, of course from the overall geographical perspective, east is where we have grown significantly we had been telling that, that is a new market and we have grown there significantly. Other zones had remained at the same or on the lower compared to the previous time period. There is other way of looking at how we evaluate our growth. We have risk weightage to each market that we operate in and wherever we feel that this is the market where as of now given the current situation, our collections are good, our NPAs are in control and at the same time how the competitors are behaving. We look at bureau scores, bureau research inputs to identify which are the good markets where we will continue to grow so we had categorized market into green, amber, red and green is where we have aggressively grown. The growth in green had been more than 15% on an average this particular financial year and I have been telling that, that is a conscious decision, which market will grow and which we will remain stagnant or degrow. So, if there is a market, which comes under red we would have degrown or we would have remained stable there. The purpose was that we enter into markets where we can, on a long-term basis, ensure that we keep on investing there and that is why growing in green and staying invested there was very important. From our market touch point we continue to be having 8000 plus touch points, we have not withdrawn from any markets we would have slowed down in certain areas, we would have grown in certain areas. So, to answer your question two is geographically yes outside south things are positive for us we continue to stay invested in all the zones across the country, how to increase the penetration in these areas would be determined by the risk weightage of these markets, so that our team is put there. Whenever we feel that market is good to grow we will increase our penetration their basis our risk assessment and wherever we feel that market is risky we will stay there but we may not withdraw, we may slowdown in those areas, I hope this answer your query.

Saptarshee Chatterjee: As you have said there has been floods till September across like Maharashtra and Karnataka but the things have improved and our collection efficiency has improved in like October, November, December, but when we see slide #14 even a 30 plus bucket the line is also increasing so delinquency has also increased in 30 plus bucket, so are we expecting more uptake in those delinquencies or am I missing something?

Vinod Panicker: No, what we have projected in the slide is the on-book what has happened is towards the fag end there has been a couple of PTC transactions, which has reduced the on-book, if you look at the overall 30 plus it is about 13.4%, which is more or less in line with what it was last year, last quarter. So there has not been any major, I would say, negative as far as the quality of the book is concerned, see the slide #13 also where you will see that the flow to the next bucket has been fairly, it has been a flat line. So there has been no major, I would say, increase in the movement to the next bucket. Slippages have been contained.

Saptarshee Chatterjee: Thirdly what is our incremental cost of borrowing and what is average tenure of our borrowing book?

Vinod Panicker: The cost of borrowing like as we said was at about 10.25% lot of our borrowing is in the form of CC/WCDL so when the rollover happens there is a specific price fixed and then what we are seeing is for each and every rollover or renewal there has been some bit of reduction, which is happening maybe it is 10 bps or 15 bps but then that reduction is happening. Roughly 67% of our borrowing is in the form of bank borrowing of which large chunk is in the form of CC/WCDL and the tenure is in most of the cases is less than one year.

Saptarshee Chatterjee: Thank you so much, it is very insightful. Thank you.

Moderator: Thank you. The next question is from the line of Kislay Upadhyay from Abakkus. Please go ahead.

Kislay Upadhyay: Sir firstly on the disbursement and AUM growth, we have seen at about 450 to 500 Crores level of disbursement the AUM growth has been 5% to 7%, is that a normal trend that you would have expected and going ahead with sub 500 Crores of disbursal do we expect the loan growth to remain at 5% to 7% only?

Vinod Panicker: The disbursement at about 465, 470 odd Crores does lead to a AUM growth of about 3% to 5% and that is on the basis of the collections at the level that it is let us say roughly about 125 odd Crores comes back to us in terms of principal comes back to us on a month-on-month basis, so let us say if everything goes well the book and if at about 465, 475 Crores the book can overall increased by about 70, 80 Crores so 5% to 7% if the disbursement does go up by about 500 Crores we should see close to 8% to 9% kind of growth.

Kislay Upadhyay: Secondly any reason we increase the cash and equivalents from 40 Crores to 160 Crores does it have to do with the PTC transaction that we did on the last year?

Vinod Panicker: Yes, actually I just now made a comment that we did a transaction on the last day of the quarter, now that the fund came to us at about 7:30 in the evening so there was no time for us to transfer it to any of our CC account, which is what we normally do. Last day of the quarter normally see a lot of I would say traffic in terms of bank transaction so while the money was transferred by the investor, the money came in to us at about 7:30 in the evening and we had very little room to transfer it to anybody else.

Kislay Upadhyay: And could you mention any updates on new, you had mentioned that we would be rolling out new initiative in terms of activating the channels including the parents, the group companies branch anything you can mention now at the end of Q3?

Madhu Alexious: There are two things here, update on the new products and on the channels. What is that we were talking about used cars, which even last time, we said that we have successfully piloted that. We will be in about 20 centers as we close Q4, next year we want to grow this very aggressively, the hypothesis with which we went into this, it is in line with what we want to do actually, we do not want to be in premium segment or super premium segment luxury segment, we want to be in the lower segment of the used cars around 3 to let us say 7 lakhs around that and we have been sticking to that and it is the distribution network and the centers that we have chosen is actually helping us to get that kind of business. So, we will grow very aggressively next year on this Q4. By Q4 I said we will be in 20 centers, which would give us exposure into six or seven states. On other products maybe around at the close of Q4 we would be able to tell you that is on consumer durables that is under pilot stage, maybe once the pilot is over we would be able to give you some insight into that. Key here is that how we build the alternate channels that is we have a dealer channel, we have a branch channel of more than 3000 branches are actively giving us business from our flagship company Muthoot Fincorp Limited, we are looking at lot of other channels, which can help us maybe around Q1 next year we would be able to divulge more about it. So derisking from channel perspective, derisking from product perspective, which we started last one year, one-and-a-half years we are very focused on that, maybe three or five or six months down the line we would be able to show you more about that in terms of their business contribution, in terms of how we are spreading out further across the country.

Kislay Upadhyay: Finally, Sir FY2019 PAT Ind-AS number would it be close to 80, 85 Crores?

Vinod Panicker: 85- 86 Crores.

Kislay Upadhyay: Thanks a lot. Thank you so much and all the best.

Vinod Panicker: FY2019 you said right?

Kislay Upadhyay: Correct, yes Sir.

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

Jehan Bhadha: In terms of financing penetration for the industry where is the industry today and what was the position 10 years back?

Madhu Alexious : Let me not go back 10 years because there is lot of abuse that has happened in this industry so let us say that as on today it is around 35% to 40% depending on the city, if it is metro the penetration could be around 55% or more. In Honda the financing penetration is much higher compared to hero or TVS. So, average I am saying it is between let us say it is around 37%.

As we go forward next couple of years we have seen or next three years we have seen it to be around 60%, 55% to 60% reason being there is a spike in pricing in last one year and as we launch BS6 there would be further increase in the price. So, we are seeing that this finance penetration is likely to go up. In earlier years the finance penetration used to be around 30% to 33% not more than that, even less than that, which in recent times last three or four years the trend changed and it reached around 37% with more and more good products like Honda Activa, some good products by Suzuki and things like once they started coming into the market I think urban segment started buying two wheelers and that led to slightly higher penetration in financing as far as metros and Tier-I centers are concerned. So as on date it is around 37%, as we move forward next couple of years three years it would be 55% plus for sure.

Jehan Bhadha: Just countering that point if we look at the current nine months period we are also more or less growing in line with the two-wheeler industry so that financing penetration currently is not rising right, but you are expecting that in future it should rise?

Madhu Alexious : Yes, the financing penetration was not rising for a couple of reasons. One the major sale, major sale of two-wheeler happens for commuting bike motorcycle, economy segment which is mostly in Tier-III, Tier-IV centers. In urban centers it is more of scooters, scooterization you call it, and so the penetration because in rural areas sale is more and finance companies were not able to reach in those areas the penetration was less. Two wheeler it is like 50000, 60000 used to be the price some point in time customer prefers to give cash and buy it off, if he sells his crop and he wants some vehicle he goes and pays cash and buys it because that is the easiest way of buying this product, he need not go to any bank or finance company just for 50000, 60000 and so they use to pay cash and buy so almost 65%, 70% of people preferred buying in cash. The economy segment it was more Tier-III, Tier-IV centers where financiers have not gone there. If you look at new to credit in two-wheeler it used to be around 65%, 70% some point in time, which has reduced now. So these are the factors, which led to that, but now the trends is changing, now finance companies are able to reach, we have from our overall touch points that we have close to 75%, 80% is in Tier-III, Tier-IV centers and that is our customer segment that is what we tell in our vision also that is our customer segment, so that trend is changing now and with the increase in price I said last one year the price hike on scooter and in bike would have been around 8000 on price then there was insurance regulation by Supreme Court of India that increase the prices by another 5000. Now with the BS4, BS6 transition about 7000 to 8000 would go up, so within a year or one-and-a-half years time the increase in price is close to average Rs.20000 so it is very difficult for customers to get so much of cash in hand to buy this two-wheeler that is why the shift towards financing of vehicles so you will see that trend going up.

Jehan Bhadha: Sir second question is on your market share you said that within the two-wheeler financing space your market share is between 4% to 5%, so is there further scope for this to increase because we are seeing so many banks and NBFCs already present in this market since many years so are we done with the low hanging fruits of increasing market share or there is still further scope from here on?

Madhu Alexious : I would say that currently it is only the tip of the iceberg for us. When I say that I said that we went out across the country, we are present there but we have not increased our penetration. We are still under penetrated in counters where we have gone let us say if we have gone to Delhi or if we have gone to Odisha we have ‘n’ number of counter but within that counter increasing the counter share is something now we will focus on. Initially it is important to distribute, reach areas, build your team, build your network, build your relationship with dealers, build that confidence within the organization that the portfolio is good, have that risk assessment that the market is good and then we kind of increase our sales. So, we have penetrated, we have reached everywhere, we need to increase our penetration so that is why I am saying this is only tip of our iceberg, we have our own branches from the flagship company there is a huge scope there to increase actually. So, once we see that there is a positive sign in the market, once we are confident the markets that we are operating is moving into green or from red to amber or amber to green we will start increasing our penetration in these areas likewise the market share goes up.

Jehan Bhadha: Finally, in terms of number of dealers in the country so within those dealers what would be our penetration is that something, is there a metric that we track for monitoring this?

Madhu Alexious: Depending on the area the dealer penetration would be for example in Kerala we have a counter share of as good as 50%, 60%, in Karnataka we may have 50%, but if you go to let us say Northern area my penetration would be 15% or 20%, so depending on number of finance companies, depending on number of vehicles that dealer sells, the counter share may vary, but one thing that we clearly monitor is the productivity of every employee in the company. We have a supervisory versus production team metrics, the x percentage should be the production team and within that production team we have a very clear-cut productivity metrics as the KPI for the sales team.

Jehan Bhadha: Thank you Sir.

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

Rajesh Kothari: Sorry, I got a little bit late while joining the call. My question is with reference to gross NPA and net NPA and how do you see that in absolute numbers from here on?

Vinod Panicker: The gross NPA, which is currently on the Ind-AS book is at about 6% and the net NPA is at about 3.6%. Now this is the gross in absolute numbers it is about on an overall book it is at about 166 Crores on a total book of about 2751 Crores. Like we had said, possibly you got in late, but we have said to the first participant who had raised this query what we had said was going forward we see the number coming down in absolute terms and definitely it is coming down in terms of percentage. So, we would be fairly comfortable and also, we expect the book to grow the overall loan book to grow so with the better denominator we expect in percentage terms the number to be in the range of about 5% to 5.25%.

Rajesh Kothari: You mean by March you are seeing 5% by fourth quarter exit?

Vinod Panicker: Closer to 5%, let me put it that way.

Rajesh Kothari: So basically if the industry continues to remain under stress the rural is yet to improve of course the government is trying their best to improve the rural economy, but it may take some more time, so by September how do you see the your NPA numbers in terms of your collection efficiency because last time when you at a conference call you are talking about lot of one time incentives, which will hit you and so many special schemes and Pongal related and so on and so forth but this time there is no such one off, but despite that the profitability is impacted because of the provision and NPA related issues, so how do you see over the next two, three quarters your collection efficiency and your NPA numbers?

Vinod Panicker: Two, three things, one is the profitability is impacted versus the same quarter last year one was definitely on account of the fact that in the same quarter last year we had 4 Crores one off income, which we had said at the beginning of the call; number one. Number two is that in the current quarter we have made an additional provisioning of about 3 Crores. We do agree that the cost of collection has gone up because of the kind of stress that is there in the market you need to give something higher to ensure that the collections happened. The collections did grow from over 501 Crores that we did in the immediately preceding quarter we collected about 518 Crores in the current quarter. So if we are trying to assess what would happen over the next six to nine months while we expect things to improve and you rightly said that government has done a lot and we expect those things to bear fruits in the coming days and fourth quarter is normally the best quarter as far as the collection and the sourcing goes and therefore we are fairly confident that the numbers would be better in the fourth quarter and then it would continue to be that way over the next couple of quarters. The ground improving would only be an additional I would say booster to ensure that the NPA numbers improve further, we were fairly confident that with so much of efforts on the ground things should be positive, we are fairly optimistic about what would happen on the ground.

Rajesh Kothari: My second question is more related to strategic kind of a question because till now we are more into one region then you have started expanding to other regions and then of course being the industry growth was a little bit muted probably there was a constraint not to lend, but that is where there is going to be a difference between one versus other because if you become conservative, which is always great but then if your growth is also impacted despite you are growing into the other areas, other geographies then do not you think somewhere something is not working in your favor because your growth is in line with the industry growth despite you are entering into new markets so somewhere we are lacking in terms of the kind of borrower what we want to lend and then we are not able to lend to him?

Madhu Alexious: I think we should look this from this perspective that last three or four quarters had been really testing quarters and when such market slowdown happens it is always better to wait and watch and that is what we did and when we are seeing that things are improving and in my initial discussion I had said that things would be positive, things would be better, which means that now we are looking at things very positively in the sense that the sense of confusion in terms of what kind of vehicle we are going to lend. Now the transition between BS4 and BS6 was to happen. Around Q2 we were telling about everyone was worried about the BS4 dealer inventory going up to two months so everyone was worried and then while the November, December is coming the model change happens and then these vehicles go for heavy hefty discount so during these times it is important to really be conservative because you should not overfund on the vehicles, a vehicle, which is costing 70000, which has been build by manufacturer in the month of November when it is sold in January it has to be sold on discount or customer may not prefer he will say that I want 2020 manufactured vehicle so such confusion happens and at that time it so happens that you may give slightly higher funding compared to what the actual value of the vehicle is. So it is very important during the downtrend in the market you have to be very careful in the sense that you should not be overfunding the vehicle because once you overfund the vehicle the chances of your collection stress may go up further so it was fine for us to wait for at least couple of quarters wait, watch and then decide and now when we say that yes it is looking positive because we have a clarity that till when BS4 would be sold and when BS6 would be launched and when BS6 is launched I think things would be business as usual for us, volume may go down in the market I really do not know, but at least we will be lending confidently that this vehicle is 1 lakh and the value is 1 lakh and it is not over cost or undervalued. Also, Rajesh we would be comfortable being accused of being conservative rather than going out and lending and then realizing the money is not coming in. So in fact the second point, which I would want to stress upon is the fact that we have actually started our disbursements in the non-south region over the last three, four years only and even as of now over the last three four years we have a roughly 29% of our book is non-South and that is the number, which will keep growing up and if the overall market is negative and the growth is negative we are comfortable if we go as per the market norms, and maybe reduce our overall disbursement. We are fairly comfortable doing that and maybe stretch ourself further only when things start to improve.

Rajesh Kothari: From here on are you saying the confusion is now over in terms of the discounts that settled or you see further kind of to clear the things you will see further things in month of February so how is the January and February is going right now?

Madhu Alexious: When I said the confusion I said about how much inventory is there in the market because inventory was piling up, we were worried that when do they actually say that okay BS4 is over and now BS6 starts, so at least in the month of November, December, the inventory came down and now we have had interaction with OEMs and as per that, I think by mid February or by end February every OEM should be through with their BS4 and whatever is left out around March they should be able to sell and BS6 also is getting launched around mid of February. So, given that confidence that only "x" number of vehicles is there of BS4 and then it is BS6, our risk is that really for these products they will be knowing what is the funding we need to do, we should not do over funding and then BS6 of course it would have a longer life, technologically it is very advanced technology so that would give us confidence in funding these vehicles. So in terms of volume I am saying that while next financial year may not be significantly higher compared to this financial year even if the volumes is something like this financial year I am saying about market sales overall market volume the finance penetration is likely to go up and it is going up because of higher cost and because of the way last one-and-a-half years about 15000 to 20000 cost escalation has happened finance penetration would go up. So, from financing perspective we are very confident that we will increase our market share, we will increase our disbursement, we will increase our book on a better product portfolio compared to what we would have done in Q1, Q2, Q3, so that is the thrust I am trying to tell. And apart from the volume, which Madhu did mention about I think even with the same level of volume because you are talking about BS6, which is priced higher it would definitely lead to increase in the value as well.

Rajesh Kothari: Sure, and LTV of course also will be different as the prices have gone up.

Vinod Panicker: Right Rajesh.

Rajesh Kothari: In terms of the discounts is that scenario over or you think that fight is still going on?

Madhu Alexious: I think the OEM had been very smart in containing the discounts. As of now we are not seeing many discounts but the feedback that we are getting is it may not be cash discount but it could be some freebies along with the vehicle that is the clarity as of now and given the limited supply of vehicle that they have I do not think so for any OEM it would be wise to give discount rather than just clearing of their stock and looking at BS6.

Rajesh Kothari: Great Sir. Thank you, Sir. Thank you very much. Wish you all the best.

Moderator: Thank you. The next question is from the line of Rohit Prakash from Marshmallow Capital. Please go ahead.

Rohit Prakash: My question is if you could give us a little more color on the competitive intensity right now over the last one, one-and-a-half years in your core markets of Tier-III, Tier-IV, have there been any players who have exited and have there any new players come in because I hear for example that Ujjivan is going aggressive into the two wheeler financing market while I have heard that L&T finance is coming out could you give us more understanding on the competitive intensity?

Madhu Alexious : See competition had been there anytime, anywhere actually. There had been lot of new players, which came in, regional players came in they tried their whatever and they exited, there had been existing players going very aggressive especially around October and November. The yields that they were offering was 2% to 3% lower than whatever they were offering earlier times. I think in this particular product going aggressive on pricing and going aggressive on giving high funding to customer these are the two things, which is a definite nail in the coffin for that particular product. These are the bottom of the pyramid customers and we have seen that lot of players who have come very aggressively has slowdown after three months or five months or six months. So, I do not want to comment on the competition, but my observation is that they come, do some aggression, collect some numbers, do some numbers, show some growth and then they start focusing on the collections. So just to give you an example the aggression that people showed in October and November that aggression I am not seeing right now. So that aggression may come back maybe around March when people see that the numbers are not coming that is not the right way because there is a certain risk profile attached to this particular product and segment and any finance company who maintains that pricing that level of clarity in their credit process they will be the long-term winner. Secondly on Tier-III, Tier-IV centers if Ujjivan is going very aggressively or any other company the key thing is how strongly you present in dealerships, how strong you have the digital capabilities in terms of turning around the loan and disbursing it within the stipulated ABC turnaround time so the win at the ground is not just interest rate it is not just how big is your team, it is about a lot of other things, which need to satisfy the dealer and that is where the winning is and that is where we as Muthoot capital as Muthoot Pappachan Group we have been very strong in these markets and there is lot of business, which happens due to our flagship company's branches that business goes to the dealer without dealer putting any effort, lot of business has reverse back to these dealers and so they see lot of value that they have when they deal with our branch so winning at the ground the formula is totally different it cannot be attributed to one or two factors and we are used to this kind of competition, people coming and going , but last three or four quarters we have seen that even the big players they have suffered huge collection problems, they have exited key markets where they were very aggressive they were number one and so this market is like this until 'Savdhani Hati and Durghatna Ghati' this is what I tell in retail finance and we want to be as cautious as possible as far as credit and risk is concerned in these products.

Rohit Prakash: Thank you that was very detail and nice response. Sir the second question I have is again given our particular focus on Tier-III and Tier-IV markets I was wondering if you could give us, you give us the market share for the company is 4% to 5% overall in the financing space, but within the market that we serve in the financing space if you could give us both the financing penetration number and the market share number there that would be helpful?

Madhu Alexious : I think that is a very detailed thing you are asking, but I will give you a broad perspective. We have more than 8000 touch points of which about 75% touch points is in Tier-III, Tier-IV centers. Maybe Rohit if you want a detailed answer possibly, we should possibly get connected offline and then do the call.

Rohit Prakash: Yes, that will be helpful. Thank you. Sorry my last question is you mentioned 20 centers for used car loans I did not understand what you meant by saying the location is in 20 cities what do you mean by the centers?

Vinod Panicker: 20 towns and cities.

Rohit Prakash: In two states or three states or something like that?

Vinod Panicker: 20 towns and cities, spread over 5 states.

Rohit Prakash: Fair enough. Thank you. That is, it from me.

Moderator: Thank you. Ladies and gentlemen due to time constraint that was the last question for today. I would now like to hand the conference over to the management for closing comments.

Vinod Panicker: Dear friends Vinod once again. Thanks a lot, to all of you for being on the call with us. Due to time constraint, our friends have decided to cut it short; so if anybody has got any additional queries anyone can call us anytime. We require good wishes from all of you to ensure that the current quarter and the future goes up well for us. Thanks a lot.

Madhu Alexiouse: Thank you. Thanks once again, Madhu here. I think the challenging position that was there during last four quarters and actually not only us but entire NBFC and banking sector went through whatever stress test possible I think we have come out of that. Now our confidence levels are very high in terms of what we are going to do as we go forward in Q4 and next financial year. We have very clearly defined the products, the distribution network, the alternate channels and things like that. We are very confident that the things of past are something, which was the lowest and as we go forward things would be much better. Thanks once again to all of you. I would be very happy to connect one-on-one if still there is something, which we can address and all the best to all of you. Happy new year to all of you from Muthoot Pappachan Group on behalf of our promoters and our senior management team. Digant handing over to you.

Digant Haria: Thank you all for participating.

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