“Muthoot Capital Services Limited

Q4 FY '25 Earnings Conference Call”

May 15, 2025

MANAGEMENT: **MS. TINA MUTHOOT – EXECUTIVE DIRECTOR – MUTHOOT CAPITAL SERVICES LIMITED**
MR. MATHEWS MARKOSE – CHIEF EXECUTIVE OFFICER – MUTHOOT CAPITAL SERVICES LIMITED
MR. RAMANDEEP GILL – CHIEF FINANCIAL OFFICER – MUTHOOT CAPITAL SERVICES LIMITED

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

Moderator: Ladies and gentlemen, good day, and welcome to Muthoot Capital Services Limited Q4 FY '25 Earnings Conference Call hosted by Elara Securities India 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. Thank you, and over to you, ma'am.

Shweta Daptardar: Thank you, Anushka. Good morning, everyone. On behalf of Elara Securities, we welcome you all to Q4 and FY '25 Earnings Conference Call of Muthoot Capital. From the esteemed management, we have with us today Ms. Tina Muthoot, Executive Director; Mr. Mathews Markose, CEO; Mr. Ramandeep Gill, CFO. We express our gratitude towards the management of Muthoot Capital to provide us the opportunity to host this conference call.

Without further ado, I now hand over the call to Ms. Tina Muthoot, Executive Director, for her opening remarks, post which we can open the floor for Q&A. Thank you, and over to you, ma'am.

Tina Muthoot: Thank you. Good morning all, and thank you for joining us today. Let me begin with a brief introduction to the group with a proud legacy of over 138 years. The Muthoot Pappachan Group has been built on a foundation of trust, deep regional expertise and a strong customer-first philosophy.

Guided by our core purpose to transform the lives of the common man by improving their financial well-being, we remain deeply committed to driving financial inclusion across India. Our extensive presence in semi-urban and rural markets has enabled us to serve traditionally underserved segments, including first-time borrowers and customers outside the formal credit ecosystem.

In Muthoot Capital Services Limited, a key entity in our financial services portfolio is an RBI-registered deposit-taking NBFC, specializing in vehicle finance. MCSL has developed a high-touch insights-led lending model tailored for informal income groups such as farmers, daily wage earners, self-employed micro entrepreneurs and new-to-credit customers.

We initially focused on 2-wheeler financing covering both ICE and EVs, MCSL has strategically expanded into used car and used commercial vehicle loans, aligning with evolving customer demands and emerging growth opportunities. These are now structured as SBUs under experienced business heads.

The used car market in India is about 1.5x larger than the new car market and driven by increased affordability, improved vehicle life cycles, quicker replacement time lines, the presence of more organized players and demand from Tier 2, Tier 3 cities. And the used commercial vehicle segment serves small fleet operators, traders and rural logistics players, segments that need flexible financing models and understand value better than price alone.

And whose demand is fueled by the expansion of e-commerce and logistics sectors. It is not only in the products that we have diversified, but we have intensified the performance of our alternate channel businesses, that is other than dealer networks. We see tremendous synergy with the branch network of Muthoot FinCorp Limited, a flagship company of our group.

Our ability to leverage over 3,800 MFL branches for customer acquisition, lead conversions, collections, servicing gives us a unique edge in scaling these new verticals quickly and efficiently for all products, leveraging the customer base of all our group companies, whether it's gold loan, mortgage finance, microfinance, housing loan and so on is something we will continue to drive in the coming year.

And on the regulatory front, the recent RBI co-lending draft guidelines opens up new avenues for growth. They allow us to partner with banks to expand credit access, reduce cost of funds and share risk. This is especially relevant in our used CV and used car financing play, where customer segments are often overlooked by mainstream lenders and yet could become more and more price conscious over time. We are leveraging technology and data-driven models in all aspects of the lending journey, underwriting, operations, collections and early warning systems.

Now group-wide platform, Muthoot FinCorp ONE helps to streamline onboarding, documentation and servicing, enabling a digital and frictionless self-service journey without losing the personal touch that defines our model. Recently, the group undertook a strategic revamp of its Board as part of a broader, well-planned succession strategy.

This transition has been executed seamlessly, ensuring continuity while embracing innovation. The third generation, which just stepped down from the Board, continues to lead the group's flagship business with vision, experience and stability. And simultaneously, the fourth generation has stepped into leadership roles with renewed energy, bringing innovation and a forward-thinking approach and has been instrumental in launching new NBFC initiatives and driving the group's digital transformation journey.

This generational collaboration underscores the group's commitment to sustainable growth and long-term value creation across its diverse business verticals. That said, the promoters continue to be the major shareholder in the company and is committed to bringing in funds when the need may arise.

MCSL remains a market leader in 2-wheeler financing with 70% of our base in semi-urban and rural areas and 51% being NTC borrowers. With our strategic expansion into 2-wheel -- into used 2-wheelers in the coming year and getting a better foothold into electric 2-wheelers, used cars and new CVs, we are entering new growth trajectories and strong branch synergy, regulatory enablement through co-lending and tech adoption provides us with scale and edge. And our leadership structure ensures both continuity and transformation.

With this introduction, I would just like to hand it over to Ramandeep to take us through the quarter's performance in detail.

Ramandeep Gill: Thank you so much, ma'am. Good morning, everybody. I would like to welcome all of you to the earnings call of Q4. In this quarter, we -- in this entire year, we disbursed INR2,642 crores as the ever highest business we did. We have recorded a growth of 84% as an year-on-year in terms of business.

While doing this business, we -- the company has been able to bring its AUM to more than INR3,000 crores for the first time, which recorded an year-on-year jump of 52 percentage. The GNPA of the company has been brought down by 52 percentage as an year-on-year, and we have recorded a GNPA of 4.88 percentage. With carrying a good PCR, which is highest now at 60 percentage, the NNPA of the company stood at 2.30 percentage.

With respect to the CRAR of the company, it stood at 22.36 percentage. The company has been able to acquire fresh customers of 73,759 in quarter 4 itself, whereas taking the live customer base to more than 5,50,000. The balance sheet size of the company has been recorded at INR3,584 crores, whereas borrowing of the company stood at INR2,853 crores.

Debt to equity of the company stood at 4.34x with the borrowing cost at 9.95 percentage. The company has recorded the profit of -- PBT of INR60.40 crores with an EPS of INR27.81. The yield on which the company -- with this, the shareholder fund of the company has reached to INR658.06 crores, whereas the blended yield of the company across all the segments comes at 20.61 percentage.

The rating of the company remains the same. It is A+, whereas we have already spoken about the overall growth of the company with respect to the segments, the 2-wheelers stood -- the stand-alone growth in the 2-wheeler was at 56 percentage, whereas the earlier AUM was INR1,802 crores in the last year. In this year, we are closing at INR2,806 crores.

The company for the -- the company has started the 2 new SBUs. 4-wheeler AUM at the start of the year was only INR26.15 crores. We have been able to close at INR86.84 crores with a growth of 232 percentage. Commercial vehicle was the new SBU, which has been started in this year itself, wherein we are closing this year at INR61.25 crores, whereas for corporate loans, the -- we -- our corporate loan book was INR181.67 crores.

Therein, we took some conscious call of not to doing this corporate loan. So therein, the book is standing at INR53.51 crores, whereas for retail segment, the company has been able to grow by 58 percentage as an overall, whereas corporate segment, the book has grown -- the book has de-grown by 71 percentage.

With respect to the GNPA and NNPA of the company, the overall GNPA has again gone down from 10.17 percentage at the start of the year to 4.88 percentage at the end of the year, whereas NNPA by -- from 3.40 percentage to 2.30 percentage. Last quarter, it was 4.73 percentage the GNPA of the company, whereas NNPA was 2.22 percentage.

With respect to the P&L of the company, the net interest income of the company for the entire financial year stood at INR248.09 crores, whereas opex of the company stood at INR173.16

crores. This -- the company has taken some impairment provisions amounting to INR19.38 crores, which made the PBT at INR60.40 crores.

The PAT of the company stood at INR46.31 crores. The return on asset on the blended segment comes at 1.88 percentage, whereas return on equity is coming at 7.30 percentage blended one. As I said, CRAR of the company is healthy as of now, it's 22.36 percentage.

Talking about the business -- so talking about the portfolio analysis in detail, 95.12 percentage of the company stood as a standard accounts, whereas 4.88 percentage of the customer -- of the company's portfolio stood as substandard.

With the stand-alone NPAs or standalone substandard performance of the portfolio, 2-wheeler NPAs stood at 5.27 percentage, whereas remaining portfolio remains standard. 4-wheeler substandard portfolio comes at 0.69 percentage, whereas we did have 0 NPA in the 3-wheelers. For the commercial vehicle in terms of retail, we are -- we had a substandard portfolio of only 0.31 percentage.

Talking about the stage-wise analysis, the 0 bucket cases stood at 83.84 percentage whereas Stage 1 of the company stood at 3.15 percentage. Stage 2 of the company stood at 4 percentage, whereas Stage 3 has gone up to 4.88 percentage, which is my substandard account, as we have said.

With respect to the vertical-wise dealer channel, 92.47 percentage of the portfolio, which we have sourced was -- had remained standard, whereas 7.53 percentage remains substandard. With respect to the bank channel, wherein we had a group company sourcing as well, 6.32 percentage remains substandard, whereas remaining remains standard.

With respect to the total -- the company had -- the company has not added any co-lending partner during the year. We have continued to do the same business with our existing co-lending partners during -- which we have added in the last year. With Wheels EMI and Credit Wise Capital, they are holding the major share of 66 percentage.

With evfin, the company has been able to bring up its portfolio to INR182.92 crores, which will -- which helps companies in taking the asset, which is more towards the impact -- so that impact funding can be taken.

And this -- with evfin, the focus is 100 percentage of the asset is focused towards the EV vehicles. With Manba Finance, the company's portfolio stood at INR122.86 crores and remaining with the Up Money Finance, which is INR12.63 crores.

With respect to the ECL of the company, the ECL of the company, again, it's -- the ECL of the company, we have to talk, the Stage 1 assets, Stage 2 and Stage 3, the total PCR provided by the company stood at 60 percentage, whereas provisioning in terms of absolute value, it comes at INR107.03 crores on the closing asset of INR3,057.76 crores.

Net asset of the company after excluding the impairment provision comes at INR2,950.73 crores. The expected -- the -- taking it further, the IRAC provision required for the business was INR59.12 crores, whereas company is providing -- company is following the ECL and is providing INR107.03 crores, wherein the IRAC requirement was 1.93 percentage. Our ECL remained as high as and we are providing 3.50 percentage, whereas the excess provisioning of IRAC comes at INR48 crores.

Talking about the investments with the security receipt, the company had done one more ARC in this financial year for the previous pool, whereas for the first ARC, which the company has done, the company has been able to bring down its security receipt by 64 percentage. For the second pool, which the company has done 6 months back in the September, the company has been able to bring down its investment in those security receipt by 22 percentage.

Talking about the shareholding pattern of the company, it remained unchanged from the last financial year. The promoter remains strong at 62.62 percentage, remaining has been carried by the retail. We have been able to take the additional funding of -- in the quarter 4 itself, the company has been able to take the additional funding of INR671.36 crores. Of that, long-term funding constitute of INR496.36 crores and remaining INR175 crores comes at short-term funding.

All the working capital demand loan, which were due for rollover has been successfully rolled over during the last year, which -- whereas the funding concentration, which remains as, for term loan and working capital demand loan, the company is at 43 percentage. For NCDs and MLDs combined together, it comes to 28 percentage, whereas for CPs and securities comes to 21 percentage and Other remains 1 percentage.

The companies have been able to add more banking partners in the last financial year. We have -- we -- in terms of our highest exposure in terms of banks, with respect to PSUs, the company is having highest exposure with PNB and the Union Bank, with PNB, company is having an exposure of INR200 crores, whereas with Union Bank, the company is having an exposure of INR80 crores. We have been able to add more private bank in the last financial year as well.

With IDFC FIRST Bank, which is coming, the total exposure has reached to close to INR200 crores, whereas all these small finance banks have been added with respect to AU -- Utkarsh Small Finance Bank. The company has been able to attract private banks in terms of Axis Bank, which came with a guarantee structure with the United Nations Impact Fund called GuarantCo. Therefore, INR100 crores have been invested with respect to EV space.

With securitization, the company has been able to close the deals with DCBs, Federal, ICICI, HDFC Mutual Funds. For NBFCs and all marquee partners which the companies are having who invested us in various forms in NCDs, in commercial papers. So we had very good names, which we have already shared in likes of Morgan Stanley, Sundaram Finance, Northern Arc, Vivriti Capital, Tata Fund, so they -- Yubi, Equirus, IEX, A.K. Capital, Tipsons, Shriram Finance and GuarantCo. So all have come either in the form of taking a stake in the commercial paper or in the NCDs of the company.

So with this -- these are the overall highlights. With this, I would like to hand over the call to our CEO for the business performance of the company. Mathews, sir?

Mathews Markose: Good morning -- yes, thank you. Thank you, Tina. Thank you, Ramandeep. Good morning, everyone. It's a pleasure connecting with all of you once again. As a CEO, I'm very happy to say that all the quarterly guidance that was given during the calls with Raman and I, which we had given, have been met, and we have met our overall annual deliverables in terms of whether it is disbursement, AUM growth or bringing down the NPA levels, all of them have been met.

So I think we had a very good year. Also towards the fag end of the year, we had a very young, vibrant and dynamic team of fourth-generation directors taking over the reins of the business. That brings in a lot of new perspective, and there's been a total alignment between our vision, mission and more importantly, the execution strategy.

And as a part of that, the Directors and the top management sat together and we've realigned our strategy objectives looking at the last year growth. And we've put across 10 strategy objectives to be achieved by 2028. I just want to broadly take you through that.

So first strategic objective is to achieve AUM of INR10,000 crores with an ROA of greater than 4% and a credit rating of AA+. Second objective is to be digital first, customer-centric and data-driven. Of course, we all know that technology is going to be the force multiplier now. And we have complete alignment on that. And therefore, we are investing a lot on technology and data sciences.

The third strategy objective is to be a financier of choice with a market share of 3% Pan-India and over 7.5% in the operational locations. So we are today at around 2% Pan-India and close to 7% in operational locations, which we want to take it to -- take it by another 200 bps during this year.

We have -- fourth is become a multiproduct company with 40% through alternate products. As you all know, we were a largely 2-wheeler company, which we have been able to reduce the share of 2-wheelers. Last year, 95% of the overall book was 2-wheelers, '23, '24. '24, '25, we reduced it to 85%.

And by the end of this year, we want to bring 40% of the overall book through alternate products like used car, CV, loyalty loans, etc. Next strategic objective is to achieve 30% of the business through our group companies. So our group companies, as Tina mentioned in her opening remarks, has a huge network. Across the group, we have 5,000-plus branches and a team strength of about 45,000 employees and a customer base of over 60 lakhs.

And this is a huge potential there to leverage that base which we are actively working on. Currently, we get about 11%, 12% of the overall business contribution from group companies, which we plan to increase to 30%. That will ensure our cost of acquisition goes down and thus impact the ROA directly.

Next strategic objective is to build digital channel and achieve 5% of disbursement from this. We have -- already Tina mentioned about the Muthoot FinCorp ONE app. On that app, we are building multiple products. The loyalty loan, which is a top-up on our 2-wheeler loan has already gone live on the app. The -- we -- as you know that we are depositing in NBFC.

The online FD journey is going live shortly on that app. The entire end-to-end 2-wheeler self-service journey is going live on that app by end of June, end of Q1. So all these functionalities we are building on that app. And other than that, we are also -- we have also tied up with other partners like Bajaj Finserv, BikeDekho. And we also have gone live on the Hero MotoCorp dealer app, where we are present in all the dealers on the digital mode.

Next strategic objective is to strengthen asset quality by bringing down GNPA below 4.5%. Our guidance for last year was 6%, and we bettered it by bringing it down to 4.9%. Now we want to keep this constantly below the 4.5% mark. Leverage 10% existing customer base for cross-sell. That -- the work is already on.

We already have a huge loyalty base created on our book. And we are using the existing book for -- through propensity modeling and analytics to cross-sell and upsell other products of our company as well as the group companies.

Next strategic objective is very pertinent to times that we live in, which is robust corporate governance. There is a huge amount of oversight by the regulators. We got corporate agency of insurance also. So last year, we have -- we have now one more regulator, which is RBI, IRDA, as well as SEBI.

So we've put in additional focus. While we are always very, very compliant as an entity, we are bringing in additional focus by putting in this as a strategic objective, which is robust corporate governance and aligning with SDG goals.

As Raman also mentioned during his speech that we've got a funding from GuarantCo for impact funding for EV. So we're also aligning with the SDG goals. We are already aligned with 13 of the 17 SDG goals. And we're planning to go for a certification as well this year. And last and final one is to be an employer of choice.

Last year, we got the Great Place to Work certification. That was a feather in our cap. And this year, on top of that, we want to bring our attrition levels, which is already, I think, lesser than the industry, but we want to further bring it below 20% mark.

And we've been able to attract talent from across the industry last year and then we want to continue to be an employer of choice. So these are the strategic objectives that we are working on. And we have complete alignment on our team. We did also -- we also did workshops with the entire top management along with the directors to bring this complete alignment before rolling it out. And we are very hopeful.

We're looking at this year with a great deal of confidence. And of course, I think the tailwinds in terms of rural income growing and prediction of good monsoon, etc., will be good for our business, and we hope to have a great year ahead. And of course, we look forward to your continued patronage and support. Thank you, all.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Srikanth Haria from GreenEdge.

Digant Haria: Yes. This is Digant. I think my name was mispronounced there. So my first question is -- see, we had this investor meet, and after that, we reported the December quarter and now the March quarter. So somehow the asset quality has a lot of pain, because if in the last quarter, had we not revised our accounting policy of PCR, we would have reported a good amount of loss.

And in this quarter, there's again INR16 crores of provision and yet the NNPA has also gone up versus the December quarter. So what's happening in our asset quality? Like are there some specific pain points? Or is it like just 1, 2 geographies which have gone wrong? What's happening there? That's my first question.

Mathews Markose: Okay. So I will take that. So thank you, Digant. See, there will be no strain on our asset quality. The portfolio -- new portfolio that we have created is behaving very well. The delinquencies are very much under control, and we have adequate amount of oversight on that.

Having said that, this accounting part, while I would want Raman to clarify more on that, one thing that has happened is that when in September, we did an ARC transaction, okay, when we sold off about INR100 crores of our portfolio, our collection that was coming from that. And we had a very healthy collection coming out of that.

So every month, we were tracking the fresh flow of cases into NPA. Of course, there is no -- 100% collection does not happen. So some amount of fresh flow happens. And then there is some amount of collection that comes in through -- from the NPA pool, and net of flow minus collection is your overall impairment.

And on that, you do the provisioning. So when the INR100 crores got sold off, the collection coming from there suddenly started moving to the ARC, because of which the net impact became higher and because of which we had to do a higher provisioning. Other than that, there's nothing wrong with the asset quality.

Raman, do you want to take it further on that?

Ramandeep Gill: Yes, sir. Thank you, sir. Hi, Digant. So I just want to add here. The last time we did ARC, so what -- so I'll tell you the objective of creating the higher PCR. When the company had faced a huge asset quality issues 3 years back, we decided to have a management overlay, right, in order to bring down the entire GNPA and the NNPA below 6 percentage.

So that we have also provided this note in our annual reports as well. When we did the first ARC in September 2023, we brought down our PCR from 88 percentage to 75 percentage since the pool that has been sold was on a larger side.

Similarly, when we did the second ARC in September 2024, so there is -- so there was no point in carrying the higher overlays for the pool, which has already been sold out and providing the highest PCR on the new pool, which is behaving extremely well.

Third thing wherein -- which I want to add here is the pool that has been sold, as Mathews sir had said, the recoveries from that pool is now going down to the -- for the reduction in the investment in the security receipt, which I have also said, the security receipts for both the pools have been brought down by 64 percentage and 22 percentage, respectively, right?

The new pool is extremely behaving well. As I said in my PPT as well, on the 2-wheeler side as an individual segment, the GNPA of the pool is only 5.87 percentage. The remaining portfolio remains standard. Whereas on the other pool with respect to used cars, CVs, which are our new portfolio, the GNPA is only 0.56 percentage and 0.31 percentage.

So with respect to the asset quality as an individual segment, it is behaving extremely well. Then we have also checked the PCR of our peers who are behaving in this -- who are working in the same segment. Therein, we found that highest PCR that has been adopted was in the range of 50 percentage to 55 percentage. In order to align with that, we did our PCR for policy change. So that was the sole reason. I hope we have been able to answer.

Digant Haria: Okay. But then tell me like in this quarter also, we saw INR16 crores of provisions. And see, in the full year FY '25, I think you have used INR40 crores -- almost approximately INR40 crores of provision write-back. So if that had not happened, we would have had a PBT of just INR10 crores, INR15 crores for the full year.

So I just want to know the credit cost out of the operating business, not the ARC transaction because the ARC transaction actually is just hiding a lot of these numbers because the loss we took maybe was FY '23, that INR40 crores of benefit of the loss we took 2 years back, we are seeing in this year's P&L. At least that is what we could figure out. So I just wanted to know that what was INR16 crores of provisions and like INR3 crores of other income, like if you can just highlight what was that?

Ramandeep Gill: So INR16 crores of impairment, as I said, is basically the seasoning of the portfolio, which we did, right? So wherein we know that GNPA is going to -- so as of now, if I have to -- I have to tell you the exact number, on a book of INR3,000 crores, 95 percentage is from the 2-wheeler, the GNPA is INR134 crores, right?

And this is not including any ARC impact. It is basically the new book versus the new GNPA of the company. It's just that on the Stage 3 when it comes, we are providing as high as 60 percentage. So when it comes to INR5 crores a month in terms of my GNPA, which is flowing forward, on INR5 crores, I have to provide INR3 crores as an additional impairment hit, right, considering my policy of 60 percentage.

So therein, we are conservative enough to provide it, whereas -- so there are 2 factors to it. One, it is taking the P&L hit, which I already said it will be increased because we have a highest PCR of 60 percentage. Second, how the asset quality is actually behaving in the books. So when it comes to actually how the asset quality is behaving in the books, as I said, on the 2-wheeler segment, the total GNPA is only 5.27 percentage, the remaining book is standard.

And this I'm saying, we are also tracking our results with the other 2-wheeler segments as well, more or less in line or below par with the other 2-wheeler companies. I think you must be knowing all these things, right?

Second thing, which I want to add here is asset quality as an individual. So when we know that the fresh business, which we have sold 18 months back -- 12 months back and book started to grow, so there will be a point when the seasoning will come. So the seasoning has started to come. And even after the seasoning, we are reporting a GNPA on the 2-wheeler at 5 percentage itself.

So which means that, yes, the seasoning part of taking the hit on that portfolio is already over. The quarters to come will be blended with the new portfolio and some seasoning from the old portfolio. So it was the -- so I'll say that INR16 crores of hit in 1 quarter, which I'll say specifically in JFM is something which we are not going to see in Q1 or Q2 at least. The next seasoning is going to come in Q3 only, considering our portfolio, how it is behaving.

Digant Haria: Okay. And that INR3 crores of other income, what is it, if you can -- because it's not there for the previous quarter? Yes.

Ramandeep Gill: Yes, yes, it's not there for the previous quarter. Out of that, as Mathews sir has said, there is a small chunk from the insurance income as we have taken corporate agency, INR21 lakhs came from there. The remaining is -- comes from -- has come from the recoveries from the overdues from the customers. No other income other than this.

Digant Haria: Okay. Yes. So I just had this because it optically looked like we reduced the PCR only to protect our P&L. But thanks for this clarification. And...

Mathews Markose: Digant, I would -- I want to add one more data point on that. So October '23 onwards, we've been tracking the fresh slippages. So October '23 on an AUM of INR1,000 crores, which is our own MCSL, I'm keeping aside the co-lending part, used to be INR10 crores, which was a fresh flow month-on-month, which was about 0.96%. And that's been month-on-month coming down. And today, with a INR1,800 crores portfolio, the slippage is still at INR11 crores, which is 0.63%. So month-on-month, the fresh slippages are coming down.

Moderator: The next question is from the line of Tejas Khandelwal from Prudent Equity.

Tejas Khandelwal: Yes. So I wanted to know that you just said that the INR16 crores of provisioning we are not expecting that in Q1 and Q2, but we can see that again in Q3 and Q4. So I just wanted to know what is the normalized provisioning can we expect in FY '26?

Ramandeep Gill: Okay. So yes. So I'll take this question, sir.

Mathews Markose: Yes.

Ramandeep Gill: We have already framed our business plan numbers for this financial year as well, right, wherein -- which basically says that what sort of AUM which the company will be there and what sort of ROAs and ROE, which we want to operate. Considering the worst situations we have seen and we have enough information now from last 3 to 5 years that if the portfolio will become bad, how much it will turn as a bad and how much seasoning impact will come.

For the overall year, we have seen that the ECL that we have or we can say that impairment provisioning, which we have to provide in the books for this financial year, it will be somewhere in the line of 1.65 percentage to 1.80 percentage. This is what we are expecting as compared to the previous years, wherein we provided somewhere around 2 percentage or more than 2 percentage if I have to take 2 years back.

So therein, I will say that provisioning would be there, yes, because we are carrying -- we wanted to have higher provisioning in the book. There is no doubt about it. But at the same time, the overall provisioning impact on the books will not impact my ROA, right?

I just want to add one more thing here. We -- I said that ROA of the company is at 1.88 percentage. And I also said it's a blended one. If I only have to take a 2-wheeler ROA of the company, it comes at 2.5 percentage, right? So we know that even after having highest hit of my impairment, I'm able to deliver a 2.5 percentage of the ROA on my 2-wheeler portfolio itself. I hope I have been able to answer.

Tejas Khandelwal: Okay. And you are expecting 2% ROA on blended level, right, in FY '26?

Ramandeep Gill: No. We are expecting on blended level at an ROA of 2.5 percentage to 2.75 percentage.

Tejas Khandelwal: Okay. Got it. And sir, my second question was on delinquencies because the delinquencies can be seen in your asset book that Stage 2 asset was 3.4% in Q3 and now it is 4.2% in Q4. So when last year con -- when the last quarter con call happened in February, you were confident about controlled delinquencies. So what happened in the remaining 45 days that such large provisions came up and this Stage 2 bucket has fallen up?

Ramandeep Gill: Mathews, sir? Okay, I'll take that. Mathews, shall I take this?

Mathews Markose: Yes, please.

Ramandeep Gill: Okay. I'll take this. So this 3.4 percentage on the Stage 2 asset is basically we have completed -- so you are talking only about the Stage 2 here?

Tejas Khandelwal: Yes.

Ramandeep Gill: So if we are talking only about the Stage 2 here, the Stage 2 number for us is coming at 3.7 percentage.

Tejas Khandelwal: It is 4.2%, sir. As I am calculating, it is 4.2% versus 3.4% last quarter.

Ramandeep Gill: Okay. So you are computing basis on the Stage 2 number versus the Stage 2, on Stage 2 on the overall?

Tejas Khandelwal: Yes, yes.

Ramandeep Gill: Stage 2 on the overall. If you are computing the Stage 2 on the overall, then last quarter denominator was higher because we did INR865 crores as a business, whereas in this quarter, we did only INR650 crores of business. Since Q3 was a season for the company, right, so our denominators were on the higher side.

That is again a reason wherein if you take this number in terms of percentages, it will always be 0.5 percentage lower or 0.3 percentage lower. But if I have to provide you a figure basis on the Stage 2 versus Stage 2, my Stage 2 number, what was the due and what has been received. So therein, my number is coming as 3.67 percentage.

Tejas Khandelwal: Okay. And sir, on the insurance product side, like you have realized INR41 lakhs from insurance this quarter, right?

Ramandeep Gill: INR20 lakhs -- INR21 lakhs.

Tejas Khandelwal: INR21 lakhs. So how much you're expecting for the entire year FY '26?

Ramandeep Gill: So yes, in the next financial year -- see, first of all, we don't force any customer to take insurance. It's more or less a cross-sell kind of thing for us, right? Basis on that, basis on the historical information that how much we have been able to sell, considering an increase of 5 percentage, 10 percentage, we are expecting some income around INR15 crores to INR16 crores in this year.

Tejas Khandelwal: Okay, sir. Got it. And sir, another question was on the ground situation. So is there actually demand in 2-wheeler segment? Because the recent sales number from 2-wheeler companies looks pretty flat. So I'm curious, so how are you expecting such strong growth in loan book?

Mathews Markose: Okay. I will take that, Raman. First of all, April was -- Y-o-Y was better. April was about, I think, 6% -- 5% to 6% higher than last April. May, because of all the external geopolitical issues, I think it's flat as of now. But we don't expect the numbers to dip. We expect numbers to be flat over last year.

But then the predictions are that this year, the industry should grow by about 7% to 8%. That is one. Two, as I was pointing out in my opening talk where we talked about the strategic objectives, we have taken a strategic objective to have a share of overall Pan-India 3% from the current level of 1.8%.

So that jump in share will give me that extra number even if the industry is flat. So I'm not worried about that -- achieving that number, because from the trend of the last 1 year, we are growing our market share each month. So this number of 1.8% used to be 0.7% in January '23. And by January -- sorry, January '24 and by January '25, it came to 1.8%.

And by end of next year, we will definitely be at 3%. So even if the industry is flat, because of our growth in -- or our increased penetration into the business, we will be able to grow. So that part, we were very, very confident about.

Tejas Khandelwal: Okay. So what AUM growth can we expect? Because you were not able to meet the AUM guidance of INR3,200 crores for FY '25. So I wanted to know about FY '26 guidance.

Mathews Markose: Yes. So if you -- internally, we had budgeted an AUM of INR2,800 crores, and we crossed INR3,000 crores, we reached INR3,058 crores, and INR3,200 crores was a guidance given based on the fact that we had a very good quarter 3, INR800 crores, close to INR900 crores. And expectation was that Q4 would be similar, but Q4 numbers were considerably subdued, but we still continue to grow in terms of market share. So I think we are almost there. The guidance for the year should be somewhere around INR4,500 crores.

Moderator: The next question is from the line of Suresh Pal from KRSP Capital.

Suresh Pal: Yes. Sir, my question is we have seen quarter-on-quarter a huge jump on credit cost or provisioning. So are we seeing any asset stress? Or why -- or can we expect such increase in credit costs going ahead? Because it has completely canceled whatever AUM growth that we are doing? That's my question, sir.

Mathews Markose: Raman, you want to take that?

Ramandeep Gill: Yes, sir, I'll take it. So as I said in the call earlier as well, right, the -- first of all, the asset quality on the quarter-on-quarter, which we have seen, every quarter -- I'll just provide you the basic number of the movement. Every quarter, we had a fresh NPA flown in the books that is ranging from INR21 crores to INR25 crores.

More or less, it remains the same. The slippages of -- as I said, in the Q4, the seasoning has happened. So INR3 crores, INR4 crores additional flow has happened. Other than that, if I have to compare with the last 1 year, the slippages -- the slippages remains the same, right?

Whereas in terms of reduction, till September, whatever I have taken and we have been able to take, that has been added to my reduction in the Muthoot Capital portfolio. While -- then since we have sold that pool to ARC, the reduction has been gone out from here and has been shown as an inflow so as -- so that we can bring down our security receipt as investment in the ARC.

That is the reason net flow in my closing balance of my NPAs remain higher in the Q4. That is the reason our cost of credit, which is impairment cost has been jumped up. But we know that as an overall in terms of segment-wise, where we are in terms of asset quality and where we want to go with that, we are controlling it and we have a complete oversight on that as well. We expect a credit cost of 1.6 percentage to 1.8 percentage in this year, which would be lower only as compared to the last year.

Mathews Markose: And Suresh, to add to that, our used car and CV portfolio is increasing now, which is obviously in terms of delinquency, that book would be much lower than that of a 2-wheeler because that's how the industry behaves. And as that becomes a larger share of our AUM, a corresponding reduction you will see in the overall NPAs. Were we able to answer your question?

Suresh Pal: Yes. Yes.

Moderator: The next question is from the line of Rishikesh Oza from RoboCapital.

Rishikesh Oza: Yes. Sir, my question is again on slippage ratio. Our slippage ratio looks to be very high at 4% on an annualized level, if I have to see both December as well as the March quarter. So one, if you could indicate how do we see this going ahead? Are we able to contain this, which is currently at INR30 crores a quarter? Do we see this going down in coming quarters? Or do we see a sustained number?

Ramandeep Gill: Okay, sir, I'll just take it and then you can add sir. The business plan, which we have prepared, we have taken the same slippages are going to happen in the next year as well on a very conservative side. Basis on the increase in the AUM, right, and basis on the -- if the same slippages are going to continue, then what would be my ROA and ROE would look like.

So we have seen -- but at the same time, as Mathews sir had said for the previous question, we have added used car and commercial vehicle as well. On those, we can see that blended NPA is only 0.5 percentage and 0.31 percentage, respectively.

When we add these 2 portfolio as well, the total slippages on a whole portfolio will automatically go down as compared -- because now we have only comparison is basically 2-wheeler, wherein the slippage for the 2-wheeler and as an industry, we are operating at 5% GNPA, it will be continued to remain the same.

But with the addition of the new portfolio and which are fairly secured used car and CVs, with those additions, the gross NPA as a whole and the gross slippages as a whole will go down in the -- in this year. I hope I'm able to answer your question.

If there is anything you want to add, specifically please ask.

Rishikesh Oza: Yes, please go ahead.

Mathews Markose: Yes. So to add to what Raman has said, and I already answered in the previous question asked by somebody else, that over the last 1 year, so from October '23 till March '25, the month-on-month slippage has been hovering around INR9 crores to INR10 crores, while the AUM has grown from INR1,000 crores to INR1,800 crores.

So the quantum of slippage has been -- we've been able to keep the quantum of slippage at that level, though there's been an increase in AUM. Therefore, on a percentage term, the slippage month-on-month has come down from 0.96% in October '23 to 0.6% in March. So as a percentage, we will always be able to keep it below and the quantum also will keep at the same levels with an increase in AUM.

Rishikesh Oza: Got it. So when we say that our credit cost will be somewhere between 1.6% to 1.8%, which means that we are saying on a full year basis, FY '26, our provisions would be INR60 crores, INR70 crores, which was similar to the run rate of Q4?

Ramandeep Gill: Similar to the run rate of Q4.

Rishikesh Oza: Q4 run rate.

Ramandeep Gill: No. So Q4, we only added INR16 crores as additional provisioning. You're talking about quarter-on-quarter.

Rishikesh Oza: But the Q4 is total, INR60 crores, INR70 crores of...

Ramandeep Gill: Quarter-on-quarter. Yes.

Rishikesh Oza: So those basically the whole year 2026, we are seeing FY '26 around INR60 crores to INR70 crores of provision. So that would mean that somewhere the Q4 numbers would sort of continue on a run rate basis.

Ramandeep Gill: Yes. But one more thing -- yes, you're right. And one more thing to add on, the total income, which I have said for the last year, whereas total income for the upcoming year. So that upcoming year, that income as we target a growth in the AUM. So obviously, the income as a whole will be -- will also grow by at least 2x to 2.5x.

Mathews Markose: So what we have also introduced is that we have introduced the risk-based pricing starting January. Till January, we only had a scheme-based pricing, which is any customer taking a loan anywhere in the country opting for a scheme, suppose scheme A would get the same pricing. But today, we will be able to differentiate -- we are able to differentiate between 2 customers with 2 different risk profiles. So we have -- now with the introduction of risk-based pricing, we will be able to price a higher customer appropriately.

And therefore, we will be able to take care of that additional provisioning whatever which comes in without taking an impact on the ROA. So this year's budgeting has been done. All these factors have been taken into account, which is the provisioning that would come in. Slippages, we will keep under control. Plus we will have that additional delta from the risk-based pricing, along with other income like cross-sell and cross-sell of insurance and other products.

Rishikesh Oza: Okay. So when we say that our AUM will be INR4,500 crores, INR4,600 crores for next year, this is FY '26. So roughly around 50% growth in AUM that we are forecasting. So do we see our net interest income to grow at 50% as well?

Mathews Markose: Yes, it will also grow by about 50%, yes.

Rishikesh Oza: Okay. Got it. And last question from our targeted AUM of INR4,500 crores, what would be the contribution from each segment, if you could go through as well, please?

Mathews Markose: So as I mentioned before, our objective is to make it as a 60-40 ratio. So 60% would come from 2-wheelers and the balance 40% from other products.

Moderator: The next question is from the line of Aditya Tulsan from M3 Investment.

Aditya Tulsan: My question is regarding opex. We have a considerable scale, and we also have 30% of co-lending, which we don't have to bear an expense. Despite that our opex is on the higher side. And I understand you are investing in new products and systems and there would be some upfronting.

But on a steady state, when you grow higher than this, how do you plan to control it so that we can have a healthy pre-operating profit, which can help us navigate through volatility in credit cost to 2-wheeler, which is a little bit on the lower side of pyramid?

Mathews Markose: Okay. So Raman, I'll take it and then you can talk about the numbers. See, so last year, we were fixing multiple things. So we were fixing the business growth on one side. We were putting up new products. We were adding new technologies. So opex was one thing which we did not put too much of our mind into, because if we start brooding over opex too much, we will not be able to do all those things that we were able to do otherwise, okay?

So our priority was, of course, set the business engine rolling, set the new products rolling, send the technology front at par with industry, bring all those credit checks and controls. So all of them come at a cost, and therefore, we did all that. And I think these were investments which were made in the right direction and the benefits of which will accrue this year and going forward.

Yes, we are cognizant of the fact that opex is slightly higher, and therefore, we have taken a hit on the ROAs. But with all the investments that we made last year and them giving results this year, we should be able to tide over that. That is number one.

Number two, we are also adding new products like 2-wheeler, used 2-wheeler this year, where I will not have to incur any additional opex because it's the same team, the same technology, the same platform, which is going to do that business for me. But that comes at a 300 to 400 bps higher rate than the normal 2-wheeler.

And that would be about 25% of my incremental business this year, okay? So that will also add to my ROA and NIM without impacting the opex. So these are the things that we have planned. So we are cognizant of that and the opex -- higher opex of last year was, I think, an investment in the right direction.

Raman, you want to add more on numbers, you can go ahead.

Ramandeep Gill: No, sir. This is okay.

Mathews Markose: Yes.

Aditya Tulsan: Understood. But would you like to guide on a steady state now that investments are done, how much do you think we can incur going forward on a steady state?

Ramandeep Gill: Okay. So sir, can I?

Mathews Markose: Yes, yes.

Ramandeep Gill: Okay. So on this, as we said, already for a segment-wise, 2-wheelers are contributing very well. We are around 2.5 percentage higher in terms of ROA itself. For used cars and commercial vehicles since we have started in last year itself, so in this year, we are expecting a good turnaround from them. On a steady state, I am expecting a blended ROA of somewhere around 2.5 percentage without expecting too much increase in the yields now.

But yes, if we are able to -- since all the expenses have already been incurred in the last year, amortization will come into the picture from this year itself. So we are expecting good numbers, and we want to deliver the -- we also want and we also hope to deliver an ROA -- blended ROA of more than 3 percentage in this year itself.

Aditya Tulsan: So we -- so like if I do a back-of-the-envelope calculation, we can expect a 100 to 200 basis point reduction in our opex to AUM? 2%, 2.5% ROA, would that be correct?

Ramandeep Gill: Yes, it has to be. And second thing, the impact will not only come from the opex itself. Yes, there will be an impact from the finance cost as well. Since the cost reduction has already been started, and we are also expecting INR0.25 to INR0.50 to come down.

Aditya Tulsan: Understood. Understood.

Mathews Markose: There would be an impact on finance cost. There would be an impact on the yield, which will go up. There will be an impact on the used 2-wheeler adding to the NIM, and there will be an impact of co-lending book being lower as a percentage because co-lending book is at a very low yield for us.

Aditya Tulsan: Correct. Correct.

Mathews Markose: So all of them will impact. So I can't tell you now that which variable will have the highest impact, but I think all of them will have an impact.

Aditya Tulsan: Okay. Understood. Second is, sir, what is our strategy on corporate book? We -- last 4 quarters, we have disbursed, I think, INR20-odd crores. We had a slippage of INR10 crores in this quarter. We are largely looking at products which are largely in retail, automobile or around structure. So what is our strategy? Or how does this corporate fit in? And what do you want to think going forward, do you want to do or you don't want to do just on the strategy aspect?

Mathews Markose: Okay. First of all, there is no slippage. Our corporate loan book is completely clean. I don't know where you've got this figure. There is no slippage at all.

Aditya Tulsan: I think on your presentation...

Mathews Markose: Corporate loan book, there is zero delinquency.

Ramandeep Gill: Corporate loan is a zero one. It's in the PPT itself. Yes.

Aditya Tulsan: I think Slide number 26, corporate loan movement, there has been an addition of around INR10 crores?

Ramandeep Gill: Addition means the new loans which we have provided.

Mathews Markose: New loan.

Ramandeep Gill: New loans which we have provided. It's a corporate loan movement. It's not a NPA movement.

Mathews Markose: It's not NPA.

Aditya Tulsan: Correct.

Mathews Markose: So there is no NPA on our corporate loan book.

Aditya Tulsan: Regarding the disbursement, which have been...

Mathews Markose: Regarding the disbursement, the idea is that if you have to underwrite corporate loan, you have to start underwriting it like a bank does, okay? So our core competence has always been on the retail space, and we want to stick to that.

Having said that, there has been a set of customers who have been loyal with us, who've been with us for years together and who keep coming back to us for small this thing. So we will continue to cater to that segment. And we will keep that book at that level of, say, INR150 crores to INR200 crores.

We don't want to go aggressive on that because that is not our core competency. If we have to go aggressive on corporate loan book, we have to start underwriting and thinking like a bank, which we are not ready for as of now.

And two, with our interest rate and our cost of funds to get good credit in that segment will also be a challenge. So we will continue to work with our partners who have been with us or either our co-lending partners or our loyal customers who have been with us for long. We are not looking at a big jump in that book.

Aditya Tulsan: Okay. And sir, regarding other products, same in 3-wheelers, last 2 quarters, we haven't disbursed any amount. So any color on that?

Mathews Markose: So, 3-wheeler as a product we never had on our own books. Whatever 3-wheeler is shown on our books was brought in by our co-lending partners. Since they have slowed down, you will see a slight reduction in that portfolio. But we don't get into -- intend to get into that segment as of now.

So currently, we are going -- within the 2-wheeler segment, we want to further split that into 2-wheeler ICE, 2-wheeler EV and 2-wheeler used. And those will be the 3 segments under 2-wheeler. Under car, we will have new car and used car and under CV, we'll have new car -- new CV and used CV.

And then we will have a loyalty loan, which is a top-up or a personal loan. So these are the products that we will be focusing on this year. Towards the fag end of the year, as the CV portfolio grows, we will look at getting into construction equipment, tractor, etc., but that is not completely firmed up.

Moderator: Ladies and gentlemen, due to time constraints, that was the last question. I now hand the conference over to the management for closing comments.

Mathews Markose: Okay. Thank you so much, everyone, for joining the call and for all your insightful questions and guiding us quarter-on-quarter. I think we will -- this year is going to be a great year for MCSL. We all are confident on delivering all the guidance and all the numbers that we have committed to you. And with your support, we will continue to grow.

Thank you so much. And yes, hoping to connect with you soon in the next quarter. Thank you so much.

Ramandeep Gill: Thank you.

Moderator: On behalf of Elara Securities India Private Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.