



“Muthoot Capital Services Q1 FY2021
Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Muthoot Capital Services Q1 FY2021 Earnings Conference Call hosted by Antique Stock Broking. We have with us today the management from Muthoot Capital represented by Mr. Madhu Alexiouse, COO and Mr. Vinod Panicker, CFO. 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 '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Bhavik Mehta from Antique Stock Broking. Thank you and over to you Sir!

Bhavik Mehta: Very good afternoon to all of you. Thanks for taking out the time in this tough environment where we all are adjusting to the new regime. So without wasting much time I will hand it over to Vinod and Madhu Sir, they can take us through on how the quarter went by, their efforts on collections, strengthening of balance sheet and the way forward. Over to you Sir.

Vinod Panicker: Good afternoon everybody. Hope all of you are sound and safe and health wise there has been no issues in the last three, four months to anyone of you. Here we are all sound and all of us are in safe condition and that has been one of the reasons that we have been able to complete our financials on time and come back to you and report what has been the journey since we last spoke sometime on May 29, 2020. During the last call itself we had said that we had not started disbursements and we had said that we hope to start may be sometime in June. We stayed away from doing any disbursements even in the month of June and we only used it for making some bit of disbursements for sourcing that was done prior to the lockdown, that was a figure of about Rs.17 Crores odd. May be I will try and quickly touch upon the status of the company as of June 30, 2020 and specifically talk about how the picture has looked like in the quarter.

Like I said, we have done a disbursement of about Rs.17 Crores and while it is not comparable versus any of the quarters, it is just for sake of mentioning, I am saying that it is about 95% lower than the immediately preceding quarter and 97% lower than the same quarter last year that we did about Rs.348 Crores and Rs.486 Crores. The AUM based on the book was about Rs.2429 Crores, down from about Rs.2598 Crores that we were as on March 31, 2020 and Rs 2605 crores that we were as of June 30, 2019. Based on this we generated our income. Because we are under the Ind-AS, the interest accrued till the time that account is there on our books and because we are under Ind-AS the processing fee is also spread over the life of the loans and combination of those two together took the revenue to about Rs.131 Crores which was down 10% versus the immediately preceding

quarter when we did about Rs.147 Crores and about 8.8% down versus the same quarter last year, where we did about Rs.144 Crores. The finance expenses have gone down to Rs.52.5 Crores on the basis of two reasons. One is that the funds that has been utilized by us has gone down. Second is that we have benefitted on the interest rate; that interest cost has gone down. On overall basis, the cost has gone down from about 10.17% to about 9.92%. Therefore the interest cost was about 6.6% lower than the same versus the immediately preceding quarter and about 5.6% lower than the same quarter last year.

The operating expenses was substantially lower, because obviously this was a quarter when there was negligible operation and major operation was in form of collection and other activities that the time that we utilized for training to the team, ensuring that we build processes around various activities, so that when we start off or when we take off after things improve and we are in a much better position and we can do much better. So the operating expenses have come down to about Rs.27.9 Crores versus about Rs.49.7 Crores in the immediately preceding quarter and down versus the about Rs.44 Crores of the same quarter last year.

Here, the next line item is loan loss provisioning. We created, totally, a loan loss provisioning of about Rs.33.4 Crores versus Rs.22.5 Crores in the immediately preceding quarter and versus Rs.17 Crores that we did in the same quarter last year. Here, we wish to point out the fact that because we were trying to ensure that there are no major issue as we go forward we had to ensure that we make sufficient provisioning in our books so that the balance sheet becomes stronger and becomes very steady and therefore we thought that we should make additional substantial provisioning. We have created an additional provisioning on account of COVID to the extend of about Rs.32 Crores in the current quarter taking the total provisioning done by us between last quarter and this quarter to a total of Rs.50 Crores, now Rs.50 Crores is about 270 bps of our total own book portfolio excluding the securitized portfolio where our liability is limited and based on this we reported PBT of Rs.17.5 Crores and PAT of about Rs.13.5 Crores, Rs.13.5 Crores coincidentally is more or less similar to what we have reported in the immediately preceding quarter and also in the same quarter last year.

Opex as a percentage has come down to about 35.5% versus about 54% that we had in the immediately preceding quarter and 50% that we had in the same quarter last year. Return on average AUM is more or less constant, because AUMs are more or less constant, bottom-lines are more or less constant and earning per share is also more or less constant at about 7.9. We will talk more about the individual line items after Madhu talks about the business,



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the operations that we had in the last quarter and after which we will attend to any specific queries that you have.

Madhu Alexiouse:

Good afternoon once again. Madhu here. Thanks for joining this call and I hope all of you are staying safe. During the last call I had indicated what are the activities that MCS team has got engaged into and would now throw some more light on that from the perspective of Q1 and what are the actions that has happened. There are three or four important things that the team was engaged in, one was on customer connect which I had spoken last time as well. About 90% of our employees were engaged in calling the customer for various reasons. We had offered two things to customer. One on cross sell products and then second on engaging with the customer to motivate them to restart their repayments. During our call we can talk about what is the collection that we have done during the Q1. I had mentioned last time that our objective was, in the month of April to reach out to all the customers, talk to them, understand how they have got impacted and also offer them product like gold loan so that any kind of requirement they have we helped them out, so one of the key objective of the last three months was connecting with the customers and facilitating in the way we could have done as a Muthoot Pappachan Group, how we could help those customers during this stressful times, so about 10 lakh plus calls would have gone from our office by 80% to 90% of our employees to our customer base, live customer accounts where we not only sourced gold loans we requested them for the collections and another important initiative that we took was on learning and development. We had inhouse trainers, we followed “train a trainer” concept whereby we had close to 100 trainers within the company who subsequently trained to the ground level team, approximately 2000 plus frontline teams were trained during last three months divided over eight to nine program. We could not do any physical training, but it happened on the calls by using digital methods. Approximately 12000 plus training man hours has been invested on all our people, about 300 sessions were there. The objective was that while there is lockdown, improv the quality of our manpower, improve the quality and understanding of our team in terms of processes that is involved in our business.

From collection perspective due to the calling that we have done, close to about 10 lakh calls that we have done last quarter, the total collection that happened in Q1 was about Rs.291 Crores, that is the amount that we could collect month-on-month starting from April, April was slightly lower, but as we reached June we were able to collect close to Rs.126 Crores. There was another effort in terms of educating the customer in terms of digital repayment because physically neither the customer would be keen in coming to us nor we could reach out to them. There was a big push on that and that also helped us contribute well in terms of our collections, about 7% to 8% collections happened through



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digital means lot of customer went to our Muthoot Fincorp branches and made payments there. From cross sell perspective, I said there were two things that people were doing, one is collections, second was on cross sell, our team was engaged in helping the customer in terms of any kind of financial requirement through cross selling gold loan, the gold loan is done by Muthoot Fincorp branches, we do not do, but we generate the lead and made the customer visit the branch and take the gold loan. We were able to do close to 14000 gold loans during last quarter which is a big number, bit achievement for us which is close to Rs.54 Crores disbursement. So these are the activities that team was engaged into during Q1. As we go forward from collection perspective, the team has involved into ramping up all the collection network, we are doing lot of initiatives in terms of increasing our reach so that the physical movement of customer need not to be very high compared to what it used to be earlier one is that. Second is on resuming business, right now we are active in 600 plus counters in Kerala, Karnataka, Andhra Pradesh, West Bengal, 600 plus counters we are there. We intend to be there in 100% of our counters in August, that is a plan, that is a phase two and three in the month of August, by end of August we hope that we will be there across all the areas where we were active.

Given the fact that there would be pressure as far as two-wheeler industry is concerned, there were other business actions that we have been telling last couple of years, we are now totally geared to do couple of products. First is used car loans that is something which we would be able to initiate as soon as the lockdown is over and the dealers become active, we will focus on used cars going forward and of course from the consumer durable perspective, it is a business that we want to do, it is about timing when we will start that, but definitely that is there on the cards. So this is a overview right now from our side in terms of business, in terms of what is happening on collections, more detail, more granular discussion can happen over the Q&A and without much delay let me request Bhavik or the Moderator to open up for Q&A that the audience would like to hear.

Moderator:

Thank you very much. We will now begin the question and answer session. The first question is from the line of Sarvesh Gupta from Maximal Capital. Please go ahead.

Sarvesh Gupta:

First of all this time we could not see the presentation uploaded on the website or the exchanges, so if you can please upload that it could be helpful to make the sense of the numbers. It is not there even on the exchanges or the website also, so first of all wanted to know what is your moratorium number now and what has been the trend seen in April, May, June and July in terms of the moratorium?



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- Vinod Panicker:** First and foremost because yesterday the board got over pretty late it would have not got uploaded yesterday, but today morning definitely it would have got uploaded, if not, it will happen right now that is the number one and number two is on the moratorium, may be basis the request that came from the customers and in case, after the follow-up the customers were not in a position to pay, suo moto, we gave moratorium. In the first case was when requested we gave , second was suo moto given; moratorium basis, what we could collect in the month of April was about 33% so roughly 67% of them where under moratorium, in the month of May that number went up to about 53% of collection and in the month of June the collection was about 70%, so that has been the trend over the last three months, but the month of June would be different, because somebody would have paid for a previous two months also, so roughly the moratorium percentage would be in the range of about 45% to 50% for the quarter.
- Sarvesh Gupta:** Okay and what has been the trend in July?
- Vinod Panicker:** Sorry I did not get your question.
- Sarvesh Gupta:** What is the equivalent number in July, the 70% you are saying, 70% of the customers have at least paid one EMI and 45% of the collections that you were supposed to do in Q1 you have done, is that understanding right and how has the number trended in July?
- Vinod Panicker:** In July, the number should be better, the month is still not complete, so we believe that July 70% would become about 75% there are still three days left up to yesterday we were more or less on par with June end number, so whatever extra happen between today, tomorrow and day after, July has 31 days, so it could be slightly better, 70% would become about 75%.
- Sarvesh Gupta:** So you are saying 75% of the customers have at least paid one EMI and you are saying some of them would have missed one or two EMIs in the past, so net-net your collections might be around 50% in these four months of the total collection that you are supposed to do?
- Vinod Panicker:** That will be more than that roughly 55% of the normal collection of the first three months and 55% would possibly go up to about 60% if you look at four months together, April to July. We normally collect close to about Rs.175 Crores a month. First month we collected Rs.67 Crores then we collected Rs.97 Crores then we collected Rs.126 Crores, this month we hope to collect close to Rs.135 Crores odd.



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- Sarvesh Gupta:** Okay and secondly have you taken moratorium and what is the status on that?
- Vinod Panicker:** We have not taken moratorium for any of our lenders. We do securitization transactions also for that from investors we have sought moratorium and got it, but otherwise from lenders we have not taken any moratorium.
- Sarvesh Gupta:** Understood and in the industry we have been hearing good growth coming for the two wheeler segment in this quarter and numbers have been much beyond the expectation at least what we had at the end of last quarter, so what prompted you not do any disbursements that was a bit surprising, because the sales are happening, lakhs of motorcycles are being sold across the country, if we had some liquidity crunch may be we could have availed moratorium and still done those disbursements so if you can elaborate your thought on that?
- Vinod Panicker:** The first part as Madhu will explain in detail as he is more competent to answer, so on the second part, there is no liquidity crunch. We are sitting on huge cash and that would possibly increase by another 50% in the next month or so.
- Madhu Alexiouse:** Coming to your question on there was a huge sale or there was a huge growth month-on-month as far as two-wheeler sales is concerned. I think we should not get carried away by such statements, because probably April and May nothing has happened in the industry, in June some sale has happened I presume those are all the carryover which the dealers would have cleared, there are certain areas which got unlocked and lot of customers would have walked into the showroom, they would have bought it. I have personally visited showrooms at various point in time to understand what kind of customers are coming, the issue is not whether the sale is not there or sale is there, issue is not that, issue is what kind of lockdown measures are happening across the country that is the first key factor that should be there to resume business and that is why we have taken a micro market approach whereby we have product and risk teams together sitting and identifying which are the pincodes, which are the areas, which are the counters that we will go, okay. It is not that we were hesitant in doing two-wheeler business, we want to do it, but you have to look at circumstances in a totally different way that what it used to be earlier. Secondly, as far as two wheeler sales is concerned, Q1 definitely was not a quarter where people should have gone aggressively, if someone has gone aggressively they would be having their own analysis and understanding of the market, I think for us it was not the right quarter to go aggressively into two wheeler business. We have now resumed business, we are very confident of what we are doing and as we cross August, I think around August we feel that the numbers would start growing in the industry and up till Diwali and let us say by November it should peak and then December like every other year it goes down and Q4 is where we feel that the numbers

would start catching up compared to previous year or previous two years. This is our assessment as far as market is concerned, but to do disbursement, to do business we will follow micro market approach at least for next three, four months where we will be very selective in the areas we want to operate and we will operate there and for every company it would be a different strategy, for us this is the strategy that I am telling it would be absolutely driven location wise not at state level or not national level but in specific locations we will drive the business.

Sarvesh Gupta: Understood Sir and given this is strategy can you guide us for gross NPA and credit cost for this fiscal given the situation in your strategy right now?

Vinod Panicker: We possibly want to look at it on a quarter-on-quarter basis, as of now we had presumed that the provision that we are making would be good enough, so we have made a provision of roughly Rs.50 Crores which is what I mentioned at the start of the call and this is what we are saying would be, so may be some more provision could be needed, currently we are at about 7% in terms of NPA, we should look at may be about 10% odd of NPA of the business by the year end.

Sarvesh Gupta: So 7% moving to 10% in gross NPA?

Vinod Panicker: Yes and for which I would say that we are reasonably covered in terms of provisioning.

Sarvesh Gupta: Understood Sir. All the best for the coming quarter Sir.

Moderator: Thank you. The next question is from the line of Saptarshee Chatterjee from Centrum PMS. Please go ahead.

Saptarshee Chatterjee: Thank you for the opportunity Sir. My first question is that you have mentioned that 90% of our employees have been engaged in almost 10 lakh customer calls. Can you give us some overview from these customer calls, any feedback that you have heard about that, their sources of income like how about percentage of customers are having impact in their sources of income and can be probably lead into credit loss?

Madhu Alexiouse: I will give you some broad information that should be enough, because very micro information is not right to share here in this forum, we can talk on one-to-one basis, but from our customer connect, close to 85% to 90% customer were contactable where besides collection we have PTP like “promise to pay” or “willing to pay” that kind of categorization we had, so close to 80% to 85% of the customers that we called we had a very positive



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response, it was about whether they will pay today, tomorrow, day after; the time was the issue, but definitely they were reachable and they were willing to pay. In the month of June lot of customers who had availed moratorium came back and they said that we do not want additional moratorium and would like to restart repayment, so such instances are also there, but if you want much deeper insight I would suggest we do a different call because those are very sensitive data's which I would not like to share it in a big forum.

Saptarshee Chatterjee: Understood, very helpful and secondly on the disbursement side, we have not disbursed anything for this quarter, Rs.17 Crores was prior to lockdown sourcing, but in terms of demand if you can give us some granular scenarios like what kind of demand you are seeing across rural and suburban region. Rural and suburban region we are seeing the news that incomes are not that much impacted, whether you are not comfortable with the customer quality or something that you want to be slow with that so some granular views you can give?

Madhu Alexiouse: We believe that our sweet spot is rural and suburban areas and that is why we are very confident when we said we will restart business, 80% of our counters are in tier-3, tier-4 centers okay, so we are very confident that things are coming back to normal there. Cash flows are better given the good agriculture that has happened and the projection of monsoon that is also a normal monsoon. We are very confident about the areas that we are operating in and when I said micro market approach I meant exactly this that we look at what is our sweet spot, go there very aggressively and start business there and then look at other areas where things are not that great, so from that perspective what you had mentioned that whether rural or suburban looking good, yes it is looking good and when we say 70%, 80% of our counters, it would be more or less in those areas where we resume our business as we go forward.

Saptarshee Chatterjee: Any ballpark number in terms of what proportion of disbursement we can do in Q2 or Q3 compared to pre-COVID levels?

Madhu Alexiouse: We have a plan, but as I said that, let us look at industry; after Q2 industry would start moving towards the normal and Q4 would be somewhere around 90% of whatever last two years sales was there, so let us link it to the industry rather than looking at granular projections, because it is too early to tell all those, but one thing we can say whatever happens we will maintain our market share. Let me put it that way.

Saptarshee Chatterjee: Understood very helpful. Thirdly on the opex side, if you can guide us what kind of reduction in opex is sustainable. I understand there is not much activity in this quarter, but



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what kind of cost reduction initiative that is happening and what kind of sustainable opex reduction can help?

Vinod Panicker: Last year our Opex was at about 54.8%, , we should be at about anything between 48% to 50% in the current year.

Vinod Panicker: There has been a lot of reduction in fact lot of other actions which have been taken during the lockdown that has definitely helped the company. Madhu did mention about digital payments, all those things are definitely going to help us in reducing our opex and all these things will show up. In fact also certain actions on employees which we have taken, people have become definitely more productive because of the training that has been given. All this would definitely mean that we would be in the 48% to 50% kind of bracket as far as opex is concerned.

Saptarshee Chatterjee: Okay, thank you so much and all the best.

Moderator: Thank you. The next question is from the line of Deepak Mehta an Individual Investor. Please go ahead.

Deepak Mehta: Thank you for taking my call and my question is that what is the liquidity position of the company and how much is the bank line or bank sanction is there, is there any of liquidity in the system within the company?

Madhu Alexiouse: We are currently sitting on possibly close to Rs.600 Crores odd and there are many more proposals or request made by us for which we are expecting sanctions, so liquidity will not be an issue, we do not see any issue in liquidity.

Deepak Mehta: What about the cost of capital Sir as of quarter ended, what was the cost of capital?

Madhu Alexiouse: Cost of fund for the quarter I have mentioned in the beginning it was at about 9.9% versus 10.17%, in the immediately preceding quarter.

Deepak Mehta: Okay and my last question is that is our company planning any downsizing of the work force or sales team?

Madhu Alexiouse: No.

Deepak Mehta: Okay Sir. Thank you.



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- Moderator:** Thank you. The next question is from the line of Jeevan Rath from HNS Capital. Please go ahead.
- Jeevan Rath:** Thanks for taking the question. My question is regarding the composition of the loan book like while in the opening comments Mr. Madhu was mentioning about the gold loan that we are doing, are we booking this in own book Sir?
- Vinod Panicker:** No, it is only sourcing, we get a fee for that.
- Madhu Alexiouse:** It is a cross sell activity where the team can sell financial product and this is of a company which our Group's flagship company which is one of the biggest gold loan companies in the country, we utilized their services, but the customer is of Muthoot Capital, so they have given the scheme, customers are explained the scheme by our team and then the team facilitate their visit to the Muthoot Fincorp's nearby branch, show their gold and whatever money they want they take that loan, so entire process is handled by Muthoot Fincorp, our team sources the customer, mention the scheme and ensure that the customers goes to the branch and takes the loan.
- Jeevan Rath:** This is essentially we give the service with fee income, right?
- Madhu Alexiouse:** Correct.
- Jeevan Rath:** When you are mentioning regarding the largest volume, we are referring to Muthoot Finance right?
- Madhu Alexiouse:** I said Muthoot Fincorp Blue.
- Jeevan Rath:** Those structure that we have, no problem. My second question is regarding the persistent downturn in the two-wheeler market since you have been investing. If you look at the last 20 years when was the last time you saw a downturn like this?
- Madhu Alexiouse:** I think the Indian market started accepting two-wheeler as one of the prime commute only during last 8 to 10 years and every year this industry has grown and especially from 2010-2011 when lot of finance companies have started coming into this industry and number started going up significantly. Let us say in the financial year 2011, the total sale was about 11.8 mn and that went up to 16 mn in 2015, so it has been growing continuously and FY2019 was the highest where 21.2 mn units were sold, last year of course Q4 went back that is why the numbers were lower, last year the number was 17.4 mn , so two wheeler industry had been on the right track I think for country like ours and specially from the tier-



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3, tier-4 rural centers where public transport is a problem, distance is high and with the improvement in roads across the country, two wheeler has become the most affordable for people, so it would definitely keep on growing as far as our country is concerned. So given the population of 130 Crores and the population of two-wheeler, there is a huge scope for two wheeler to grow in this country, so they would not be downward demand as far as this product is concerned.

Jeevan Rath: From a three-year perspective, will it be safe to assume that we will continue to constitute at least 80% of our portfolio if you look at it three year perspective?

Madhu Alexiouse: I think two-wheeler would continue to be the key product for Muthoot Capital Services.

Jeevan Rath: That is all Sir. Thank you.

Moderator: Thank you. The next question is from the line of Agastya Dave from CAO Capital. Please go ahead.

Agastya Dave: Thank you for the opportunity Sir. I had a similar question as the previous gentleman the used car business and the consumer durable business. Can you describe what kind of scale it can achieve, so can you quantify it up to what level you can see these two businesses growing quite comfortably?

Madhu Alexiouse: I said that these projects were there last year and this year we wanted to grow; in fact last financial year itself we launched it, but unfortunately the situation right now is not that great. But definitely, very soon, we will do used car in a big way. But it is too early to tell what is the number that we are looking at. We are just starting and let us wait for at least six to eight months to quantify what is the level we will reach, but I would always tell all of you to understand the sweet spot that Muthoot Pappachan Group has, our focused network and our overall focus is the common man; our focus is on tier-3, tier-4 centers, bottom of the pyramid and whatever is needed there, we want to give those products. So definitely used car as a product is in our DNA. It is a matter of time when the situation improves and then the sky is the limit for us as far as tier-3, tier-4 centers are concerned.

Agastya Dave: Perfect Sir. You mentioned that you have 600 counters odd where you expect 100% activity levels, not activity levels, but you will be able to start 100% of them by August, so the dealers who are basically your touch points, are they in good enough shape to open or any of them unfortunately going out of business or there are any shutdowns so the net impact on your distribution that is minimal, is it a fair assumption?



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Madhu Alexiouse: I will clarify the numbers once again. As far as the distribution channel is concerned. There are two distribution channels. One is our Muthoot Fincorp branch who also cross sell two wheelers and we fund those vehicles. There are 3500 plus branches which Muthoot Fincorp has. MCSL has touch point of 7000 plus, touch point, but from dealer perspective it is 3000 plus, 3000 plus dealers are there where we operate okay. From this 3000 plus dealers we are active in 600 counters as of now and we will reach 3000 plus counters in next 30 days, 30 days which means from today, let us say today is July 29, 2020 so by August end we will be operational in all the 3000 plus dealerships and 3000 plus branches of Muthoot Fincorp.

Agastya Dave: So at least on touch point basis, you will be back to 100%?

Madhu Alexiouse: Yes, correct. Secondly on the piece that you asked very valid question whether dealers are in a shape to come back and do the business or not and I always tell this that as far as two wheeler dealers are concerned, they do not need such a huge investment like passengers car dealers, so the chances of two wheeler dealer bouncing back is very high and as of now we have not witnessed any one of them having problem in fact lot of dealers were checking with that shall I book the vehicle, shall I buy more vehicle from OEM and things like that and we were telling that the numbers would definitely happen, you keep on stocking your vehicles, you should not stop in terms of stocking the vehicle, so at least wherever there is a lockdown and things like that at least from 30% capacity level they are operating. So as far as dealer fraternity of two-wheeler is concerned, we are very confident that they will come back in a full-fledged manner at least 85% to 90% would fully be operational.

Agastya Dave: Would it make sense to do channel funding now?

Madhu Alexiouse: Channel funding is not very prevalent in two-wheeler industry and we give trade advance, definitely not channel funding, but does that give an edge? I do not think so, it does not give any kind of edge to dealer or us, we believe in disbursing the loan in 24 hours time. If everything is perfect we have digital capabilities that in two hours time we can disburse, that is our capability, so we believe in that.

Agastya Dave: I said the old dynamics do not change, the reasons why you were not doing a lot of channel funding earlier, there is no reason to change that even now?

Madhu Alexiouse: Because we believe in giving disbursement faster, so why we should give unnecessary interest on channel funding.



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Agastya Dave: Perfect Sir and one final question, you said that you will maintain your market share, the natural thing to assume would be that you in fact would probably gain, because many people would definitely go out of business, so are you seeing anything on the ground competition disappearing and a related question Sir, what is your sense of pre-sanction, pre-disbursement due diligence process, do you think you will have to fine tune it given the situation or will you tighten it or others tightening it, any comments on that side would be great Sir and that is the final question from my side. Thank you.

Madhu Alexiouse: From competitive perspective, I do not think any of them would go out of the market. It would be go fast, go slow that kind of strategy that people would have depending on their comfort in terms of the lockdown and things like that, so I do not see that anyone would go out, some small NBFCs may have problems, but definitely at the national level I do not think so competition would definitely be there, we are prepared for that. You asked on the credit process, I think during this lockdown we have moved out to next level of our LOS which we intend to launch once we are 100% operational across the centers, pilot is going on, but importantly there are couple of things like we are testing video FI because of social distancing and customers inclination towards having a low touch point, low touch business transaction, so video FI is something which we have already tested. There are lot of other digital smaller things that we have done which would improve the speed and accuracy of our process, so lot of things are going there, this is not the call where I can tell you in detail, we can connect on one-to-one but last three years as a group we believe digital is the way and while whatever has happened in terms of COVID we have not pulled out any money from a digital investment, it would definitely get the share of investment there, so we are going full swing as far as digital is concerned.

Agastya Dave: Thank you very much for answering all the question Sir and great call Sir. Thanks for providing clarity and good luck for the next quarters. Thank you very much.

Moderator: Thank you. The next question is from the line of Ashish Sood from Vishuddha Capital. Please go ahead.

Ashish Sood: Thanks for the opportunity Sir. I want clarity on one point. Last quarter you had mentioned that you will use excess liquidity to provide gold loans, but you are mentioning now that you have not given gold loans and only source gold loan for the Muthoot Fincorp, so is my understanding clear or in the next quarter you can also provide gold loans with excess liquidity that you are having?



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- Vinod Panicker:** Last quarter also we said that we would be sourcing gold loan and we said that we would see whether we can do it on our books, because that is the new product altogether and we always said that we would sourcing in fact many of my friends from your fraternity only who are not very comfortable with that when we said that on a one-on-one call many of them said that no, it may not be a great idea trying to do it on your book, but we are sourcing and then that is what is we gain in terms of revenue.
- Ashish Sood:** And my next question is any plans from raising capital in FY2021, any thoughts on NIM?
- Vinod Panicker:** Looks like we would try to do that; may be that is something which we would possibly say in the next few weeks or that in the next couple of months, we will take a call of that. Now we do not see the need because capital adequacy is about 25%, but definitely we want to look at the next phase of growth and we are expecting the numbers to grow substantially which would necessarily mean that you would need more capital in the books.
- Ashish Sood:** My last question is on you said that borrowing cost has dropped, so can we expect that NIM expansion or you are expecting to pass the benefit to customer, so any thoughts on that?
- Vinod Panicker:** We should look at NIM expansion.
- Ashish Sood:** Thanks from my side.
- Moderator:** Thank you. The next question is from the line of Pranay Jhaveri from J&J Holdings. Please go ahead.
- Pranay Jhaveri:** Thank you for the opportunity. I have four questions. My first question is in Q1, what would be the financing share for the two-wheeler for industry as such and our market share?
- Madhu Alexiouse:** The industry numbers are too low to really look into that, because there are reasons for doing the business, there are reasons for not doing the business, so Q1 I think we should avoid looking at that, because numbers are very low.
- Vinod Panicker:** And ours I do not think we can even possibly put it into decimals, I think we should leave that query for third quarter possibly.
- Pranay Jhaveri:** Okay, fair enough. With this COVID impact when we say that this two wheeler sales, the importance will be higher in terms of people owning their own mode of transport vis-a-vis the public transport, do you see this more delinquency like people who will it is more



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hesitant to surrender their vehicle when they are not able to pay or I am just trying to understand structurally is there any change that you are foreseeing?

Madhu Alexiouse:

Definitely with this a good segment of customer would start buying two wheelers who were preferring to go by metro or who are preferring to take public transport or who are preferring to take Ola or Uber, lot of good segments of customers would definitely try to buy two wheelers and given the price and given the other costs associated with owning a two wheeler, I think today the cost is nothing less than Rs.90000 or Rs.1 lakh so such customer would prefer holding the cash as much as possible and taking the finance, so current finance penetration of 37%, 38% or 40% someone say this penetration also would go up and penetration goes up because a good segment of customers comes in, good segment of cash customer who are buying earlier they will start taking finance, so definitely there would be improvement in the customer segment. How the collection behaves, how the NPA behaves only time would tell, because there are lot of variable that is operating right now certain areas are functioning, certain areas are not functioning, people are not able to go for collection, logistics is a problem, so it would take at least two to three months to really understand how the delinquency is going to behave, but as far as this product is concerned, any additional financing that would happen from definitely a good segment of customers given the social distancing and affordability perspective as well.

Pranay Jhaveri:

Thank you and other question on the gold finance side, would that product like we receive commission as you said, would that product be bottomline accretive into us taking into account the cost, the salary aspects and everything?

Vinod Panicker:

It is actually handled by our existing team so whatever revenue comes in by way of incentive or commission that will go to the topline and there would not be any other major expenses relating to that.

Pranay Jhaveri:

If I want to look at this it comes to the topline but you will have some resources put in so if you take that cost into account, would that be bottomline accretive?

Madhu Alexiouse:

It will definitely be bottomline accretive, but even the cost that would be there may not be significant, because we do not intend to increase resources to do the sourcing, it would be done by our existing persons. I will elaborate on this to put it in right perspective. Currently a sales guy sits at the counter and does only two wheeler, he may do some 15 two wheeler or 20 two wheeler per month, now besides two wheeler he will do cross sell as well to existing customer base or the customers who come across, so this is the additional responsibility that he is having. Beside that he will also follow up on certain accounts of



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collection, so that much additional work people would shoulder across the country let us say 2000 plus frontline executives, they can shoulder this responsibility and earlier it was not part of their job, now it has become part of their jobs, so it would help us in our operating leverage.

Pranay Jhaveri: Okay and one question further on this, so would this gold loan finance help some recoveries on our two-wheeler loan book also in terms of giving them extra top up on gold loan and that can do held for them to pay this new?

Vinod Panicker: That is not the interest of this transaction. It is only generating additional revenue and it would be given only to a customer who really needs it is the discretion of the customer to decide what he wants to do with it.

Pranay Jhaveri: Okay Sir. Thank you so much.

Moderator: Thank you. The next question is from the line of Vikas Kasturi from Focus Capital. Please go ahead.

Vikas Kasturi: I had one question. In the last call you mentioned about increasing the public deposit, so could you just please give an update on that?

Vinod Panicker: Since the last call I think we would have possibly collected about close to Rs.10 Crores in the last quarter and may be another Rs.10 Crores odd in this current month, so that is the one number that will interest us. This month we could have gone for a higher amount, but for lot of localities in Kerala being declared as containment zone itself to come to standstill for some days, now it has started improving further, but then that is a number that will go up significantly and more importantly something which on a whole possibly at a cost of roughly about 8%- 8.5% including the sourcing cost, which is very beneficial for the company.

Vikas Kasturi: And I was also thinking that since your cost of funding is about 9.2% and...

Vinod Panicker: I said 9.9%.

Vikas Kasturi: Sorry, your cost of fund is 9.9% if you actually increase this public deposit, your cost of fund, one, it might actually come down and second thing is you will have diversifying your funding, you will not have to rely on the corporate borrowings, is my understanding correct Sir?



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- Vinod Panicker:** You are perfectly right and that is our understanding also which is why we said that we need to increase the number may be substantially to ensure that we reduce our overall cost and diversify the borrowing profile. We are working on that.
- Vikas Kasturi:** Thank you Sir.
- Moderator:** Thank you. We will take the next question from the line of Deepak Mehta an Individual Investor. Please go ahead.
- Deepak Mehta:** Thank you again for taking my question. My question is that for distribution, what is the percentage for Muthoot Capital from Muthoot branches and what is the cost of distribution as of now?
- Madhu Alexiouse:** Approximately 15% to 18% of business comes from Muthoot Fincorp.
- Deepak Mehta:** Okay and what is the cost of distributions and do you...
- Madhu Alexiouse:** It is paid on business basis, whatever business they do it is paid on basis of that.
- Deepak Mehta:** Okay Sir, got it and what kind of traction or momentum you are seeing in sales channel and all?
- Madhu Alexiouse:** Can you come back again, I could not get your question?
- Deepak Mehta:** I think you are also disbursing the loan from mobile app and all?
- Madhu Alexiouse:** No, disbursement does not happen in mobile app; on mobile app collection can happen.
- Deepak Mehta:** Okay, thank you Sir.
- Moderator:** Thank you. As there are no further questions, I now hand the conference over to the management for closing comments.
- Bhavik Mehta:** Thank you all for taking the time out and thank you Vinod Sir and Madhu Sir for patiently answering all the queries of the investors. Thank you.
- Moderator:** Thank you. Ladies and gentlemen on behalf of Antique Stock Broking that concludes this conference. Thank you all for joining us and you may now disconnect your lines.