



“Muthoot Capital Limited  
Q1 FY2022 Earnings Conference Call”

**August 11, 2021**



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

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



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**Moderator:** Ladies and gentlemen, good day and welcome to Q1 FY2022 Earnings Conference Call Muthoot Capital hosted by Antique Stock Broking Limited. 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 Ms. Vidhi Shah from Antique Stock Broking Limited. Thank you and over to you, Madam!

**Vidhi Shah:** Thanks Margaret. Good afternoon to all of you and thank you for participating in the call. We have with us management of Muthoot Capital, Mr. Madhu Alexiouse – Chief Operating Officer and Mr. Vinod Panicker - Chief Financial Officer. I shall now hand over to Mr. Madhu for opening remarks. Over to you Sir!

**Vinod Panicker:** Good afternoon all of you. This is Vinod Panicker speaking to all of you. I hope all of you and your family members are keeping good health. Yesterday our Board approved the financials for the first quarter of the current year, and I am presenting the same to you. Regret to present a negative bottom-line, my first in 31 quarters, since I have been presenting financials here in Muthoot Capital Services, needless to say all of us are upset and the immediate concern is to see how we can convert a negative to positive in the quarters to come. We have seen this coming even when we met last time with the disbursement dropping significantly in the last few quarters leading to a very low revenue and then in Q1 the pandemic taking toll of us ensuring that we cannot move out, our customers cannot come to us for disbursements or payments, all of which led to higher delinquencies thereby higher provisioning.



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For the quarter ended June 2021, the issue started from the middle of April 2021 and the business and operations came to a standstill till about mid June. After that while it did start, it was pretty slow in the month of June at least which ensured that there was very negligible disbursement in the months of April to June. The disbursements for the quarter were at about 136 Crores versus about 291 Crores in the immediately preceding quarter, which itself was very low. We are aware that it was a low figure because it was lower than the immediately preceding quarter of which was about 326 Crores odd. This led to the AUM going down to about 1978 Crores versus the 2088 Crores; the 1978 Crores is possibly because of the collections being lower, otherwise it could have gone down further and the same quarter last year we had an AUM of about 2475 Crores.

For the quarter ended June 2021 we had a revenue of about 98 Crores possibly the lowest in the last 15 quarters, which we clock sometime in Q2 FY2018, but that time it was a climb now it is a decline and therefore we are definitely concerned. This is against revenue of over 110 Crores that we did in the immediately preceding quarter and about 131 Crores that we did in the same quarter last year. The issue with the revenue was that there was approximately a reversal of roughly 9 Crores, which was on account of unrealized income and also the AUM going down as I had mentioned above. Here I would just want to say that we have been following whatever we did under IGAAP in terms of income reversals while a lot of other NBFCs who do not actually reverse; every rupees of income we do reverse. I have mentioned it some quarters back when we first time got into Ind-AS.

What steps we are taking for improvement, am sure will be a query from all of you and when that comes up we will address the same to your satisfaction. The financial expenses were about 40 Crores, which is lower than the immediately preceding quarter which was 41.9 Crores or 42



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Crores at the same quarter last year it was about 53 Crores, so in terms of the interest rate or the cost of funds it has come down to about 8.98% which was at about 9.12% in the last quarter and about 9.92% in the same quarter last year. Our belief is that these rates will hold for at least a couple of more quarters before we see some spike. The lower interest cost was based on both reduced utilization of funds of about 376 Crores v/s the same quarter last year and 75 Crores v/s the immediately preceding quarter and definitely the lower interest rate which I mentioned above.

The opex versus the last quarter immediately preceding quarter also saw a dip mainly because most of our team members were at home and therefore collection was not handed over to the outsourced agency and the inhouse team was following up on all the collections, not necessarily the collection and sales team but even the back office guys were actually following up further and therefore that was a dip, it was more or less in line with the same quarter last year when similar situation prevailed. The provisioning was on account of high delinquency that we saw in this quarter from about 179 Crores the overall provisioning went up to 228 Crores, which is about close to 50 Crores of provisioning, which was accounted in the current quarter. The bucket wise movement into the next bucket also impacted the provisioning. This is after we had actually restructured about 37000 accounts with a value of about 130 Crores. The positive side out of this is out of the 130 Crores, close to 55 Crores odd worth of accounts have actually paid up in the month of July, which is a positive sign, and we are fairly confident that this will continue as we go forward maybe August would be even better, September could be better than August and so on and so forth. In fact, in the first 9 days of August also we are seeing that we have collected about 55% of the monthly billing already, in the last month of July we collected about 92% while we had actually collected only 58% in May and 68% in June, so we are seeing the trends improving and we are



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fairly confident that the positive things will come as we go forward in the current quarter and the next couple of quarters. That collection and therefore the impact on the NPA led to a provisioning of 50 Crores just as I mentioned, which unfortunately amounts to about 52% of income that we have reported. This led to a loss of about 19.9 Crores before tax and about 14.7 Crores after tax. Our single point agenda is how to come out of it, we have drawn up a detailed plan and we are working towards meeting that one-point agenda. I am sure all of you will have queries on that, but I would request all of you to hear Madhu first before you have your queries addressed. Over to you Madhu!

**Madhu Alexiouse:** Thank you very much Vinod and good noon to all of you. First of all, I hope all of you are safe, I think wave two had its own impact and all of us were really worried as far as wave two is concerned compared to wave one and from that perspective I think we should see Q1 results and market from the context of two or three critical events which I will list out right now. This time the pandemic spread, besides urban, it went deep into rural areas and it really crippled across the country, every kind of business, every kind of operation so the impact was much significant compared to what it was earlier, and it happened at a time when we traversed in Q3 and Q4 and we thought we are back to normal and business as usual and then we saw Q1 pandemic and everything kind of coming to a standstill.

Second was the result of pandemic impacting two-wheeler industry where on an average 45 lakhs to 50 lakhs vehicles were sold in a quarter, in Q1 the overall sales that two-wheeler industry could do was about 22 lakhs. A normal month the sale would be 16 to 17 lakhs and for Q1 on a whole it happens to be only 22 lakhs, so there had been an impact in the industry as a whole. At the same time I would not mince words in telling that customers cash flow also got impacted significantly in Q1 compared to last



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year this time we saw customers really facing the problem because most of the businesses were closed and these are the customers who are either dependent on the daily activities or they are small business operators, so these are the few events that we should keep in mind while we assess the result across the industry, but MCSL as an organization and arising out of experience that we had during the first lockdown and the way we addressed it we were really geared up to take this very systematically and in a focused manner. We ensured business continuity, across the country; we were able to support operations pan India, there was a severe lockdown in Kerala, despite that across the country operations had been functioning normally wherever states were opened or dealerships were open we were able to continue our business without impacting any of our turnaround time. All dealers across the country and if MFL, that is Muthoot Fincorp, branches were opened, we continued our disbursement, we continued our operations, we continued our collections, so that was a good sign that as an organization we learnt how to face these lockdowns and wherever we have opportunity we did not miss it out. We also ensured that there is a continuous engagement with the customer. Last time I had mentioned about customer connect programs that we have which were built internally where the entire organization if there is a lockdown and where we cannot operate out in the field, the team focuses on connecting with customer in a very systematic way, we connected with customers and facilitated in terms of whatever support they need and especially from collection perspective all the customers were reached out despite the lockdown and that should really help us as we go forward when the markets open. Of course, ensuring safety of our staff was most important thing, we focused on promoting vaccination, as a group we are giving financial assistance to all of our employees for both the vaccination there is no cost to employee, but company would bear that cost and we had seen that majority of our team is



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getting vaccinated speedily and as we go forward I think we will have fully vaccinated workforce working in our organization.

So all these things resulted in muted disbursement I think Vinod covered it in much detail and while Q1 was bad definitely. we saw an uptick in July, we are seeing much more uptick in August, and I really hope that things should come back to normal as we enter into Q3. We are keeping a very tight vigil on the portfolio in light of the cash flow impact I mentioned about the customers how they have got impacted we are keeping a very tight focus on the portfolio and we have reasons to believe that this asset quality related issue is more of a situational impact and it is transitional in nature, we believe that this should improve as we go forward and as the cash flow of customer improves I think there is a sound reason to bounce back, , default in terms of customer absconding that is not visible as of now. If you see, even in the first lockdown also, we did not see that and customers kind of came back and paid their installments, so from that perspective we are monitoring the portfolio very closely. From a futuristic perspective I think I will give a slight flavor and then we will get into Q&A. We are seeing green shoots in terms of two-wheeler demand. We are also seeing I mentioned about improvement in customer's cash flow, which is resulting in a much, much better collection, it reminds me how we closed Q4 I think we are somewhere heading towards that in terms of improvement versus Q1. As I speak to you, our internal assessment says that about 90% dealerships were operational in July and as of now we believe that about 100% dealerships are functioning in the month of August. Two-wheeler sales have actually picked up in July, two-wheeler industry sold about 12.4 lakhs units of two wheelers, we expect this momentum to go up as we go forward.



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We see some pain in terms of production at OEM levels, supply levels, but that is easing out, that was in the month of July, but we see these things are easing out. We see a very big uptick in Onam in terms of the stock that is available from dealer and the initial demand that we are seeing we have put lot of marketing effort for Onam in terms of marketing campaign through radios and digital mediums, so we are seeing that numbers are moving up, from dealer point itself, the sales are good and as we enter into September let us say Pooja, Ganesh Chaturthi and things like that and then as we enter into the Diwali time I think things should be absolutely normal from OEM perspective I am saying from the manufacturing and supply perspective and once that happens I think we should be back to the business as usual.

From our perspective just a few years back we are in around 234 districts of which about 150 districts are where we are very strongly present, we are very gung-ho about those areas and from our present area itself we are able to get our counter shares I think that should give us a good fillip in Q2. We have identified growth districts, which I have mentioned in my earlier call as well when we were into our budgeting piece, so very clearly, we have identified which are the districts will grow, which are the districts we will consolidate our counter share or our market share and I mentioned about the festive season, we are going aggressive in terms of marketing and sales campaigns. For us we are back to business as usual as far as our business is concerned Q1 I mentioned it was one off for the entire country, entire world, but for us now we are back to business and over to the audience for Q&A. Vidhi if I can request you can open Q&A session.

**Moderator:**

Thank you very much. We will now begin the question-and-answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Akhil Hazari from RoboCapital. Please go ahead.





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**Akhil Hazari:** Good afternoon. Thank you. Sir my first question is regarding the 3500 branches that you have mentioned in the previous concall. So, what are the figures that we are expecting, the sourcing numbers that we are expecting from these branches?

**Vinod Panicker:** We have drawn up our budget specifically considering that, in fact in the past we were dealing with some of the branches only in the south, then roughly about 17%, 18%, or 19% were from these branches, but over a period of time these numbers as a percentage and absolute figures have gone down, but this year we are aggressively looking at sourcing through those branches and we are targeting about 40000 disbursements from these branches which could be close to Rs 300 Crores of disbursement in the current financial year.

**Akhil Hazari:** 300 Crores of disbursements, what is the total?

**Vinod Panicker:** Could you hear me, or should I repeat?

**Akhil Hazari:** The 40000 disbursements I got and so that is value of 300 Crores?

**Vinod Panicker:** Roughly 300 Crores, let us say about 60 to (65,000 per vehicle as disbursement, I calculated that way.

**Akhil Hazari:** My second question is regarding total loan book; the S1 and S2 can you give me the bifurcation so in the presentation has given together, so what is the S1 numbers and what is the S2 numbers?

**Vinod Panicker:** Roughly about 57% of that AUM is in S1, 26% in S2 and 17% in S3, so that 1978 is the overall number which I said, and you can split it that way, 57%, 26% and 17%.

**Akhil Hazari:** Thank you so much, I will get back into the queue.



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**Moderator:** Thank you.

**Vidhi Shah:** In the meantime, I would like to ask a question, I heard you correctly the collection efficiency for July was at 92%, is that right?

**Vinod Panicker:** That is right Madam.

**Vidhi Shah:** Do we see anymore restructuring happening in Q2 as well like this quarter we did some 128 Crores of restructuring do we see any more restructuring in Q2?

**Vinod Panicker:** Some of it could happen in fact that we do not have a number with us, but then some of it would happen may not be to the same extent as what we did in Q1, but if people come with a genuine and then they actually exhibit that they are actually suffering because of COVID, then we would need to take cognizance of that; people on the ground, our collection team and everybody else they are speaking to customers and if they are suffering, they actually come back to us, they inform us that this needs to be taken care of, to which we cannot say NO.

**Vidhi Shah:** Sure Sir, any color on which particular segment do these customers belong to like any category of customers where you are seeing more stress on any region where you have done more restructuring?

**Vinod Panicker:** Actually we cater to possibly the bottom of the pyramid and maybe he could be a shopkeeper, he could be a fisherman, he could be a rickshaw driver, he could be anything of those categories, we are not trying to identify because we finally state that this is a global issue, I would say a countrywide issue, so all are suffering, did not want to try and see what his profession is actually.



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**Vidhi Shah:** I meant any particular region whether the restructuring coming mainly from north or western region or south or is it a mix of all?

**Vinod Panicker:** It is broadly in the same basis as the NPA percentage that 55%, 14%, 20% and 11%, so that is the broad split maybe offline I can actually give you the breakup of the 37000.

**Vidhi Shah:** No problem Sir, in the restructuring asset we sit on stage 1 or stage 2?

**Vinod Panicker:** While we had an option of covering everybody who was upto 90 days as on 31<sup>st</sup> March 2021; what we did was internally we have said that the people who are maximum up to 60 days DPD would only be considered because as of March 31, 2021 50 to 60 days DPD those guys will only be considered, the fellow who was already close to 90 days we felt that he had reasons beyond the current wave to actually not pay, so we did not consider them right now.

**Vidhi Shah:** I meant these restructured assets they are currently sitting in stage 1 portfolio or stage 2 under which category?

**Vinod Panicker:** So, wherever we were there as of March 31, 2021 they have gone to that stage 1.

**Vidhi Shah:** Fine, got it and Sir we have increased our provision coverage pretty high it has gone up to 66% and when we say that the collections have improved so any understanding on why we are increasing our PCR so much like we have already increased from 40% to 60% and we are going further upwards, so any reason behind that until what level will be, we comfortable on the PCR?



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**Vinod Panicker:** Madam actually our provision coverage ratio is around, for our hypothecation loans it is about 45 and for our other loans we have kept it close to 100%, 99.5%, so this is S3 accounts and on an overall basis our provisioning is about 11.6% of our total book.

**Vidhi Shah:** Sir do we have the COVID related provisions that we carry in our book?

**Vinod Panicker:** Currently we have not carried anything extra, but we are fairly confident that a lot of it, basis whatever we have seen in July, whatever we are now seeing for the first ten days of August, we are fairly confident that a lot of it would either get moved to COVID related provisioning and we do not reverse it or it would get reversed; either of the two will happen.

**Vidhi Shah:** Got it. Sir lastly, I am asking on the asset quality, we are seeing increase in stress in north and west and we have asked this before also that in north and west we are seeing more stress and if you can just explain what measures are, we taking or because of the COVID this situation deteriorated and if you can give some sense on that?

**Madhu Alexiouse:** I think the delinquency perspective it has impacted across the country uniformly, but whatever measures we had taken in west, north or any other area where we have delinquency related problems I think those areas we should see lot of improvement as areas are opening up, people are able to travel, the collection team is able to visit the customer and collect the money, so to answer your question because of pandemic has the portfolio further deteriorated the deterioration is normal across the country, so what happens next the way forward is whatever steps we are taking it should improve and bring you back to business as usual as you continue your tight collection campaigns. North and west especially west was very badly affected, Maharashtra. Maharashtra was the area which was badly affected by pandemic and more because people were not able to travel, it is not that



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many customers were affected much severely, but lockdowns were much stricter, people were not able to go out, move and once that physical movement restrictions were removed people are able to move around, so the business model is simple, if customer is there, if people can go and meet and reasonable amount of pressure also has to be given in collections where customer is not paying, if that is happening then the money comes, so it is very simple business model as far as two wheeler collection is concerned.

**Vidhi Shah:**

There are other companies like Bajaj and Bajaj also has seen a very high deterioration in asset quality their two wheeler, three wheeler meet 19% and that is actually because the three wheeler was not being good, whereas SCUF has also mentioned the same and also Bajaj product having different kind of customers and deterioration seeing much higher whereas SCUF relatively has done better in terms of asset quality in the two-wheeler segment, so I was just wondering where do we stand and what is our strategy going ahead because I guess we also present mainly in Hero and Honda two-wheelers the majority of the portfolio is that but still we are seeing some quite significant deterioration compared to our peer so any reason behind that or any thoughts on the same?

**Madhu Alexiouse:**

I do not think so, we can attribute this to any other reason than the lockdown or people not able to move around of course I have mentioned about customers' cash flow getting impacted that is the fact that is truth and if the customer segment is more of salaried class and if the customer segment is employed in a reputed organization then the problem is not much, but if people are self employed and they are into the daily business, they are having a small shops, which they open in the morning and evening they earn some money and then go home if that is a segment then it is impacted and it is known to everyone, so it is more about that and lot of



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captive finances who do business they have their model of dealer collections as well so if their dealerships were closed then probably their collection would have got impacted so it is about physical presence, it is about distribution working in your favor that is important, if that is there then I think it is about the value of effort that you put and that is proportional to kind of collections that you get.

**Vidhi Shah:** Sir, what would be our proportion for salaried and self employed I guess largely self employed in percentage terms?

**Vinod Panicker:** Self-employed would be around 70%, the balance would be salaried.

**Vidhi Shah:** Sir, how much hope is there for further reduction in the borrowing cost because we are seeing the yields have dropped because I guess of interest reversal?

**Vinod Panicker:** That is because of interest reversal, so that is the reason why the gap has reduced between yield and cost, the cost has gone down if you see and maybe personally we believe that a couple of quarters the cost may remain at the same level, the reversals would need to stop, it is our duty to stop it and therefore the overall gap will go up.

**Vidhi Shah:** Got it. Margaret you can open the floor actually for question and answer.

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

**Ashish Sood:** Thanks for the opportunity Sir. Sir you had mentioned the stage 2 assets are 26% as of June end; can you give the number for July and first stage assets?



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**Madhu Alexiouse:** I do not have readily available with me Ashish maybe if we can get on a call maybe post this call maybe we can talk about it and I would need to take it I did not kept it with me I am sorry about it.

**Ashish Sood:** No issues and any target number you have in mind for disbursement for FY2022?

**Madhu Alexiouse:** We hope to go to at least FY2020 levels which we did about 1900 Crores odd.

**Ashish Sood:** Capital adequacy is high so are you planning to raise capital in FY2022, or you are deferring to FY2023?

**Vinod Panicker:** We are hoping and praying that the disbursements that we are planning comes along, if the disbursements comes the way we are planning we would need to look at something possibly in the fourth quarter because currently the CRAR has been going up it is more to do with the reduction in the AUM and this quarter was an unfortunate negative figure which reduce the Networth a little bit, but otherwise it is more because of the drop in AUM that the CRAR is going up over the last few quarters, but obviously when the AUM starts going up there would be a need to bring in capital, to some extent we will take care of by using the PTC and DA route but beyond that we would definitely need to look at raising capital.

**Ashish Sood:** Thank you Sir.

**Moderator:** Thank you. The next question is from the line of Akhil Hazari from Robo Capital. Please go ahead.

**Akhil Hazari:** Thank you for letting me this opportunity again. I just want to ask you regarding in a previous concall maybe in Q2 FY2021 you had mentioned



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the market share of around 4.5% to 4.75%, so in this FY2022 are we expecting a similar market share, or do we see reduction in market share?

**Madhu Alexiouse:** I think on an ongoing basis from the finance portfolio that is a vehicle that has finance in the market we are aiming at around 4.5% to 5% market share and from overall industry perspective it comes to around 1.65% to 1.7% that is the target that we look at every time, I mentioned about the areas that we are operational and where we want to grow and things like that and when we look at those areas 4.5% to 4.75% is the minimum market share of the financed vehicle that we aim at and that is how the viability comes, that is how the counters are decided, the deployment of manpower happens so it is a part of the business model, so as an organization we are committed to reaching those market shares.

**Akhil Hazari:** Thank you so much.

**Moderator:** Thank you. As there are no further questions from the participant, I now had the conference over to the management for closing comment.

**Vinod Panicker:** We are thankful to all the participants who have joined on the call with us and wanted to understand about the financials, we have tried our best to articulate most of the things that we felt was necessary, we have also put up a detailed presentation on the website and also on the websites of both BSE and NSE. We believe that that is very detailed, and it covers all the aspects that one would want to know about the organization and the finances for the quarter. In spite of seeing that, if you still feel that there is some more information needed, we are available on a call and or on mail whatever is convenient to all of you. We are thankful for all the support that we have got from you in the past and till date. It is our duty now to deliver and ensure that we keep you in high spirits. We ensure that the confidence that you have shown in the company over the last several





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quarters is not betrayed, and you will actually see the company doing positively in the next quarters and therefore I would say it would be beneficial for all the shareholders. We thank you once again. I would now hand over the mike to Madhu Alexiouse.

**Madhu Alexiouse:** Thank you all of you for being with us in this call. As I mentioned that we are looking at this Q1 as one off and it was something which was unavoidable as it has impacted across the country, a lot of organizations have got impacted and I also mentioned that we have all the reasons to believe and we see the green shoots that is there, our distribution network, especially our Muthoot Fincorp branches had been active even during Q1 and even now, we are very confident that the distribution network is in action fully into the areas where we could not reach in Q1, so both from sales and collections perspective I think we are all set. We hope that around Q2 definitely there would be a significant improvement from Q1 and Q3 is where and that is assurance we have given to our Board that Q3 is where we will be back to business as usual and I think then it is normal business for us, so as we go forward I hope that all of us remain safe and with the hope that markets also respond in terms of coming back to normal and then OEM start functioning normally I think we should be back to normal as we close H2. Thank you very much once again. Over to you Vidhi!

**Vidhi Shah:** Thank you and we can conclude the call, Margaret.

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