



“Muthoot Capital Services Limited
Q1 FY '26 Earnings Conference Call”

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Muthoot Capital Services Limited
Mr. Mathews Markose – Chief Executive
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MODERATOR: **Ms. Shweta Daptardar – Elara Securities
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Moderator: Ladies and gentlemen, good day, and welcome to the Muthoot Capital Q1 FY '26 Earnings Conference Call hosted by Elara Securities. 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 this 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, Huda. Good morning, everyone. On behalf of Elara Securities, we welcome you all to Q1 FY '26 Earnings Conference Call of Muthoot Capital Services Limited. 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 esteemed management of Muthoot Capital to provide us the opportunity to host this conference call.

Without further ado, I now hand over the call to Mr. Mathews Markose, CEO, for his opening remarks, post which we can open the call for Q&A. Thank you, and over to you, sir.

Mathews Markose: Thank you, Shweta. Good morning, everyone. Very nice to connect with all of you once again. I'm Mathews Markose, as Shweta introduced, the CEO of MCSL. And before I hand it over to Ramandeep for his presentation on the financial numbers, I just wanted to take all of you through some of the developments in Q1 and overall what we are doing as a company.

So, as you are all aware that we are a very purpose-driven organization, working very closely with the common man in improving their financial well-being. So all our growth metrics remain intact and doing very well. So over the last 1 year, we have doubled our own sourcing and our own AUM has grown by 100%.

The new products that is most heartening part is that the new products that we launched over the last 1 year, which is the used commercial vehicles and the used car, both of them have scaled and crossed INR100 crores AUM, with almost negligible stress on that. There is almost zero NPA on those portfolios. So those are the businesses that are doing very well, both on the growth as well as on the quality side. So we are very happy about all those initiatives that we have done over the last 1, 1.5 years.

Further to improve our credit underwriting norms, we have initiated a slew of initiatives, starting with -- we have started location as well as the sourcing channel categorization. We have based this on both profitability as well as the delinquency trends.

So every sourcing channel today, who is in the system, which is about close to 5,000-odd sourcing channels gets rated based on their business volumes, profitability, delinquency numbers, and they get categorized into severe risk, high risk, medium risk, low risk and very low risk. And based on that, we are able to offer benefits to them and to the sourcing from those channels.

So that is one of the key initiatives that we launched about 3 months back. We introduced risk-based pricing, which again, initially, we used to have a pricing model where it would be based on a scheme. So a person taking same scheme anywhere from Kashmir to Kanyakumari would get the same LTV, same IRRs, whereas now it is based on the risk profile of the customer and not just on the scheme that he or she is choosing.

We tied up with CIBIL to introduce CreditVision algos. What CreditVision algos does is that beyond numbers of that CIBIL score. Usually, when you go for a credit underwriting, you take the score from the bureau, and that score is always a point in-time score, which means if somebody gives a score of 750, we would assume that the credit profile of the customer is good but the customer would have gone through any of the three journeys in reaching 750. It could be coming down from 900. It could be going up from 500 to 750, or it would have been stable across the past 3 years on 750.

The difference is that, the credit profile of all these three customers are entirely different. A person who is coming down from 900 to 750 his credit profile is deteriorating, whereas somebody is going up from 500 to 750, his credit profile leverage in the industry is improving and a person who has been stable has been good across. But when we look at the point in time score, we tend to make that mistake and rate all the three people similarly, which can make your credit underwriting decision slightly not so accurate at times.

So to take care of that, we've now worked with CIBIL Algos to give us other than the score, we also give a color coding, which is green, yellow, orange and red. So green is the very low-risk category. Yellow is the medium risk category, Orange is the high-risk category and red is severe risk category, which becomes an outright reject for us. So based on that, so we marry all these concepts, which is the channel categorization, the risk-based pricing and the CV algos to then to arrive at a final customer LTV, or a customer rate, so on and so forth.

So therefore, it's a complete holistic assessment of the customer that we do before offering them a loan. We have drastically improved our eNACH penetration over the last 1 year, starting from about 50% eNACH and 50% mNACH in April of last year to about 82% eNACH penetration now as we close our quarter. And our objective is to reach about 90%, 95% in eNACH penetration, and that is imminently possible the way we have scaled over the last 1 year or so.

To add more value to the overall underwriting decision, we have recently tied up with Onemoney as our account aggregator. What it does is that till now, we used to do a penny drop to understand whether the account is there or not. Even if the account is dormant, maybe the penny drop would be a success.

But now we hit the account aggregator, and pull the account aggregator details, pull the account analytics details, and then club it with the overall underwriting process. If the average balances are above a certain norm, we can also qualify these customers as a surrogate income -- under a surrogate income and offer them better LTVs and better pricing.

And at least on other cases where average balances at a moderate level. We know that the bank account is active and not dormant. And therefore, then we push the customer to a mandatory

eNACH, so that -- because the success rate on an eNACH is significantly higher, manual match has a 50% chance of failure, whereas the eNACH has about 10% to 15% chance of going wrong.

So that's an additional initiative that we have taken at an enterprise level to improve our underwriting norms. We have taken another step. One of the challenges that is there in this business on the low ticket size, lower income segment is the fact that the customer contactability sometimes becomes an issue. So, the faster you are able to get in touch with the customer and call them and induct them through the system, get them to download your app, and get them to transact on your app, the better for you.

But the challenge was that through our call centers, we were able to contact only about 60%, 65% in the first 15 days. And then because of also the norm that you have to call those customers from that 140, 160 numbers, many of them come as a spam, so customers may not pick up the phone. So, it takes repeated calls and reminders for them to finally pick up, and it's a huge human effort, and there is a lot of drain on the system in terms of cost, etcetera.

So now we've tied up with an AI-based solution to do an automated calling. What this does is that, this bot can almost mimic the human. It talks like a human being, identical to a human being, and it is able to take any kind of objection. So, whatever the customer is asking you back, it responds like a human being would and takes you through the entire journey. And this will improve our customer contactability, because a bot can call -- make some 3,000 calls at one point in time, where a human being can make only one call at a time.

So, you can't keep adding manpower to reach out to all those 20,000, 25,000 loans that you are doing month-on-month and which will, of course, double in the Q2, with the festive season coming in. We have also made another significant change where the first, second and third EMI is completely mapped to the sales team.

Earlier, sales team had a shadow mapping, where they were supposed to assist the collection team, but now we have made it mandatory. So, the allocation itself goes to the sales team. So, sales team is also aware of the challenges of collection and therefore, he will be mindful of all those challenges while sourcing.

And this has also resulted in a huge improvement in our -- so first, second and third EMI collection, because collection team would be focused on the overall pool, whereas this segment is only focused on that first FST pool. So that is a much smaller pool and the efficiency levels.

So, we have -- the last 3 months are non-starter with almost zero. And we are also improving the -- doing a lot of work on the data analytics side. We'll shortly be coming out with our own data lake platform, which is almost on the verge of a closure. And there are a lot of analytics layers we built on top of it, like the pre-delinquency, the roll forward, the rollback, the normalization scorecard, something to do on the origination scorecard, customer behavior, all those kind of analytics is being built, propensity modeling to do cross-sell and upsell.

So basically, what I'm trying to say is that, the company has done a huge amount of investment on data, on IT systems and on improving the quality of the sourcing that we have done. So, while Raman will take you through the numbers in detail, you all are aware that there's been a huge

stress on the microfinance segment. And while we don't have a great deal of overlap with the microfinance segment, we are very, very closely connected in terms of ticket sizes and the customer profile.

And some amount of that stress has indeed spilled over to our collection also, while I would acknowledge that, there's been no increase in the slippages from the pool. So, the slippages have remained constant across the last 1, 1.5 years in terms of percentage. But April, May, June has seen some lag in the collection. So, impairment is always a function of how much is the slippage and how much you are able to collect back.

So, April has been slightly slow. May and June has followed the same trend, while April was expected, even it was budgeted for, May and June has been slightly an elongated period, which we saw that collection being weakened. But then July, we were able to recuperate, and we are very hopeful and confident that Q2 would be much better.

And also, this collection challenge has not been across. So that's the other part of it, because we continue to be very, very robust on collections in the South, the West and the East of the country. We've had certain pockets of issues in North, like -- states like Rajasthan and Punjab, Haryana, those kind of states. But we have strengthened our collection team. We have put new people there. We added new agencies. So, the results have already started showing in July. And as I said, we're very confident that we will bounce back in August and September.

And finally, I think we are at a great place now. Our Q1 numbers in terms of growth has been very encouraging. And we are now stepping into the festive season with Onam coming in September. So, Kerala, the festive season starts now, and it will be shortly followed by the rest of the North. So, we are very hopeful of the time to come.

And yes, I think I'll hand it over to Raman now to take forward the financial numbers. Thank you all once again for all your support. Over to you, Raman.

Ramandeep Gill:

Thank you. Thank you, Mathews, sir. I welcome all of you to the earnings call for the quarter 1. So, in this quarter, I will take you through the financials now, what number we have been able to achieve and where we have missed. So, in this quarter, the company has been able to acquire 65,000-plus new customers, while doing a business of INR620 crores, which took our overall customer base to more than 570,000. This helped the company in achieving an AUM of INR3,239 crores, and which took the overall balance sheet size to INR3,700-plus crores.

Yes, we do have one-off loss in this quarter, which amounts to INR4.41 crores, which helps in the shareholder funds to achieve INR653.65 crores. Therefore, we can also see minus in our EPS numbers too. The overall growth in the AUM can be seen as compared to the previous quarter 1. Year-on-year, the company has been able to grow, approximately 50 percentage precisely 49 percentage as far as the AUM is concerned.

The growth has come from 2-wheelers. First, wherein the company has been able to achieve 48 percentage as a year-on-year growth. We started CV in the last year. I remember in the Q1 of last year call, we said that, we have started CV, wherein CV, we started from 1st of April of last

year. And we are happy to announce that both CV and used car portfolio have achieved more than INR100 crores as an AUM.

So therein, we can see in our 4-wheeler portfolio or used car portfolio, we can see a growth of 204 percentage, whereas CV we have started in the last financial year itself, and it has reached INR200 crores. Quarter-on-quarter, if you have to talk about comparing the quarter 4 versus quarter 1, the AUM growth stood at 6 percentage. Therein also we grew.

In terms of my overall retail business number, while in Q1, we did INR497 crores. In Q1 of this year, we have closed INR618.48 crores, whereas in quarter 4, we closed INR644 crores. So, we can see that, there is a jump from Q1 to Q1 as compared to year-on-year as 20 percentage is the jump, whereas from quarter-to-quarter, there is a small reduction in terms of my sourcing, which comes at 4 percentage.

Our dealer channel continued to contribute the most wherein in the year-on-year, we can see that both from dealer channel and from our outlet channel, the growth remains at 42% and whereas we can see a dip in our co-lending portfolio in terms of sourcing. So, it has been dipped by 80 percentage as compared to the quarter 1 of last year. And from quarter 4, it has been dipped by 55 percentage.

We have also tried to analyze the yields of the company that -- because at the end of the day, yes, we are focusing on the top line and on the expense part as well. As far as the top line is concerned, we have analyzed the yield of the company, wherein we can see that where the overall yield of the company on the total portfolio and what is the product-wise yield of the company on the incremental business that the company has done in Q1.

While 2-wheeler, we are at 22.15 percentage and Loyalty Loan, we are at 24.85 percentage. For CV, the company is operating at 17.43 percentage and for 4-wheeler, we are at 18.37 percentage. Co-lending, we are having a blended yield of 12.21 percentage.

In terms of the GNPA of the company, in the last year quarter 1, we were at 9.84 percentage. Now we are at 5.76 percentage. Yes, we did ARC sale as well in the last year as well. And then in terms of NNPA, we were at 3.41 percentage. In this year, we are closing at 2.70 percentage.

We can see a marginal jump as compared to the March '24, both in GNPA and the NNPA number. The GNPA was 4.88 percentage in March, we have reported and NNPA was 2.30 percentage while the overall PCR for Stage 3 remains at 60 percentage only, and there is no change in that.

We have also tried to analyze that overall yield of the company and the finance cost, impairment cost and all other expenses. wherein we have seen that finance cost as a function of my borrowing, where we are, whether it's growing or not growing or where we are -- whether we have been able to bring down the cost.

In quarter 1, we have seen that, there is a dip on the incremental funding, which the organization has raised. As far as the impairment is concerned, that is the only thing wherein we can see a huge jump in quarter 1 of last year, it was INR4.86 crores, whereas in this quarter, it's INR26.68

crores. So, there is an additional impairment that the company has provided in this quarter of INR26.68 crores. And all other expenses to the AUM function remains stable around 6 percentage, 6.5 percentage.

As compared to the total receipts with the company, which contains the dues received by the company plus the overdue. So, in that we have done an analysis. In this quarter, company has received INR560 crores in terms of my installments plus overdue plus foreclosure. Out of that, 82 percentage has come from my bank and electronic mode plus NACH, and 18 percentage is only in the cash, whereas that component was way higher, if we compare to the quarter 1 of last year.

One more income, which we have added, I think we have told in our March results as well. There is an insurance income, which we have added. Now one more partner, which we have just added in the month of June as well. So, with them, the total income has grew -- that from the insurance partners, we booked an income of INR1.82 crores, as an insurance income in this quarter. And this will continue to grow in the months to come.

For the portfolio analysis of the company, 95 percentage of the portfolio remain standard. Of that, 82.76 percentage remains at 0 bucket, whereas for first bucket, it's 7.66 percentage and for second bucket, it's 2.96 percentage. So, then there's -- and we have also analyzed, where is the NPA in terms of dealer-wise, we are having a GNP -- overall GNP of 8 percentage, whereas for alternate channel, we are having overall 7 percentage. And as compared to the commercial vehicle and my 4-wheeler portfolio, CV, we are having a 0.19 percentage as the NPA. And for 4-wheeler, we are having 1.09 percentage as an NPA.

As Mathews sir has told, we have also checked our slippages on our standard portfolio that where we are going as compared to the last year as well. So therein, we found the slippages were in the same range, except for April and May, wherein it has increased, but the trend has started going down from June onwards only, wherein we can see the total slippages to my standard AUM of the company has gone down in the month of June and after that.

So therein, yes, we have seen a huge spike in the month of April and May. When we talk about the total slippage of the company, with that, we -- the company has been able to rollback in this quarter itself, the company has been able to rollback INR4 crores out of the slippages, and the total recoveries which the organization has made in this quarter, this is other than the rollback stood at INR5 crores in this quarter itself. And this number has been growing only after May. So, June, we have seen INR2.5 crores from this number has come, which is 50 percentage of the entire rollback and recoveries. And after that, it has grown only.

As far as the provisioning of the organization is concerned, the company has been able to provide the same ECL, where the PD and the LGD of the company remains the same. And we still carry an overlay of INR51 crores, whereas total provisioning stood at 60 percentage on my Stage 3 assets. As far as partnerships are concerned, we are still continuing the partnership with Wheels EMI, Credit Wise Capital and EV fin by Greaves.

For corporate loans, which the company has sourced over the last years, we have seen that there is 100 percentage efficiencies in that portfolio. We have also analyzed the ARC recoveries, the first ARC done by the company in September 2023, another in September '24. In both the ARCs, we have seen a steep reduction now and their ratings has also been done independently, and we have seen that fair recovery has been assigned to both the portfolios of my SRs in the ARC.

As far as the shareholding pattern of the company, it remains unchanged. Promoters holds a large part, which is 62.62 percentage whereas retail holds for 28.53 percentage. Our corporate holds 7.74 percentage and 1 percentage has been hold by other FIs. The banks have continued to show interest in this -- in our organization. And we have been able to acquire a lot of sanctions from the banks, specifically from the PSUs.

We have got 1 sanction from the IOB. We have also got other 2 sanctions from 2 private players as well. So therein, the bankers like in terms of private banker, we do have highest exposure by IDFC First. And from PNB, we do have highest exposure in terms of PSUs.

In terms of my NBFCs partner, we -- the company has been able to raise funds to CP and the NCDs as well, wherein the partners like Morgan Stanley, Wint Wealth, Barclays, they have been added in this quarter. Others remains intact. The partners like AK Capital always supported Northern Arc, and UGT, they were always there, and they have also given term sheets after that.

The overall cost of borrowing compared to the quarter 1 of last year has gone down, both in terms of my ROI and both in terms of my XIRR. So, we can see a reduction of INR0.60 in my total XIRR, and we can also see a reduction of around INR0.40 in my ROI. So as compared to the quarter 1. So, we have also seen that total borrowing by the company in this quarter compared to the borrowing from the whole year that we have done. Therein, we have also seen reduction both in the terms of my ROI and both in the terms of my XIRR of the total funds.

The rating of the company remains stable A+ stable in terms of Bank Lines, NCDs, Fixed Deposits and CPs. One more rating -- additional rating, which we have got in this quarter -- late in this quarter, start of this quarter is basically the ESG. So, in ESG, the company -- this was the first time the company has been rated by the ICRA ESG, wherein the score was 73, which is called as a good score in terms of my ESG rating.

As far as the fixed deposit book of the company, it remains at INR44.40 crores, wherein the company has been able to add INR5.67 crores through the new fixed deposits and INR0.62 crores from the renewals.

Structure Liquidity and the ALM of the organization is concerned, there is no cumulative mismatch in all the buckets of -- as of June 30, which we have reported to RBI, which is 1 month, 2 months, 3 months, 4 to 6 months, 7 to 12 months, 1 to 3 years, 3 to 5 years, 5 years and above. As far as the LCR of the company is concerned, liquidity ratio, we have to maintain 100 percentage as far as RBI is concerned, the company has maintained an LCR of 105.97 percentage as of 30th of June.

For our -- to increase our investment portfolio since -- and to also increase our HQLA for the LCR is concerned, the company has started investing in T-Bills as well, wherein the average

rate, which we are receiving comes to 5.34 percentage for 2 weeks as compared to the fixed deposit rate, which is also hover around in the same range of 5.15 percentage to 5.30 percentage. We are getting yield from our SLR investments, PTC investment, collateral fixed deposit with the bank and the unencumbered fixed deposit with the bank. The total yield of the company from the investment portfolio comes at 7.18 percentage.

So that's it from my side, Shweta, we are happy to take the questions.

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

Tejas Khandelwal: Sir, when the company had started seeing stress in the loan book starting last quarter, so then why did you pick up speed in disbursement? Because, couldn't the company had kept caution in its lending?

Mathews Markose: Yes. Tejas, I will take that question. So no, the stress is -- as I told you, the stress is only in specific pockets. And in those pockets, we have strengthened our -- this thing by reducing LTVs and increasing rates and all that. So, it's not a stress pan-India. It's only in certain pockets of North, which I had already mentioned while in my opening speech. And those places, we have taken the necessary steps.

There's no point in it's actually detrimental to the overall objective, if we go in mass and stop it just because there are stress in certain pockets. If you would have seen a stress across, then that would have been different, but that is not the case here. So, it's a very, very calibrated and thought about decision.

Tejas Khandelwal: So what measures have you taken in the Northern belt, because there is -- as you said, there is stress in Rajasthan, Punjab and Haryana. But if I take the disbursement in quarter 1, so there is still 30% disbursement is in North. So I'm not getting what changes have you done in your disbursement -- disbursement style?

Mathews Markose: So, you will have to look at the last 2 months disbursement, which has significantly come down in these two things. And it is not that we are talking about a yearlong stress, no, till March, our -- there was no stress at all. Till March, we closed on a very high note in terms of our collections and everything. April, we saw the stress.

The initial signs were misleading because generally, you tend to have -- everybody tends to relax a bit in April, and we thought that was a thing. And -- but when we see -- saw the trend continuing in May, we immediately made the correction. So, we are very, very nimble footed in all those decisioning making, and it happens very, very fast.

Tejas Khandelwal: Okay. But since we had started seeing stress from April and our last call happened in mid of May. So, you were very confident about the asset quality at that point also. And what suddenly changed in the revenue stress? I'm not 100% confident.

Mathews Markose: As I told you, the April signs were misleading and so we thought we would be able to recover in May, but that got slightly elongated and went on till June end also. And that's the reason why this happened.

- Tejas Khandelwal:** Okay. And sir, even after this matters...
- Mathews Markose:** And then -- okay, so one more thing to add here is that -- so we had a national collection manager managing all regional collection managers across the country. So, we had about 15, 17 people reporting directly into him. So, we understood that his bandwidth was also getting choked and he was not able to focus too much. And he is based out of Cochin. So, his -- and understanding also of some of the smaller markets in North needs to be more.
- So, we put up a zonal head for North, who is basically from Rajasthan, and who has worked with a very large NBFC, and who has worked in those market, and understands the nuances of that market. We put him -- we've hired him. We brought him on board. And of course, you know that all these have a gestation period. I need to issue an offer. There is a 3 months notice period and all that. So that was a transition phase as well. But rest assured, we have taken all necessary measures now.
- Tejas Khandelwal:** Okay, sir. Okay. And sir, even after this INR27 crores of provision, which is very massive, still there is a rise in net NPA. So, should we expect similar kind of write-off? Or are you going to sell assets or bad loans to ARCs? What should we look for?
- Mathews Markose:** No, no, no, we will not do any ARC deal or anything now because we don't see that kind of a situation. We are completely in control on the numbers, okay? As I mentioned already, the July numbers have been much better, and we will be able to recuperate in August and September. So, there is no compelling need for that.
- Tina Muthoot:** Can I just add something here?
- Mathews Markose:** Yes, please, Tina. Go ahead.
- Tina Muthoot:** So, I just want to clarify like the last two times that we did ARC, it was because we had a backlog from COVID, but ARC is not going to be our business as usual. We are trying to fix certain operational issues with respect to collections, we will do that first. But we're not foreseeing any sale of portfolio at this point of time.
- Tejas Khandelwal:** Okay. Got it. And sir, so there is also massive Stage 3 assets in our 2-wheeler segment. So, 2-wheeler segment NPA is 6.3%, which is very high. So now if the company is going to reduce this growth rate in 2-wheeler lending?
- Mathews Markose:** So two things on that. We are not going to reduce the growth rate, but we are going to increase the growth rate in our other 2 lines of businesses, which is used car and CV, which I said now we have 1 year behind us, and we've got a portfolio of INR100 crores plus and the portfolio is behaving very healthy.
- So we are going to go hammer and tongs on these two businesses and then scale up this to because 2-wheeler for some more time will continue to be our warhorse. It has to be the revenue-generating thing. It is still compensating for the cost that we have incurred in setting up these 2 businesses.

Now the entire team on used car and CV are in place. But in terms of standalone P&L, they would still take maybe by Q3 to breakeven, because the cost has already been put in place, the systems have been put in place. The people have come on board. The productivity is increasing month-on-month. But to reach that optimum level of productivity where they will break even, it will be, I think, about October, November. So, till that time, 2-wheeler has to continue to support the other lines of businesses.

And of course, 2-wheeler is a business that we have done for 30 years. We know that like the palm of our hand. So, while there will be cycles of stress elevated stress and there would be cycles of good periods as well. So, it's not a business that we are going to write off forever because that has been the business which has brought us wherever we are today.

Tejas Khandelwal: Okay. Got it. And sir, these 2 segments which you have just said, this commercial vehicle and used car. So, now the company is going to focus more on these segments, but the yield on the disbursement of both of these segments is pretty low when we compare with 2-wheelers. So, isn't it going to pressure our net interest margin in a bad way?

Mathews Markose: So 2-wheeler today is giving me about 22% and used car is giving about 18.5%, CV is about 17.5%, okay? And then you remove the impairment that I incur on 2-wheeler, then my net income would be much better on that in these 2 businesses. ROA would be better in a longer range. As of now, because I am incurring a huge cost on the manpower and the IT system that we have put in place, the business has not broken even. But in the long run, that will definitely be a better ROA business or at least same ROA as the 2-wheeler business.

Tejas Khandelwal: So by when can we expect these two segments to be a substantial part of our loan book?

Mathews Markose: See, by October, November, it should break even. But by the end of this year, we will have a decent portfolio. So maybe about 30% of our portfolio coming from these 2 businesses.

Tejas Khandelwal: Okay. Okay. That's all.

Mathews Markose: And that is the direction in which we are moving. So a clear direction, yes.

Tejas Khandelwal: And sir, I had one last question on this Stage 2 bucket. So Stage 2 bucket is still at 4.2%. So are you seeing any of that is turning into NPA in coming quarters?

Mathews Markose: See, that is -- there is a percentage that spills over from each bucket. That percentage spillover slightly increased in April, May and June, which has been planned now in July. So now that will continue. So, I think the certain portion will go, but there is always a rollback, there's a normalization. So, all those efforts are always on. So those dynamics are not changing.

Tejas Khandelwal: So what credit cost can we expect, sir, for this year?

Mathews Markose: Credit cost, Raman, do you want to take that?

Ramandeep Gill: Yes, yes, yes. First to answer on the Stage 2 bucket, I just want to add here. Our Stage 2 bucket, which is leading to NPA, right? So those fresh slippages, as I said, it has increased in April and May. But from June onwards, it has started going down. And further forward, it has gone down.

So yes, the 4 percentage was there. It will come down, but we cannot expect it to come down drastically.

Second thing, as far as the impairment cost is concerned about the company. So we -- initially in our business plan, we expected some 1.65 percentage as a core cost of impairment. But since our Q1 results, which is like one-off wherein we have provided around for the impairment cost only 3 percentage.

So we are expecting even on the higher side, but we have -- as far as the last 2 months are concerned and still we are standing in the August 1 week, we expect to maintain it. And as far as the revised business plan is concerned on our recovery side from the NPA, we expect to maintain between 1.65 percentage and 1.75 percentage only, but that too is on the higher side, as I said earlier.

So we are expecting it to go down. We are -- because initially for April, we knew that April recoveries would be low as we have seen the trend in our last financial year. Based on that, we expected higher NPAs. But due to the fact that May has gone up and that has spilled over to June, our overall impairment cost has increased.

But after that, it is in the same -- we know that the company has been able to take the trend of Jan, Feb and March in terms of recoveries are concerned. So I am expecting 1.65 percentage. Still if we have to provide an additional overlay for it, we will do that, but we have to see after Q2 only.

Moderator:

The next question is from the line of Sarvesh Gupta from Maximal Capital.

Sarvesh Gupta:

So sir, one question is that, see, traditionally, we have been having all these problems related to gross NPAs, collections, over dues and we anyway knew that the situation on the ground with microfinance, etcetera, is not good. Then despite all of that, why did we take the eyes off the ball and that resulted in a low collection efficiency in April and May. And that is even more disappointing given that this entire new book was built in the last 12 months, right?

A large part of your book has been built in the last 12 months. These are new loans. These are not seasoned loans. Despite that, the NPAs have gone up so much and somehow we did not do a good job in collections in April and May, then we know that June quarter anyways is a weak quarter also when it comes to collections. So why did we not reinforce the collections in the month of April and May, and that was not even indicated in the last con call, which was done in the mid of May?

Mathews Markose:

Yes. So very good question. The reason is not that we did not reinforce, but we also had a series of attrition in some of the northern states. So, the person who was handling, we had three regional collection manager of North one getting changed in the last 1 year.

So -- and then every time there is a resignation and there is a reappointment, there is a gestation period between this and then there is a lapse and then somebody comes and some people go, all that happened. So, there was a disturbance in that. So, it is not that we were not aware of that. But somehow, the slippages in April and May were slightly more surprising than it used to be.

So, it's not that -- so these two areas or the North one, which I call that Punjab, Rajasthan, Haryana was a troubled territory for me. There are two things that happened from October of last year when the season hit, our numbers from those markets went disproportionately high. And then this collection attrition also happened during that time.

So, for me to plug these two took some time. That is the thing, but now we are in control. And that is why we are saying that it is a pure operational issue, which will -- which can be -- so it's nothing which is not in our control. So while we talk about the overall sector and all, but it is not -- for me, the sector, of course, plays and it plays across the board. But for me, this was something which compounded the problem, which is in my control. So that's why we are confident when we talk to you.

Ramandeep Gill: One more thing to add on the slippages from Q1 of last year and Q1 of this year. Slippages remains the same as a percentage of standard AUM, right? The only thing which has remained static and it has to be improved is basically recovery from the slippage.

Mathews Markose: Recovery, yes. Slippage has not increased. It has actually come down. So if you look at April -- sorry, May of last year, slippage on the base was about 9% -- sorry, 0.9%. Our MCSL pool at that time was about INR950-odd crores and about INR9 crores was a slippage. It was about 0.9%. Now, it is only about 0.8%. So it's not that the slippage has increased. But the recovery that time was much higher.

Sarvesh Gupta: But slippages, sir, you also talked about a lot of initiatives that we have taken, right? So given that it is very much normal that your slippages should anyway reduce by 0.1%.

Mathews Markose: That is exactly the reason why slippages have come down. So, all those initiatives are playing out in the positive direction. But then once there is a slippage, somebody has to go there and aggressively collect. That is the part where we had this challenge because of the -- as I mentioned, the attrition and stuff.

Sarvesh Gupta: And given that, sir, now that we are aggressively expanding into other product segments also, so shouldn't you just focus on your core geography of North -- of South because like this is -- attrition is going to be a constant challenge only because there is a competition is too much in lending. There are coaching all the time, new organizations are expanding all the time.

What is our right to win in the geographies outside of South is something that I don't understand. So, if you're seeing traction in the other segments, might as well just focus on your core area rather than thinking about North, which will be a constant pain point for you?

Mathews Markose: So if I have to remain a fringe player, I can be in the South. If I look at 2-wheeler, 2-wheeler industry overall in South has come down to some 27%, 29%. okay? If I focus only on South, you are right, I will have a very nice portfolio and all that, but I will remain always a fringe player. But our growth ambitions are much larger. We want to be a pan-India player.

Our ambitions are to become a INR10,000 crores company by 2028, God willing. So to meet those ambitions, we need to be in the place where things are happening, where the growth is more. So for instance, Kerala market used to be a 1 lakh 2-wheeler market till about 2018, '19.

And now it is only a 35,000 vehicle market. Kerala is my sweet spot, extremely good in terms of collection, NPAs are very low. Muthoot is a household name in the state.

Every dealer is happy to welcome me. But market is shrinking. So beyond a point, if I'm focusing -- I mean, I already am a second or third number player in that market. So that said, the growth ambitions also have to be matched with the other things. So these are markets where I have to be present, if I plan to grow. So of course, we are balancing it. There will be challenges, but we will overcome it as and when it comes.

Sarvesh Gupta: Okay. And finally, so what is your target for gross NPAs and Stage 2 by end of this year? And did I hear it right that you are still guiding for the same credit cost despite massive credit cost taken in this quarter, which resulted in a huge loss?

Mathews Markose: We have put 2.5% as a growth -- sorry, GNPA target as a strategic objective. Right now, it is slightly at an elevated level, but our objective will always be to bring it back to those levels, okay? And yes, Raman, you are saying something?

Ramandeep Gill: Yes, sir. So by the end of the year, as Mathews has said, we want to be in the same range between 4.5% to 5% itself. In fact, the initial business plan that we have made is in the same range. And one more thing which I want to add on in our initial business plan, we know that in April, slippages would be higher, and we have seen also. Based on that, we have also seen that, okay, in September, October, when the season will come, slippages might be on the higher side.

As far as the overall GNPA of the organization is concerned, if we are able to achieve the sales number and we are able to stick on 5, 10 percentage here and there, we'll be at maximum at 5 percentage as a total GNPA of the company.

Plus my other two business which are growing, which is used car and CV, that will help me in contributing the -- in maintaining the overall GNPA of the organization as a whole. But as far as 2-wheeler is concerned, yes, 2-wheeler would be somewhere around. Right now, it is 6.25 percentage which is on the higher side. We want to be at 5.5 percentage only on our 2-wheeler portfolio.

Moderator: The next question is from the line of Prabal from InCred AMC.

Prabal: First question is, when we compare your slippage versus last year, which were in the range of 4% to 4.5%, this quarter, slippage has risen -- slippage ratio has risen to 6%. So not just the recovery, but even slippages are going up. And the troublesome is that across all the segments, not just 2-wheelers, but other segments also are throwing slippages and NPAs for us.

And what I'm not able to correlate is that when we say we have done a lot of investments in asset quality and strengthening asset quality tying up with CIBIL and all. Why is it not reflecting in our numbers when we compare other vehicle financiers or other 2-wheeler financiers numbers and their NPAs with us, we seems to be on the higher side. So why all these investments are not translating into numbers for us?

Mathews Markose: No. So first of all, I think across the industry, there has been a rise in GNPA in the -- I have gone through the Q1 results of most of the companies who are into vehicle finance, and there's been a similar trend, and there's been an increase in slippages. Of course, a company which is 2-wheeler is maybe 10% or 20% and other businesses form a larger part, there it will get compensated slightly because not looking at 2-wheeler alone.

But in our case, 90% is 2-wheeler, so it becomes much more enlarged and you are able to see it much more because ours is much more closer to the microfinance segment than somebody who's along with 2-wheeler also doing a CV and a car and a LAP and those portfolios are much higher. Secondly, I would like to correct on the slippages. Slippages have not increased in terms of percentage. It has only come down over the last quarter.

It's only the recovery out of the slippages, which has come down and slippages are very much within the range and lower than that of last quarter. Over this period, maybe you're talking about the quantum. My book has more than doubled over the last 1 year. Last Q1, my MCSL book alone was INR900 -- close to INR1,000 crores. Now it is INR2,100 crores. So, it's more than doubled. So, the quantum would be higher, but in terms of percentages, the slippages have come down.

Prabal: So when we say, for example, Manba Finance, which is -- which you have a co-lending partnership with, it is mostly into 2-wheeler financing. And they have not reported such a sharp increase in their delinquency. So, this seems to be -- the investments are not translating into our asset quality being better or even comparable to peers?

Mathews Markose: See, Manba is not a pan-India player at all. They are only focused in Maharashtra and Gujarat, okay? And you cannot compare a player who is only in two states. If I would have been only in Kerala, I would have the best portfolio in the world probably, but that is not the case. When I'm in a -- in 23 states now, obviously, you will have these operational challenges.

Okay. And I spoke very specifically saying that I had a specific challenge in North, where my collection team had high attrition and I'm trying to fix it. And that doesn't mean that I will run away from that market because then it shows that I'm not a serious player.

If I go there, do business for 3 months, and suddenly somebody attrites and therefore, I stop business, obviously, market will reckon me as a non-serious player, and they will not give me room in my -- in the dealerships again. But if I'm a serious player, I have to sustain there will be some pain, but we will overcome all those pains because the other parts we will continue to focus on where I am strong. So, I think that's how businesses are run.

Prabal: Okay. Second question is on margins. So, we have been saying that as we reduce our share of co-lending, which was as high as 30% a few quarters back, then that would be supportive to our margins. So how do we see the share of co-lending moving for us?

Mathews Markose: So that's again a good question. I think that is what we should look at because all those commitments that we have given in terms of growth, in terms of reduction of co-lending portfolio, all of them are absolutely in line with what CFO and I have been talking to all of you over the past -- course of the last 1 year in our earnings calls. So, all of them are in line. This

was a very, very operational and very specific thing where these numbers have gone up, which we are fixing.

So co-lending, we committed to you saying that we will be bringing down the percentage and it has come down and it is still shrinking. So co-lending is the only book which has come down by almost 20% in Q1. So, all of those, we are in line with whatever commitments we are making to you over the calls. And of course, that is...

Prabal: And as a share of entire loan book, how much would be the co-lending now versus, say, last few quarters?

Mathews Markose: Raman, can you give the figure, exact figure, please?

Moderator: Mr. Raman, are you there?

Ramandeep Gill: Yes. As a percentage of the entire book, my co-lending would be around 27 percentage as an outstanding balance.

Prabal: Okay. And how to think about margins going ahead?

Mathews Markose: So yes, co-lending coming down, co-lending is typically at about 12.5%, 13% and that coming down and our own book is at 22%. So that will impact the margin by at least 100 to 150 bps on the positive side.

Prabal: So fair to assume that from the exit of exit NIM of 1Q, we have a room of 100, 150 basis points over next 1 year from the upside?

Mathews Markose: Yes, there would be overall. So, if you look at all the factors on the repo rates going down and therefore, some transmission on our borrowing rates and then co-lending portion coming down and therefore, a resultant increase in the yield, all that will result in close to about 100 bps of positive movement.

Prabal: And sir, this is including -- as we increase the share of CV and reduce the share of 2-wheelers in the overall mix, this is incorporating that, we are seeing a 100 basis point uptick from these levels?

Mathews Markose: Yes, yes, yes. So, all those have been factored into will pull down the yield a bit, but then it has other advantages like longer tenure loans, much better credit quality. So, all those factors will play into that.

Prabal: Got it. And sir, our profitability being at where it is and we're targeting a faster AUM growth, our capital consumption seems to be very, very fast. So are you looking for a gearing ratio post which you'll start exploring equity capital because our gearing is now 4.5% versus your rating agencies mentioning a comfortable level of 5%, 5.5%.

Ramandeep Gill: Okay. So sir, I'll take it. So, what we are doing right now, see, we are at 4.5x. We have already factored into our business plan that wherein we want to pitch in. So, 2 things are there. One, yes, we are already in touch with a few investors wherein we are showing our results to them for the

last 4 quarters, number one. Second thing, we are already in touch for this subordinate debt for our Tier 2 capital so as to maintain a good CRAR for the company.

Third thing, we have also started exploring the transactions like DA now, right, from this quarter, which will help us in maintaining or which will help us in bridging the gap between the requirement of the Tier 1 capital. That is how we want to explore from this quarter itself because all our numbers related to AUM have been achieved.

So over and above whatever is the pool, so we are just speaking to various partners with respect to the banks and NBFCs wherein we can have a DA transaction as well. And we want to see, okay, if we can stretch up to Q3 without the further requirement of Tier 1 capital. And if required, we can add Tier 2 capital, right, in Q2 only and or at the start of Q3, then it would be okay. Otherwise, we will go for the Tier 1 capital, but that call will be taken after the results of Q3 only.

Prabal: Okay. And suppose we go for Tier 1 capital, will our promoter having 62% stake would they be comfortable continuing with that stake? Or we are exploring totally new investors in the market?

Mathews Markose: Yes. So that call has to be taken, though we are receiving very good interest from the new investors also, but that call we have to take. Though promoters want to remain strong, the promoters are still 62.62 percentage. We do have a huge loss 3 years back and promoters shareholding remains intact at that point of time itself.

So they want to be in the game while holding more than 51 percentage as of now. So, we'll see where -- how these things will happen and how the things will turn out in future. So, we are expecting after Q2 results, we are expecting to go to the market and speak to the investors, if required.

Moderator: The next question is from the line of CA Kshitij Verma from Rest Assured Group.

Kshitij Verma: Yes. Sir, I just had a question. The issues which we had in the North India market, this -- was it after 19th March or before 19th March? And I'll tell you the reason we are asking that why every caller is asking that is we were categorically said that the seasoning of the book and all the provisioning by the CFO side, it will happen in Q3, first 2 quarters, you will see nothing.

So, this came as a slightly rude shock, and we were not disclosed the same in the first call. So now suppose let's take today's cutoff date, is there any issues in Q2, which we should know about, which would reflect in the next quarter?

Mathews Markose: Okay. So let us split this in two, three parts. First is on collection efficiency, okay? So, our collection efficiency, not just ours, I think in collection efficiency in general in North and South are not the same, okay? In South, it's better, especially in markets like Kerala, Karnataka, collection efficiencies are much better when you -- and specific to the product called 2-wheeler.

So, every time the collection efficiency when we look at, we present the overall picture, but when you split it region-wise and state-wise, there would be differences wherein the numbers in

Kerala, Karnataka, South versus some of the states in the North would be different, okay? So those differences continue to exist.

Now two things played out. One is the increase in the portfolio over the festive season of last year. When that portfolio increased and clubbed with the fact that there was some issue in the team in terms of collection, both of them compounded to give us this. But having said that, now we have the things in control. We now have specific zonal head heading collection there who is from that location, we have all the agencies in place and things are in control. So, we'll not give you any more rude shock in Q2 for sure.

Kshitij Verma:

Okay, sir. And sir, when we were growing our co-lending book, in the North India market, I'm sure we must have gotten some underwriting input from them also because I believe that time, even after seasoning of portfolio, maybe they were taking the credit loss hit first or something that we were getting a lot of the benefits though on a lower NIM, I understand, but the NPA is also zero on that.

So, the underwriting transfer of knowledge, it's -- yet it is to help us. But where the concerns are happening is we may want to hit a INR10,000 crores book target 2028. But if it won't be profitable, we are just -- it's like cold wine in new bottle. We are heading towards the ARC transaction in the future.

So we need to slightly check where at INR10,000 crores, if it's not going to be profitable, I'd rather be a Manba Finance like a regional player with good books, because the valuation of such companies are much higher. So just going after growth and also growing our NPA will not be as productive. So that was just a feedback I wanted to give.

And secondly, sir, next quarter onwards, if once the PPT deck is uploaded, if we have a day lag, it would be appreciable because it's coming very late in the evening normally. So this was just a feedback I wanted to give, sir, nothing else.

Mathews Markose:

So a good perspective, what you have shared. But again, let me correct you on that. If it would have been a function of our credit underwriting lack of knowledge for the north, then the slippages would have gone up. But as I mentioned before, slippages have not gone up. It is what we are recovering from what has gone -- slipped has come down, okay?

So therefore, that is not the right assessment. While I appreciate the perspective that you have shared on being a smaller company with better ROA and all that. So yes, that's always an intellectual discrimination I have had. And I will let my CFO discuss on the other part, which is about the uploading of the PPT. Raman, can you take that please?

Ramandeep Gill:

So, PPT can only be uploaded after the results, right, Board meeting. So what we can do is we can change our investor call timing from 11 to say, around 2:00 p.m., 3 p.m. That can be done. If that is okay, with you?

Kshitij Verma:

Because last two quarters, I don't know if the other investors feel the same, but if you have a little bit lag, it comes late in the evening, I'm sure many investors would have.

- Ramandeep Gill:** I understand. But once our Board meeting is over, then we have to upload the results. And then only we are able to upload the investment -- PPT, right? So, it's all about the timing. What we can do for next quarter, yes, we can have a slightly push our investor call from 11:00 a.m. to 2:00 p.m. so that you can give sufficient time to read insight.
- Kshitij Verma:** And more people who want to study, analyze and ask questions, it would be better for the overall community. Yes, I just felt I should be letting you know.
- Ramandeep Gill:** Yes, yes, I appreciate your points.
- Moderator:** We will take that as the last question for today. I now hand the conference over to the management for closing comments.
- Mathews Markose:** Thank you so much. You've been asking very good questions. And actually, every time I come into the call, I go back with a new perspective on how to run the business properly. So, I think, thank you so much for being patient with us. Thank you so much for being understanding with us. And thank you so much for always coming up with something new to challenge us all the time.
- So, we appreciate your patronage. And we assure you from our management side, I assure you that we will work towards not giving you any more rude shocks and standing up to your expectations and delivering on all the numbers that we are committing on the calls with you. Let me assure you, we are putting our best foot forward, our best efforts to get to these numbers. Thank you so much.
- Moderator:** On behalf of Elara Securities, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.