"Muthoot Capital Services Limited

. Q4 FY '23 Earnings Conference Call"

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MODERATOR: **MS. SHWETA DAPTARDAR – ELARA SECURITIES PRIVATE LIMITED**

Moderator: Good morning, ladies and gentlemen. Welcome to the Muthoot Capital Services Q4 FY '23 Earnings Conference Call, hosted by Elara Securities Private Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Shweta Daptardar from Elara Securities Private Limited. Thank you. And over to you, ma'am.

Shweta Daptardar: Thank you, Lizann. Good morning, everyone. On behalf of Elara Capital, we welcome you all to the earnings conference call of Muthoot Capital to discuss the Q4 FY '23 and FY '23 earnings performance.

From the esteemed management today, we have with us Mr. Ramandeep Gill, CFO, Mr. Mathews Markose, CEO. Without further ado, I now hand over the call to Mr. Ramandeep Gill for his opening remarks, post which we can open the floor for Q&A. Thank you. And over to you, sir.

Ramandeep Gill: Thank you so much, Lizann. Thank you so much, Shweta. A very good morning to everyone. Very happy to converse with each one of you after one quarter. I'll say, if we compare these results previously -- with the previous financial year or with the previous quarters, the only one thing wherein we are very proud of, though, we have been able to show the improvements in each and every area. But with respect to the GNPAs of the company and the NNPAs of the company, the company had laid a huge improvement if we talk specifically in the last six months. And I'm sure most of you would have seen the accounts also and also the investor presentation that we have uploaded on the website of the company.

The accounts have been approved by the Board on the 19th evening. But as usual, what we are doing is, we are just about to give you the broad highlights of the entire results. Post that, we will be introducing you to our new CEO, Mr. Mathews Markose, who will be giving you the fair idea of what is the target for the upcoming quarters and where we are going to take this company in this financial year and then in the quarters to come.

So let me begin with that, that we are extremely happy to post quarter-on-quarter growth, specifically in the portfolio of the company and reduction of the NPAs of the company. The AUM of the company stands at INR2,102 crores, while comparing to the previous financial year INR2,088 crores. The company had adopted a very conservative approach in the last financial year, wherein we want to test because of the increase in the GNPA, which we have reported in FY 2022 of 25% and in NNPA, it was 5.68%. We wanted to grow very conservative. We wanted to see how the post-COVID portfolio will behave. And trust me, it's no surprise at all, the post-COVID portfolio have behaved extremely well for us. If we talk about only the portfolio that we have acquired post-COVID, we are not even facing the GNPA number of more than 4% to 5%, which is extremely well.

The profitability of the company. If we talk about PBT, it was INR108 crores. The profitability that we have reported for the financial year, it is INR77.92 crores precisely as compared to the previous financial year, which was INR161.82 crores of loss. The total income has been significantly grown up because -- INR444.62 crores that we have reported in this financial year as compared to the INR411.30 crores in the last financial year.

The disbursement of the company has been increased to INR1,318 crores as compared to the INR1,147 crores in the last financial year. The company, as of now, is reporting into 20-odd states with a live customer base of 4,89,416. As usual, as I said, without increasing the provisioning in Q4 of this financial year, we have been able to bring down our NNPA to 2.58% as compared to the Q3 wherein it was 3.63%. The PCR of the company, wherein the provision that has been provided to the NPA book stands at 89.78% as high as it can be. The Stage 3 specifically comes at 20.87%, whereas the overall provisioning on the books comes at approximately 20%. Precisely, it's 19.78%.

The leverage of the company as compared to the previous financial year, it stands at 3.87x, whereas CRAR is always on the higher side, which is 27.89%. The EPS is very good, very healthy. It's INR47.84. If we compare about the -- if we talk about the CRAR growth from the last financial year, last financial year, it was standing at 19.5%, whereas in this financial year, we have closed a 27.89%, therefore, marking a jump of 43.03%.

The GNPA of last financial year was 25.93%, which we have been able to bring it down to 20.55%, reduction of approximately 20% into that. However, we can also say about the actual number for the GNPA, but percentage is something which is already reflecting. The ROE of the company, since the company was in loss, so it will not be a comparable thing to compare the ROE, but still the -- in Q4, we have reported an ROE of 22.08%, with a healthy ROA of 4.88%.

The profit after tax for the last financial year and specifically in Q4 was INR153.50 crores in loss, whereas right now, and specifically in Q4, we have made a profit of INR25.6 crores positive. The overall jump stands at 116.68%. If we compare the profitability with the last quarter itself, we have seen a jump of 29.95%. These are my profitable numbers, wherein the company has been able to show you that where we can go. We have brought our LTV down to 78.4%. As a matter of fact, wherein at the start of the year, we are somewhere around 80% to 85%. But the average LTV has been brought down to 78%.

As compared to the written-off -- write-off of the company, yes, the company has made write-offs, specifically in H1, which we say is Q2 of this financial year, wherein we have made some sort of write-off. This financial year since the recovery and the progress that we have seen in the last six months is on the high side. Again, if we have to take a call and the PCR, as I said, is on the hard side, we will be taking this call in the Q2 of this financial year.

The net on fund of the company, which at the start of the year was INR411.30 crores, we have closed this year at INR489.30 crores. So, this is what the overall growth of the company is in terms of the financials.

I would like to hand over this call to our new CEO, who has joined us on 15th of May, so that he can talk about the upcoming quarters, how it will look like, the upcoming financial year and where we are headed towards the business of the company.

Mr. Mathews Markose, are you there?

Mathews Markose: Yes, Ramandeep.

Ramandeep Gill: Yes. Please take it forward.

Mathews Markose: Thank you, Ramandeep, and good morning to all. Very, very happy to connect with all of you. As Ramandeep already mentioned, I'm just a week old in this organization. My name is Mathews Markose. So as Ramandeep pointed out, last year was a year of consolidation for us, where we could do a very good work on the reduction of NPA. And therefore, it gives us a lot of confidence to go into this new year. So, this year, we are also trying to diversify our overall portfolios.

We are a predominantly two-wheeler loan company so far. But we want to go very aggressive this year also on used car for two reasons. One, it gives a almost a 4x jump in the ticket sizes. And our customer profile also, we have a base of about 5 lakh customers in MCSL and in our Muthoot FinCorp, which we work very closely with for our two-wheeler business. We have close to 1 crores of active borrowers there. And all of these customers naturally graduate to a used car. So that is our next level of growth. And therefore, we see a huge potential there.

So, until last year, I think predominantly, our business was contributed by the dealer business, which is the conventional business in this business. But this year onwards, we are laying a huge emphasis on brand sourcing. So, wherever Muthoot Capital Services operate, we have close to 3,250 branches of Muthoot FinCorp. And these are all branches where customers walk in to take gold loans, and that is where we plan to source our business from as an additional channel, which will augment our overall business strategy. Other than that, we also are active in the core lending space now. We will also be going through the VC model. So, lot of initiatives are being worked out as we speak.

From June onwards, we will be looking at about INR100 crores of disbursement. The first festive season starts from Kerala with Onam. Onam is one of the largest festive occasions in Kerala, where we see a huge jump in numbers. So, we are planning to capitalize on that. We already started connecting with the dealers in this regard. So, from June quarter, we will see our business disbursement figures crossing INR100 crores per month. Our overall plan for the year is about INR1,600 crores-plus. That is what we have currently pegged our numbers at.

And the way we see the buoyancy in the market, we see this year the business jumping to the -- overall sales jumping to close to the pre-COVID levels. And that will give us the required tailwinds for us to grow further. And along with the additional business that comes from MFL, I think these numbers are quite achievable.

So yes, that's all from my side, Raman.

Ramandeep Gill: Thank you. So, one more thing, which I just want to run past is basically the liability side of the company, that where we are as of now and the approach in the next financial years or in the quarters to come and how we are representing ourselves in the market. So first, let me inform you about the shareholding of the company. It remains -- the promoter stake remains unchanged with isolated at 62.6%.

Now talking about the liabilities of the companies and how we are approaching towards the market. At the start of the year, we have the GNPA figure of as high as 25.63% and an NPA figure of 5.68%. The borrowing mix of the company contains only the working capital demand loan. Therefore, the PSU banks are there, which try to pull-off certain deals based on the higher numbers in GNPA.

So, after seeing our Q3 results, we have been able to pull out various banks also, wherein the PSUs, which they have pulled their working capital demand loan off in Q1 or Q2, now they have again gave it back to us in Q4. For example, Union Bank, wherein we had a limit of -- undrawn limit of INR100 crores with them. In March, they provided us the entire limit of INR180 crores. They are just re-sanctioning within.

So, the idea was there, a few people can see in the investor presentation also is to change the borrowings of the company as well. Because these types of things wherein the GNPA, it will spike again, then what is the plan for the company? Are we having enough funding? Are we having or banks can pull it out at the last minute? So, we just tried to mix the borrowing mix of the company with respect to the working capital demand loan, the term loan of the company, the NCDs of the company. And we have also closed two MLDs transaction too. So therefore, we want the borrowing mix to be standard. We want working capital demand loan also, but that we are in somewhere around 50% to 60% going forward.

In my last call of Q3, I still remember I told that we are trying to bring down our NNPAs to 3%, though, we had closed at somewhere around 2.63%. Now this year target, wherein we will be trying to bring down our borrowing cost too. Last year, we have closed our overall borrowing cost of 9.10%, though, I still consider it as on the higher side. The target for this year would be to source on the fixed deposit book.

Right now, since we are having a fixed deposit book of somewhere around INR35 crores, INR36 crores, the target is now to revise the entire scenario with the new CEO who has just joined us, to have the competitive rates in the market. So therefore, we can attract more-and-more FD customer. Therefore, right now, in Q1, we will be finalizing some rates, which will be competitive to the outside world and so that we can also target the corporates and the retails of the world.

The target is basically to have this book somewhere around INR80 crores to INR100 crores specifically in the Q2. We have identified what we can do. The only thing is in the implementation, wherein we will be just starting now as we have over with our Q4 results. So, that will help us in becoming more liquid and to face tough situations in the future. For example, the events like COVID, which had an impact on GNPA. We just don't want to have that situation in the future wherein we are pulled out from these banks. But now since we are back, we have shown the resilience, we have shown the stability in Q3 and the better performances in Q4.

I'm expecting to keep the same momentum in Q1 and Q2 also. The channel partners, which my CEO has just explained, with respect to co-lending, yes, we will be exploring more co-lending partners, and we will be exploring more VC options, too. We are on the verge of finalizing one VC option too, which we will be finalizing in next two weeks for sure. And therefore, we will be increasing the funnel of business lines.

So, with this, I will be very happy to answer your questions. Over to you, Shweta.

Moderator: Thank you. The first question is from the line of Aditya Shroff from InCred Asset Management. Please go ahead.

Aditya Shroff: Yes, sir. So, I had a few questions. So first of all, with the new CEO, Mr. Markose joining us, so what would be the key changes in the strategy of the company? Secondly, what will be the KPIs based on which the new CEO's remuneration will be decided? I want to ask that. And lastly, so we had taken these write-offs of around INR212 crores in the fourth quarter last year. So, when can we expect some write-backs from this pool? Because even in the last quarter, the management said that we'll have a view on this by the next quarter. So, do we have an idea now on when can we receive this write-back?

Ramandeep Gill: Yes. So, Aditya, first question, on the write-off of the company, which you have said, I will be taking it. Then we will be listening the strategy from the CEO. First question wherein you have put it on write-offs. So, it was last financial year, the INR212 crores that we have added, it was a part of management overlay that we have provided. The company was on the verge of being PCA as per the RBI guidelines, wherein NNPA of the company, if it is more than 6%, then you will be classified under the PCA norms.

So, from that, over and above our ECL provisioning, we have taken a management overlay of INR212 crores. So that was not a write-off. It was just a management overlay. Just to give you brief numbers to Aditya, last opening, we had a GNPA of INR531 crores. Of that pool, we have been able to recover more than INR100 crores now and we have closed somewhere around INR431 crores in Q4.

I hope this answers you briefly. And can we move ahead to CEO for the strategic question?

Aditya Shroff: So, what I just wanted to ask, like from the write-off that we had carried, can we expect any write-backs this year? Because in the last quarter, you mentioned that by fourth quarter, we'll be able to recover some of -- we will be able to recover some more amounts from the write-off that we had carried. So, in Q2, we had recovered around INR38 crores. And in the last quarter, you mentioned that by Q4, we'll be receiving some more of it.

Ramandeep Gill: Yes. So, Aditya, if you see the numbers from November to March, which I will be specifically focusing on, therein, we have been able to recover somewhere around INR75 crores to INR80 crores. My collection head has joined us precisely on 27th of January. So therein, he is just working hard, and I'm 100% sure that we'll be able to recover INR100 crores of pool in next two quarters itself from the outstanding GNPA of INR384 crores from the previous book pool.

Aditya Shroff: From the previous book, which has already been written off?

Ramandeep Gill: No. Not. That is what our GNP has. The provisioning is there in the books. The write-off is something which we will be taking a call in the Q2 of this financial year.

Aditya Shroff: Okay. Understood.

Ramandeep Gill: Yes. And Mathews, sir, can you comment on the strategy of the company going forward as asked by Aditya from InCred?

Mathews Markose: Yes. Aditya, so to answer your question, so we have multiple things lined up. First and foremost being, so when I look at the vintage of the team, so I think we are clearly head and shoulders above our immediate competitors in the sense that my middle management has an average vintage of about 10 years to 12 years in the system, which means they are very, very experienced people. So, one of the issues that we face in this industry is lot of attrition and therefore, resulting to no stability on the ground, etcetera. So, that is a place where we have a clear advantage, where our middle management and the people who really drive the business have a lot of vintage. They've been with us for a long time, okay.

Second thing on the technology front, we are going to really digitize our entire process end-to-end. So, we have already closed the deal with an LOS, and that will be implemented by the end of June or latest by mid of July. So, that is going to -- currently, our TAT is slightly on the higher side, but our TAT will reduce to two minutes to three minutes with the implementation of that. We have also parallelly closed a deal with a vendor who develops propensity model. So, that vendor is going to work on the entire base of MCSL, Muthoot FinCorp and the group companies.

You will appreciate the fact that Muthoot FinCorp has a database of about 1 crores active customers. Muthoot Microfinance has a database of about 25 lakhs to 30 lakh customers. All these customers naturally graduate to one or the other product of Muthoot Capital, which is a two-wheeler, a used car, etcetera. So, we don't need to go all over the place within the system, within the ecosystem. We have enough customers who can take one or the other loan from us. So, that is what we want to capitalize on. It's an AI-based propensity model that the vendor is developing for us. And based on that, we will be able to churn out this data and pass it on to our branches through a CRM, which any customer walking in, the branch will be able to see that this customer has an offer and therefore, we will be able to close these deals much faster.

Three, as I already referred to earlier in my talk are group companies like Muthoot FinCorp and Muthoot Microfinance, they have a huge branch network and a lot of captive base of customers who walk in daily. So, the number of people who walk into or come to our branches is a huge number. And most of these people come in a two-wheeler. They are all prospective customers for a new vehicle or an upgradation to a used car and all that. So, that is one thing which we are going to clearly capitalize on going forward.

I'm setting out completely different verticals. Till now the person who was handling the dealership was also managing the branch network. Therefore, there's a natural tendency for the person to go after a low-hanging fruit, which is a dealership because that is where the entire action happens. You can't go into a Muthoot FinCorp branch and look for opportunity on the two-wheeler side, otherwise. So now this team, which will exclusively focus on sourcing from the group companies, their life will depend on it. Therefore, that business will surely see a huge jump.

Fourth was on the liability business. So, as you're aware, we are a deposit taking NBFC, and therefore, that is one opportunity which we had not explored so far. That is going to significantly reduce our overall cost of borrowing. As of now, I think our cost of borrowing is around 9.28% or something or thereabouts. That with this opportunity, we should be able to, one, reduce the reliance on external funding to some extent and also bring down the average cost of borrowings, which will impact our NIM positively.

So, these are the strategies that we have in mind. And of course, with the expectation that the market should be much more buoyant this year after the shake-up of the effects of COVID and all. So, that is going to have a positive impact on our overall business.

Aditya Shroff: Yes. And what will be the KPIs based on this -- your remuneration will be decided?

Mathews Markose: Mine? So, mine is both on the top line and the bottom line, of course. On the AUM, if you look at it, AUM has come down from 2018 to now because of COVID and related things. So, first priority, of course, is to build the top line, bring back to the AUM levels. And secondly, of course, on the bottom line as well. So, it has to be a holistic approach where we focus both on the top line and the bottom line. Profitability will be a prime motive. We are introducing a regional state-level P&L from this year for our staff, which was not there. We only used to -- the P&L used to be managed only at a management level so far.

Now, we will have all our stakeholders, which is our RHMs, our state heads manage their P&L. So, they will be given the target. So, they will be more -- until now they were only business drivers. There were sales guys. Now, they will be business managers. They will look at P&L at their respective levels, which will obviously then add up to -- aggregate to the management level P&L. So, these are the initiatives.

Even at our frontline staff level, there used to be sales guys who were looking only at a certain number. We are bringing in parameters to fix accountability on default NNPA, etcetera, at that level. So, it will be a more holistic approach to an annual appraisal than just working in silos, where sales does only sales, collection does only collection, etcetera.

Aditya Shroff: Okay. Got it. Sir, last question is to Mr. Ramandeep. So, can we expect any recoveries from the written-off accounts, which will be directly added to the P&L without seeing any provision costs?

Ramandeep Gill: Yes. 100%. See, what we are doing is, as I told you, the plan is -- earlier, there was one recovery head, whereas there was no repo sale ahead. Now, we have classified our NPAs into three parts.

One is basically towards the soft bucket, wherein 1% will be focusing on a bucket of zero to 60. Second is basically a person who will be driving the NPAs and taking the funds from the written-off accounts. He's basically a hard NPA head. And third is basically the heads that we have hired, who's only responsible for the sale of repossessed assets. So, these are the three changes which we have made. Earlier, it was under the one umbrella only.

Now individual targets have been defined for month-on-month. And I know, I'm quite sure that the kind of recovery that the company has seen in the last six months, we'll be able to replicate the same performance in the quarters to come. And then by Q2 end, we'll be able to take some sort of call that what we should do and whether we should go for a write-off or we should go ahead, because first of all, we need to assess that how much we'll be able to take it. Seeing the previous quarter's performance, I'm sure we'll be able to recover some sort of INR100 crores to INR150 crores for sure from the old book.

Moderator: Thank you. The next question is from the line of Divesh Mehta from Dinero Capital. Please go ahead.

Divesh Mehta: Yes. So actually, I had a couple of questions. First one was on the disbursement side. This quarter, we have seen disbursements de-growing quarter-on-quarter also and year-on-year also. And last quarter, we had added a few co-lending partners, and we had mentioned that we are about to add a couple of more co-lending partners this quarter. So hopefully, I was expecting our disbursements to increase, but it did not. So, wanted to understand what went wrong? And on the co-lending piece, how it's happening, what's the plan there?

Ramandeep Gill: Sure. So, I just replied, as compared to year-on-year disbursement, last year, we have done INR1,147 crores. This year, we have done INR1,318 crores.

Divesh Mehta: I'm talking about quarter 4, sir.

Ramandeep Gill: Quarterly. Yes. I'm coming. Second, with respect to the quarters, the last -- if we talk about Q3, which is basically a more towards the seasonal quarters wherein we have just added one co-lending partner also, the two co-lending partners in Q3. Therein, that has given a jump of somewhere around INR200 crores to our co-lending and that too there was a season also. And specifically, if you see in two-wheeler industry, you will see higher number of figures in Q3. So, comparing it with Q3 is something which we should not -- if we have to compare, we can compare it somewhere around Q4-to-Q4.

Yes, there is a bit slow down because we are about to change our strategies and all. And therein, if you see the -- if you talk about Q4-to-Q4 jump, Q4-to-Q4 future comparison, it was somewhere around INR308 crores in the last Q4, wherein it is around INR280 crores because the focus of the company was towards -- to collect the amount which has been financed. And therefore, the company has been able to bring down the overall GNPA level.

Third thing, with respect to the co-lending partner. Yes, the co-lending business, the co-lending partners was about to add. And just now day before itself, we have signed one more co-lending partner and we are about to sign one more co-lending partner for EV. So, in this quarter itself from April, May, June, we are expecting from all our co-lending partners to provide us a business of somewhere around INR100 crores to INR125 crores. And adding it to the MCSL business, we are expecting somewhere around -- to close this quarter somewhere around between INR270 crores to INR300 crores.

Then in Q2, we will be able to expand this because our co-lending partners -- our co-lending partners would be there, and their targets have been defined according to the month. Earlier, there was a target wherein they have to achieve. So wherein the seasonal business is there, they have been able to throw more business to us. But now our quarter-on-quarter targets has been defined to them.

And to be very honest with you, the Q1 target, if it is INR125 crores, the Q2 target will certainly become between INR150 crores to INR200-odd crores. And then we can expand for Q3 targets of INR300 crores. Therefore, the overall target for the entire financial year from my co-lending partners is INR750 crores that we are targeting. And I'm 100% sure because partners have already been added.

Divesh Mehta: Okay. Yes. So, the INR1,600 crores target, which we mentioned for our disbursement includes the INR750 crores of co-lending?

Ramandeep Gill: No. That INR1,600 crores will come from our sourcing channel through our -- as our, CEO had said through our MSL branches, wherein we will be having some sort of cross-sell and through dealership business of MCSL. This will be taken more seriously, because last financial year, sir, if you have seen, the target is to see whether we are funding right or not. The underwriting policy has to be seen. Everything has to be filtered. Our CRO has joined us in the last August. So, we were just expecting how portfolio will behave. Now, we are okay with the portfolio. Now, we are okay with the policies that has been framed, and we are happy to go all out in the market. With addition to the new LOS, I'm 100% sure we'll be able to overachieve the same target.

Divesh Mehta: So, for the whole year, disbursement should look -- should be around INR2,400 crores plus, minus?

Ramandeep Gill: Somewhere around INR2,300 crores to INR2,400 crores.

Divesh Mehta: So, will you almost like doubling our current -- last year…

Ramandeep Gill: Yes. Because right now, we will be going all out, sir.

Divesh Mehta: Right. Sir, with regards to this last quarter, we had mentioned that we will come up with a strategy plan over next two years to three years. So, wanted to understand what's the plan for over three years to five years, or any plan or vision the company or management has framed there?

Ramandeep Gill: Yes. So, we have been able to draft it. And then when the -- when -- our new CEO has just joined, so he will be vetting it. We'll be taking inputs from him also, and I'm sure we'll be able to roll out something next year by 15th of June.

Divesh Mehta: So probably, next call, we'll have a clarity?

Ramandeep Gill: 100%.

Divesh Mehta: Okay. And last, in your opening remarks, last statement, you said that there's some VC funding, which will be finalized. So, wanted more clarity on that. Is there any equity raise you are planning or what is that?

Ramandeep Gill: So right now, if you see, sir, debt-to-equity, it stands at 3.87x. The profitability of the company has been jumped. So, we are expecting some sort of equity planning or some sort of Tier 2 capital, wherein we have already received offers, right, by the end of Q2, because we want to have -- we want to go in the market with the improved results.

Divesh Mehta: Right. Yes. So, it will happen probably after Q1, equity raise?

Ramandeep Gill: Yes.

Divesh Mehta: And one more question was on the provisioning. The earlier participant already discussed, but I was just thinking that how do we utilize this INR210 crores of management overlay?

Ramandeep Gill: So, what we are doing is -- it's a very good question. So, I have to say this, the management overlay is on the higher side. We are keeping our PCR -- overall PCR also on the very higher side. If you see, the overall PCR somewhere stands around 60%, 65%. But in our case, it is 89.87%. I am targeting, I just want to focus on the portfolio first that where it is going. Now, we are very clear specifically in the Q4.

We will be sort of reversing it. But because it has been created with a norm that the company has to save it from PCR norms and all, that norm was 6%. Now, we are at somewhere around 2.63%. So therein, we will be targeting -- so we'll be standardizing a PCR norm of the entire company that at any case, we will be having a PCR of 75%. So therefore, if we have to add it, we will add it. If we have to reverse it beyond 75%, we'll be reversing it. So standardized policy we will be saving for the PCR.

Divesh Mehta: Okay. And when do you expect this to happen?

Ramandeep Gill: This Q1, Q1 because we have to take it to the audit committee and the Board.

Divesh Mehta: Okay. Yes. Perfect. And sir, last question was on the resignation of the long-time CEO, Mr. Madhu. Can you just throw some light?

Ramandeep Gill: He was in touch with the management from last seven months, eight months that he wants to explore something new. That is what he wrote also in his resignation mail also. But we just wanted him so that he can stay and basis on that, once our new CEO will be joining, so that there will be a parallel -- so he is still there. He is still there for three months. And so that he can hand over a few things and all, so that was the reason. He was in touch for six months, eight months. But now since our CEO has joined, so he has decided to take a call.

Divesh Mehta: Right. And sir, on the new vertical of used car, what is the strategy there? And how much percentage of disbursement have you calculated in the -- so for example, of INR1,600 crores, which you are planning, how much would go towards used car? And anything new on the risk side, which we are updating because it's a new vertical? How should we look at it?

Ramandeep Gill: So, I'll just answer you with respect to the used car. So, somewhere we are expecting a number of INR15 crores to INR20 crores for this financial year because we just want to start it. We want to start it. We want to test that where -- and just to give you, we have already rolled out an offer for a used car head and I'm expecting him to join us somewhere around in Q2 itself since he is giving a three-month notice period. Therein, we are drafting our policy. For this financial year, we'll keep it somewhere around INR15 crores to INR20-odd crores.

Divesh Mehta: Perfect. So, the majority of -- still will continue into two-wheelers as well.

Ramandeep Gill: Per quarter, yes.

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

Rishikesh Oza: Sir, my first question is what are the slippage number for Q4?

Ramandeep Gill: Okay. I'll just give you this answer in two ways now. If you have seen our Investor Presentation also, there is a particular slide that we have added, wherein we are showing that month-on-month, wherein our -- what was the rollback of the company and what was the roll forward? I'll just give you some glimpse on the zero-plus of the company and what was the overall efficiency of the company. The overall efficiency of the company has improved from 92% to 98%. The efficiencies which the company was having for a 30-plus bucket for 78% at the start of this financial year, now we have closed somewhere around 86% for that efficiency.

If we talk about the overall slippage, the rollback movement and the roll forward movement, the opening NPA was INR531 crores. We have added somewhere around INR100 crores to the new NPA and wherein we have been able to collect somewhere around more than INR180 crores from the new, plus the old book. So overall slippage, if we talk about, it would be 40% of what we have been able to recover, which means our rollback percentage is higher than our roll forward percentage. And the closing number was somewhere around INR431 crores.

Rishikesh Oza: Okay. And sir, regarding the disbursement you talked about, like you're targeting around INR2,300 crores sort of some disbursements, if I'm not wrong. Okay. So, what would be the loan book growth? And how are you looking to achieve such a target of INR2,300 crores, INR2,400 crores disbursement?

Ramandeep Gill: See, the overall thing is right. If we talk about the previous financial year, we have already done INR1,300 crores of number. So, this year, we are expecting a growth. On that number, we are expecting a growth of at least 50% because productivity has to be taken care and the new channels that we are going to add. Plus, the last year, we have started one co-lending business in Q3 and right now, with only two partners. Right now, we have the whole financial year for four partners.

So therefore, the number that has been shown to us in the last year was INR300 crores somewhere in the co-lending, which we are expecting somewhere around 2.5x increase. So that will take it to somewhere around INR750-odd crores. The overall business numbers that the company is doing, plus taking help of my new VC models and also taking help of the MSL branches, which we are trying to explore, as my CEO had said that it is an untapped opportunity, which the company will be taking. We are expecting a jump of at least 50% from the numbers that we are doing -- that we have done in the last financial year. This figure will come somewhere around INR2,300 crores to INR2,500 crores.

Rishikesh Oza: Okay. And sir, regarding the net-net credit cost for FY '24, like are we going to take, is it fair to assume that we won't have any positive number for net credit costs for FY '24 because there will be some write-backs too?

Ramandeep Gill: So, in terms of write-backs of the company, so net credit cost if we talk about. I'll just explain this in a very simple manner. The credit cost that the company is taking as of now, so if we talk about the ECL model, it depends upon how the company has been able to perform in the last financial year and in the last financial year. So, the probability of default that the company has taken, if you reassess the sales based on this performance which the company has been able to do in the last financial year.

Our probability of default standard is somewhere around 10% to 10.5%, though, we are already in the higher side of taking it at 11.23%. So therefore, the entire model is something which we'll be reassessing. After two quarters, we'll get the same recovery trend. And then the credit cost that you are seeing as of now, I am still thinking that it will further get reduced in the quarters to come.

Rishikesh Oza: Compared to FY '23?

Ramandeep Gill: Yes. And second thing, the management overlay which the company is having is with the ECL and this overlay. We are sufficiently provided for.

Moderator: Thank you. The next question is from the line of Aditya Khemka from InCred Asset Management. Please go ahead.

Aditya Khemka: Sir, I wanted to ask the question on FinCorp. So FinCorp has been a sister entity for a while now. And I think the focus on today's call seems to be more, you working in conjunction with FinCorp to increase the AUM and to sort of lend more aggressively and to newer segments. My question is why was this not an option earlier? That's part one.

Part two. If we exercise this option of working with FinCorp, economics be like, are we going to share a part of our revenue or profit with FinCorp for the assets that we gather through their channel?

Ramandeep Gill: Yes. So, first question, Mr. Mathews, are you going to take? How we are untapping the FinCorp?

Mathews Markose: Yes. I will take that question. So, it is not that FinCorp is a newly identified opportunity. Fincorp business was already there to impact to the extent that FinCorp actively helps us in our collection. So, we have about 50% of our EMIs get collected through NACH, but rest of it comes through cash collection into FinCorp branches. So FinCorp has always been active with us. There is already a DSA kind of an agreement with FinCorp, where we give some pay out to FinCorp for cases sourced through them. So, what makes us so gung-ho about this initiative this year are two things.

One, at the very senior most level from a chairman's level, there is a very clear focus on internal group synergy. It's not that it was not there, but to implement it at the ground. So, I think, you know every company eventually works in silos. So somewhere down the line, maybe the message would have got lost. But now we have a gentleman called Mr. Shaji Varghese, who is the CEO of FinCorp. And me and Shaji have a long association back, where we and Shaji used to work together in our previous organization, ICICI, for a long time. So, it is between me and Shaji that we decided that we should really capitalize on this opportunity for two reasons. It's not just because of our association alone.

Reason is that if you look at FinCorp's book, about 96%, 98% is only gold loan business. Today, if you look at the market, there are banks which are giving per gram gold rate of about INR4,400, INR4,500 also, whereas being an NBFC and being having a cap of 75% on LTV, so banks normally give it under the garb of an agri funding. But as an NBFC, FinCorp has a restriction. They can give only up to 75% LTV, which reduces their capability to around INR3,800 odd per gram to lend. So, this becomes -- this makes their customer base highly vulnerable to a takeover from other banks, and it is happening, and we are seeing that happening.

So, it becomes all the more important that we create an exit barrier around these customers. If they have only gold loan from FinCorp, it is very easy for them to close that and get taken over by some other banks, etcetera. But if you have a two-wheeler loan attached to that customer and the customer any which ways has to come every month to pay the EMIs at FinCorp, the chances that he will go away to somebody else reduces considerably. So, looking at all these dynamics between Shaji and me, we decided that we should work very, very closely together. So, it's a win-win situation for both the company. So maybe that is a new opportunity that has come up, but it's not that this is a completely new concept per se. Does that answer the question?

Aditya Khemka: It does, sir. The second question I had was out of our AUM book today, what percentage is EV? And how are we looking at the EV two-wheeler as a segment, given the salvage value issue with the repossessed vehicles?

Ramandeep Gill: Sorry, what percentage? What have you asked in terms of percentage?

Aditya Khemka: Yes. What percentage of higher AUM today is electronic vehicles and our two-wheeler vehicles? And secondly, how are we dealing with the EV as a segment because that segment is growing faster within the two-wheeler bucket? So how are we dealing with the salvage value issue? Because as I understand it, in the EV, battery is the majority value of the bank. So, if there's something wrong with the battery or it gets stolen, then even if we repossess the vehicle, how much can we really recover?

Ramandeep Gill: Yes. So right now, the actual position is the percentage with respect to the EV portfolio is very low. It will not be even close to 1% as of now. The second thing which I want to add, as I told you, there is a VC partner, which is going to be added or we are just assessing whether we can make it as a co-lending partner too, identified already two partners with -- who are specifically into the EVs. So, we want to start this from 1, June itself. So therein, the partners have been identified and target is to make sure that we should have a sizable amount of portfolio of EVs also, that will be started in Q1. So, when I will be presenting Q1 result, definitely, I will be speaking on the EVs also -- EVs too, because everything is identified. It just has to be started now.

Mathews Markose: I can add one more point to what Raman said. And the point is that, yes, as you correctly pointed out, bulk of the cost of the EV is in the battery, but most of the manufacturers are giving a long warranty and a buyback kind of a thing. So that is the comfort in lending to EV. Because so maybe we will restrict our loan tenure to whatever period the manufacturer is giving a buyback guarantee for. So, if it is two years, then it will be two years. If it is three years, it can go up to three years. So, we will take those kind of credit calls in deciding our funding for EV. But, of course, it seems to be the future. So that's -- and from -- even from a sustainability point of view, which is a focus item for organizations today, EV will continue to be an area of focus.

Aditya Khemka: Understood. That's very helpful. One last question. So, we are aggressively lending through co-lending partners. So, I think it becomes very important to understand, when we lend through co-lending partners and if there is an NPA at the customer level, then who owns the NPA? Is it the partner? Is it us? Is it a split between the partner and us? How does it work?

Ramandeep Gill: Okay. So, we do have an arrangement with the partners, wherein if there is any case, not call it as an NPA, but yes, we have picked certain limit wherein if the case will go beyond a certain DPD. Then there will be urge to the partner that either he has to pre-close it or if we have to click it. So, there are specific agreements that have been signed with the various partners on that. So, we don't want the case to reach at NPS sell only. We want to close it during the standard sell itself.

Aditya Khemka: If it doesn't get closed and the payment gets delayed below beyond 90, in which case, it will be NPA.

Ramandeep Gill: So right now, we haven't faced a single case for that, and I'm expecting the same scenario to carry on. Because we -- see, it is not about the partners that we need. It's all about assessing the partners before onboarding it. Right now, every partner that we are having is very sound, and they are also having very good key investors too. So, the entire partnerships that we had in co-lending and the partnerships which we are going to have in co-lending, they are very sound partners. And we are expecting the same scenarios wherein we don't have to turn out the pages of the agreement that the case has gone beyond NPA, now what needs to be done? So, we haven't faced this, and we are expecting not to face this in the coming quarters, too.

Aditya Khemka: Right. Sorry, can I ask one more question, please?

Ramandeep Gill: Yes.

Aditya Khemka: Sir, just one question. So, my colleague asked your a question earlier in the call regarding what are your key performance indicators. And you mentioned it's both AUM and bottom line. But in your mind and in the management's -- I mean, in terms of [weightage 0:54:02] bottom line more important than the AUM at this juncture? Is AUM more important to you than the bottom line because we are a very subscale entity? So, market share obviously is equally important as is profitability. Your head and the head of the Board that governs you, which is [inaudible 0:54:19]

Ramandeep Gill: Yes. So, I'll take this up. So, whether -- what we can do is we can say that bottom line is important. We can say that the AUM is important. It all depends where we are as of now. If you speak to me the same question you would have asked on 1, April of the last financial year, for me, the most important thing was taking control over the GNPA. The growth is there. Yes, we will do a sizable growth, no doubt about it. But focus will be remaining on to recover the entire amounts from the GNPA portfolio.

If you talk to me now, the model has been established. The beta model has been defined by the company. The policies have been redefined by the companies, and we have seen the results also in the last eight months, 10 months. I will be saying that I will be focusing more on the AUM of the company. So, it's all about the timing, that where we are as of now and where we want to reach.

Moderator: Thank you. The next question is from the line of Dhruv Shah from Ambika Fincap. Please go ahead.

Dhruv Shah: Yes. Sir, I just have one question on your spreads. We have seen a reduction of 53 basis points on quarter-on-quarter basis. How do you see this panning out with higher focus on FDs and expecting, so if you can just elaborate on the same on the spread?

Ramandeep Gill: Sure. So spread is basically the vision of what we are doing in terms of the AUM, though, if you see the overall spread, if you compare both financial year to financial year, it has increased. But you are comparing it with Q3-to-Q4, Q3, as I said, it was a seasonal number wherein the company has done exceptionally well because it was season in most of the parts of India. And therein also we have added our co-lending partner too, and we have been able to deliver INR411 crores disbursement.

Now if we compare from year-to-year, yes, the spread has increased. And if we go with quarter-to-quarter because of the denominator, which was on the lower side -- sorry, numerator, which was on the lower side, that is the reason our spread has been reduced. The target is to have the same spread of 19.78% in the quarters to come.

Dhruv Shah: 19.78% yield, right?

Ramandeep Gill: And one more thing, which I want to add. The focus is also on reduction in the opex, which you must have seen, too. The collection cost is something which we are in the process of reducing that how we can reduce it. Earlier, for the software bucket also, the company had various agencies and all. But now we have in-house team. And just to give you again the entire incentives, whether it is a business, sales, entire incentives are linked with the recovery. And the entire incentive, one more thing we are going to launch is basically to focus on how can we improve our MSL percentages too.

Because beyond the point, you can't keep your spread -- you can't keep your yield raising. But yes, you can focus on two areas every point of time, which one is basically the fixed cost. One is basically the -- sorry, finance cost of the company, wherein yes, as my CEO has said that we'll be tapping for the fixed deposits. Second is basically how can we reduce the opex of the company overall, so that we can see quarter-on-quarter improvement in the spreads also.

Dhruv Shah: So, sir, what will be our steady-state ROA? Can we expect 5% for the whole FY '24 panning out?

Ramandeep Gill: See, I'm expecting the same level, 5%.

Dhruv Shah: 5%, right?

Ramandeep Gill: Yes.

Dhruv Shah: And can be the leverage for this current year?

Ramandeep Gill: So current year, right now, as I told you, on 31st of March, we were at 3.87x. In Q2, we'll be taking a call of going either with the infusion or with the Tier 2 capital. So therein, reduction -- the target is to have leverage somewhere under 3x for this financial year.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Ms. Shweta Daptardar for closing comments.

Shweta Daptardar: Thank you. On behalf of Elara Capital, we thank the management of Muthoot Capital to give us the opportunity to host the earnings call. Thank you, sir. Thank you all.

Moderator: Thank you members of the management team.

Ramandeep Gill: Thank you. Thank you, everyone. Thank you once again. I hope that we are able to address most of the queries that has been asked. And we are also very super excited for this financial year wherein the team has been completed now, and we are expecting numbers to grow in this financial year. The business volume is something, which we also want to grow in this financial year in a large way. And now slowly and steadily, we are on the verge of reaching that point also. So, I'm expecting larger business chunks with more of the funnels, whether it is Muthoot Capital, whether it is co-lending partners, VC partners or the MSL partners.

So just to put together, I want organization to do well, and we specifically need your support. We need your prayers, best wishes always. That's it from my end. Thank you so much. Thanks for everything. Thank you, investors. Thanks, Shweta.

Mathews Markose: Thank you, all. Thank you, investors. Really appreciate it.

Moderator: Thank you. Ladies and gentlemen, on behalf of Elara Securities Private Limited, that concludes this conference call. We thank you for joining us, and you may now disconnect your lines. Thank you.