



“Muthoot Capital Services Limited Q4 FY24 Earnings
Conference Call”

May 24, 2024



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MODERATOR: **MS. SHWETA DAPTARDAR – ELARA SECURITIES
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*Muthoot Capital Services Limited
May 24, 2024*

Moderator: Ladies and gentlemen, good day, and welcome to the Muthoot Capital Services Q4 FY '24 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 the 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, Steve. On behalf of Elara Securities, we welcome you all to Q4 FY '24 and FY '24 Earnings Conference Call of Muthoot Capital Services.

From the esteemed management team, we have with us today, Mr. Mathews Markose, CEO; and Mr. Ramandeep Gill, CFO.

Without much further ado, I hand over the call to Mr. Ramandeep Gill for his opening comments, post which we can open the floor for Q&A. Thank you, and over to you, sir.

Ramandeep Gill: Thank you so much, Shweta. A very good morning to all of you, and thank you so much for being on the call. So, I will start this call. Basically, the idea is to provide you the future earnings and as well as what happened exactly during the last financial year.

The last financial year, when we have started, we broadly had four areas to cover:

- The first one was the GNPA where in we started last financial year with a huge GNPA numbers.
- Then team in place.
- Then obviously we wanted to increase our AUM as well.
- The fourth most important thing was tech.

The objective was to reach a stage where in the journey had to be upward from there. So, we found very different ways to increase the sales to bring down the NPA so as to keep ourselves alive and stable in the market, and I personally feel we did a really reasonable job so as to reach our goals.

Now, I will take you to the broad numbers and the way forward for MCSL:

When in last Financial Year we acquired 174,178 new customers, which remarks 11% growth year-on-year, whereas the total sourcing has been increased by 9% where we did 1,438 crore of fresh sourcing during the last financial year.

there are two more important factor into that which will come into play. It's basically:

The first one is the GNPA. We have been able to reduce our GNPA by 54%, which is basically a combination of two things. One, yes, we did our ARC sale of 235 crores in Q2.

Second is basically the hardcore recovery of 70 CR which we have done in the last financial year.

The third thing is we as a company and that we have seen in the last financial years as well, the company has a good practice of keeping a high PCR. So, we have closed the last financial year as well by keeping a PCR of 75%, therefore closing our NNP at 3.40%.

The best thing which happened to us is, the first focus was the GNPA. We tried to analyze that when our case is becoming GNPA for the very first time. That is where the control, the entire control has been established, and we have been able to see very good results into that. We have been able to bring down that early stage NPA by 68% and as we speak, we are having a GNPA on that early stage is only .49 percentage.

The company has recorded a profit after tax of 122 CR remarking a growth of 57% year-on-year. This also includes the exceptional item of provision reversal which we have made two years back but recording a jump of 57% year-on-year, whereas our return on asset has recorded a jump by 71%. Therefore, we reported ROA at 6.35%.

The company is operating at a very healthy CRAR of 31.24% as of 31st of March 2024, whereas return on equity stood at 22.25%, and we have been able to deliver an EPS of rupees 74.58.

The total balance sheet price of the company stood at 2,314 CR, whereas the shareholder fund stood at 612 CR, and the total borrowings of the company stood at 1,661 CR, taking the total AUM to 2,018 CR.

Talking about the particular quarter- on-quarter, we did a number of 430 CR in the last quarter itself. On that number, we have been able to acquire 45,667 new customers during the Q4, and then our profitability stood at 11.06 CR for Q4.

Our rating agency has kept our rating as A+. Now the further evaluation will be done post the results will be out.

As we said the start of the financial year, we were having a GNPA including the interest was 22.09%, which has been brought down to 10.17% as we close the financial year, whereas NNPA was 4.46%, which has been brought down to 3.4%, despite at the start of the financial year, we did have a PCR of 88%, which has been dropped down to 75% because since we reduce our PCR, therefore, there is no impact that we have increased the PCR. That is the reason our NNPA

has gone down. A proper hard cash recovery has been done. Therefore, our NNPA we are reporting at 3.40%.

Talking about the year-on-year, we can see that last financial year we did 1,318 CR of right sourcing. We mark a growth of 9% in the last financial year wherein we did 1,438 CR. We also tried we also framed one more thing for the investor that since we did arc of 235 CR, therefore we can see that there is a slight dip in the AUM by 4%. If we would not have done that, there would obviously been the growth because our numbers have been higher as compared to the last to last financial year.

We can see that there is a jump on every aspect, profitability, PAT, and EPS of the company, and also we provided the comparison so that we can share this to the shareholders and to the investors that what we did in the Q3 of last financial year vis-à-vis where are the numbers as of the Q4. Q3, since it was seasonal time, we did a number of 478.89 CR. Q4 we did 430 CR. This we can see that there is some sort of this. We said that we will be doing some 500, 550, 600 odd CR.

But the only thing which hold us there is that we need to have settled team, and because of that, see, there are two parts to it. We can see that there was a dip in revenue because our co-lending share was high and our MCSL share was down, but that has been turned around over a period of time in Q3 and Q4 as well and that too we are doing as of now so that our total yield can be increased over a period of time and that we have seen in Q4 as well and in Q1 as of now as well.

We can also see that the own funds of the company at the start of the financial year, it was 489 CR, which has been increased to 612 CR approximately as we close the last financial year. The company has a debt-to-equity of 4x at the start of the financial year and without infusing further funds, we know that we have been able to throw back the reserves and all. Therefore, our debt-to-equity stood at 2.7x, which is extremely healthy as we speak. The EPS has also grown from Rs. 47.8 to Rs. 74.6. Yes, we can say that there is a one-off charge which we have taken it back in the Q2 itself.

One more slide which I have shown to the investors as well, that we have tried to show to the investor that about the MCSL yield. We started this year with a yield on the MCSL loan at 21.47%. That has gone down to 20.11% depending upon market and the souring which we are doing what sort of customer base we wanted to take, that helped us.

Then we also provided lead on the corporate loan, though the book size remain more or less the same, then we can also see that there is only 89 percentage of growth in that book, but yes, the yield has gone up there also.

So, as you know, borrowing cost, we can say that the average MCLR has been increased by 0.12 percentage, whereas it has only impacted us 0.08% as we speak. The recoveries have been the

strength of the companies throughout the last financial year because we know that if nominator is not getting increased through sales and all, we don't want it to have any impact on the new NACH on the fresh flows and roll forward of the company. The companies have been able to take fundings or take NACH recoveries from 48% from the start of the financial year to 56% at the end of the financial year which also helps us in saving more of cost towards recoveries and remaining recoveries comes from cash which is approximately 44%.

So, the cost of recovery, which was 5% at the start of financial year that we have been able to bring down to approximately 4% at the close of the financial year. Our corporate loan book stood at 181.64 CR, wherein we can see that there is only a marginal growth in that that too in order to support our co-lenders or any other parties wherein we really seen that because we really don't want to take chance into that, but because since we have our main focus still be two-wheelers, used car and used LCV.

The NACH and we must have seen that in Q2 as well, we closed NACH at 194.44 crores, whereas we can see that, as I said that, even if the denominator is not getting increased, we need to focus on NACH so that such flow of roll forward can be brought back. We closed our NACH at a precisely at 191.49 CR, and out of that 143 crore pertains to my pre-COVID era on which the company will be taking a call when we say that when we talk about the portfolio analysis of the company.

Last to last financial year, Financial '23, we were at 58% in South, but now since in last Financial year we decided to go pan-India, that 58% has become 44% in South, and that if we talk about the co-lending business, co-lending business was 22% in FY '23, sorry, in Q3 of last financial year. That has gone to 32% in Q4, whereas as far as the concentration in East, Northwest, it remains more or less the same for the company.

Talking about the standard portfolio of the company, 89.35% remains standard and remaining 10.65% remains NPA for the company. In terms of the segment wise, yes, 11.24% of the NPA comes from the two- wheeler segment and 5.46% come from the used car as NPA.

Talking about the co-lending, the last financial year we had five partners for co-lending and one partner we added for BC, where in if you talk about co-lending, we had five partners which has a total share of 600 CR.

Lastly in last two months of the financial year, we also entered into the EV space for the impact funding and therefore, we have tied a co-lending partnership with EV.fin so as to enter into the EV space as well and to understand as well that even if MCSL wants to go full flow that what needs to be done. It has given us the great results as of now and from April onward we started our own EV funding as well. One BC, so total co-lending partnerships and BC partnerships, it stood at 600 crores with zero NPA as we speak. I have also provided, also said at the start of the call, that company has the policy of the company in terms of NCA, it remains that minimum

PCR of 75% has to be provided making sure that NNPA of the company should be under the CCA norms as prescribed by the RBI.

Talking about one more update for the company wherein company did one ARC sale through following security receipt method where in at Q2 end, we had a security receipt of 102.22 CR. Those security receipt now standing at a balance of only 663 CR, which provide that is even if the case have been sold through NPAs and all, but yes, it comes to the organization is equally focused that yes, this security receipt balance has to go down, and it's going down extremely well, and there is no impairment has been provided in the books as per the rating agencies are concerned as of 31st of March.

Talking about the funding of the company, first, we will talk about shareholding pattern. Promoter and promoter group still holding 62.62% in the company, whereas retail is holding 28.14%. The remaining has been segregated between FIIs, NRIs, other corporate bodies. We in last financial year, though our borrowing cost, we can say that it's 9.80 percentage as an average cost of funding, but in last financial year we raised 754.49 CR, which is a combination of NCD of 200 crores, fresh working capital demand of 170 crore, CP of 241 crore, and a small chunk of PTC of 144 crore at a borrowing cost of 9.67%.

Also talking about the update on the fixed deposit which I gave a glimpse in Q3 as well that yes, we have tried to increase, we have increased the rate so as to remain competitive in the market. In Q4, we have seen the results as well. Our deposit books has started getting growing now. We have been able to raise 6 crore as additional funding, and we have been able to renew 7 crore fixed deposits during the last quarter itself. So, now we have seen the deposit book. We have also hired a fresh team for fixed deposits in the Q4 itself, wherein we wanted to see a result in this financial year and the quarters to come.

Talking about the fund concentration of the company now, the working capital demand loan provides us 52% of the funding, whereas 25% comes from NCD and MLD of the company. The securitization has been dropped down to 20% as of now and the remaining concentration is of 2%, which comes from my fixed deposits and other things.

So, that's what, and the third thing which I really wanted to update, as far as the provisioning is concerned, the company is still carrying an overlay of 61 CR, which we know that there is a pre-COVID portfolio too for which we need to take a call. As far as ECL to IRAC is concerned, the company is carrying 21 CR as an additional provision combining Stage-1, 2 and 3 of the company. This excludes the management overlay, which the company is having, on which we will take the call as and when the company will be taking a call on the previous portfolio.

So, those are the broad numbers from my side. Now, I will just hand over the call to the CEO of the company so that he can take it through the business and the way forward. Thank you, sir.

Mathews Markose:

Thank you, Ramandeep. Good morning all. Thank you so much for joining the call. Once again, it's a pleasure connecting with you. So, I think Raman has already briefed you on the numbers. I will just take you through the journey a bit.

So, first quarter of last year when I had taken over and the new management had come, we had several challenges, which was, one, the team was not there. The NPA was high. The collection team was just getting set. So, in fact, over the course of the year, in all the calls we have been updating you the progress that we have made. Today, we are very proud to say that the entire team is in place. We managed to tick all the right boxes in terms of getting all good people from the market, changing our new LOS to be competitive.

Today, we are able to give approvals like the similar to the best in the industry, 5 minute approvals, half an hour to 45 minutes disbursement. So, all those problems are behind us now, and we have started seeing results of that. In fact, if you look at the overall disbursement of 1,437 crores of last year, the first quarter was only 200 crores, and second quarter was also slow at about 360 crores. 64% of the total disbursement happened in the second half of the year.

Of course, Q3 is generally a good time for the industry because of the festive season in north and west. So, we also gained on that. Q4 is the time when we implemented our new LOS. And therefore, December and January we took a slight hit, but then we started recovering. Today we are, as we speak, we are already at 25% of what we did in the whole of last year. So, the plan for this year or first half of the year is to cover up whatever we have done in the whole of last year to cover up in by September. That is on the business done by MCSL alone.

Co-lending, of course, moves in their own pace. So, as of now, co-lending I am not talking about. I am talking about whatever MCSL team did on its own for the whole year, we will cover up by September. That's the plan, and that's how we are poised and the start has been extremely good for us in April and the half of May. All other, we have invested in a lot in technology, in data analytics. So, today we have a business intelligence and strategy team.

We have our scorecards for collection where we predict the probability of bounds, the pre-delinquency scorecard. There are post delinquency scorecards of which are the customers who have the probability of roll back and who are the probable roll forward. So, collection strategy team put in place and the entire collection allocation happens based on the outcome of the scorecard. Again, we have brought in data science into our origination as well. So, we have now a scorecard to decide the approval rate also.

During the course of the year, we also want to move into a risk-based pricing based on the scorecard. That we have not implemented yet, but we sometime during the year we will also go into a risk-based pricing where we will be able to price the better profile customers at say a lower price or give benefit of the price to the better-quality customer, and of course charge higher from the high customer. So, that is the direction which we will get into.

A very comforting factor on our portfolio distribution is that 98% of the portfolio that we built last year, our customers who have their own house. So, that's a huge comfort in the two-wheeler segment. I think that would be compared to the best in the industry or maybe the best also because that high level of own house roof means that our collection efforts and everything will be much more easier and the customers would be traceable.

Another factor is that the vehicle models which have a very high resale value or relatively very high resale value, which is Hero and Honda, these two OEMs contribute to 70% of our portfolio. And so these two are the OEMs whose products have a good resale value and the next one is TVS and that has about 14% share. So, between these three OEMs, we are about 85% of our entire portfolio is covered.

Also on the distribution in terms of Credit Bureau scores, what we call as near prime or slightly below prime portfolio contributes to only about 11% of the overall portfolio, and everything else is on the prime or super prime category. So, overall, the portfolio has stood up very well. The quality that we are incrementally acquiring is very good and the momentum has picked up. So, we are extremely bullish on the current year. Thank you.

Moderator: Thank you. We will now begin the question-and-answer session. The first question is from the line of Shivam Agarwal from Equitree Capital. Please go ahead.

Shivam Agarwal: Sir, actually I have a couple of questions. First, I missed out on the dealership side, like the 70% dealership comprise of Honda and second company would be?

Mathews Markose: Hero and Honda.

Shivam Agarwal: But sir, like Hero, the major financing comes from Hero FinCorp, and it also had contact with Ujjivan Small Finance Bank. So, like the major source of financing for Hero was then what I heard or what I read about. So, what is your take on this?

Mathews Markose: I didn't understand the question. I am saying that of the 1.74 lakh customers that we acquired last year, the 43% of that constitute is constituted by models of Hero.

Shivam Agarwal: And sir, what is the updates on the SBU side, like we are doing the SBUs of our products now two-wheelers and used vehicles? What are the updates on that?

Mathews Markose: I didn't understand the question.

Shivam Agarwal: We are making the SBUs of our products like two-wheeler different SBU, used vehicle different SBU.

Mathews Markose: SBU, yes, so two-wheeler continues to be our bigger SBU. So, last year bulk of the business came in two-wheeler, but we started the used car business last year. We did about 25, 30 crores of disbursement in used car and CV we started this month. So, CV we disbursed our first loan this month.

So, today we have six products. The two-wheeler, of course, is the biggest chunk, but this year towards the end of the year, we will have a good size, a good part of the business coming from used car and CV also. Apart from that, we have a product called Loyalty Loan, which is a personal loan.

So, used car, and so you have used car. You have CV, which we already started, which I told you. Two-wheeler, of course, continues to be the warhorse. We have a product called Loyalty Loan, which is a personal loan given to the customers who have satisfactorily paid off at least 12 months of two-wheeler or any other product and that is not actually a personal loan. It's deemed as a personal loan, but the asset continues to be the security because NOC is not issued to those customers, and we have our retail liability also. So, we have these six products that we will have from this year.

Shivam Agarwal: And sir, earlier in Con Call you have guided for 10,000 AUM within three to four years. So, what is the breakup of that?

Mathews Markose: So, this year we are targeting an AUM of 3,000 crores and '24 we are targeting an AUM 3,000 crores, and by 2025, March '25, AUM will be 3,000 crores, and by '26 we will hit 5,000 crores.

Shivam Agarwal: And sir, the major contribution would be from two-wheeler vehicle only?

Mathews Markose: Two-wheeler will continue to be about 60%, 65%.

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

Rishikesh: Sir, my first question is with regards to the yields. What were the yield for quarter four?

Ramandeep Gill: So, first question is, as I said the blended yield come at 17.52%. When I say blended yield, it's basically a yield which is a combination of my co-lending and the combination of my Muthoot Capital in-house business.

Rishikesh: So, when compared to last year where we used to be around 19.4%, 19.5%, so, what's the plan? How are we looking to go back to those levels and how would that happen?

Ramandeep Gill: So, thank you so much for asking this question. I would just like to answer this question in a very structured manner. Yes, last financial year, first of all, when we compare it something with the last financial year, yes, last Financial year, we just entered into a business called co-lending

where we spent approximately three to four months in co-lending, whereas in this financial year, for the Financial Year for which we are presenting the results, the co-lending had a chunk of the entire year. Therefore, the impact which co-lending yield brought, co-lending has brought down our yield by 2%, 2.5% because we have been operating with co-lending from last year or so.

But one good thing with that is, wherein I would add is that despite creating 600 CR of co-lending business, we had zero NPA as of now, which is quite good because that also helped us in saving our cost of OPEX and our ECL also have been saved because of that.

Third thing is where we will be in terms of as I said at the start of the call itself, the focus is, yes, on the yield, there are two focuses. Yes, NPA will always remain the focus of the company, but still there are two main focuses. One, yes, we have already started working on the yield. If you see last financial year Q1, MCSL have done somewhere around 40 CR a month which has now been increased to 85 CR a month from our own business, right.

So, we try to contain that. Yes, we try to contain the business, which we are receiving from the outside, but at the same time we just want MCSL business to grow higher and higher so that a proper yield can be matched up which we can see in next four to six weeks from now that yes, in Q1, what was the yield of the company in last financial year and Q1, what's the yield now?

Because of the fact that we have been able to almost multiplied our MCSL business by 2x every month in this quarter as well, and this is happening from last three to four months from now, which is a good positive sign for the company.

Rishikesh:

So, how would that impact the yields going ahead? Can we see from Q1 a trajectory towards old years or what would be a target yield for now then?

Ramandeep Gill:

So, I will tell you. I will just answer this that now when I say our blended yield at 17.56%, that will obviously grow compared with quarter standalone, right? Because we know that hypothetically, say, if I do 430 CR in this quarter, right. Of that 430 CR, I know that 300 plus CR will come only from the MCSL which was not the case in the Q1 of the last quarter where in out of 200 CR, we know that 100 CR came from MCSL, remaining from the co-lending.

So that has basically impacted the yield where in we know that total revenue of the company from MCSL yield we will be having some 22 odd percent, whereas from co-lending we will be having some 15 odd percentage of yield. So, that is something which will not be the case for the company from now onwards because we know that that majority of the business is coming only from the MCSL route itself, which is on a higher yield. Sir, I hope I am able to answer somewhat of your question.

Mathews Markose: I just add to what Raman said. See, on our own portfolio, about 4% is from Tier-1 cities. About 28% comes from Tier-2 cities, and 68% of our business is in Tier-3 and Tier-4 cities where we get a much better pricing. So, we do upwards of 23% there. And that is what is impacting, that is what is a positive on our yield.

Now when the own share contribution will increase, last year the contribution of MCSL to your co-lending was 50/50 and that's what brought down because co-lending happens at a typically lower yield. So, that is what pulled down our yield, but this year the ratio of co-lending to MCSL own book would be 75/25 at best. So, that will automatically impact the yield plus our continued focus on cities, Tier-three and Tier-four cities will help us increase the yield.

Rishikesh: So, co-lending we are still lending at 16% yield?

Mathews Markose: Co-lending, we have different yields with different partners. Based on the volumes that they have committed we have different rates with different partners.

Rishikesh: And what would be the yields for our own book then?

Ramandeep Gill: It would be 22% for the own book.

Rishikesh: And so in that case, so whatever incremental disbursements that you make for this year, at what yields would we be making that blended yields, if you could please share?

Ramandeep Gill: So, if you ask me, as you know, our CEO has said 75% would be the MCSL side that we will be doing. So, blended would be somewhere that will come close to 20 odd percent including my processing fee and everything. 20% is something which I am expecting as a blended yield for the whole year. And this will be from Q1 itself.

Rishikesh: And what is our disbursement target for FY '25 as well as FY '26?

Ramandeep Gill: So, I will tell you for FY '25 is concerned, we are projecting from, so there are three parts to it which we have, sorry, I will say that, first is the two-wheeler, we will be targeting somewhere around 1,100 CR of fresh disbursement. For my used car, I will be having some 150 CR of my new disbursement.

We also started used LCV wherein I am expecting a target of 160 CR where we have planned, we have framed that B plan accordingly. From our alternate channel that is the funding, that is the business which we are taking from MFL wherein we do synergy with Muthoot FinCorp wherein we are expecting a business of somewhere around 168 crore. Corporate loan book will remain more or less the same. There will be only 5% jump from the existing one and co-lending we are expecting somewhere around 400 to 500 CR during this financial year.

Moderator: Thank you. the next question is from the line of Kshitij Verma from Rest Assured Wealth Advisors. Please go ahead.

Kshitij Verma: I had queries regarding our co-lending business model. Number one, as mentioned that our NPAs as of now is zero in the co-lending. So, doesn't it make more sense for the management to actually increase the co-lending part because their underwriting seems to be better than our own underwriting where the NPAs are much higher? What would be your feedback on the same?

Mathews Markose: No, no, so that's a balanced view that we will take. So, we don't want to be an organization which is only dependent on co-lending. So, we want to continue our business because yields are fairly larger. So, we will continue to build our own book.

Secondly, co-lending is always a function of striking the right partnerships, and there are always rate challenges, because there are larger players who can come and undercut the rate and then they start diverting business there. So, there is a certain amount of uncertainty also, which we don't want.

So, our business model would continue to be focus on our own business and we will accept co-lending partners on their merit. So, we are never saying no to them. We will continue to focus on that as a business because as you rightly mentioned, there is a positive side on, what do you call, the NPA and stuff like that, but we will continue to build our own book.

Kshitij Verma: Sir, just a follow-up question. There were articles in the paper mentioning that there was some issue with the indirect tax department regarding the co-lending model. So, is there any update on that from the GST department?

Ramandeep Gill: Not yet. We have not received any update on that, but for us as of now, it's not. So, whenever we having this any update on this, we will update the investors accordingly. Nothing related to Muthoot Capital as of now.

Moderator: Thank you. The next question is from the line of Bhargav, an individual investor. Please go ahead.

Bhargav: My question is for Mr. Mathews. Actually, I have been invested for the last three years. So, the last two quarters after you have come, so if I am not wrong in Q2 Con Call, you have guided for 600 CR of disbursement and it ended at 468, 469 like that, and after in Q3 call you said that this time we will definitely do the disbursement of 600 CR.

But if I look at it, it is not even 400 CR. So, what is the guidance for it? Because continuously, even in the last year, they have guided for 2,700 for the full year closing, but it didn't end up. It ended in the same range. So, how would you say that you are going to achieve the 3,000?

Because for the last quarters or last year, every time you are giving targets and you are unable to achieve it.

Mathews Markose: Let me clarify on that. Yes, we did give a guidance on 600 crores for Q4, but that is the time when, as I mentioned in my opening remarks, that in December we changed our LOS from the old to new. That's a much more robust LOS which can give us, help us give a decision in 5 minutes, disbursement in half an hour to 45 minutes as against earlier which we were taking 24 hours to give a decision.

And when you implement a new system, that is a major, major change in the life of a organization, and we had initial, we took one-and-a-half months to two months for the system to stabilize, and that is where we missed out on the business. But that was a conscious call because that was at some stage we had to do it, and that was of course an investment for the future.

And on the Q3 guidance, again, that was on the seasonality factor of November. That time we had not implemented it. We purposely postponed it. Our software was ready, but by taking feedback from the field, we decided to postpone the implementation, because we did not want the disruption in business because of that Q3 thing. That was the reason why we missed out on our guidance that we had given.

But definitely we are committed towards the numbers that we are seeing, and this year you will definitely see this quarter, you will see the numbers coming in because today it's a well oil machine now. We are doing, as I again mentioned in our opening remark, as we speak, we are already at 25% of what we disbursed through MCSL own business in the whole of last year. So, our commitment is to complete the entire figure that we did whole of last year by September, and that we will achieve.

Bhargav: And what is the guidance for this quarter? Because already this is March, sorry, this is May. Hardly only one month left for the quarter. What is the disbursement that you are going to achieve for this quarter?

Mathews Markose: We will do 400 crores. 400 crores we will do. That will be 100% growth over Q1 of last year.

Bhargav: No, don't compare it with Q1, because anyway out of the 400, 300 will come back towards the decrease in the portfolio because it's a two-wheeler. So, only 100 crore AUM will increase from 2000, 2030 to 2100, 2030 by the end of the quarter.

Mathews Markose: Yes, that's right.

Bhargav: And how do you see the other divisions contribute? Because you have hired, everything is done right in other parts because the CV business is going outside. Everything is going on. And what

is the part on the 10% gross NPA? And how are you going to decrease it? Because I don't see a significant collection in the last two quarters as well.

Mathews Markose: No, collection has definitely improved in the last two quarters and last year, we actually brought down the NPA, not just the percentage, actually brought down the quantum of NPA by about 65 crores from other than the ARC. This I am talking about without including the ARC. And what was the second question?

Bhargav: It is on the NPA and the second one is the contribution of the other parameters apart from two-wheelers.

Mathews Markose: Sorry, on the other parameter. So, what will really impact our growth in AUM is the kicking of the new car and sorry, used car and used LCV business, because they are fairly larger ticket size. Average ticket size there is 5 lakh and the average turnover is about 48 to 16 months. The runoff would be much smaller than, lower than the two-wheeler business, and whatever we disburse there should largely contribute to the AUM as well.

Bhargav: Is it not from this quarter itself like Q1?

Mathews Markose: Car in Q1 would be not that much because it is picking up. Of course, it will be maybe in Q1, we should do whatever we did in the whole of last year for car, but that is about it, but it will not be a significant. But both car and LCV will start contributing really big in H2. From say August, September, both these businesses will be kicking.

Bhargav: And last time you said that you were going to do a ARC transaction for the rest of the, there is some more part and you said you will think about it in the Q1. So, any update on the ARC transaction?

Ramandeep Gill: We are still contemplating. We have not taken a firm decision and we are still contemplating. But yes, I missed one question. You were saying on the guidance on the NPA. This year, by the end of this year, we will bring it down to 6% GNPA.

Bhargav: So, you are guiding for the whole year 3,000 crore AUM and 6% gross NPA.

Mathews Markose: Yes.

Bhargav: Even if you do the ARC transaction, if you exclude that also, it should be in that range, right? 3,000 AUM and 6% gross?

Mathews Markose: Yes.

Bhargav: That's it from my side. Hope you will do what you are guiding.

- Mathews Markose:** Sure. We will definitely try to meet all those expectations.
- Bhargav:** Because we have been invested for the last years. So, we have not seen any return. Rather we lost capital.
- Mathews Markose:** We really thank you for your patronage. We really appreciate that, and we will definitely try to catch up to your expectation.
- Bhargav:** So, hope you will reward us with the return by contribution.
- Mathews Markose:** Surely.
- Moderator:** Thank you very much. Next question is from line of Kshitij Verma from Rest Assured Wealth Advisors. Please go ahead.
- Kshitij Verma:** I just had a follow-up question. We had seen in the last couple of financial year, RBI taking a certain crackdown on unsecured loans and risking and increasing the risk rates. Seeing the two-wheeler industry, the NPA ratios are almost at the same levels before RBI took a crackdown on the unsecured lending business. Are we also as a management feeling that RBI may someday increase the risk rates for our two-wheeler portfolio? What is your feedback on the same?
- Mathews Markose:** I think, that is not a question for us to answer, but two-wheeler is a secured portfolio. We are able to repossess the asset wherever there is a default and we are able to recover substantial amount of money through that process. So, I don't think, but it's not for me to answer that.
- Kshitij Verma:** Sir, just one more question. If there is an interest rate cut in the future in the coming one or two years, how does that help us in a NIM expansion or do we have to pass back all the gains to the borrowers in our segment of two-wheeler?
- Mathews Markose:** Interest rate cut you meant from RBI repo rate cut?
- Kshitij Verma:** Yes, sir, from RBI side. So, our borrowing also should go down ideally.
- Mathews Markose:** Repo rate cut will definitely help us as a company because last year there has been a increase in MCLR, and therefore we also saw a correspond, but we were able to maintain our borrowing rates fairly at the same level by negotiating well with the bankers. Also, our financials have improved in March '24 over March '23. So, that also will help us go for better rates, bargain a better rates from our financial. So, all that has been a positive, and if there is a rate cut, then, of course, it is going to benefit us. As I mentioned earlier, since we operate in Tier-3, Tier-4, our rates remain fairly constant on the lending side.

Kshitij Verma: And sir, other than two-wheeler business, are we looking at co-lending in the other segments and your used commercial vehicle and other segments?

Mathews Markose: Wherever there is an opportunity to do co-lending, we will definitely do that.

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

Rishikesh: My question is with regards to the AUM contribution; we have given a target of 3,000 crores of AUM in FY '25 and 5,000 in FY '26. What would be the contribution of used car and LCV for the same?

Ramandeep Gill: So, what we are expecting for this financial year in which we are as of now, we are expecting from used car, we are expecting a number of somewhere around 150 to 160 odd CR, whereas from LCV as well we are expecting the same number. Since used car, we already have a team, that is there in the play from last four to five months, LCV team has just been in Muthoot Capital from last two months itself, and we are expecting these numbers.

Though the average ticket size is extremely high in these businesses, right, so we are expecting in the next financial year, we are expecting some 350 crore from the used car and some 400 odd CR from the LCV. That is what we have taken as our number. So, business side obviously a higher number has come, but we have taken only 70%, 75% of it while giving the expectation to the shareholders or investors.

Rishikesh: And this is AUM number, right?

Ramandeep Gill: This is your sourcing number. There is no disbursement during the year.

Ramandeep Gill: And back to if we talk about AUM of that also, since these products are for four to six years, four, five years, right, so there will not be much reduction as compared to the two wheelers which we see wherein one which is also said that even if you do 400 CR, we will be seeing some 300 CR or repayment, which is right.

But in terms of LCV and used car, that is the sole objective too that we want to have a product there wherein repayments are not as fast as two-wheelers are concerned because when we do 1,400 CR a year and that too when growing our book by only 8%, 9%, wherein if we do the same number in used car and LCV as well, it will take a good jump to the entire AUM of the company.

Rishikesh: And what is the targeted OPEX growth for FY '25 and FY '26? And what would be our credit cost guidance for FY '25 and '26?

Ramandeep Gill: So, first of all, I will take the cost of credit since for two-wheeler is concerned, as CEO said that the maximum GNPA which we are expecting is 6% inclusive of everything wherein we are expecting the same ECL to follow wherein we are providing some stage to stage 3 asset from 42.2% and yes, for used cars, LCV, since these are new products wherein we are not expecting much of that kind of bad repayments into that and since we have industry experts too, we are expecting to bring an overall ECL of somewhere around 0.6% to 0.75% on these two products. That is one.

Second, talking about the OPEX of the company, one thing is for sure that whatever cost that we have to observe we have already taken in the last financial year. The hiring has been done. Everything has been done. Only the field staff hiring that too for LCV is remaining. Other than that, the OPEX will remain the same more or less as we have reported in the last financial year as well.

Rishikesh: So, how would OPEX grow for the next two financial years? Could you indicate, would it be fair to say around 10%, 12%, 15% something range, if you could give?

Ramandeep Gill: No, no, that would be on the higher side because as I said, the team and everything has been set for a book of approximately 5,000 odd CR wherein we have set our entire team. Only growth we can see that wherein we can see some on those there in LCV and then there are chunks which will be coming in our used car business as well. So, these are the two businesses to grow. I can fairly say that some 6% to 8% of the growth, which I am expecting in this financial year. That's it. For next financial year, we can project the same number.

Moderator: Thank you. Next question is from the line of Shivam Agarwal from Equitree Capital. Please go ahead.

Shivam Agarwal: Sir, actually I have a follow-up question. Sir, actually I missed the remark on the two-wheeler segment, sorry, EV segment. So, how we are approaching for electric to vehicle business? And what are the numbers if you can share about this year?

Mathews Markose: See, two-wheeler as CFO mentioned, for EV, as CFO mentioned during his opening, we have got into a tie up with Greaves Evfin, and there we do exclusive two-wheelers, sorry, EV electric two-wheelers with us. They contribute about close to 20 crores a month with us. Other than that, so as of now our EV percentage is only 1% of my book or last year's disbursement 1% was my contribution. That will go up to about 5%, 4% to 5% because we are also starting electric three-wheeler financing to one of our partners, our co-lending partners. All these put together, this should jump up to about 4% to 5% of the book.

Moderator: Thank you. Next question is from the line of Bhargav, an individual investor. Please go ahead.

Bhargav: Sir, any update on the personal loan because 6 months back you said apart from the user car and commercial vehicles, you would also venture into the personal loan. So, understand you like someone asked you, you said we are going to give to the existing person some loan. So, without that, are you going fully on a personal loan basis?

Mathews Markose: We have a partner with whom we will be starting, but that will not be a very significant contribution. As somebody else was asking earlier, RBI has also broadened some norms on higher risk weightage etc., etc. But yes, you are right. We had given a guidance and that we will start. Most probably in Q1, we will start that disbursement, but our larger focus will be on our existing base who have a proven track record with us.

Bhargav: So, how much would that be? Even on an annualized basis, would that be more than 500 crore or less than that?

Mathews Markose: No, maybe for the whole year, we would look at say about 100 crores of disbursement overall.

Bhargav: And small request from our side because Muthoot Microfinance is also their, right, is also recently listed. So, over there as it is, this is also part of Muthoot. There they give in a presentation itself they are giving how much is their guidance and in the next box, they are giving how much we have achieved. Guidance versus achievement they are giving in this presentation itself only. So, we would request in your presentations also to give that, and they are clearly guiding how much we have guided in the call and how much we have diverged. On the next slide, they are giving how much is the next year guidance and quarter- on-quarter they are giving like this. So, we would request you to also go with that.

Mathews Markose: Thank you so much for your feedback, sir. Feedback taken and we will start giving it that way.

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

Mathews Markose: Thank you very much. Thank you. It was really nice engaging with you once again and thank you so much for the question that you put to us on various aspects, and let me assure you on behalf of the management, that we stand committed to continuing to add value to all our shareholders. We will continue to work hard towards achieving the numbers that we have committed to you. Thank you so much.

Moderator: Thank you very much.

Ramandeep Gill: I just add to it. Thank you so much, investors. You know, last financial year wherein we have seen some up and down as well, but one thing which was very sure from all of us that we had worked as a team, and we have been able to sail our ship throughout the financial year. Yes, we have been able to fight with all odds in terms of NPA side, sell side, the business side. 100% I



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am assuring you that we will be providing you the result right from the Q1 itself where in I am not afraid and I am making this statement because of this because now I also feel that there is a need for the investors to have good ROA and ROE.

And as Mr. Bhargav has said in the statement as well, yes, people are trusting us. They are making investments on us from last two years or so. It's high time to provide the returns. The team have been set now and I am extremely sure that we will be able to deliver the results right from this quarter as well.

Last financial, it was extremely good for us also because we have not, though we have not grown much, the growth was only 8%, 9%, still we have been able to sail our ship throughout the financial year. And thank you so much, investors, for trusting us for investing and having a faith on us from the last financial year. We expect the same faith in this financial year as well. Thank you.

Moderator:

Thank you very much. On behalf of Elara Securities, that concludes this conference Thank you for joining us, and you may now disconnect your lines. Thank you.