"Muthoot Capital Services Q4 FY2020 Earnings Conference Call"

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ANALYST: **MR. BHAVIK MEHTA - ANTIQUE STOCK BROKING LIMITED**

MANAGEMENT: **MR. MADHU ALEXIOUSE – CHIEF OPERATING OFFICER – MUTHOOT CAPITAL SERVICES**
MR. VINOD PANICKER – CHIEF FINANCIAL OFFICER – MUTHOOT CAPITAL SERVICES

Moderator: Ladies and gentlemen, good day, and welcome to Muthoot Capital Services Q4 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. 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. Bhavik Mehta from Antique Stock Broking Limited. Thank you and over to you Sir!

Bhavik Mehta: A very good afternoon to all of you for having connected and good afternoon to the management as well. Hope everyone are safe and this is a challenging time and Muthoot Capital has come out with its results, so without failing any time further, I will ask Vinod Sir to take us through the numbers and Madhu Sir to help us with view and then we will open the floor for question and answers. So over to you Vinod Sir!

Vinod Panicker: Thanks a lot Bhavik. Good afternoon everybody. Nice being on the call with you guys once again. Hope all of you are safe, healthy and sound. The times are tough and the measures that one has to take to be safe and healthy are tremendous and that is the reason I am asking this question. Normally we come out with the financials sometime in the month of April, may be towards the third or fourth week April; this time for various reasons known to all of us there has been a delay but still we feel that we are among the first ones to actually come out with the results. Wanted to first touch upon the numbers before I would ask Madhu to chip in as well.

This was possibly one of the most troublesome quarters that we envisaged, and we have seen for a while; disbursements were pretty low. It was at about Rs 347 Crores versus 465 Crores, which is 25% drop versus the immediately preceding quarter and about 43% lower than the same quarter last year, when we did about 605 Crores.

Overall loan book was at about Rs 2,650 Crores versus about Rs 2,751 Crores at the end of the immediately preceding quarter and about 2,741 Crores that we did a year back. There is some bit of drop, but the times are such that staying afloat was more critical and being conservative was even more critical. The total interest that we generated in the current quarter was about Rs 146.8 Crores versus Rs 150.9 Crores in the immediately preceding quarter which is a drop of 3% but versus the same quarter last year there was a 7% increase when we did about Rs 137 Crores.

The finance expenses compared to the immediately preceding quarter was lower by about 2 Crores at about 56.2 Crores which was 3% lower but slightly higher than the same quarter last year when we did 48.9 Crores.

The operating expenses compared to the immediately preceding quarter and also the same quarter last year was lower on account of three-four reasons. It was mainly on account of the collection and sourcing expenses going down, sourcing going down because the disbursement was significantly lower. The collection expenses had gone down because normally the collections by the outsourced agencies, that is what is not collected at the Fincorp branches or what is not collected through NACH or by the collection team was very low; the collection agencies' collection normally happens in the last ten days of the month and that was total wash out post the March 22, 2020 there was as good as no collection. We collected about 2 Crores when even in the preceding month in the seven days between February 22, 2020 and February 29, 2020, we collected close to Rs 40 Crores and that was kind of drop which actually brought down the collection cost but at the cost of lower collection itself. Therefore, the operating expenses were lower compared to the immediately preceding quarter and more or less it is slightly higher than the same quarter last year.

The loan loss provisioning saw a jump mainly on account of an additional provisioning that we have done. We did a provisioning of Rs 18 Crores in the current quarter on account of the expected issues that COVID-19 would bring up and therefore we made higher provision to the extent of about Rs 18 Crores and therefore the loan loss provisioning figure was higher.

We were talking about operating expense in the current quarter versus the immediately preceding quarter there was a drop which was on account of two factors, which collection cost and the sourcing cost coming down but in this quarter one thing which we wanted to emphasize upon was that we have made an additional provision of about Rs 8.66 Crores which is on account of contingency provision for a charge to the Profit and Loss which may come up, as we go forward we will talk about it.

The loan loss provisioning at about Rs 22.5 Crores includes a figure of about Rs 18 Crores which was an additional provision made by us in view of COVID-19 and the impact that it could have going forward. Based on all these we arrived at profit after tax of about Rs 13.6 Crores versus about Rs 19 Crores that we did in the immediately preceding quarter and Rs 22.7 Crores that we did in the same quarter last year.

Here we would want to emphasize the fact that had COVID-19 not been there, had the additional provisioning of Rs 18 Crores not been needed, had the additional contingency of Rs 8.66 Crores that we mentioned about not been there, the PAT would have been significantly higher at about Rs 33 Crores in the current quarter and much better versus the same quarter last year. On a full year basis, we did a total disbursement of about Rs 1,788 Crores versus Rs 2,135 Crores that we did in the last year leading to total revenue of Rs 587 Crores versus Rs 519 Crores that we did in the previous year which was an increase of about 13%.

The finance expenses went up significantly at about Rs 227 Crores versus Rs 179 Crores and has jumped up by about 27% which was mainly on account of higher utilization of close to Rs 280 odd Crores of fund and second would be on account of the increased cost. The overall cost went up from the full year cost last year about 9.6%, this year it was about 10.3%. This was the main reason for the increase in the finance cost.

The operating cost was higher by about 22% which was I would say was mainly on account of the collection expenses and the higher provision of Rs 8.66 crores which we mentioned we had made.

The loan loss provision was higher by about 53% at about Rs 70.7 Crores versus Rs 46.3 Crores that we did in last year. The current year figure includes Rs 18 Crores. If that is removed, I think it would be slightly higher than the previous year not more than that.

Based on all these things, we did achieve a bottomline of about Rs 60.2 Crores versus the Rs 86.3 Crores that we did in the last year. Here we would want to mention one thing that this is the year when we have moved to IND-AS and whatever figures we are talking about for the previous year, they have been adjusted to bring in line with the IND-AS. How do we see the future, I think I would just ask Madhu to may be talk about it and then we will take the questions after that

Madhu Alexiouse: Good noon once again to all of you. I am really delighted to connect back with all of you and thanks Antique for organizing this call. I will take through some key numbers in terms of what is happening in two-wheeler industry and then probably I will cover what MCSL did while the lockdown happened and bit of how things look like as far as MCSL books are concerned and then probably after that we can get into question- answer session.

If you recollect for last one and a half years after the IL&FS story and then Supreme Court coming out with mandatory five-year insurance for the cars and two-wheelers, we saw the two-wheeler industry coming down; in fact auto industry coming down and last year what we have seen is that there was a drop of about 18%. The total sale for two-wheeler was about 1.74 Crores units last year which was about 18% less. There are various markets where the dip was slightly more compared to several other markets but overall it was 18% drop.

Good thing is that MCSL maintained its market share. We were close to 1.6% market share on all India basis but wherever we operate we were slightly better in terms of market share. In terms of finance share, we were at 4%+ all India basis but in specific markets we had slightly better market share, so good thing is we maintained the market share.

Our two-wheeler disbursement drop was 8% compared to last financial year; versus industry we did slightly better though it was lower than the previous year. In fact if we were to dissect our book, we have kind of aligned our book with the current COVID situation. We are close to 70% of our areas which is in amber and green, in red zone only 30% of our portfolio exist right now or the locations where we operate only 30% is in red zone right now and others are in amber and green which means slowly things are becoming normal, so from book perspective majority of our book is now out of red.

When the lockdown happened actually, the entire MCSL team was put into some kind of learning and development, entire workforce went through certain orientation program and online tools because we thought this was the right opportunity and immediately after the lockdown it was opportunity for people to improve their learning and development which we did and then entire team was redeployed for very clearly planned out activities which included focus on collections. Once the moratorium was decided, the customers who did not opt for moratorium, we reached out to them so that we had a customer connect program in which every employee reached out to customers allocated to them, not only to know about his well being but also educate him in terms of digital modes of payment which we were providing in terms of our app and through PayTM and things like that, so we educated them on that besides that we clearly aligned our focus on two very important thing, one was how we reach out and channelize the collections because no one can go to field and second was on cross sell.

How we are different from any other two-wheeler company or any other auto finance companies is because of the flagship company of our group , Muthoot Fincorp and all our branches got opened by the third week of April so we had a very early advantage in terms of helping the customers in terms of offering them the gold loan and during the financial distress we helped the customers to reach out MFL branches and get the gold loan, so cross sell was one key thing we started in the month of April while the lockdown was in full swing.

So redeployment of manpower happened immediately as soon as the lockdown happened and the entire team was engaged almost 90% of our team was involved in and totally focused on customer connect programs, calling customers everyday; almost 200 customers were assigned to each employee and they have entire month to call those customers. We have a significant improvement in the month of May when we come to our cash collections, we will describe at that point in time, how these efforts are bringing in great benefits to us. So key focus has been how we redeploy our manpower which we did in April, there is a good improvement in terms of our collections from the field through digital means, through our branches and then the cross sell was key through which gold loan was the product that we thought we will pitch in so that during the financial distress we can lend a helping hand to our customers and we were focusing only on MCSL customer base.

We have close to 7 lakh live customers and about 5 lakh customers were allocated to 2,500 employees; we reached out to them and of course as we go forward, we have the opportunity of fixed deposit collections in Kerala which we have started publicizing, which is cheap cost of funds for us. On digital push there are lot of initiatives that were there which we brought in. Digital push is happening especially on the credit piece where we have enhanced our straight through processing. I have told a couple of years ago that we are getting into our own scorecard, we are getting into our own straight through credit process which we have enhanced now with lot of other checks especially in terms of the impact that COVID is bringing in.

We have brought in a micro market concept the focus of which would be on red, amber, green area and then basis that the credit decision is happening, so lot of things has happened on that and that is happening through digital process that team has already done. They have piloted that and then probably once we restart our two-wheeler business probably that point in time we will be able to do it.

This is about what we have done after the lockdown and there would many questions in your mind when we open up for Q&A I will try to explain what is the strategy or what we had been doing. I think to start with I have so much and then while we discuss we can elaborate more on what we are doing and our strategy. Bhavik if we can open for Q&A, I will be very happy to address the queries.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Krishnan P.S from India Advisory. Please go ahead.

Krishnan P.S: Thank you very much. Good day to Muthoot Capital Management team. I just wanted to get an understanding that even pre-COVID on account of slowing down two-wheeler industry, company's growth, margins, return ratios were a bit moderated as compared to the previous years, so wanted to get an understanding what is the management decision, strategy and plan over the next two years to three years to grow the loan book, increase profitable and return ratios and in your sense what do you feel are the growth triggers for Muthoot Capital going forward and what are the potential risks and how is the management addressing these growth related risks?

Vinod Panicker: Krishnan good afternoon, Vinod here. May be very difficult question to answer at this stage because pre-COVID, we have spoken and we had a plan in mind, we could have explained that to you. May be post-COVID till the lockdown, gets lifted fully till the time things start getting normal,it may be very difficult for us to possibly put a number and say that this is figure that we would achieve in the current year and basis that this would be the growth over the next couple of years. We would ideally want the things to open up to say that number when would be actually be in a position to start disbursing and then only we can possibly answer this. This may not be the most appropriate time to possibly try and answer this question. I will possibly wait to hear what your view on this is.

Krishnan P.S: Actually it is quite unreasonable for me to ask you a number but now I am just looking at a broader vision or strategy that you have over two years to three years period in terms of where you would like to see Muthoot Capital?

Vinod Panicker: On a broader vision, then I would possibly try to tell that was plan. When we discussed last quarter, we were looking at a growth, in fact in the current year itself we were looking at book of about 3,000 Crores going to close to may be 20%-22% kind of growth next year and then going to about 4,500 the year after. Today maybe all those are possibly on a excel sheet only. Definitely we were looking at two-wheeler. We have got into used car and that was something which we are planning to make big. We were looking and we have completed our entire processes relating to consumer durables and that would have possibly give us an increased volume over the next couple of years, may not be in FY2021 but definitely in FY2022 and FY2023. So this was the plan that was already lined up and which we were confident about. For used cars currently we are in only about 5 states and in about 18-20 locations, so we are saying that there was the agenda but may not be appropriate for us to take that as the base and decide on a number today. That does not mean would not want to answer it in detail; maybe we can discuss a lot possibly offline.

Madhu Alexiouse: To give you some more leads to what Vinod said, one is what is the upside of MCSL and we have been telling that MCSL is a single product company which can add new products and so there is a widening of product lines that is the opportunity that we have and that is why we said we will do used car. Basically who is our customer? As a group, as a Muthoot Pappachan Group we believe that common man is our customer. We talk about bottom of the pyramid as our customer, our branches, Muthoot Pappachan Group's Muthoot Fincorp has 3500 plus branches, we have reach of more than 7,000 touch points but these are majorly in Tier-III, Tier-IV centers and these are the places where new to credit customers are more and if we are able to build your distribution properly there we have huge opportunity to build there, so the upside for Muthoot Capital is, a) Widen the product lines, b) that is the second piece is that how we increase the penetration as far as two-wheeler business is concerned.

We were in very limited geography which we expanded, I said we protected our market share. Our overall market share in overall total sales of two-wheeler is 1.5% even if we are able to build some 0.3%, 0.4% etc., it brings in lot of topline for us, increase the penetration in two-wheelers. Another important thing that is there is about two-wheeler industry, that with the change in Euro norms, with the increase in cost of insurance and things like that, we expect that the finance penetration would go up currently last year or around that it was around 37%-38% which would go up, so on the overall volume, the total sales that happen, the finance penetration when it goes up, the number of vehicles available for finance may not drop so significantly like the industry sales which is likely to drop.

If you ask me what is the sale in the next year, it is difficult to predict right now but whatever number happens next year the finance penetration goes up, so as far as finance companies are concerned, they will have significant piece of business available to do, to really go and tap those customers and I said we are Tier-III Tier-IV centers with lot of people migrating back to their original native place and the likelihood that they continue there and then they start working there, so we see that we have a huge opportunity with a lot of migrant people shifting back to Tier-III, Tier-IV centers, there would be lot of local business coming up, there would be local employment up, local cash flow, local economy is going to improve, so our future strategy would be at micro market level, I said in the starting point micro market. We will go deep into the market at pin code level, at district level to understand the economy and that is where the opportunity lies. So we say that in two-wheeler still there is a huge opportunity that would come once the lockdown is eased out and the COVID threat wanes off; let us say by September-October we see that there is a huge opportunity that could be there for the two-wheeler business. From perspective of what Vinod said pre-COVID, this is what we were trying to tell and do. Post-COVID also I see that that opportunity would still exist. We have lost our quarter, that is the issue but the pent-up demand and the local economy, how it booms, would really make the sales to go up. This is limited feedback that we have.

Krishnan P.S: Thank you very much both Vinod and Madhu. Another question which I have is what is your loan books get between two-wheeler, used car and business loan?

Vinod Panicker: Used car and two-wheeler both together would be about 95%. We said about Rs 2,650 crs.

Krishnan P.S: I would also be questioned to give what is the total write-offs, net of recoveries and reposition or any sale or auction for FY2020?

Vinod Panicker: There have been no write-offs in the current year but loss and sales of repossession, repossessed and sold about 10,200 odd vehicles and total charge to P&L was about 26.9 Crores.

Krishnan P.S: Thank you very much and my best wishes to you and your team. Thanks for taking the questions.

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

Umang Shah: Good afternoon. Thank you for the opportunity. I just have a couple of questions. One is on your outlook now I can understand it is pretty early but if you could just say from early indicators and the regions where ever your offices are opened up, in terms of customer walk in and enquiries have we seen any pick up or any change in customer behavior which is quite noticeable recently?

Madhu Alexiouse: Dealers are just becoming operational in a very restricted way. In fact there are lot of areas where dealers cannot operate more than 35% of their capacity and the May month is going to be like that but we believe that from June-July things would pick up for them. In terms of change in customer behavior or you wanted to know the feedback about customer, we did study with various dealers across the country, our team went and met lot of customers, prospective customers. I personally went out to few dealerships and met few customers. I assessed their enquiries and what kind of customer profiles are. We see that there is a change in customer profile that is now walking into the dealerships. We are seeing the quality of customers slightly better than the previous times and these customers are basically coming for the purpose that they want to avoid the public transport or public transport is not available and from the fear or from the anxiety perspective, from the safety perspective they are coming and buying, so we see that the customer segment that would buy in from now on till let us say August-September-October would be the customer was a serious buyers which means a lot for them as far as two-wheelers are concerned and we have seen the profile of customers like most of the customers would have some income proof, they will have some business, they will have income tax, so we are seeing that from a formal sector lot of customers are coming and buying.

That is the positive part of the whole thing and once it opens up, I think the overall opportunity would be visible because there was a segment which used to use car or which used to use public transport metro and things like that. They will come into two-wheeler buying. In fact, safety concerns would definitely drive the customers next I think for at least 1 and 1.5 years because this was a need of the customer, need in the sense that they used to think that "I should have two-wheeler or own a two-wheeler" but because there was a convenience of others modes of transport they used to use that, so affordability was not the problem. The problem was that there was slightly more convenient or cheaper way of now with COVID definite shift would happen from public transport, so we are seeing that there are very positive trends that would come in but initially, as of now the volumes are not justifiable but as we go forward we will have a bigger chunk of customers from the formal sector.

You wanted a number also. My assessment is that it is very difficult to tell right now because as Q1 was a total wash out and I am expecting that this 1.74 crores sale that has happened this year may come down by around let us say about 20 lakh-25 lakh, it would come to say 1.5 crores but please remember my initial input to all of you which you should definitely keep in mind the finance penetration is going to go up. I said formal sector is coming into buying two-wheeler. People who never thought of buying two-wheeler have now started buying two-wheeler so finance penetration would go up, so the overall segment that is available to finance companies would remain constant. So from financing perspective that is the feedback. Sales definitely I am expecting it to be around 1.5+- something.

Umang Shah: This is quite helpful and a related question was the point that you made that the finance penetration should likely go up so based on your conversations with the OEMs, are they planning to step up or share some of the financing burden or may be housing keeping the subvention benefits to the financer or something of that what you are seeing?

Madhu Alexiouse: I think in two-wheeler generally the subvention or things like that that does not help. So I will give you one more indicator to that. In two-wheelers, 60% of the customer or 65% of the customer buys in cash, so affordability is not the issue, now with the new customer coming in and another input is that the prices are going up because from Euro 4 to Euro 6 the prices have gone up, so lot of cash customer would start shifting into taking finance. So subvention happens in a segment where the pricing is very high and you have to bring affordability on the table, in two-wheelers affordability may not be that big challenge. In two-wheeler the issue is how soon, how fast, how quickly you can turnaround the loan and deliver the vehicle to the customer that is where the gain is.

Umang Shah: Sir my last question is on the moratorium, so in your presentation you have clearly mentioned that you have extended moratorium but then what proportion of customers are currently availing moratorium and on the extended moratorium which has got announced last week by the Reserve Bank of India, what is your take on that in terms of do you see any risk with the customers repayment behavior and would you proactively offer the extended moratorium to your customer or is it on an opt in basis, how would that work?

Vinod Panicker: Umang, Vinod here. May be it is difficult question to answer on how many people opted for moratorium. We did as a process sometimes in the first week of April where we actually sent the SMS communication to all the customers asking whether they are interested, whether they want to opt for a moratorium and we received responses from a very small number of people who said yes, some said no and the people who said they do not want and the people who did not say anything, in both these cases we had actually uploaded the NACH mandate for collection. We did get some bit of collection from the NACH mandates from the bank and thereafter post the April 20, 2020 once the Muthoot Fincorp branches opened, we could see a lot of customers actually walking into the Muthoot Fincorp branches and making the payments. So between the NACH and the cash collection roughly 215,000 people who actually made the payments in the month of April and the normal number which makes payment in single month is roughly 600,000, so we can safely say that roughly 33%-35% people have paid and the balance 65% opted for moratorium in April. In the month of May the situation seems to be different, seems to be even better and the way things are going we hope to see about 300,000 to 315,000 people making the payment in the month of May by the end of the month and which would be around 54% of the total number of people who normally make payment. We can safely assume that in the two months of moratorium, March the moratorium was declared much later towards the fag end of March. So that may not be the right month to look at; April and May would be the appropriate months to look at moratorium, how many people opted for moratorium? So we can say that the number of people who are opting for moratorium is reducing. I think one of the main reason for that is what Madhu did mention to one of the participants that we have put entire team for following up for collections, so whoever has not opted formally for a moratorium, those cases we have gone ahead and started calling those people to come and make the payment. Many of them are coming and making the payment. May was the month when I am saying that we had 300,000 to 315,000 people about 54% people who have made their payment we expect June to be much better, with the lockdown getting lifted in spite of an additional moratorium period being announced, we still see that the number of people who actually pay in the month of June would be far higher than the month of May and we believe that we are getting back to normal could be two to three months away. Your specific question on what is our plans for the moratorium which has been announced and which has been extended, we would continue to be following up with the customers, may be in the subtle way, may be in a very polite way and customers who have been loyal to us, customers have been with us for a long period may be either directly with us or with one of the group companies and therefore the calls that goes from our executives to them is well taken by them and many at times there are promises to pay, they come and make the payment the next day or so. So we believe that we would continue to follow up for collection. In spite of the announcement of moratorium, we do not intend to, as of now, to go to a customer, like we did in the month of April, go to the customer and ask them that "do you want a moratorium".

Madhu Alexiouse: Just to give you additional input in this because lot of people may have questions around this. When I said we redeployed our team into collections we had close to 2,521 people calling customers and about 4.77 lakhs accounts were allocated to them but in the zero bucket, that is the people who have not paid in the current month but they were regular, was about close to 2.5 lakhs-2.6 lakhs customers which were there, of which we are expecting about 1 lakh repayments, 75,000 already we have received another 25,000 because it is month end between today, tomorrow and day after , so what we are saying is that we are seeing a substantial improvement in customers coming forward and paying the installments, so the fact that whether moratorium is something which is hard rule that would play in the mind of the customer, I do not think so, as the lockdown opens up and customers come back into action, they come back to work, they come back to open their small businesses, they will come out positively and pay the installments if we are able to reach out to them. So we are seeing that trend this particular month.

Another very important thing what is the impact of the lockdown on the customer. As I said that we focus on the common man, for the common man to bounce back he does not need lot of paraphernalia, if it is a factory then you need the laborers to come back, you need supply chain and things like that. Our customers are not like that. They are just people who can, if they have to open a coffee shop or a tea shop which during the lockdown they had to close down, to open that they do not need actually anything, I mean they can come back and start working as soon as the government allows, so we think that these customers would bounce back much faster in our economy than any other businesses or any other people from the formal or in-formal sector, so we feel that strategy of reaching out to customers proactively talking to them, collecting the money, asking for collection is a good thing to do and we see very positive responses as we go forward. Vinod also said it would be couple of months that we believe that it should come back to normalcy.

Umang Shah: Alright. This is great Sir. Thank you so much and wish you all the best.

Moderator: Thank you. The next question is from the line of Nikhil Walecha from Sundaram Mutual Fund. Please go ahead.

N**ikhil Walecha**: Thanks for taking my question Sir. On slide number 5 you have mentioned that in corporate loans you have received 25% of collections in April, so my question is who are these corporate who have not paid and is there any NPA on the book and thirdly how will grow about collecting from the remaining 25%?

Vinod Panicker: The balance of the cases where we have given moratorium.

N**ikhil Walecha**: Are there any corporate NPA right now on the book?

Vinod Panicker: There is which is the part of our total which is about 10 and 10.53 Crores, and which has been provided for.

N**ikhil Walecha**: What are the corporate are these MFIs or some of the corporate?

Vinod Panicker: One is in MFI and the other is into used CVs.

N**ikhil Walecha**: Just two accounts are there, who have availed moratorium?

Vinod Panicker: Moratorium there are many, you asked me about NPA.

Nikhil Walecha: No Sir. I am asking about moratorium, so what kind of accounts are there?

Vinod Panicker: I would say it is a combination of all the sectors, MFI is there then there would be two-wheeler guys with the finance and there would be SME, MSME kind of customers, there would be customers, vehicles would be not only be two-wheelers, would be other vehicles loans also because it is roughly about 40% of our total corporate book.

Nikhil Walecha: I am reading from various reports like Saadan and all, the weaker MFI that which were less than 500 Crores, they do not have enough liquidities for next two months and they are likely to struggle, so of this corporate NPA, what is your expectation like how much further slippages are you expecting?

Vinod Panicker: We are not expecting any slippages we are speaking to or we have spoken to most of them in fact and each one of them that they we have spoken to, they are pretty confident about bouncing back. In fact most of them have restarted their collections, in fact there are in possibly I would say worse areas then we have our businesses but most of them are saying that they have started collections and they are expecting about 50% kind of collections in the month of May during the moratorium period. So we are pretty confident about their accounts.

Nikhil Walecha: Similarly on the same flight you mentioned the current resources are engaged in sourcing gold loans for on book disbursements, I am really not getting this, your sources are sourcing gold loans, so I am not able to get this part?

Vinod Panicker: What we have said is the current resources are being used for three, four, five things we have said. Currently, it is being used for sourcing gold loans for Fincorp. which is essentially kind of cross selling. As we go along we would look at using them, if we decide to have it on our books to use them for that also that is what we meant.

Nikhil Walecha: Sir, it is very difficult to understand like your resources are cross-selling for Muthoot Fincorp because I thought it is for other way round because Fincorp was using its resources to sell two-wheeler loans?

Madhu Alexiouse: I will elaborate this in a very practical way. When business was as usual, pre COVID, MFL used to source two-wheeler business for us, now because two-wheeler business is zero, MCSL team is reaching out to their customer base for various things; collections, many other initiatives that we want our customer to do for example make the payment through the digital means because customer is not ready to come out of his house and things like that and then one of the thing that we thought is that we will do cross sell. In the cross sell what are the products we can sell, one of the product is whether we can source so I said that the customer connect programme was basically to know the well being of the customer and also understand if he is having any kind of financial distress. So, we said if you have a financial distress we would be able to facilitate gold loan from our Group's flagship company. So, right now when we do cross sell of gold loans the customer is directed to the MFL gold loan branch and there the necessary process would happen and things like that and for this we have payout arrangement with the MFL. This is the first product for the cross sell.

The second version of gold loan that we think we can do is that can MCSL book some of the gold loan business in MCSL book itself for the existing MCSL customer. MCSL historically had been doing gold loan and some point in time we stopped. So we can restart that is one way of looking at it because right now the sales of two-wheeler is zero so we can look at doing that in our book there is no clash of any customers because these are our own existing customer. The gold process can be outsourced with MFL. They can outsource that and they can process, do all the due diligence and things like that and then MCSL can disburse that, MCSL would do the collections and things like that. So, one way of doing or creating some revenue on a temporary basis let us say if we start in the month of June for two-three months we will do our four months we will do and once the two-wheeler is back we may slowly pull out of gold loans.

Another way is to go and buy a gold loan book from someone I mean that also would be additional revenue for us because we have got credit limits with us right now and it is idle, so how we can use that and buy out something from the markets so there are lot of options to run the organization and to have the business continuity plan I think there are various options that is there with us. We have kind of indicated that a pure strategy is not yet ready we will be happy to give you whenever we are ready with that but as of now cross sell two products, gold loan and general insurance, gold loan is happening for the existing customer of MCSL.

Nikhil Walecha: Just on the same slide, you mentioned you intend to increase the fixed deposit base to Rs 700 Crores, so given that in this kind of environment earlier you stated that you will be raising through the parent, now how are you go about raising the fixed deposit in the current environment?

Vinod Panicker: No, what we have said in the current environment means people are looking at opportunities for investments and we have not said that we will be raising it to 700 Crores what we have said is the permitted level is about Rs 700 Crores which is one and half times the networth, the net owned funds and current level is only about Rs 45 Crores so we would be doing a massive campaign, we would definitely be looking at the flagship company's branches that the customers can go and hand over the application form. We would be engaging our own employees, ask them to speak to the customers and get them to invest in the fixed deposits of the company. So, what we have said is we are looking at a massive campaign. We would hopefully come with the advertisement in the next two to three days. So we are looking at it in a big way so the intention of doing it is you get the funds with you for a minimum period of one year. You get funds at a much cheaper rate. The banks interests have gone down, if we can do something better customer finds it useful and we can do it only in the state of Kerala, the customers are loyal customers for whom Muthoot is an household name so most of them would be very eager to come and invest so we are looking at it as big opportunity and when we have such a big army of people and so many branches have spread across the state it would be natural for us to think of utilizing it to the maximum.

Nikhil Walecha: Okay, I will come back in the queue.

Moderator: Thank you. The next question is from the line of Prashanth Sridhar from SBI Mutual Funds. Please go ahead.

Prashant Sridhar: Good afternoon Sir. Just one small question from my side. You had mentioned some 10,000 vehicles are repossessed I missed over what time period these repossessed and if you would just talk a little bit on the secondary the sort of the resale rate recovery we have seen on this repossessions?

Vinod Panicker: The 10,271 number that we mentioned was for the year 2019-2020. The previous year figure was some 8,000 or so. So that is for one year, now the normal recovery is about 45% to 50% some vehicles you possibly get most, some you get less but on an average it is about 45% to 50%.

Prashanth Sridhar: Thank you.

Moderator: Thank you. The next question is from the line of Resham Jain from DSP Investments Manager. Please go ahead.

Resham Jain: Couple of questions, one is in terms of collections now the branch based collection versus the online collections that the drive which has started I think two years back, in the last two months has that number significantly increased?

Vinod Panicker: In the last couple of months the online collections have increased but then with the MFL branches being there, many customers actually walk in and make the payments in the branches. In fact customers who actually walk in and make the payments in fact in this month itself at the last round the number of people who went in and made the payments at the branches was close to about 80,000 to 85,000 so online is also increasing on a day-to-day basis. In fact after we came up with our own app and then we tied up with Paytm also big chunk is coming but then in between January and May if you look at it has increased about five folds.

Resham Jain: What is the number now for example?

Madhu Alexiouse: 4,000 from app and 17,000 from PayTM, roughly about 20,000.

Resham Jain: Out of seven lakh customers?

Vinod Panicker: Yes, out of the seven lakh customers but out of the 290,000 odd customers who are paid so far, let be on an overall basis it looks small but then the way what we are trying to say is this is the number which is increasing. It has increased fivefold between January and May.

Resham Jain: What I was just saying is that out of the total customers, which are paying only like 5% to 7% customers are paying online mode, the 90% are paying through branches?

Madhu Alexiouse: 90% would be paying through branches or they will be paying through physical visit of our team, so it is a mix it is not 100% cash it could be various other means it is not pure cash, 50% is in the form of NACH..

Vinod Panicker: Resham, you are talking about what is the scenario prevailing today?

Resham Jain: I am just saying, today what is that percentage number? What should be competition number like if we talk about the largest player in two-wheeler what will their numbers in terms of online collections? How are we placed versus them?

Madhu Alexiouse: When we talk about payment outside NACH that is outside so we were talking about X bucket in terms of collection we call it X bucket that is if you have put 100 and 40 cheques have bounced that is called X bucket. Now, these collections that we are mentioning is about the cases which has got bounced so in the industry also not more than 10% to 15% would pay through digital means, this X bucket gets allocated to agencies, it gets allocated to telecalling agencies or things like that. There are various means and methods employed by different companies in a different way but most of them are agencies. For us, we say we are fortunate that we have got MSL branches so customers when we call them your cheque has bounced, they are able to identify which is the closest branch and then they go and pay there so because that accessibility is there and customers has the confidence and if I go there, I make the payment, I will take the receipt and things like that it is more convenient to him and then we have our inhouse collection team also. So compared to our competitors they do not have all these facilities and they do not take collections through branches, they take 100% collection through collection agencies and that is the one of the things that puts us differently and digital channel is one of the channels to get these customers into paying from their home. So, this is the start and as we forward it would increase but around 10% to 15% is something which is very good as far two-wheeler industry is concerned, as far as focus on common man is concerned these are very good numbers, 10% to 15% is the right number that we should look at it.

Resham Jain: My second question is on fixed deposit, public deposit as you talked about, so there you mentioned that you are going to run a massive campaign and I am sure you will have budgets in mind, so what kind of number you are looking at from this source and what is the cost differential between your normal liability processing versus theirs?

Vinod Panicker: Resham, is it possible for you to just repeat it, it was not very audible I would say?

Resham Jain: What I was asking is that the public deposit which you are trying to source, what kind of budget you have in mind because you said you will be running a massive campaign to get this money and what is the cost for it and because you have already planned for this campaign, what kind of amount you are looking for from this source?

Vinod Panicker: While we said that we can go possibly up to Rs 700 Crores, we would be comfortable if we can possibly be at about 300 Crores to 350 Crores also over the next six months or so that is number one. Your second question was on what is the pricing for that. Our price today is in the range of 7.5% to 8% which we believe is substantially better than what they would get from any other bank and since we can source it only in Kerala and in Kerala Muthoot is an household name that kind of loyalty both to the brand and to the Muthoot family that is seen in most of I would say peoples living in Kerala so that is a very big plus which we have.

Resham Jain: Have you already seen in the last two months because you said you will be leveraging your peoples strength to get this money, so have you already seen in the month of April and May this number going up?

Vinod Panicker: No Resham, we have started finalizing the pricing we should possibly start it in the first week of June.

Resham Jain: Perfect. Thank you very much.

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

Saptarishi Chatterjee: Thank you for the opportunity. My first question is, what is our market share in top three-four states that we are operating in and like when you are saying, in our expansion we will go Tier 3, Tier 4 cities, and therefore currently what kind of customers in our existing book, what proportion of customers are in new to credit and do we foresee that more disproportional go up as you expand?

Madhu Alexiouse: In our leading market let us say Kerala, Karnataka we would be at least around let us say Kerala we are the market leaders, we have more than 30% market share, we have maintained that. Karnataka is another big market for us, we were between 10% and 15% but there also we are number one. AP, Andhra Pradesh that is also our prime market, we are around 15%. We entered east couple of years ago in West Bengal we have a market share of 8% to 10% which is a big move that has happened for us from the expansion perspective. So, wherever we have gone Tier 3, Tier 4 centers we have been able to make a good dent, we have been able to grow there. You asked about the customer segment, we cater to various customers segment through our different schemes, ladies only scheme is a very popular scheme which is special scheme for the ladies who are eligible for two-wheeler loan besides that in Tier 3 and Tier 4 centers specifically we have property backed product, we have salary backed product, we have no income proof customers, we have 0.66% scheme for customers who is going to buy in cash, so there are various schemes but predominantly it is for agriculturist we have specific schemes so depending on the area and the segment of customers we have a scheme but specifically catering to the common man.

Saptarishi Chatterjee: Currently what proportion of customers will be new to credit in existing book?

Madhu Alexiouse: New to credit would be about 40% to 50%, industry is about last my assessment was about 65% to 70% in two-wheelers which should have come down by now let us say it should be around 60%, we are at 40% to 45% like that.

Saptarishi Chatterjee: My second question is on the asset quality, when we are saying zero DPD before COVID you were saying from January to February the Zero DPD is increasing what will be the reasons for that and what is zero DPD number like latest number maybe May to May or something like that?

Vinod Panicker: Can you repeat the question I think there was some audio disturbance in between we could not get you fully.

Saptarishi Chatterjee: Sure. Basically in the asset quality when I see the zero DPD numbers, before COVID only we are seeing some January to February surge in the zero DPD so what could be the possible reasons and like what are the latest zero DPD numbers as on mid May?

Vinod Panicker: The DPDs were blocked after February 29, 2020 so people who have not paid most of them were I think on suo moto we had actually extended moratorium to them but if you ask normally zero DPD numbers are at about 80% to 82% of our total book, 80% to 82% of our customers.

Saptarishi Chatterjee: Okay. Thank you so much.

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

Pranav Mehta: Good afternoon Sir. Thank you for taking my question. Just couple of questions. First one is reported gross stage three number for this quarter does this include any benefit of moratorium given or not? That is the first question. Secondly so we earlier pre COVID had plans to raise equity capital during this year that obviously now the growth numbers would be much lower so in the revised scenario do we still plan to raise capital during this year maybe whether conservative step to prepare for any eventual losses that will come because of this situation?

Vinod Panicker: On stage three whether it is after considering the moratorium? yes, it is, after considering the moratorium because after February 29, 2020 the DPD movement was halted without any roll forward of the DPD so we have adopted that because that is what was permitted by RBI. On the second point is on the equity rates may not be the right time to actually look at the equity raise, I think we would possibly need to wait for things to get somewhat normal before we even think about it. Right now, there is nothing on the agenda.

Pranav Mehta: Thanks a lot.

Moderator: Thank you. The next question is from Kashyap Jhaveri from Emkay Investments Managers. Please go ahead.

Kashyap Jhaveri: I have just one question, sort of preclude to that just noting some numbers if I look at our market share over last about seven years to eight years we were at a low of 0.9% of the market in FY2015, we could take it up as high as about 1.7% by the time we reached FY2018, FY2019 I would probably say that we had floods in Kerala and which is our main market so probably in that particular year we might have lost some shares so it was about 1.7% to 1.55% and this year we had just clawed it back to 1.67% despite the fact that our home market has not done as bad as what it did because of Kerala floods last year. So, after such a remarkable performance in terms of market share, what has been lagging of almost about post Kerala flood almost about five quarters that we have seen and given the fact that in some of the markets like west we have about half percent in north just about 1% if I look at it east it is less than 1% so what sort of holding us back?

Madhu Alexiouse: Kashyap, Madhu here. As I said in my opening statement that post IL&FS and in the two-wheeler industry going down, I think to some extent we had initiated cautious approach and if you would have attended our various quarterly calls, I was very specific that we have witnessed a few of the NBFCs vacating the two-wheeler market. It was very much available for us to go and grab that but that was not the customer segment that we were looking at. So there were opportunities but we really had a sense of caution in how much and in what level we will expand or add more market shares as far as our existing markets are concerned and to some extent it really was very important because if you look at even before pre COVID if you look at the way economy was behaving and I always tell as an analyst you people also should always link this with the GDP, how the GDP is moving and that is how the retail finance moves and I was telling that because GDP is slightly going down that was around Q3 I mentioned that we need to be bit cautious because the cash flow of the customers are getting impacted, you have to be very careful, so out of caution, out of conservatism we would have been very clear which markets to grow, which markets to restrict, which markets to contract and if you recollect I had given certain figures on green, amber and red, the green markets we have shown considerable growths compared to the market in fact those markets the industry degrew but we have grown, in amber market we maintained our market share, in the red markets we have kind of pulled out or we reduced our numbers so that we will bring back the collection on track, this is how retail branch actually functions. You need to look at from end to end, how the portfolios behaves, look at the areas of your strong points, play there and sometimes you have to go conservative so last call also I had mentioned and even during the H1 call I had mentioned about green, amber and red how we select the market, how we select the pincode wise there we will focus. So, there are times when you have to take certain calls and be conservative and do not chase market share, wait for positive signals and positive signals is definitely how that signal is going to improve the cash flow of the common man. During the start of this call, I had mentioned how the common man's cash flow would improve with this COVID people going back to their native place, they are starting, they will get back faster, being at native place they will have lot of other advantages, there are lot of government sanctions, there are government benefits that is coming to them which would help them come back to their normal lifestyle so once we see certain indicators which is showing that, yes customers cash flow is going to improve then you start increasing your market share and I have always said that whenever we feel that the market is right MCSL would be the first company which would aggressively grow its market share I have made this statement many times so sometimes I would request you guys to kindly bear with us when we take such calls because that is how the retail finance functions. You have to be very careful otherwise there is a saying, *"Savdhani Hati aur Durghatna ghati"* "Carefulness Missed, Accident Occurred" so we keep on having that compass in front of us.

Kashyap Jhaveri: Okay, Sir; as a data point if I were to look at probably us getting back to that journey of as we saw in the past from let us say 0.9% to 1.7%, broader risk averse from the lenders side reducing and on the broader economy side, should one look at more towards the cash flow from the rural point of view or from probably a semi urban point of view?

Madhu Alexiouse: You should look at your market which market you are operating A, B, let us say for example now there is a bumper agriculture output and few states have clearly shown that these are the areas where there is a bumper output so my team tells me that these are the areas which is green to do business and then I look at my portfolio how historically my portfolio behaved there, my portfolio is red, amber, green? green if market is green my portfolio is green I will put huge campaign, huge sales push there and increase my numbers I will increase my manpower there. So, east was one of the markets like that; unfortunately besides lockdown and whatever has happened there I think we will bounce back there as well but you need to look at specific markets and how the cash flow is, so it could be rural, agriculture basically, semi urban yes, the level of employment and the local economy and how it is performing, we have seen different states having different problems but different good things, Karnataka is one of the state where we had been very steady despite floods and things like that, very steady state. AP had been a very steady state for us. Kerala of course after the flood and we bounced back within a month's time, within 45 days' time we bounced back after the floods. So, different states has given us different flavor but at the ground just look at your customers, look at your markets and then look at your historical portfolio how it has behaved and then take a call. That is why I said we go up to pin code level, how the market is behaving it is not just that one state is doing very well so there would be a blanket strategy there, no it is not like that it is micro market approach.

Kashyap Jhaveri: I have further questions. I will get back to the queue.

Moderator: Thank you. The next question is from the line of Vikas Satpurush from Focus Capital**.** Please go ahead.

Vikas Satpurush: Sir, what has been your yield for the last financial year and second question is could you throw some light on the asset liability right now?

Vinod Panicker: Yield for the last financial year has been on an overall book it has been in the range of about 21% to 22% and on the asset liability I would say that basis the last report submitted to RBI also we are not having any negative mismatches in any of the bucket and we are pretty confident that it will continue this way; in fact the new sanctions that we are expecting, we are expecting that to be for long-term and that should help us to improve the ALM picture even further.

Vikas Satpurush: Sir, when you say in every bucket you mean up to one year or even beyond one year?

Vinod Panicker: I would say beyond above three years there is a bucket right. Up to three years we do not see any issues.

Vikas Satpurush: Alright. Sir, it would be just a small suggestion from my side, if you could just add the ALM also to your very detailed presentation it would be very helpful Sir.

Vinod Panicker: We would try doing that from next time.

Vikas Satpurush: Thank you.

Moderator: Thank you. The next question is a follow up from the line of Nikhil Walecha from Sundaram Mutual Funds. Please go ahead.

Nikhil Walecha: In the western market where we are already seeing some spike in the NPA and now that has been impacted more due to COVID, so what is our strategy over there, how will we reduce our business and how will we grow about collections in those market?

Madhu Alexiouse: I think the collection mode we had been there for almost one and half years as of now. We will have to see how the COVID is impacting there and then post that we will take a call how to and what should be our business strategy but from used cars perspective it is a good market, big market. I think west is the market which we cannot ignore because all India sales significant sales happens there, this year we wanted to grow unfortunately and we have hired good professionals there both in sales and collections. I think once the Coronavirus threat is over we will have the strategy back there maybe around H1 we will come back and tell you plus we have a franchise model working there that also with almost zero investment we are able to reach out to a big geography and we have a cap agreement with them so lot of models are being worked out there which would help us to tap that market, it is a market which we definitely do not want to ignore but we will work in a way where we do not land up with the same kind of portfolio that we landed up earlier.

Nikhil Walecha: In your press release you have mentioned that you provided roughly Rs 8.6 Crore due to additional life insurance fee which you have collected, now RBI has now disputed so can you just explain what that is. I never heard of such thing before?

Vinod Panicker: Maybe we will elaborate on that. For the customers who are borrowing from us, we give them the option of opting for a life insurance cover for the tenure of the loan so let us say if it is two years or three years depending on that we have a fixed price let us say Rs.500 for two years, Rs.800 for three years and at the same time we have got a normal PF also, for processing fee also so if a person says that he wants an insurance cover, if his loan is for the period of two periods Rs.500 added if it is three years Rs.800 is added. The purpose of doing it is age of the customers vary and let us say it could be anything between 18 and 65 so the cost of the fellow will keep changing and then you make the payment to the insurance company you would be paying based on the age of the customers. At the ground we cannot have different rates floating around because the counters ales executive has to finish one customer and get on to next customer, he has to move pretty fast, so that is the reason we have given them a standard pricing. Now, obviously it covers the pricing includes the cost of the premium it covers the time taken by the countersales executive to convince the person to visit the customer at his place and see what is there, make the premium payment and over the documents separately and separately God forbid there is a death, to handle the processing of the claims etc., so obviously there was some bit of margin there and what else happened was that RBI view was, we respect that view, but while we dispute it but their view was that it should be you cannot have anything extra over and above the insurance premium and which is where they said that X amount is what you have collected extra that needs to be paid back. While we have gone to the authority for an adjudication and we have actually put a entire detailed submission running into several pages on why each of the things are being done; out of abundant caution we felt that it is necessary that whatever income we have accounted, on account of this, we need to make provisions for it and that is why we have made this provision.

Nikhil Walecha: Sir for PTC and DA have we seen moratorium in the second round of moratorium and also if you can give some color on the DA and the securitization market because I believe that given the weak collections outlook as the lenders would also be slightly risk averse to do further deals of such types?

Vinod Panicker: For the extended moratorium we have not approached anybody, even the last moratorium which was there from March 1, 2020 to May 31, 2020 while we sought moratorium from the investors of DA and PTC, our statement was very clear that whatever is getting collected we would be paying and that was agreed to by all the investors and that is what we have been doing, in fact the collections for the month of May would need to be paid in the month of June. We would want to wait for the first one week or ten days of June to see how things stack up or what happens on the ground, how the people react to the moratorium so far we have not seen anything negative because in the last four to five days we have collected close to Rs 10 Crores from our customers. What we would have normally collected in a normal month so we believe that the things are coming back to normal and with the lockdown restrictions getting lifted we believe that while moratorium is there on paper most of them would not seek it and collections would come but then I am just repeating saying that maybe we would need to wait till June 10, 2020 or so to decide whether we need to go and seek an extension from the PTC and DA investor.

Nikhil Walecha: Thanks a lot.

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

Vinod Panicker: I think it was a good one hour session. I think we have been able to address most of the queries raised by all of you and the company and the group believes in total transparency. If anybody feels that some of their queries which they wanted to ask has been left out and they need to come back, they are more than welcome to get onto to a call with us directly and we are more than happy to address each and every queries that they would have. We are sincerely hoping that on behalf of the company, on behalf of the group and on behalf of all our investors, things improve sooner as fast as possible and maybe the next quarter would things return back to normal. We have Onam festival in August, Ganapathy festival happens in the subsequent month and then quarter that has a host of other festivals including Diwali and Christmas coming up. So, we are hopeful that things improve soon and we will go back to where we were pre COVID or maybe I would use the word and say pre-IL&FS days and we can show bigger numbers as we forward. Thanks everybody.

Madhu Alexiouse: Thank you, Vinod. On my closing comments I think minus two-wheeler sales our faith in the market, our faith in the way things would move is very strong in the sense that we are very confident in terms of how we are handling the lockdown. We have set up priorities, we are very confident these are the right things to do, right now. I mentioned that redeploying our entire manpower, engaging them very positively and on the right cause that is ensuring collections happens, ensuring be in touch with the customers, not even a single customer would be left out where we have not reached out to them very politely very nicely. Second, I said we will do good amount of cross-selling because customer may not be immobile but we will reach out to them with the requisite product which he needs and which we are able to deliver to them. So, we think that we have put the right things in right place for the period of the lockdown.

In terms of our customer base we are very confident about common man they will bounce back. Things would come back to normal as the lockdown eases out. We are seeing it very positive in a sense that our on-ground understanding of how customers are coming back, and they have restarted the way they were earlier is very positive. We have very high confidence that things would bounce back sooner than what we are thinking. We mentioned about giving an abundant caution in terms of high provisioning that we have given. We had that scope this time we did it. It is a very positive sign for us. I mentioned about digital piece that initiatives related to that will continue with that we have seen lot of improvement in terms of customers coming out and paying through digital means.

I think there is lot of positivity that would happen. We saw whatever low we could see but lot of positive things would happen. Vinod mentioned about the festive seasons that would start from the month of August as soon as the moratorium period is over. My personal estimate about two-wheeler industry is that Q3 it would definitely be closer to last year Q3 and Q4. My expectation is Q4 would be much more than what was average Q4 last couple of years. I am seeing that Q4 is the time when two-wheeler industry would bounce back and next year it would be business as usual in terms of all India sales.

From our side we are very positive about things, how it has panned out and I wish all of you safe times especially people in Mumbai. I wish you stay safe and I pray that sooner or later we can catch up and if there is any other queries, any other things that you want to understand from our financial perspective or from an industry perspective or from specifically with two-wheeler perspective, please reach out to us on the numbers or on our email id's, we will be very happy to respond to you back at the earliest convince. Thank you very much. Over to you Bhavik!

Bhavik Mehta: Thank you all for participating and thanks management for taking the time out.

Moderator: Thank you. On behalf of Antique Stock Broking that concludes today's conference call. Thank you all for joining us. You may now disconnect your lines.