“Muthoot Capital Services Q2 FY2023 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day, and welcome to the Muthoot Capital Q2 FY2023 Earnings Conference Call hosted by Antique Stock Broking. As a reminder, all participant lines will be in listen-only mode, and there will be opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing '*' then '0'on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mrs. Vidhi Shah from Antique Stock Broking. Thank you, and over to you, madam.

Vidhi Shah: Thank you. Good afternoon, everyone. Today, we have with us the management of Muthoot Capital Services represented by Mr. Madhu Alexiouse, who is the Chief Operating Officer; and Mr. Vinod Panicker, who is the Chief Finance Officer. Without further ado, I shall now hand over to Mr. Vinod sir for opening comments. Over to you, sir.

Vinod Kumar Panicker: Thanks a lot Vidhi. Good afternoon, friends. I am very happy to be with all of you once again, and this is the accounts which was approved by the Board late last evening,. I am sure most of you would have seen the published accounts and also seen the presentation on the website. But like usual, we would want to give you a broad highlight and then attend or address any queries that you would have in relation to the financials and the business.

Let me to begin with, we are extremely happy to actually point out in fact that was in the first slide which we have uploaded about the rating upgrade, we have been able to speak to the rating agencies CRISIL and convince them that the last year which went by, was just an aberration and that should be seen that way, and it should not be seen as something that will continue in the future, and basis that we have been able to show whatever we have been doing in the current financial year, we have shown for the first 6 months, and then we have been able to convince them on a rating upgrade, which the entire group got, and we are grateful to get that, we have also been considered for the rating upgrade. So we have been upgraded to A+ stable by CRISIL. We are sure that it will help us get more funds from the lenders and other investors as we go forward and definitely lower our cost of funds as we go forward.

That is the one thing which I wanted to put out. Apart from that, we continue to be in about 20 states with an AUM of about 2,042 Crores. I will discuss about the AUM separately. In the second quarter, we had about 36,000 odd new customers. We have been able to bring down the GNPA to about 23.6% down from about 25.3%, and have been able to bring down the NNPA to about 4.5%. We have a provision coverage of about 84.8%, which we believe is very comforting to any lender or any investor, that the balance sheet is pretty strong. Overall provisioning impact across entire AUM is about 21.3%. Capital adequacy has gone up from 20% to close to 24%. Debt equity continues to be at about 3.7x. Return on asset is positive like the immediately preceding quarter at 3.5%, and the return on equity is close to about 18%.

Having said that, let me try to give you a broad detail of the financials. In the current quarter, the quarter which went by, we have been able to do about Rs 298 Crores of disbursement, while it is lower than the immediately preceding quarter, which was Rs 325 Crores and the same quarter last year, there is a drop of 4% versus same quarter last year. It is a lot to do with our emphasis on further tightening the credit norms to ensure that like last year the increase in NPA will NOT get repeated, and therefore, we felt that we need to tighten the credit norms, and even if it means that in the interim from the regular business the volumes do drop, we can cover it up through other loans and the co-lending that we have recently begun. The Rs 298 Crores actually includes about Rs 8 Crores of co-lending, which we have started towards the end of August and a little bit in September, the real numbers would start coming in the current quarter only. Basis this we could get a total on book AUM of about Rs 2036 Crores, which is higher than the same quarter last year, though lower than the immediately preceding quarter. But then this quarter, this Rs 2036 Crores is after a write-off of about Rs 38 Crores, which we will talk about when we get into the loan loss position

So this is the net of that it is about Rs 2036 Crores, the interest income basis that was at close to over Rs 110 Crores, about 10% increase over the same quarter last year and about 2% to 3% increase against the immediately preceding quarter. Finance expenses at about Rs 35 Crores was higher than the immediately preceding quarter by about close to 6%. That has got to do with 2 things. One is because of a certain higher amount of funds that we had borrowed, number one. Number two was to do with the interest cost rise, which we have faced I am sure most of us has faced, because of the increase of the rates that RBI brought in. Against the same quarter last year, there was a drop in finance expenses, but then that was because there is a lower utilization of close to Rs 195 Crores of funds.

The operating expenses at about Rs 41 Crores is lower than the immediately preceding quarter but slightly higher than the same quarter last year by about 4%. Loan loss provision has been lower compared to the immediately preceding quarter from about Rs 9.4 Crores. It has come down to Rs 8.9 Crores and significantly lower than the same quarter last year, but the last year in the first and second quarter, we were all struggling to fight with the COVID, and then we, like anybody else ended up in losses.

So versus the same quarter last year, there has been a big reduction of close to 70%. In the loan loss provision, there are 2, 3 significant things that I would want to point out, one is definitely there has been a write-off , we normally write-off accounts of hypothecation loans, which are in the D3, the D3 discussed by RBI, which was about Rs 13.5-14 Crores, and apart from that, the other loans where we are having 100% provisioning, that also was written-off, and apart from that, because we felt that we need to reduce the net NPA further to ensure that the lenders are far comfortable, we believe that we need to make extra provisioning. We made an extra provisioning of about Rs 7.75 Crores in the current quarter, taking the total additional provision between last quarter and this quarter to Rs 13.75 Crores on an overall basis.

All this leading to a profit before tax of Rs 24.4 Crores versus a negative Rs 10.6 Crores in the same quarter last year, definitely a 330% big jump, and slightly higher than the immediately preceding quarter, which was at a PBT of Rs 19.8 Crores. Net profit after tax has been at about Rs 18.3 Crores, that might be due to God's grace and the efforts that the team has put up versus a negative Rs 8.1 Crores in the same quarter last year and slightly higher than the Rs 14.3 Crores that we reported in the immediately preceding quarter. Opex:NII down to about 55.4% versus about 60% in the immediately preceding quarter.

The same quarter last year it was 66.5%. But same quarter last year, it had got a lot to do with the lower income, which was because of the huge NPAs and the reversals of income which had happened in the particular quarter. Return on assets has been reasonable at about 3.5% and earnings per share of about Rs.11. On a half-year basis, the disbursement has been at about Rs 626 Crores higher than the first half of last year with Rs 446 Crores but not really comparable as at the same time last year, in roughly about 1.5 months or close to 2 months there is hardly any business that we had. So the 40% growth I would not say too much to it, but definitely there is a growth, which will help us grow the revenues. Rs 216 Crores was the revenue in the first half of the year versus Rs 197 Crores an increase of 10%. The finance expenses are lower at about Rs 68 Crores versus Rs 79.5 Crores, which is a drop of 15%, leading to a net interest income of Rs 148 Crores versus Rs 117 Crores, definitely, a good jump of about 26%.

Operating expenses are higher in the current half year, main line item is the collection cost, because last year, for a couple of months, there was no major collection happening on the ground. So that is where the cost increase has happened roughly Rs 18 Crores to Rs 19 Crores out of the total increase is due to the increase in collection costs. Loan loss provision, it is at Rs 18 Crores versus Rs 81 Crores. But then periods are not comparable, but things have changed and changed for good, and we are asking that we take benefit of that.

Overall, profit before tax at about Rs 44 Crores versus negative of Rs 30 Crores and profit after tax of Rs 32.6 Crores versus a negative of Rs 22.8 Crores. So all in all, we believe that the things have started improving, things would continue to improve. NPAs would go down. disbursements have started, collections would improve further, disbursements would improve even more as we go forward with apart from the regular business, a significant amount of volumes having or increase happening through the Muthoot Fincorp branches and the co-lending that we have started and other loans that we doing all put together would definitely ensure that the disbursements will go up, AUM will go up, good-quality portfolio will remain on the books. Therefore, the revenues will increase and the profitability will go up significantly. I would now hand over to Madhu to speak about the business, and then we will address separately any of the queries that you will have.

Madhu Alexiouse: Yes. Thanks, Vinod, and good noon to all of you, and thanks for joining this call. I think Vinod has covered things very elaborately. But briefly, let me run through what is happening in the industry and our business and collection perspective, and then we can open up for Q&A. I will keep it as brief as possible so that we can have more Q&A, and we will be able to answer more precise questions that you have got. From an industry perspective, I think there has been a pressure as far as 2-wheeler sales is concerned, the continued cost of ownership of two-wheeler that continues to be on the higher side, the rise in fuel prices besides inflationary pressures on the customer cash flows. We had been seeing rural sentiments improving, but it would be an important factor as we go for the rest of the year. But the early signs are that it would improve this year, and given the fact that industry two-wheeler sales had been at the dismal level for last many quarters and it should be bouncing back like we have seen in the passenger cars.

Retail sales had been at 30 lakh plus quarter-on-quarter. So that is another encouraging factor. The wholesale dispatches during H1 2023 was about 82.5 lakh, and the retails were lower at 66.7%, so that is how it is actually and the stocking of vehicle happens for the festive season. If you look at the current quarter, that is Q2 2023, the retails were about 31.4 lakhs in comparison to about 35.3 lakhs during Q1 2023. So clearly, there was slightly decline in the 2-wheeler retails as far as Q2 is concerned. But broadly, what we believe is 30-plus lakh 2-wheeler sales in a quarter is a good sign. It is a positive sign in the sense that, that is the base level where the industry is now operating. I mentioned about cost of ownership for the 2-wheeler and that had kind of increased last couple of years, 3 years back with insurance cost being going up and things like that and post when the COVID hitting, I think we are at a very good base right now, and the wholesale of 82.5 lakh unit in the H1 is also a very encouraging number in the sense that the yearly projection that we were saying about 1.7 Crores sales that would happen in Indian market is something which is a real possibility, and so we believe that Q3 and Q4, definitely, there would be a jump as far as retail is concerned. From MCSL perspective, I think H1 2023, Vinod mentioned, we had grown about 38% from a disbursement perspective. But Q1 versus Q2, I think we were declining. We mentioned that we had been taking a slew of measures to improve our portfolio, including improvements in our credit and risk norms, which had a marginal impact on our disbursement. But as we go forward, we do not see that as an impediment because our commitment to improve the portfolio and the assessment of our post-COVID portfolio is excellent.

We believe that this kind of portfolio is where the profitability would come for us and the legacy portfolio that is before the lockdown portfolio that would run down substantially, and there is action plan on reducing those portfolio, especially from NPA perspective. Vinod mentioned that NPA is going down. Specific questions we will address when that need to be discussed. One very important thing that we have been telling was about our flagship company, that is Muthoot Fincorp Limited. We had been sourcing business through their branches. While our disbursement has been flat overall, but from MSL branches, we have seen a substantial growth of about 20% quarter-on-quarter, and we are committed to grow that.

We would like to grow that and that should become a significant portion of our overall disbursements. From **the current year, we have seen** improvement across all the buckets and especially the softer buckets and 0 bucket efficiencies had been 95% plus. There is a clear plan of action to reduce NPAs. As I mentioned last time also, there is a targeted customer connect program, a lot of collection dealers across the country is happening every month to reduce the NPA piece hard bucket collections, and at the same time, from the collection efficiency perspective, and one of the key achievements is it had been more than 100% for last at least 2 quarters. That is the positive sign. So we believe that as we go forward, collection would improve, and that is one of the signs that the customer's cash flow is improving, and that is why we are able to recover from them. So this is a basic perspective that I think I should share right now and then specific questions we can take up so that we will be able to give you specific figures to address your queries. Over to you, Vidhi.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Rahul Jain from Credence Wealth. Please go ahead.

Rahul Jain: Congratulations on good set of numbers. So if I look at the disbursements, of course, in your initial commentary, you have spoken on PAT. So we are at the lower than the average of almost the past 16 to 18 quarters the disbursements are lower than the average, and the new customer addition, which is around 36000 is also lower than the average of almost last 4 years, 16 quarters. So going ahead, given your target or guidance of about 1750 Crores of disbursement. How do we take care of this, and what do you expect in the second half? What will drive the growth here on, what kind of changes would you be doing in terms of your strategy to drive the growth compared to what has been seen in, say, last 2 quarters?

Vinod Kumar Panicker: The intention is definitely to grow but then grow quality portfolio, and that is the reason somewhere in the middle of August, when we did see things improving, we felt that while growth is necessary, while it should come, quality should be good, and then we started tightening the credit norms further and which effectively meant that while disbursement will take a beating, but we are fine with it because what is coming out is good quality portfolio, and we were comfortable with that because like Madhu said in his commentary the disbursement from the Muthoot Fincorp branches are going up, and we also were to start co-lending. So if we felt that we will get to the volumes after let's say first 45-50 days co-lending will also start delivering,. Whatever we thought would happen has actually happened. So we are comfortable with this. You mentioned about 1750 Crores.

So we believe that we will grow in this quarter and the next quarter, we are fairly confident that the growth will happen basis the regular portfolio, the business that comes from Muthoot Fincorp once and the other loans and also the co-lending portfolio. All this will definitely add up, if not 1750, it could be, let us say, 100-150 Crores lower. But then we will definitely speak about it, but maybe 200 Crores lower. But definitely, we will speak about quality portfolio, a pool which is, I would say, of the limited delinquency maybe like the pre-COVID time that we have there is a kind of portfolio. Maybe we will go back to that. You will see that possibly the team, when you speak to the credit team, we speak to the collection team and the business team, they are fairly committed saying that no this is something that would need to happen, and which will happen.

Rahul Jain: Sure. I do appreciate the management thought process of building a quality portfolio, and we would always be happy with that.

So sir, given the current situation, you said we can do a disbursement of around 1600-1650 Crores, and thereby, we can probably reach around 2600 Crores of AUM for the current year, and for the next year, you had guided an AUM of about 3400 Crores, and the current year guidance for credit cost was around 1%. Do we stick to that kind of numbers for guidance?

Vinod Panicker: Current year, it could be slightly lower than the guidance that we had given, maybe again by about 200 Crores to 250 Crores lower. But then I would say that whatever is lower, that will definitely get covered up from lower provisioning, it will get covered up through higher revenues because otherwise, pointless having a portfolio on our books and then deciding that the 25%, 30% of that does not yield any income, so bottom line is something which we are looking at, in fact when we speak to or whenever we are speaking to investors that constant query has always been what ROA, ROE, will you be having, what will be our credit cost? In fact, the last couple of quarters, the credit cost has been in check. From 2.29%, we have now come to roughly 1.54%. So I would say that those metrics, maybe a big size may not be there, but then definitely, the more important part, that is, the bottom line the capital adequacy, the credit cost, the GNPA, and NNPA, that would be looking superior to what it was maybe a year back or a couple of years back.

Rahul Jain: Given the current interest rate scenario and the competitiveness in the segment in which we operate, what is your confidence level in terms of gaining more markets? So basically, just trying to understand where did we drive the growth from. The growth will be typically, are you trying to see better welcome numbers and the growth, better market share, and typically, the strategy behind that, how do we drive the growth, basically, the strategy for the growth?

Vinod Kumar Panicker: I will request Madhu to answer that, and I will add to whatever I believe needs to be added.

Madhu Alexiouse: Yes. So, when we say we have taken few of the credit measures to improve the quality of the portfolio, 2-wheeler industry, 2-wheeler finance business typically has mostly new to credit customer; like around 60%, 65% is new to credit customers, and you would be aware that our focus had been bottom of the pyramid customer, and so the thought process is that how we move towards people with credit track record where we are very sure on how the portfolio is going to perform, and that is specifically because of the black swan event that has happened and the portfolio feedback, and the current customer profile that comes to us for credit. We learned that it has impacted the creditworthiness of the customer and cash flow of the customer. So it was logical for us to be careful, and from that perspective, we are directionally moving. I am not saying that fully we will move into it.

But directionally, we are moving towards customers with proven track record, and that is why we say that. We look at the portfolio quality. So my business from the bottom of pyramid may slightly get affected and that is affecting the volume. But from where we get the growth, yes, we will grow from a segment, which we were not earlier competing in. At the same time, if you look at our geographical structure, we would like to grow beyond certain areas where we were kind of dominating the market. So there are a few states which we have identified beyond Kerala, we want to disproportionately grow our numbers. I am not saying that it would start happening from tomorrow. But that is the strategy. That is the process. These specific states. Already, we are there. We know this market very well, and we see that we have upside in these states and our portfolio has been also behaving. So we have identified certain states where we will grow our business and grow the business with the segment that we are mentioning that we will kind of change our direction a bit towards a better quality. So markets are identified, strategies identified, and that is what we will drive, and that is the confidence that we have got that we have set our set of formula right in terms of customer profile, segment of customer that we will drive, and also, we have identified specific markets that will drive our numbers. So rather than go and do a carpet bombing, we will do a very selective attack on the market segments.

Vinod Kumar Panicker: Maybe just to add on to what Madhu said just now, our promoters have always believed that the growth should be, without too much of increase in infrastructure, and that is exactly what we are trying to do. Madhu did mention about areas that we are currently not present in and we are trying to go into those areas and do the business. Definitely, Muthoot Fincorp branches, we did mention about in detail. Co-lending is another activity that we have started in a big way, it will be the areas where we currently do not have volumes. So the growth will happen without infrastructure, and we will deal with the companies who are, I would say, well entrenched on the ground, in those areas. That is what will lead to growth and that too profitable growth.

Rahul Jain: Just one last thing. If you could share some targets with regards to co-lending for the current year and the next year? What kind of targets are we expecting.

Madhu Alexiouse: My request is since we have just started it, and 2 of the people are on board as they have started disbursing, my request is, let us not put the target, but then we are fairly confident that over a period of time, the volumes will be substantial, let me put it that way. So we would want to see a quarter before we start giving a target to it because these are early days. We have got into this first time, we may not want to put the number. We gave an overall number saying that you said 1750, we said a 200 Crores here and there. So we believe that leave it over year right now, maybe end of December, maybe when you do the call**, I am sure the team will tell what is the expected target for the next 1 year or so because**

there is 2 co-lending we have started already. Hopefully, couple more will also start, so let us hope for the best.

Rahul Jain: Thank you so much sir and best wishes.

Moderator: Thank you. The next question is from the line of Samir Desai from Ficom Advisory LLP. Please go ahead.

Samir Desai: Thank you so much. Few of my questions got answered. Just one quick question. So you mentioned of moving towards the proven track record customers. So just wondering that we are seeing an impact on net interest margins in terms of a lower yield that you are already giving out to customers with a proven track record? That is the first question, and the second question, in terms of the new investment you have made in the Nucleus FinnOne software. Just wondering how that is integrating with the team, and in terms of the loan sanctioning going forward, how would that work out?

Madhu Alexiouse: So, when we talk about moving towards a better segment of customers, we already have schemes where we have done a sizable portfolio with this segment of customers, and I think it compensates with the collection cost, with the other follow-up costs that we incur in the new to credit portfolio, and we are also working on analytics where the new to credit customers right now, majority of the customers whom we serve. We will have a very good profiling of these customers. We will be able to create a personality, this kind of personality is of this particular customer segment or this particular customer and serve them. So from the existing portfolio of existing set of customers also, we would be able to select the right set of customers, and at the same time, when you go slightly above that, let us say, lower middle-income class or middle-income class customer when we move towards that, yes, there also, we will have a good set of customers who will come into our portfolio for the higher segment of customers, definitely, there is an impact on the margin, and I mentioned that it is compensated to various other costs, including the credit cost. So that is the experience we have already has gone through last 2 years, we have worked on that portfolio. We are very confident that, that kind of portfolio would remain profitable for us. Irrespective of what kind of interest margin, overall, let us say, ROE from that segment would be profitable enough for us to chase that particular segment. On the second piece, on the FinnOne software already, it is implemented and all integration has happened. The data migration has happened, and it is up and running. Currently, we are working on the LOS. We already have a very good LOS, and then, as we go forward, we are exploring other possibilities that is there, which is right now not in the picture, but maybe at some point in time, we will let you know. As far as LMS, FinnOne is concerned, it is up and running, and absolutely entire organization is on that. Vinod, you want to add on that?

Vinod Kumar Panicker: No, I think you have covered everything. So I think there is nothing much for me to add.

Samir Desai: Thank you so much sir.

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

Ankit Gupta: Sir, in the last con call, we had given even target of around 2700 Crores to 2750 Crores by end of March 31, 2023, and next year, we are targeting 3400 Crores, 3500 Crore of loan book. So what has changed now in 1 quarter that you are lowering your guidance we have become more conservative on lending. Earlier also, we have had no issues of higher gross NPA we took a huge provision during Q3, Q4 of last financial year. Our delinquencies were even more than any macro finance company. But we then in Q4 and Q1, we change that will come back to growth and grow our AUM, but now suddenly in Q2 call, you are saying that we have become conservative and now want to grow or book in a good manner. So if you can talk about it.

Vinod Kumar Panicker: Yes. Thanks for raising this point. I think it is a very valid query you have and obviously, we need to be addressing it very carefully. Let me put it this way. The intention of what we presented maybe at the beginning of the year was definitely something which we thought was the doable and should be done.. I think we believe that we need to be concentrating more on, apart on the volume definitely, but more than the volume, I would say, on the quality. So quantity you can get the quality is the key because having a book and then you will end up bearing cost on it, Madhu mentioned about collection costs and credit costs.

Obviously, the interest cost is a bigger burden. So I would say that instead of doing those things, that was a conscious call, which is taken by us in the second quarter saying that now things are improving and since we are opening up other revenues, maybe through the Muthoot Fincorp, s through the co-lending and other things, should we be little more conservative in putting or doing transactions, and that is the reason you will see in the current quarter, there has been a drop in the disbursement. We have gone down to the 298-odd Crores about 30 odd Crores lower than what we did in the preceding quarter. But we believe that volume and everything has its own value, but then we believe that the quality of the portfolio, profitability has the bigger role, and that is what would get appreciated in the long-term, and that is the reason why we took this call saying that even if it means that the book goes down a little bit, it is worth looking at better quality and growing book without increasing the cost. While you did mention about the volume being lower, my request is look at the credit cost also which has gone down significantly, versus the 2.29% also it has come down to 1.54%. while we have given a guidance of 2.25% for the year. So my sense is as an organization, we have taken certain decisions, which is for the long-term of all including the shareholders.

Ankit Gupta: So how much loan book are we targeting by the end of this financial year?

Vinod Kumar Panicker: I think when my other friend actually spoke, that time I actually responded to it because he was asking for about Rs2600. I said that it could be a couple of hundreds here and there. So my belief is that it would be in the Rs 2400-2500 Crores, that is my belief.

Ankit Gupta: Sir, we are talking about focusing more on quality but that does not actually reflect in the kind of slippages that we are seeing this quarter also. This quarter also, we had 56 Crores of slippages on a loan book of 2050 Crores, which is extremely high despite focusing on quality, non-growing loan book our slippages continue to remain on elevated levels, and we talk about credit cost that slippages continue to remain high, and in the first half of this year, our slippages are almost at 112 Crores, and despite the entire financial sector, if you look at the entire sector whether it is macro finance whether it is other sectors who are relatively unsecured compared to us are showing very low or delinquencies or even less, if you get our slippages continue to remain at elevated levels. So on one hand, we are talking about not growing our loan book and despite that, our slippages and credit quality continue to remain like not that great. So what is your view on that, and when do you think that slippages will come down?

Vinod Kumar Panicker: I admit it's a very valid question. Permit me to take a couple of minutes to explain it in due course. Over the last 5 quarters, which in fact we have put up in a slide, where we have put up the slippages over the last six quarters and it is there in the public domain. You will actually appreciate that over the last 5 to 6 quarters, the slippages have actually started coming down. So ever since we went into from the third quarter last year, we were following the norm of you go to 90 plus, and then when you go down, you have to go down to 0 DPD. Then only you are treated as being out of NPA. So slippages have been seen to be higher. But then in the Q1 and Q2 of last year, it has to do with it being normal 90 plus NPA. From Q3 onwards, we are talking about NPAs, I mean of course, they have gone due on 90 days and then gone down. So out of the total NPA of about 480-odd Crores that we have reported at the end of the year, roughly 113-115 Crores is on account of accounts which are in the past, I would not have called it as NPA, I would not call it as a slippage.

We are now , I would say, reporting in a different manner compared to what we were doing possibly 4 quarters back. The reason why the account has gone to NPA status , it is because he cannot pay one installment.

Getting him to pay 4 installments is possibly expecting a bit too much from this, and mind you, we deal with the bottom of the pyramid. We deal with that kind of customer. So when we are dealing with that kind of customer, we need to understand very clearly that he will not be able to pay four installments, and that is the reason you will see since you are referring to the slide, Slide #27, please look at it something I am collecting close to 30 Crores, 35 Crores on a quarter-on-quarter basis from these customers. So they have given me one installment at a time. 37000 customers or 39000 customers have paid me something, but they have not gone out of NPAs. So I am saying that slippages look to be bigger but might be because of the new norm that has come up for recognition of NPA or derecognition of a sub-standard account. While RBI has permitted time till 1st October 2022 for doing the same, we have done that from the 3rd quarter of last year. So my request is to see that the slippages could be there, but please see whether collections are happening, that is important, collections are happening.

Ankit Gupta: But sir, on this the 137 Crores provisioning that we took in last year, how much of the recovery do you expect or how much of the provisioning write-back that you are expecting in this financial year. You were expecting in the Q1 call, you were expecting substantial write-backs from this provisioning in Q2, which has actually not happening. So during second half do you expect any significant write-back to the provisions?

Vinod Kumar Panicker: Yes. Well, against that some bit of reversals are happening. In the second quarter, the collection has been in the 105% range. We want that 105% to go to 115%-120%, and that is the time when the reversals will start happening. Now if I wanted, now, let me put it differently, we tried to bring down the NNPA from 5.5% or 5.7% to 4.5%. The intention was to reduce the NNPA so that we can give comfort to the lender. If I had not done that, I am sure I could have reversed a lot of the provisions . We did not do it. See, if we had done that, I would have possibly reversed 20-25 Crores. We did not do that because we felt that giving comfort to the lenders is equally important. So, definitely investors are somebody who are one of the major stakeholders, but lenders are equally important . So definitely, we need to ensure that we give them comfort. Anything close to 4% NNPA or less than that is what will give them as some bit of comfort.

So we need to look at that. I could have reversed a lot of it maybe 20 Crores, 25 Crores that would have reversed and been at the same NNPA that I was at the same at the end of the last financial year. But we did not do that. We steadily brought down the NNPA. So my request is to give the company a couple of more quarters for them to show some bit of reversals. Right now, reversals have not been done. It has been only in fact, like I said sometime at the beginning of the call, that Rs 13.75 Crores additional provisions have have been brought in

Moderator: Thank you. The next question is from the line of Viraj Mehta from Equirus PMS. Please go ahead.

Viraj Mehta: Sir, I have essentially the same question. Just as an outsider, it is just very difficult to understand that when the environment is getting better for almost all kind of lenders, be it your microfinance or corporate or 2-wheeler lenders. Suddenly in the middle of August, after being in this business for 10 years, realized that our practices are not correct. I just find it extremely difficult to fathom. How and when has this change happened, and what has led to this realization.

Madhu Alexiouse: So it is not certainly that we have decided that we will look at more customer better customer segments. It is not like that. I mentioned that parallelly we have a better segment of customers, we serve them as well, but not the portfolio size is not that big, and a few of the previous questions that I heard what happened in Q2 or that certainly, we are talking about credit quality and things like that. After a black swan event, we had certain assumptions, okay, this is what is going to happen, and let us say, the basic thing is how the customer's cash flow is behaving, and what kind of profile is coming to us, what are the rejection rates, what is our credit metrics that we are measuring on the business we have done recently? So a lot of parameters are reviewed.

One of the things is that customers' cash flow, whether it is improving or not, you people are in the market, you people know much better. In the lower segment customer, the cash flow has not improved substantially what it used to be pre-COVID. So we need to give some more time for these customers to bounce back to what their cash flow used to be at earlier levels, which means that should we go into this market go very aggressive in the market? No, that time has not come.

So during the start of the year or during the Q4, our assumption was, yes, we can go aggressive given the market situation and things like that, and you people know what is happening in the global market front and how that is impacting the customers ultimately. They are also impacted by their interest costs and things like that. So we said it is not time that we should go aggressive. We should continue some more caution till we are very sure about the customers' cash flow is improving and things like that, and so whatever customer whose cash flow is stable, the people who are having regular income, people who are more of a bankable transaction, and without any follow-up, I can have the connection. So that is the whole perspective right now. It is not about being caution it is not about changing the direction.

So time to time, you have to keep on assessing. Shall I go full-fledged aggressive? Or shall I continue my caution? I am seeing that right now, it is about being cautioned at the bottom of the pyramid at the same time, go to customer segment where we are very sure that portfolio is going to behave on the assumptions on which you are going to do that business, and meanwhile, Vinod also explained that how we will grow. It is not that we are saying we do not want to go. We are saying we will grow, but there are various other revenues that have been put in place so that the numbers that we are saying we achieve and deliver that by the year-end.

Vinod Kumar Panicker: Maybe to add to what Madhu is saying, one thing which I wanted to tell you is it is not something which we have started in the current quarter. This is something which we started immediately after COVID. In fact, that is the reason maybe if you split my book into 2 parts as to pre-COVID and post COVID, post COVID, you will find that the NPA, gross NPA, not even net gross NPA would be in the 5% range. So this is the exercise that we took up immediately after COVID, and then we constantly keep improving we possibly have one more round of improvisation in the second quarter in the current year. So my request is to give the company that kind of time so that growth, we have not said that growth will not happen, like Madhu is saying, we are saying that we will ensure that it happens over a period of time, and all the other numbers are, I would say, looking to reasonably good. This will also come. Volumes will come. Please give the company some time.

Viraj Mehta: Sir, a couple of bookkeeping questions. Your employee expense this quarter, quarter-on-quarter, has fallen from 18.2 Crores to 15.7 Crores. In an environment like this, I mean, can you throw some light why did we saw such a shrinkage in employee expense.

Vinod Panicker: There was certain reversals that, as a provision, which was there of the previous year, which in the current year, we felt it is no longer needed. That is not what got reversed.

Viraj Mehta: So this is one-off. Your average cost will still remain 18 Crores, 19 Crores a quarter.

Vinod Panicker: 18%, 18.5%, that range is 6 Crores a month roughly.

Viraj Mehta: And sir, the last thing I wanted to ask is, like if you said you did 280 Crore, 290 Crore disbursement in the last quarter, but you majorly did post-August, is our monthly run rate in the range of 125 Crores, 130 Crores in October or 120 Crores or it is not even there.

Vinod Kumar Panicker: Yes. I normally do not give numbers in the middle of the quarter, but then you are broadly correct. Let me put it that way, and normally, after the Board approves the numbers and they have given the numbers. So I am sorry, I cannot actually say. But you are broadly correct. October, your broadly correct, November will be better.

Viraj Mehta: Yes, it is not about 5 Crores here and there sir, but if you are comfortable then it is fine.

Moderator: Thank you. The next question is from the line of Ankit from Alpha Capital. Please go ahead.

Ankit: Thank you for taking my questions. Sir, my question is on the collection efficiency. You are saying we had 105% collection efficiency in Q2, thanks to the big numbers that we wrote off last year. So how long do you think we will have this above 100% collection efficiency? How long will we take to recover the amounts that we had to write-off last year?

Vinod Kumar Panicker: The collection at about 105%. In fact, I think at the beginning of the call, I did mention, it is good, but it is not giving us comfort. We believe it should be higher than that. We believe that it should be much more than that because, obviously, that is what will help .One of my friends sometimes back said that the provisioning reversals have to happen. So obviously, when the collections improve further, which we believe third and fourth quarter will show that kind of number because second quarter was at about 105% of the current billing. Third quarter should ideally be more than that and fourth quarter is normally the best quarter for any company, and I am sure we will not be an exception. So that is when the numbers will go up. The 105% will definitely go up.

Ankit: So you think 105 can go up to 120 over the netting of the second half?

Vinod Kumar Panicker: Should go to 150 and 120 type.

Ankit: And sir, just collection, all collection will be done this year only, and can we get some correction over next year also? Or this year is the period where we think everything book will be clean, fully recovered?

Vinod Kumar Panicker: No, I do not see that. I think in a different context I said that about 115-odd Crores is on account of soft NPA or NPA, which are less than 90 days. So this kind of collection, they continue to pay 1 installment 1.5 installments per month. So that would continue maybe after the end of the tenure, they will complete their repayment in 3, 4 months from then. If we have got about 25 months left, it could happen over the next couple of years. So I would say the recovery process is something which would see over a period of time, some of it in the current year, a lot of it in the subsequent year, in next year, definitely. That is the reason in the additional provisioning also, when we look at the account closing, we look at the collection over the next 2 years whether what is the likelihood of the account to get closed. If you look at the past history, saying that from the time the account closed or the account became fully period over and entire installments got over, and I was not paid by the person, but the due date is over between 2 years after that, how much was paid. So we look at it that way. So definitely, for the kind of customer base that we work with, we work with the bottom of the pyramid, they would definitely pay but then would pay in a staggered manner across the next couple of years.

Ankit: Sure, and you are saying we are focusing a lot on profitability now and not so much on the loan book. So what is the kind of ROA guidance we are looking for the full year?

Vinod Kumar Panicker: I believe that 3% should be a reasonable one, 3%, 3.25% is a good one. Let me put it that way. I think that has been what we used to do pre-COVID, and I am sure we will go back to that. 6 months, I think we are at about 3.1%. So I would say that 3%, 3.25% is a reasonable assumption to have.

Ankit: And you are saying loan book as and we will be at 2400 Crores approx. So we are not planning to reduce it any further because this quarter was a bit of, and you want to go for quality, and that is why, hope we will be stayed.

Vinod Kumar Panicker: No my friend you look at the ROA you will get the ROA.

Ankit: Sure sir. Thank you and all the best.

Moderator: Thank you. The next question is from the line of Rishikesh Oza from RoboCapital. Please go ahead.

Rishikesh Oza: Thank you for the opportunity. Sir, firstly, if you could indicate on the cost-to-income ratio for H2 FY2023 and next year going ahead?

Vinod Kumar Panicker: Our cost to income first half is at about 58%. I believe that it should hopefully be in the 52% to 55% range.

Rishikesh Oza: That was second half and next year if you could indicate?

Vinod Kumar Panicker: Maybe a couple of percentage points lower.

Rishikesh Oza: And sir, on credit cost for H2 FY2023 and FY2024, if you could indicate please?

Vinod Kumar Panicker: I said for the full year, roughly 2.25%. So I think we are currently for the first 6 months, my belief is it could be in the range of 2%. So what I am saying that let us assume it is going to be 2% to 2.25%. Any reversal which will come from the additional provisions that we have done last year, that is separate. I am talking about the normal business roughly 2% to 2.25%.

Rishikesh Oza: Okay. So net-net, what credit costs are we expecting?

Vinod Kumar Panicker: Company's immediate intention is to ensure that the net NPA goes down, RBI had put a limit of 6%. The company internally believe that it should be below 4%. So if we have provisions, we would not want to reverse it, we would want to use it for reducing the net NPA. So I will right now not want to give any numbers on the reversal of provision. But I believe the substantial amount should come in the third and the fourth quarter.

Rishikesh Oza: Okay no problem. Thank you very much sir.

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

Vinod Kumar Panicker: Dear friends, thanks once again. I think we have been doing this kind of calls over the last several quarters, and we have been trying now just to address most of the queries.. Obviously, it depends on not only efforts it is not depends on the market factors somewhere we would have slipped in the past. But I believe that things are changing, things are changing for good. Things are returning back to normal or it has returned to normal in most of the cases and we believe that going forward, the volumes should also talk, right now we are talking only quality. I believe volumes will also start speaking, and we should continue, I mean, the business volumes should continue, the business profitability should improve, and I would say that all put together the organization will continue to do well, and we need your support prayers and best wishes for the organization. That is all. Thanks a lot everyone.

Madhu Alexiouse: Thanks, Vinod and thanks to every one of you for joining this call, and thanks for all the encouragement you people give. I want to just reassure all of you that there is no change in the vision of the organization of the group of the strategy that we are doing. It is certain changes, and you should believe us that it is for the benefit of the organization and the benefit of all our shareholders and investors. We are very highly focused on giving those ROE, ROA that we are committing to you, and it is very important that whether we have taken important learnings and as we put certain steps to correct the problems that we have faced earlier, yes. There is an increased focus, and as a team, as a KMP and the promoters, the directors, everyone, we are working very closely to take this organization back to the levels which we used to be earlier. So please be rest assured. It is work in progress, and definitely, the progress is yet to come, but we are committed to ensure that organization is back to the expectation level that all of you believe that MCSL should deliver. Thank you once again. Thank you very much, and all the best to all of you.

Moderator: Thank you. Ladies and gentlemen, on behalf of Antique Stock Broking, that concludes this conference call. We thank you for joining us, and you may now disconnect your lines. Thank you.