"Muthoot Capital Services Limited

. Q3 FY '23 Earnings Conference Call"

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MODERATOR: **MS. VIDHI SHAH – ANTIQUE STOCK BROKING**

Moderator: Ladies and gentlemen, good day, and welcome to Muthoot Capital Q3 FY '23 Earnings Conference Call, hosted by Antique Stock Broking. 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 star then zero 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. Thank you, and over to you.

Vidhi Shah: Thanks, Tanvi. Good afternoon, everyone. So today, we have with us management of Muthoot Capital Services represented by Mr. Madhu Alexiouse, who is the Chief Operating Officer, and Mr. Ramandeep Gill, who's the Chief Financial Officer. So without further ado, I shall now hand over to Mr. Ramandeep Gill for opening comments. Over to you, sir.

Ramandeep Gill: Thanks a lot, Vidhi. A very good afternoon to everyone. I'm very happy to converse with each one of you after having some improvement. I'll say it as compared to the previous quarters, we have done stupendous improvement in terms of results. And I'm sure most of you would have seen the published accounts and also you must have seen the presentation on the website of the company.

The accounts have been approved by the Board late last evening only. But as usual, what we are doing is we are just about to give you the broad highlights of the entire results. And if you have any queries, then you can ask post that.

Let me begin with this that we are extremely happy to post quarter-on-quarter growth in the profit of the company. So we have posted a profit of INR 19.70 crores, while comparing to quarter 3 of the last financial year wherein we were at INR 4.52 crores only, recording the growth in the PAT of 338%. The overall book size of the company, which was INR 2,019.70 crores in the quarter 3 of the last financial year, and if we compare it with the quarter 2 of this financial year, wherein we were at INR 2,041.70 crores. Right now, we are ending our quarter 3 at INR 2,141.0 crores, thereby recording a growth of 6%.

The disbursement from quarter 2 of financial year '23, which was INR 298.40 crores has now been grown up to INR 412.30 crores. With respect to the revenue of the company, the revenue of the company has been grown from INR 109.70 crores to INR 112.80 crores.

The majority of the growth tactics that the company has seen is basically reduction of their Stage 3 own-book. We have been able to reduce 16.46% of Stage 3 book that was outstanding in Q3 of the last financial year. With respect to that, we have closed our book, specifically, the Stage 3 book at INR 467 crores.

The RoA and RoE of the company, we have seen a very large chunk of growth over there. In Q3 of the last financial year, it was at 0.9%, whereas now we have recorded at 3.7% whereas Q2 of this financial year, we have closed that at 3.5%.

The RoE, which was at 3.4%, now we have closed at 18.3%, and in Q2, it was 17.8%. So we have seen a growth of 438.2% as compared to the last financial year, whereas if you compare it to the last quarter, we have seen a growth of 3%, approximately.

With respect to the hawk-eye view of our operation, the first thing that has happened in this quarter is basically rating upgradation by CRISIL. We have been upgraded to A+ stable by CRISIL, wherein the attrition level of the company, which used to be 6%, 7%, has now been reduced to 4%.

The overall cost of borrowing, though we have seen a slight increase in that. That is not something which we are concerned as of now because both our NNPA and GNPA reduction will be able to attract good funds from the market at a relatively lower cost so that we can cover in Q4 statements, too.

The overall NNPA of the company stands at 3.63%, whereas if we compare that from the opening of financial year, that is basically 5.82%. The PCR remains -- the company is having a strong PCR of 86.55%, whereas if we compare the overall provision, that comes at approximately 20%-odd.

With respect to the opex of the company, the revenue, net interest income of the company and the loan loss provision. The revenue has shown a remarkable growth right from quarter-on-quarter. If we talk specifically for this financial year, it has been increased from INR 106.4 crores in Q1, that has increased to INR 109.7 crores in Q2 and now INR 112.8 crores in Q3.

The net interest income of the company has been increased from INR 73.7 crores in the Q1 to INR 75.1 crores in Q3. Whereas opex as a percentage of NII, therein, we can see a slight bit of increase because of the fact that our remuneration of the MD that has been approved by the shareholders in the month of January. For that, we have already taken the provision in Q3 itself.

Then that's the only reason wherein we can see the opex increase. The collection cost of the company has been reduced by approximately 2.10%, whereas loan loss provisions without increasing a single rupee of extra provision, we have been able to reduce our NNPA. So our NNPA was 4.50% in Q2. That has been brought down to 3.63%.

The EPS of the company has shown a growth from INR 9.0 in Q1 to INR 12.0 in Q3. There has been an improvement in the capital adequacy of the company. As of Q1, it used to be 20.30%, that is now -- we have now closed it at 23.94% precisely. Now not talking about the business of the company.

I would request my Chief Operating Officer, to take you through the business of the company for the entire quarter and the recovery performance. Mr. Madhu, if you can take it over.

Madhu Alexiouse: Yes. Thank you, Raman, and thanks, everyone, for joining the call. Good noon to all of you once again. The results are in front of you. I think the industry also has shown some uptick as far as Q3 is concerned. We saw about 39.97 lakh two-wheeler being sold in the market during the Q3, which is clearly increase of about 27% Q-o-Q and about 12% year-on-year compared to last year Q3. Overall, we see that for the December YTD overall, two-wheeler sales is about 1.07 crores. That's our estimate. That has happened in the country. And we hope that this quarter, again, it should be somewhere equivalent to the Q3 about 40 lakhs or 45 lakhs around that vehicles should get sold.

There are challenges in terms of the specific models availability because you should be aware that there are new safety norms coming up, which should be applicable from 1st of April. And maybe by February and March itself, the OEMs would start launching those models and that would also be in the market. So we hope that a good uptick should happen in Q4 as well.

So from two-wheeler industry perspective, I've been maintaining earlier also, this is a baseline -- last two years was the baseline, and the numbers should start looking up. A lot of media reports come that two-wheeler is flattish in terms of last couple of years, whereas the car sales have gone up, it has improved. Yes, for the four-wheelers, there's uptick, there's an uptick in commercial vehicles. Two-wheelers, definitely, this was the bottom and then we should look at how it takes off.

One of the key factors would be the -- how the rural sector performs in terms of rural demand. And that is one booster if that improves as we go forward in Q4 and Q1 next year, I think we should be back to the levels of what it used to be earlier. When I say back to the earlier levels, it is about 2 crores sales in the industry. So I would say, two-wheeler sales is bottomed out. And with the rural uptick whenever it happens, I think we'll have a very good sales in the market.

Having said that, the last time we had been mentioning that we had taken slew of measures in terms of our portfolio correction, then we had also looked at our credit and risk norms. We had gone back and analyzed our portfolio. We have taken a lot of steps in terms of correcting our portfolio, which we kind of completed in Q3 itself. And now as an initiative towards regaining back our market share and regaining back our -- the markets where we were operating, we have -- as of now, we have launched a lot of new schemes with the objective that we'll be able to get additional segment of customer from bottom of the pyramid. We look at the slightly above that middle income group.

We want to go into Tier 1 centers. We want to go to metro cities where the volumes are higher. So we have launched schemes akin to getting the market share there. So entire credit policy is recalibrated. And so we are very confident in terms of how we are going to balance our risk and besides also take care of the market need.

We have looked at correcting the in front delinquencies. A lot of initiatives has happened on that. And that's one reason why our lower bucket performance has been good. I'll come to the data after that, after explaining what exactly we are trying to do in credit and sales.

Besides that, from dealer perspective, we have refined our dealer program, dealer offers in terms of trade advance, in terms of marketing activities because Q4 is where we'll build up our tempo and Q1 is one of the good quarters for the two-wheeler business. So these two quarters is where we feel that there's a lot of action that we will get into.

And also, we have tied up, we have relooked at our incentive scheme to reward on higher performance with better portfolio. So a lot of measures we have taken, which partially got reflected in Q3, and we hope that we should have a very strong portfolio as we go forward. On collection front, I'm glad to tell you that and I have been repeatedly telling in terms of our collection efficiencies, we've been maintaining about 100%. And as of December, we were at 105%, which is a very encouraging number that we are having.

And from the bucket perspective, we had been maintaining X bucket around 96%, which is one of the best in the industry. X bucket generally is about 90% to 93%, which is termed as best. And the other buckets also, we were around 83% to 85% collection efficiencies. So on the lower bucket also, there's a huge control that is there in terms of managing the slippages. Our collection model is in the format that how we control the slippages in the lower bucket. So entire incentive structures are aligned to that.

We discussed about NPA briefly, Raman told about what is happening on the NPA piece. We see that it has – from March or April. And by now, we have made a significant progress as far as GNPA is concerned, we were at around INR 472 crores, INR 471.96 crores which was around 3.64% NNPA. January also, we made a significant improvement in this, which may be after the Q4, we'll come back and report.

So we see that there is a substantial improvement in our NPAs that we had focused on. Initially, the improvements were gradual, but as the progress happens, as the more customer connect happens and they start paying one, two instalments and then they start paying more and come out of NPA. So the nine months have shown the improvement has improved substantially.

We hope to do whatever we are committing in terms of NPA control, we should be able to deliver by March. A quick look at our portfolio. We kind of track our portfolio about how it was -- how the old portfolio is, how the new portfolio is.

New portfolio after second lockdown, the business that we had done, how the performance of that, we feel that, that is very robust in the sense that the NPAs are much-much below than the pre-COVID levels of that particular portfolio that is we evaluated 1st August '21 onwards until now, how it is performing.

We have looked at the softer buckets where majority of our book of the new portfolio, about 90% of our portfolio is within zero and within 30, which is a very encouraging portfolio. So the fact that from two-wheeler product perspective, whether it is something that we will be able to grow robustly and profitably with a very strong portfolio, yes, that is there, the evidence is there in front of us.

So all the slew of measures that we had taken is now very clearly reflecting in terms of our numbers, in terms of our portfolio. So I just wanted to assure you that we are on the right direction. We are making a turnaround and I hope that while Q3 results is, first of it showing the U-turn, I hope that as we close the year, we should be able to deliver what we have been promising throughout this particular year.

I'll open this, okay. I think, Raman, you may have to cover some more slides, I think. So over to you, back to you. And if there's any more questions, we can deep dive during the Q&A.

Ramandeep Gill: Thank you. So I just want to run pass through the liability side of the company, where we are, what would be our approach and how we are being treated in the market as we speak. So first of all, while talking to this, the promoter group remains very strong. They are having a shareholding of 62.60%. That remains unchanged. Now talking about the liabilities of the company, wherein, how we are approaching as of now. First, I'll explain you where we are.

Recent, right now, we were relying more on working capital demand loan of the company wherein what we have seen is that relying on the working capital demand loan wherein we are taking it from the PSU bank. Now we do had a bad phase of having higher level of GNPA, which has now been reduced.

And now we have been able to attract those pending working capital demand loan/rollovers from the market. But in order to make ourselves more secure in the future, recently, we have started changing the borrowing mix of the company too, wherein we have been able to focus more towards the term loan of the companies raising the funding through MLDs and right now, we are about to close two NCDs too, wherein we are attracting more banks.

We have been able to attract IDFC First in the Q3. Right now, we have been in active touch with ESAF, and there are a few banks which were waiting for our results. And I'm sure that post seeing these results wherein we have shown a considerable growth in the reduction of NNPAs without having the impact of provision on that. But we will be able to raise more bank loans and NCDs now.

Going forward, as our CEO has told that target is to bring down the NNPA figure to less than 3%, which would be considered as one of the best in the industry. Therein, post that, we'll be able to focus more on the cheaper source of funds, this is second. Third thing is we are also focusing, we have just shifted our focus to fixed deposit subject of the organization too.

When we talk about fixed deposits, we have a book of close to INR 43-odd crores. The target is to have competitive rates in the market. And then we can attract more-and-more fixed deposits. Therein, we are on the verge of finalizing our separate fixed deposit team for the company, which will be in active touch with the group of companies, with the outside world, with the corporates of the world so that we can attract at least the target is to take it to the next financial year, approximately INR 400 crores to INR 500-odd crores. That's the overall target that is in mind.

We will also keep that target in the business plan that we are about to frame. So that will help us in having -- in becoming more liquid and to face such tough situations in the future if that cut arises from events like COVID and all.

So that is an overall update on the liability side of the company. Over to you, Vidhi. If anyone wants to ask, we are happy to answer questions.

Moderator: The first question is from the line of Yash Agarwal from JM.

Yash Agarwal: Yes. Sir, congrats on a good set of numbers. My first question is on the disbursement breakup. So there's something called as other loans which is INR 50 crores. Could you give some color on what segments are these loans in?

Ramandeep Gill: So shall I take this question, Mr. Madhu?

Madhu Alexiouse: Yes, yes, please go ahead.

Ramandeep Gill: So with respect to other loans, we are having a blend of three portfolios there. One is the portfolio of two-wheeler loan, second is the portfolio of co-lending loan. Third is the portfolio of corporate loans wherein we are providing some corporate loans and funding to the outside market.

Yash Agarwal: So what is the breakup within that, sir? How much is corporate loans out of this INR 50 crores?

Ramandeep Gill: So this is basically the additional INR 50 crores that we have done. So corporate loan would be close to 95%-odd from that.

Yash Agarwal: Out of the INR 50 crores, about 95% is corporate loan?

Ramandeep Gill: Yes.

Yash Agarwal: And how do you see the yields and credit cost in this business?

Ramandeep Gill: So credit cost, yes. If you see one slide that I have separately prepared for corporate loan, and I have also presented in that, our performance at the corporate loan, as we speak is basically 100%, right? There are a few cases which we have seen in the past that got bad, but other than that majority of the book is basically very good. And our cost, if we talk about the NNPA, ECL, particular model that we are adopting for that, the overall provisioning stands at 0.60% of that.

Yash Agarwal: And sir, what is the ticket size of this corporate loans, generally, what are the ticket sizes that you're doing?

Ramandeep Gill: Generally, depending upon the size of the company. So we start with INR 1 crores, INR 2 crores, INR 3 crores and somewhere around approximately at INR 7 crores, INR 7.5 crores. As per the policy, we can go up to INR 15 crores, but we don't go beyond INR 7 crores, INR 7.5 crores.

Yash Agarwal: And is there any idea to cap the corporate loans at any percentage of AUM currently, as I see it's about INR 147 crores.

Ramandeep Gill: Yes. So with respect to that, we are targeting not more than 15% to 20% of the AUM in a particular financial year that we'll be able to disburse, the additional book of corporate loans that we will be generating.

Yash Agarwal: And secondly, on the retail disbursement has also bounced back quarter-on-quarter sharply. So is this trend sustainable? And are we expecting to see some more improvement in this trend, in the retail disbursement.

Ramandeep Gill: Mr. Madhu, will you be able to give this?

Madhu Alexiouse: So we are expecting to continue the trend, because I mentioned that we have revamped our entire approach in terms of the business through various channels. I think, we'll continue the trend. And Q4 should be one of the best as far as last three quarters are concerned.

Yash Agarwal: Also, sir, on just a little bit of color. You said there's some provision made on the MD's salary. So is that a onetime provision on the opex hit that you were talking about? And what is the amount of if it is onetime?

Ramandeep Gill: I will be taking it. So yes, Mr. Yash, what happened is we have posted a loss in the last financial year. Thereafter, the salary of MD has been derived, though it has been approved by the Board, but there has to be a consent that we have to take from the shareholder. It's a onetime hit. Why I'm saying this because the salary was on hold since that because the earlier MD used to have a salary of INR 4.20 crores that has been reduced to INR 3 crores for the last financial year, in the financial year where the company has suffered a loss. So I'll call it as a onetime opex hit.

Yash Agarwal: So INR 3 crores salary that was for last financial year has been accounted in this quarter. Is that correct?

Ramandeep Gill: Yes.

Yash Agarwal: And my last question is on the credit cost estimate. So I mean, this quarter, I think there was hardly any INR 1.5 crores, INR 2 crores credit cost. How do you see the credit cost shaping up for the next financial year and even for the fourth quarter?

Ramandeep Gill: So Yash, what we have seen is with respect to the fourth quarter. Now the trend of what we are doing is we have been able to tighten all these software buckets, wherein we used to have an efficiency of 70%, 75% in the previous six months. That has not been increased, too. 90%, 95%-odd in the softer buckets. And in the harder buckets, we have already seen what we have done, we have been able to reduce it, significantly.

So as far as I am concerned, I'm thinking the credit cost will remain more or less the same. Specifically, if we talk about the portfolio that we have generated from August 2021 onwards, the portfolio is close to INR 1,300-odd crores, wherein we have seen a GNPA of not more than 2.7%-odd, which is again, one of the best in the industry. So I'm expecting the same cost to be carried forward at least for the next three quarters.

Yash Agarwal: Raman and Madhu sir and congrats on a good set of numbers and best of luck.

Moderator: The next question is from the line of Amit Mehendale from Robo Capital.

Amit Mehendale: I have a couple of questions. First, can you help me with slippages for the quarter?

Madhu Alexiouse: Could not get you properly. Can you please repeat the question?

Amit Mehendale: Slippages for the quarter, can you help me with that number? What are the slippages?

Ramandeep Gill: Slippages in the sense -- with respect to what?

Amit Mehendale: In respect of credit, what are the accounts that are moving from one bucket to another in terms of the NPA slippages? I can take it offline if you don't have the number handy.

Ramandeep Gill: Wait, for a second. So just to provide you brief minute, I can answer it here itself. That's not an issue. If you talk about, if we compare our performance of bucket X, 1, 2 and 3, right? With respect to this, I believe, that your question lies there only. Our X bucket, which was at -- if we talk about pre-COVID, the X bucket stood at 97%-odd. If we speak now, it is more or less same. There is some which, if I have to compare it with pre-COVID number, then yes, there we have been there or we have been able to beat our bucket 2 and 3 numbers. But if we talk about slippages, if you see for the last four quarters, we have only improved specifically in bucket X 1, 2 and 3. That is the slide that we have also presented in our financial presentation, too.

Amit Mehendale: So I see the slide, and I can take it offline. No problem. Great. And the second question is what do you expect the loan book to grow for the next couple of years, like FY '24 and FY '25?

Ramandeep Gill: Madhu, sir, you want to take it?

Madhu Alexiouse: FY '24, FY '25, we are in the process of preparing our budget, but we want to be there around INR 4,000 crores-plus by 2026. That is the strategic objective. But we should be able to give you a very concrete plan maybe once we close the year. We'll definitely give our road map, we'll come back to...

Amit Mehendale: Basically, the internal target is like to double the book in three years broadly. Is that a first statement?

Madhu Alexiouse: Yes. So pre-COVID, we had thought of -- we piloted used car business, then we went into 10 centers, then we had to shelve it after COVID came in. We had plans for launching consumer durables, so a lot of other things we wanted to do, which we had shelved. Now we are going with like used car, we want to go big next year, so that would become part of our budgeting this year. We are in the process of doing that.

We want to grow our MSL business. That is a business through our flagship company, which was very robust this year, we have shown growth across all the zones as well as MSL, Muthoot FinCorp sourcing business is concerned.

Then used car, I mentioned, there are various other pilots we are doing through our digital processes. Our digital arm, which is ONE Muthoot, maybe some other point in time we will tell about it. They are also working closely with us in terms of doing certain pilots. So we are working on various products, maybe post Q4 is where we should be able to tell something about it. So there are various other initiatives that would happen besides two-wheeler to make us reach somewhere there.

Amit Mehendale: So how are we approaching the overall electric two-wheeler piece in the business? And any number if you could share for that? I mean, if you can share like how much market share we have, or any strategic thing on this piece?

Madhu Alexiouse: So electric two-wheelers, if you ask me whether we are going very aggressive, as of now, no. We have tied up with a couple of OEMs, but right now, we want to understand this market because this is a totally, it is not like the other two-wheelers where the value of two-wheelers as far as electric vehicle, electric two-wheelers are concerned, 50% is towards battery. And if battery, something happens to the battery or it can be removed, then there is no value. So tomorrow, if I go and repossess this vehicle, my loss of sale would be very high.

So the kind of customer segment who is buying it and what is their repayment behavior irrespective whether the vehicle is hypothecated with us or not. How their behavior is going to be. So electric two-wheeler is going to be kind of personal loan. That is what I've been telling. So if you are comfortable giving a personal loan to that guy, you can do this particular product. So we are from pilot perspective, we are doing it, but once we understand this market well, and also, we want to evaluate the secondary market.

So in vehicle finance, any kind of vehicle finance, whether two-wheeler, four-wheeler commercial vehicle, construction equipment. It is very important to study the secondary market, how well it is developed. So once that is developed and you have some feedback that this is what is happening in the second-hand market.

That is where our aggression would come in terms of what is depreciated value once it goes out of the showroom after six months, after one year, after 18 months. So till then, I'll call it pilot. I don't want to give any numbers because financing vehicles is not just that product is there and you start funding it, you need to study it for a longer period of time, 12 months, 18 months. And then you go full hog once you understand that, okay?

So right now, for me, it is more a pilot and understanding that product, and maybe around Q1, we can give some kind of bigger picture about this.

Amit Mehendale: Just want to add-on to it, for example, you may be presenting with a distributor. Suppose there is a distributor who is selling a traditional vehicle, ICE vehicle. And the same distributors will be selling an electric vehicle. So in that case, you're currently funding the traditional vehicle but not funding the electric vehicle, is that a fair understanding?

Madhu Alexiouse: So first of all, we look at the customer profile. So I said that if for the EV, the customer profile is -- so from my categorization, if he is A+ customer, I'll fund electric vehicle to him. But if B category of customer comes and buys both the vehicle, my preference would be to sell the ICE two-wheeler because tomorrow if God forbid something happens and I have to take back the vehicle, [inaudible 0:34:04] is protected.

Moderator: The next question is from the line of Ritesh Sheth from Dinero Wealth.

Ritesh Sheth: Actually, I'm new to the company and wanted to understand our arrangement with Muthoot Finance. So how does it work? And how do we use their brand setup?

Madhu Alexiouse: Okay. So I'll keep it quick so that the -- with as less time as possible, I'll explain. Muthoot Finance is totally separate group and Muthoot Pappachan Group is a different group, okay? Muthoot Finance, most of the people commonly call it Red Muthoot and Muthoot Pappachan Group where MCSL belongs is Blue Muthoot, okay?

So our flagship company is Muthoot FinCorp which is mostly into gold loan and SME and that kind of -- MCSL into vehicle finance. We have Muthoot Microfin with just micro finance business. We have Muthoot Housing Finance, which focuses on affordable funding. We have Muthoot Chits which is doing the chit business. One of the teams, IPL teams that we have, we are the title sponsor of this RCB. So the Muthoot FinCorp that they write is our group. So that's the Blue Muthoot.

So there is no arrangement with Muthoot Finance. That's a separate company, although the family tree is the same. But now the second and third gen has taken over. So there is a very clear-cut segregation. Our brand ambassador is Vidya Balan. Most of the time in our advertisement you'll see Vidya Balan. She is the brand ambassador. So with this, you can distinguish any of our group companies if you see these kinds of pictures, you can understand that it belongs to Muthoot Pappachan Group, which is Muthoot Blue.

So wherever you see Muthoot FinCorp, blue board, we have -- the Muthoot FinCorp has more than 3,600-plus branches across the country. So anywhere you see that board with blue color, that is ours.

So Muthoot Capital is part of Muthoot Pappachan Group, but we are the listed company, only listed company right now.

The listing for other companies are in the process. Maybe some point in time, we'll come back and tell you. So these are different. Muthoot Capital Services, when they do two-wheeler business. Muthoot FinCorp because of their network, they help us in sourcing this business. Their team, their branch, a lot of customers walk into their branches. Some point in time, the walk-in used to be 1 lakh-plus per day, which should be around 75,000 right now. 75,000 customers walk in every day to their branches, 3,600-plus across the country. And when they come, the branch team can offer two-wheeler product to them, if they want to buy the two-wheeler. That is our strength.

And that is during my initial address, I told that the business growth through FinCorp branches is high. It was robust and that is where we want to grow more business so that my dependence on dealer comes down and I go to the market on my own strength.

Ritesh Sheth: So is this the sourcing agreement that is there with the FinCorp group?

Madhu Alexiouse: Yes.

Ritesh Sheth: And you mentioned in your opening remarks that you have taken a lot of portfolio correction steps, had launched new schemes. So I just saw the history that we had taken a big write-off and the amount of Stage 3 assets also went up to 23%. So can you elaborate our important steps which we took or a portfolio correction what we did or a key learning what we are doing right now?

Madhu Alexiouse: So the NPA that got bloated in March was mainly due to adhere to the PCA norms and adhere to the RBI guidelines, which until September, we were allowed to, not to provide for that, but we provided in the month of March and then there was collection effort to reduce that, and that's what we've been discussing that INR 515 crores coming down to about INR 466 crores in Jan or INR 471.96 crores in the Q3.

So the corrective steps here is that, see the portfolio; pre-COVID, was it a problem or did we did some strategic mistake? No, it is not like that. It is a customer segment that we operate. As a group, our vision is to provide finance to the bottom of the pyramid. So MCSL, MSL, MicroFin, affordable housing, their focus is bottom of the pyramid.

In the bottom of pyramid, when their cash flow stops for even a month or two or three, that impacts their repayment capability. And with the COVID, it was impacted more. So all these customers who are in the NPA, these customers are not that they'll run away or they cannot pay the money. These people pay us, one instalment, two instalments, sometimes three instalments. They are paying me some money, but they are not able to pay five, six and come out of NPA.

And instead of writing it off or instead of go full hog and repossess these vehicles, what we say, we will give you time, you pay, no problem. That is why with the network of branches, a lot of customers who come and make part payment of it. 3,000 is the instalment, they may come and pay INR 1,000, INR 1,500. And they can come any time and any, they can pay whatever amount they can afford to.

So while my NPA is bloated in the month of March and April and now it has started coming down because these are the customers who are coming and paying and I need some more time that these customers pay in full and come out of NPA.

So the customer segment was good, robust, no problem. There was a black swan event, which now is gradually getting corrected. So did we make any strategic mistake? No. We are [inaudible 0:40:59] telling that with all the improvements that we are seeing, we are overconfident that the segment and the strategy we are having is in line with what would give us a robust portfolio and also ensure profitability as we go forward.

There are a lot of these questions. People ask what are the changes you have done in your credit and this and that? See, these are all season driven. These are all location-driven. There is a analysis behind this. There's a proper to and fro data with the bureaus to understand how our customer is and is it in line with the market performance. So we keep on doing that and recalibrate our credit strategy.

So these are more detailed. I cannot tell on a call what exactly we are doing. We can get into off-call, offline and we can discuss this. But definitely, one of the points that I mentioned is that I want to add more customer segments, slightly above my current bottom of the pyramid like middle income customers, more bankable customers who are having much better banking habits than my existing customers.

So we have launched special schemes for them. I want to enter into Tier 1 metro cities where the volume is slightly higher. So these are the future strategies, but we have recalibrated everything. And now we'll only look at how we grow the numbers.

Ramandeep Gill: And in addition to it, sir has explained it so well. Still I would like to add one more point over here. This point is regarding transfer promoters on that, wherein we have started 1 NPA call. That has been started six months back, wherein daily calls will be happening. And so the promoters ask, we can see what is happening on the ground actually.

And where do they need our support and how can we provide them a faster support as compared to previous things wherein we need to wait for their mails and all those things. So whatever things that can be supported by the promoter, by the CFO, by the CEO, that can be done immediately. And so that we can see an improvement in the number right from the next day itself.

So that is where I believe that the game changer was wherein to interact with the ground level team on a daily basis. And we are still interacting it in order to bring it down to lower than 430 by March. That is what the internal target.

Ritesh Sheth: And last question from my side. You just said that we have a target of reaching a INR 4,000 crores AUM by '26. So majorly, it will be driven by two-wheelers only? Or we also said that corporate will also be a part like 15%, 20% of it? And what do you categorize as corporate.

Ramandeep Gill: So in order to answer your question, sir, you want to take it?

Madhu Alexiouse: Raman, I will take. So I mentioned that we'll have more products added to our stable, besides two-wheeler. And I gave you a flavor that how, what is the upside in terms of the expansion that we can do, geographic expansion. I give you a flavor on the customer segments, the opportunity in customer segments that we have got, which would give us upside. So plus, the business through our flagship company, which is Muthoot FinCorp Limited, a gold loan company branches. So there's a huge upside for us as far as the existing product is concerned, plus we'll add new products. New products may not be a very high top line pulling kind of thing, but it would establish us very strongly in the next couple of years in terms of diversifying our product lines and diversifying our risk and a lot of other factors.

Corporate loans is not going to be more than 7% or 8%. What Ramandeep said was, additional that we add maybe 15%, 20%. But from overall book perspective, it may not be above 10%, 8% to 9% is where we have maintained. So this would be the structure of the entire thing. But prominently, predominantly, it would be driven by two-wheeler business, plus the upside that I've told you.

Moderator: The next question is from the line of Aditya Shroff from InCred Asset Management.

Aditya Shroff: Sir, we had carried some high write-offs in the previous year. So can we expect any write-backs in this year or probably next year?

Ramandeep Gill: Okay. So in terms of write-offs, write-off happen, yes, specifically in the Q2 also, it had happened. The thing is that we do have an additional overlay of INR 212.99 crores. And the way, we are on the verge of improving the NNP of the company without additionally writing-off anything. We will, again, wait for another two to three quarters in order to take this decision.

Aditya Shroff: Sir, could you please quantify what was the amount of write-offs that we carried and what is the amount of write-back that we can expect?

Ramandeep Gill: So write-off that specifically, if you talk about Q2, that we had a write-off of INR 38-odd crores. In Q3, it's zero. As far as right back is concerned, that will solely depend upon the recovery wherein which we can see, though we are in the process of that, and I'll be able to comment it better after my Q4 results.

Aditya Shroff: Sir, actually, I was asking about the write-offs that you carried in the last year, which was comparatively high. So I was asking about write-backs on that?

Ramandeep Gill: So that's what I'm saying. Now we are expecting some recoveries, and we have been able to recover only a small amount as of now, though there is a major chunk that we are expecting in Q4 for that. Out of that, that I'll be able to say after Q4 results.

Moderator: The next question is from the line of Vidhi Shah from Antique Stockbroking.

Vidhi Shah: Sir, I just wanted to know the sourcing channels. So we have mentioned that we are scaling up dealership point and also the -- now, we are doing a lot of initiatives from our Muthoot FinCorp branches. So if you can give some color on how has that scaled up or seeing some improvement from there and from which sourcing channel has done better in terms of disbursement this quarter?

Madhu Alexiouse: I think this quarter, there is no way we should distinguish among various channels because this quarter, we were more into recalibrating our credit strategy, our pricing, our schemes and things like that. But there are very clear signs that the business growth from our FinCorp channel has been one of the best in terms of the growth that we have seen Q2 versus Q3, last year versus this year. So we are seeing that.

And at the same time, the activities that they indulge into in terms of the GTM and things like that, we have seen a lot of encouraging inquiries from the two-wheeler business perspective. So I think it is about how we grow in the upcoming quarters, whatever initiative we had to take. Now we have completed that. We are kind of reinforcing our manpower, which would support the branches across the country.

We are adding more manpower in that, this particular channel, would have additional support in terms of our internal manpower, which would drive these branches in terms of whatever support they need, tie up with dealers and things like that. They themselves are doing an ecosystem tie-up whereby the driving schools, the mechanics, all those ecosystem partners are aligning with them and referring businesses to them.

Because all these things would take some time to show the result. For the Q3, I think almost MFL has shown a very robust growth. But from wheeler front, we think we have moved out from non-profitable business, smaller dealers where we were not getting volume, and now we have moved into bigger dealers, realignment that we have done.

And of course, I mentioned about getting into Tier 1 centers and metro. Metro would be subsequent, but Tier 1 centers, a lot of big dealers we are trying to tie up with them which maybe subsequent quarters, we should be able to see the growth in the numbers.

So Q3 would not be a right quarter to do that. But definitely, the initiatives that we have taken and the traction that we have seen last couple of months is very encouraging. Maybe post Q4, we would be able to give you more flavor on how the channels have been kind of realigned and rebuild.

Vidhi Shah: Sir, also if you can give some color on your co-lending business. I know we would like to have -- we were tying up with some partners and in procedure to close some. I guess on the Northern side, we are doing business and in Western part of like region you have still yet to do. Like any idea, any color on how things are progressing there?

Madhu Alexiouse; Okay. So co-lending business has taken off well for us. That is the third channel that we are having. And currently, we are having two partners. We are looking for more. There are more partners who are approaching us, which we should be able to tie-up as we go forward. We see this as one important business source for us.

Among the two partners, we have buyout-buyback agreement as well with them that once it crosses 60-plus, it reaches 70, they buy back the portfolio from us, and that is out of our book.

So as of now, with nil NPA, we are operating through them. One of the partners, they are predominantly in North and East. So the business traction, because North and East, our presence was lower, so we wanted the partner to focus there. So that, wherever we were not able to reach, they are able to reach.

The other one is in Punjab. So Punjab and that belt, we were kind of weak, so we wanted someone to operate from there. So we have spread out North and East and specifically around Punjab, the numbers are robust through them, maybe we'll share those numbers off-line separately right now. Yes. And with the new additions, maybe we'll be able to give you a bigger picture on what exactly we want to build through the co-lending business.

Vidhi Shah: Sir, any color on how things are progressing in the Western side also? Because I think you were keen on tying up with partners there as well, right? So is that happening? Or for timing, we are only looking to approach via our branches and our channels?

Ramandeep Gill: So with respect to this, we have just tied up to the co-lending partners, approximately three to four months back. Right now, it is going very good for us. And I'm sure that we would wait -- we will wait for another three months in order to see what problems that we are facing or what good things that we can negotiate with the upcoming partners. So there are pros and cons to everything, so we are going to just wait for this quarter and then based on the results that we will see for the co-lending existing agreement, we can go ahead in onboarding the new partners to be across the country. Though, we have started evaluating the same.

Madhu Alexiouse: So for the rest, a couple of partners that I'm talking to you is from the West. So that should take care as we go forward. So rest also we are looking at how to fill up the areas where we were not able to do?

Vidhi Shah: So is my understanding correct? I mean wait for some time and see how these two partners, how the co-lending business is going on and then after some months, maybe we'll start approaching partners maybe in the Western region, is that correct?

Madhu Alexiouse: No, there is no condition to that, whether we'll add new partners. This is the experience of the current two. We want to experiment with at least three or four partners so that there's a flavor and we know that what is doing fine, what is not doing fine. So we are looking at additional to at least two more partners, so it would be three or four more partners as we close this financial year.

Moderator: Thank you. That was the last question for today. I now hand the conference over to management for closing comments.

Madhu Alexiouse: Raman, you would like to, and then I'll switch in.

Vidhi Shah: Sorry. I think there's one more question from Amit Mehendale, can we take that sir? Yes.

Ramandeep Gill: Yes, please.

Vidhi Shah: Yes.

Amit Mehendale: So I think in one of the earlier comments, there was a discussion around starting funding for used cars in that segment? Can you also shed some light on what is our thinking there because it's a fairly large market?

Madhu Alexiouse: Yes. So used car, I mentioned that we already do, we already started used car. We piloted and then we went into 10 centers. And once the COVID happened and then we shelve that, but we continue to do in Kerala. We do used cars in Kerala. And our experience as of now is excellent as far as the portfolio is concerned. We want to grow this business.

So we went to 10 centers. We'll go back to these 10 centers once we budgeted. This is the quarter when we are budgeting, and we are coming to a conclusion that, okay, this is something what will drive next financial year. So we know this business. We have piloted it. We have the outcome of the pilot. We know what are the next phase of areas that will go in the next phase. And then we budget it and then we start doing this business. There's a huge market, no doubt, you said that.

And I mentioned that we are a company, we are a group which focuses on the bottom of the pyramid. The business that we want to do in used car is the ticket size from INR 2.5 lakh onwards till let's say INR 8 lakhs or INR 9 lakhs or INR 10 lakhs. This is a value of the vehicle that is a segment of our customers would like to buy.

Why we don't want to do used cars? So we say that what is the next need of our customer? First need was two-wheeler, to have a two-wheeler. Next need will be a four-wheeler because the family is graduating, his income is increasing. This family is becoming bigger. So can we offer that. So and are robust at the very economical price. So that's why we say that we are looking at a ticket size where this is INR 2.5 lakhs onwards, till INR 6 lakhs or INR 7 lakhs or maximum INR 8 lakhs.

That is the segment that we're looking at. Whereas in the market when you go into what other competitors do, they want to do high-ticket funding like INR 10 lakhs, minimum INR 8 lakhs, minimum INR 20 lakhs, INR 30 lakhs like that. So our approach is totally different. We are looking at our segment of customer, what is their need and fulfilling that.

So right now, I'm not saying that aspirationally, we are looking this as a very big top line strategy. No, it is not top line. It is about our customer, what my customer needs and how I can do. What we did last time and I have been telling all of you about 10 centers is where we went. We'll go with these 10 centers again. And then from there, we'll bring the traction.

So as of now, this is the feedback I'm having right now but maybe after Q4, when we come up with our final results for the year, at that time, we'll elaborate on our business plan also.

Moderator: Thank you. I now hand the conference over to the management for closing comments.

Ramandeep Gill: Thank you, everyone. Thank you once again. I hope that we are able to address most of the observations or queries that has been raised by you, and with these kind of results, I'm super happy and excited that the journey from here onwards would be onwards and upwards for the company. I am sure that with this respect, the profitability, that has been increased now, we are intending to increase the business volumes of the companies in a large way, wherein we have been able to do that in the past also.

And now slowly and steadily, we are on the verge of reaching that position. So I am expecting larger business chunks with higher business profitability in the quarters coming forward. And put together, I just want organization to do well. And we need your support. We need your prayers, best wishes as always. That's it from my end. Thank you. Thank you, everyone. Thanks a lot.

Madhu Alexiouse: So thanks to every participant. Just to assure you that we had gone through a patch like any other NBFC has gone through. We took some time to revive back. And I mentioned that it is about our customer segment and how we fail with them and bring our portfolio back to shape. So whatever steps we took, we have evidence in front of us that we are in the right direction. And there is an uptick in terms of the performance.

And especially even today, if you ask me what was the highlight of the performance, it is about how we have been able to control our slippages in terms of collections and how we have been able to bring back our NPAs to normalization or resolve them, that was the highlights. We'll continue to do that until our portfolio robust and the confidence of lenders and confidence of investors are back.

And I think we are in the right direction as somewhere post Q4 or around Q1, we should be where we were pre-COVID level. I think we are -- I mean as an organization, from Board perspective, but from promoter perspective, from our team spirit perspective, there's a lot of positivity. And I think we should be able to deliver what we have promised. Please continue supporting us. Your best wishes, your prayers are also very important, and thank you very much. Thank you, Vidhi for the call. Over to you.

Vidhi Shah: Thank you, and finally we can end the call.

Moderator: Thank you very much. On behalf of Antique Stockbroking, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.