

Transcript

Conference Call of Muthoot Capital Services

Event Date / Time : 18th July 2016, 04:00 PM IST

Event Duration : 31 min 41 sec

Presentation Session

Moderator: Good evening ladies and gentlemen. I am the moderator for this conference call. Welcome to the ICICI Muthoot Capital Q1 FY17 earnings conference call. We have with us today the management from Muthoot Capital, represented by Mr. R Manomohanan, CEO, Mr. Vinodkumar Panicker, CFO, Mr. R Balakrishnan, General Manager. At this moment all participant lines are in the listen only mode. Later, we will conduct a question and answer session. At that time if you have a question, please press * and 1 on your telephone keypad. Please note this conference is recorded. I would now like to handover the floor to Mr. Digant Haria of Antique Stock Broking for opening remarks. Please go ahead sir.

Digant Haria: Very good afternoon to all of you. And we have with us the management from Muthoot Capital. They have delivered a decent set of numbers for Q1 FY17. So, now I would like to handover the floor to Mr. Manomohanan from Muthoot Capital. Sir, you can take us through the quarterly performance and even the outlook for the future and after that we can open the floor for questions.

R Manomohanan: Nice to be with all of you. As Digant mentioned, I will just, you may be aware of most of the figures, but let me quickly review the figures. We just concluded our first quarter and the financial results were recorded in the board meeting on the 14th of July. We continued to do well in this quarter also, especially in the disbursement, in the loan disbursement front. The first quarter we closed with total loan disbursement of 256 crores. And this compares very well with Rs.126 crores, which was disbursed in the first quarter of the corresponding first quarter of the last year. This is an increase of about 31%. You know that we are mainly into the two-wheeler financing. And if you take the two-wheeler loans alone, the disbursement in the first quarter was 253 crores, compared to Rs.166 crores in the first quarter last year. So, this is even better with the growth of about 40%.

The loan book grew compared to the first quarter. If you compare the first quarter and the figures, loan book grew by 24% to Rs.1090 crores as on 30th of June 2016, compared to Rs.878 crores as on 30th June 2015. The total revenues were also better at Rs.64 crores, compared to Rs.51 crores, which is a growth of 27%. The profit after tax grew about 20% from Rs.3.75 crores, the first quarter of last year to Rs.4.48 crores in the first quarter of this year.

If you take the disbursement, especially I was mentioning about the disbursement, if you take the disbursement especially, normally the first quarter has a subdued growth, because of so many reasons. After pushing the sales too hard in the last quarter of every financial year, perhaps the dealers themselves in respect of the two-wheeler

financing, majority of the loan disbursement business takes place with the dealer. So, the dealers may be pushing less in the first quarter. But, if you compare the first quarter disbursements in 2013-2014, it was 92 crores in the first quarter. 2014-2015 it was 166 crores, sorry, 2014-2015 it was 92 crores. 2015-2016 it was 166 crores. And 2016-2017, this is this year, it is 233 crores. In 2014-2015 it was the first quarter; disbursement was about 16% of the total, which was 592 crores. In 2015-2016 it was 21% of the total disbursement for the year, 780 crores. So, if you take the same trend that about 20% of the disbursement takes place in the first quarter, we are well poised to reach our budgeted disbursement of more than, budgeted disbursement of about 1200 crores or so, for the current financial year. If you take the growth also, I mentioned that the disbursement grew by 40% compared to last year. We are planning further total growth of 40% in loan disbursement in this current financial year and also 25% growth in the net profit. If you take the disbursement and the profit figures for the first quarter, we are poised to achieve both these things for the current year also.

We have been aided by some of the two-three factors in our optimism for achieving this 40% growth in disbursement and 25% growth in net profit. First one is that substantial percentage of our disbursement is supported by cross selling at our group companies. About 23% of the business was last year. 23% of the disbursement last year was from cross selling across our group company branches. And we continue to get the same support this year also.

The second one is that in two-wheelers sales, the percentage of scooter sales have been increasing, so much so that it has almost reached 30% all India, scooter sales. If you take Muthoot Capital Services, the total loans, if you take our total loans, about 50% of the loans that we have disbursed last year is for scooters. This has been helped a lot by our scheme Ladies Only, which has been immensely popular across the country. Ladies Only, where we are financing ladies at a concessional rate of interest; ladies prefer gearless scooters. And this particular product, we disbursed more than 180 crores last year, under this particular product itself. So, our growth in disbursement has been substantially helped by the Ladies Only scheme, which is a scheme for financing ladies at a concessional rate. And majority of the vehicles financed under this scheme, almost all the vehicles financed under this scheme is scooters, gearless scooters.

The third factor which is helping us is that earlier we were predominant players in the South. But, our operations in the North, we did not have any operations in the North. Last year we started expanding to the North. And we have already established our presence in seven States in the North. And this year we started disbursement also. This year the boost to the business from the North is expected to be substantial. So, this is the third one that we hope will boost our business over the current year.

I am now requesting Vinod to enlighten you on the nuances of the financial performance.

Vinodkumar Panicker: Good evening gentlemen. Just wanted to, while Mr. Manomohan has mentioned about the quarter, the current quarter versus the quarter last year, I just wanted to touch upon current quarter versus the immediately preceding quarter. There the disbursement in terms of, in case of hypothecation loan was more or less same, because it was about 234 crores and it is 233 crores now. On an overall basis, the loan book grew by about 1038 crores and that became 1091. And the income was more or less the same. The income was more or less same, because this is the quarter when we took, we moved from five months norm for determining or recognizing

NPA to a four month norm, which effectively meant that there was some amount of reversal of unrealized income. And which is what actually impacted the bottom line also, compared to the immediately preceding quarter, where we had a bottom line, profit after tax of 6.8 crores and we were at about 4.5 crores this time. Here I wish to actually emphasize that the impact of movement from five months to four months was about 3.14 crores in terms of both income and expenditure. Income in the sense, the reversal of income and expenditure would be on account of NPA provisioning and also standard asset provisioning, which actually standard asset provisioning moved from 0.3% to 0.35%.

Otherwise maybe on all the other fronts, the expenses were more or less in line with the previous quarter. And we hope that because in the next three quarters, these one-offs, since we have taken all the negatives upfront, since in the next three quarters those won't be there and performance would be substantially better than the previous year on an overall basis.

R Manomohan: Balakrishnan, do you want to add something to this?

Balakrishnan: I think you have already explained everything in detail about the business. So, let us go for the question and answers. We are ready to answer the questions.

Question and Answer Session

Moderator: Thank you sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press * and 1 on your telephone keypad and wait for your turn to ask the question. If you would like to withdraw your request, you may do so by pressing * and 1 again.

Ladies and gentlemen, if you have any questions, please press * and 1 on your telephone keypad.

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Sir, the first question comes from Mr. Pranav Mehta from Value Quest. Please go ahead sir.

Pranav Mehta: Good evening sir. Congrats on a good set of numbers. Sir, just can you help us with the gross and net NPA numbers for the quarter?

R Manomohan: Fourth quarter, Vinod please?

Vinodkumar Panicker: In terms of gross it was 6.36% and net it was 5.26%.

Pranav Mehta: 5.26. Sir, this was would be as on 120 days right?

Vinodkumar Panicker: It is 120 days.

Pranav Mehta: Can you give the comparable 120 days numbers for Q4 FY16 and Q1 of FY16 too, again just to compare?

Vinodkumar Panicker: Comparable Q4 FY16, gross was about 69.9. In fact 69.9 or 70, 70 crores, just a second, you wanted in (not audible).

R Manomohan: The numbers, if you are asking the numbers, I will just explain. For the last financial year, we started with an NPA figure of 31 crores that was as on 31st March 2015. But, 1st of April 2015, there was an addition of 21 crores on account of the progression from 180 days to 150 days and the NPA figure became 54 crores. This was as on the 1st of April. We closed the year with 54 crores, almost the same figure as on 31st of March 2016, which means that we were able to, while the NPA figures are slightly high; we were able to arrest any addition to the NPAs last year. The only addition to the NPAs last year was on account of the tightening of the norms. And this was the total number was 21 crores. And last year also we shifted to the 150 days norm in the first quarter itself. We shifted to the recognition of 150 days norms in the first quarter itself. This year, so we have closed with 54 crores from 31st March 2016. But, from the 1st of April, there was an addition of 16 crores on account of further tightening of the norms from 150 days to 120 days. But, as in the last year also, we absorbed the entire effect on account of the progression to the stricter norms in the first quarter itself. And on account of the progression from 150 days to 120 days, the NPA figure went up from 54 crores from 70 crores. We closed the quarter with 69 crores, a slight reduction in the NPA figure. So, what I am telling, last financial year in fact after the addition of 21 crores in the first quarter, there was still increase in the subsequent quarter. In the last quarter, we were able to achieve substantial recovery and we were able to bring down the NPA level to the year beginning figure, so the same type of recognition. This year we are hoping better. We have already arrested and we have been able to reverse the trend of NPAs, addition of NPAs on account of deterioration of the quality of assets. Other than the tightening of the norms, we have been able to arrest the trend last year. And this year we have already demonstrated in the first quarter, even though we have started with 70 crores, we have closed with 69, which is a slight improvement. We are confident that we would be able to make substantial progress in the next three quarters in reversing the trend of NPAs.

Pranav Mehta: Sir, yearend NPA number which you have in mind?

R Manomohan: We are planning for 4.5% NPA, gross NPA percentage of about 4.5% by the year end.

Pranav Mehta: Okay, 4.5. And second question is on the cost to income ratio. It has increased again quarter on quarter as well as year on year. So, what is your view on cost to income going forward? And will we see any improvement in this ratio in this year going forward?

R Manomohan: Vinod, you can explain this.

Vinodkumar Panicker: Yeah. This is the cost to income ratio, I think the main difference is, if you are comparing year on year, the main difference is on account of the change in our method of collection. We have moved to a cash collection agency mode for collecting beyond 90 days. So, there is an impact of cost. But, then the benefit of that is, there is too much, there is emphasis on the below 90 days bucket also, which will ensure that the amounts which are moving to the above 90 days, that will stop. And therefore the overall collection costs will come down maybe from the third or the fourth

quarter. That is one thing. Second is, the other major expenditure which is there is the legal expenses which are being incurred on arbitration matter. Here I wish to point out that we started arbitration about a year and a half back. And till date from around 8000 odd accounts, we have collected close to 18 crores. So, while arbitration is helping us ensure that we collect even from accounts which are written off in the past, there is a cost attached to it. But, most of the cost has now been charged off to P&L. We don't see any major increase in the cost going forward. If these two things are actually taken care of, plus the other cost cut initiatives that we have gone into, we are certainly confident that on a quarter on quarter basis and also on a year on year basis, the total off-take to NIMs percentage should come down substantially, at least it should go below 60% by the end of this year.

Pranav Mehta: Okay sir, thanks and all the best.

Moderator: Thank you sir. Ladies and gentlemen, if you have any questions, please press * and 1 on your telephone keypad.

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Sir, our next question comes from Mr. Digant Haria from Antique Stock Broking. Please go ahead sir.

Digant Haria: Sir just wanted to get, just wanted to know about the company's idea on new products, because I think a year and a half back, we were purely a two-wheeler and a three-wheeler company. And today I think 10% of our portfolio comes from other areas as well. And we heard the MD on TV speaking about entry into cars financing. So, if you can just elaborate about the strategy around the non two-wheeler loan portfolio that what are the segments that we are targeting and what can we expect out of these segments in the years to come?

R Manomohan: There has been some thought about diversifying the portfolio. On the one hand we have been stabilizing ourselves in the two-wheeler financing segment. We were earlier present in the Southern markets, only South Indian markets only. Now, we have expanded to the North. Our aim is to become the largest two-wheeler financier in India that is our primary aim. But, there have been also thoughts about diversifying our portfolio. And we have found that used car is a very good market to be in, especially considering the fact that our group has some car dealerships in the State of Kerala especially. We are having so many dealerships in cars, different makes and different segments of cars. So, used car is an area where we can make our diversification, starting with Kerala and expanding to the other States gradually. But, I have to inform you that the business plan is still being finalized, the terms of the business as well as the figures, numbers are still being finalized. We will be definitely doing it before we will be getting into this market before the end of this financial year. But, most likely from the Q2 or even sometime get delayed up to Q3 that is one thing. Second thing, about the other loans, I believe I have explained it in the past also. We find an opportunity where we have large amounts of bank loans available for deployment. Two-wheeler financing is number business and it is not possible to add

substantial numbers overnight. We have to grow our business steadily by expanding to new areas, to new dealer points. And the growth can be as high as 40%-50%, but it cannot be 200%-300% at this level. We cannot expand overnight. At the same time we have funds available. We found that if we have bank sanctions which are not utilized immediately, it may get lapsed. So, we decided to take some exposure on other companies, where it is, we see it almost like parking the funds for later utilization for two-wheeler finances, two-wheeler financing at a profit. Funds are available at 11% or so, when we deploy it at 15%-16% for two years or so. This is all with repayment, monthly repayment. So, the fund starts coming back after one month or two months. And it becomes available to us for disbursement to two-wheeler, two-wheeler financing gradually. That is why we have been a little active in other loans last financial year.

Digant Haria: Right. And one more question which I had is on the two-wheeler financing market. How do you see the competition shaping up in this market, especially if you can explain about the activities of captive finances like Hero, Hero FinCorp and TVS? TVS also has their own captive arm. So, are we seeing any increased activities from them or it will be more or less the same in the last one year?

Balakrishnan: It will be more or less same. Yeah, I will answer this question. It is more or less same for the last one year. But in fact in the first quarter we have improved almost 20% increase in Hero counter itself. So, Hero is mainly, they are focusing; Hero FinCorp is mainly focusing only on city centers. They are not focusing on rural areas. Our strength is, we have a very vehement focus on rural areas. So, almost we got 20% market share increase from the first quarter of last year. This year we have increased by 20% and Honda we have increased by 21%. (Not clear) any threat immediately for us.

Digant Haria: Okay. And what about the other, except for Honda, the likes of Shriram City Union and the Capital First of the (not clear)?

Balakrishnan: I am not considering them as a competition. I am considering only HDFC and Indusind Bank as my competitors.

Digant Haria: Okay. And this competition, so you mean to say that the competition hasn't intensified a lot, which means that the commissions that you pay to your dealers, they might have remained more or less stagnant for the last one year?

Balakrishnan: Almost we are not paying, we are paying only 2% to most of the dealers and some (not sure) volunteers we are only paying 3%. In fact I told you, we are giving business to the dealers through MFL sourcing also. So, now from 23% we are planning to increase this year by 25% to 27% this year.

Digant Haria: Okay, alright sir. Thank you so much. That is it from my side. I think that is concluded, because there are no more questions in the queue, I think that we will conclude the call. Okay, there is one more question that has just come, so operator you can take it.

Moderator: Yes sir. Sir, the next question is from Mr. Hatim Broachwala from Nirmal Bang Equity. Please go ahead sir.

Hatim Broachwala: Hello sir.

R Manomohanan: Yes, please.

Hatim Broachwala: Sir, any sense you can give as to our market share in the two-wheeler financing?

R Manomohanan: Pardon?

Hatim Broachwala: Sir, market share in two-wheeler financing?

R Manomohanan: Across India this year, I have explained it in the past also, across India this year the two-wheeler sale is estimated to be about 1.8 crores units. Roughly about 40% of this is finance sale. And this is estimated about 71 lakhs unit. And this is estimated to result in a total disbursement of 32000 crores. This is the all India market estimated for the current year. We are planning to reach about 3.75% of the market share by the end of the current year. This is not a big....I mentioned in the past so many discussions, we are still a minor player. We are a predominant player in the South. But, if you take all India, we are still a minor player. It has got its own advantages. As you are all may be aware of, taking the market share from 1% to 15% is a different ballgame. Even 10% to 11% is a different ballgame, compared to taking it from 2% to 3%. When you are a minor player, increasing the market share is much more easier than when you become a major market player. So, our aim is to take our market share to about 3.75% of the total disbursement by the end of this financial year.

Hatim Broachwala: Okay. Sir, out of 32000 crores, how much would be captive in your assessment?

R Manomohanan: Pardon?

Hatim Broachwala: Captive finances?

Balakrishnan: Captive finances share will be almost 25% to 30% like Bajaj, TVS and Hero. But, in fact we are the number one financier in Kerala and Karnataka. Our market share in Kerala is almost 24% for all vehicles. If you see Honda only we got a market share of 43%.

R Manomohanan: What Balakrishnan infers is that we have already (voice break). And we have slightly reached the (voice break) may not be possible to substantially, but still there will be contribution from those States this year. If you take all these things, we are (voice break) target by the end of this financial year, 3.75% of the total disbursement.

Hatim Broachwala: Okay. Sir, one more question, I was looking at your presentation. On page ten bucket wise flow chart, if you can help me read that chart?

Vinodkumar Panicker: Give me a minute. I will go over this. Bucket wise, bucket wise flow, if you go to page number eleven, that explains the numbers. I will explain that to you. What we are saying is, the movement from bucket zero to one has been falling. In fact that was the scenario till March. Subsequently in April it has, the flow has increased. Flow effectively means, what has not been collected in a particular bucket and therefore it has gone to the next bucket. So, it is in our interest that the flow is

minimal and which is what we ensured that we achieve in the last year. In the current year, in the first month there was a dip in the collection, which effectively meant that the flow increased to the subsequent bucket, which was covered up in the, partially covered up in the month of May and June.

Hatim Broachwala: Okay. Sir, for instance 121 to 150, it is showing closer to 55%, so what does this 55% indicate?

R Manomohanan: Flow means, basically flow means, worsening..... going from the lower bucket to higher bucket is flow. Retrieving it from higher bucket to lower bucket is rollback. Vinod, please continue.

Vinodkumar Panicker: 55% or 57%, it effectively means that only in that bucket, 120 to 150 or 121 to 150, only 43% was collected. The balance actually went into the next bucket, which is a fall from the previous quarter, previous month, where only 77% was collected and only 23% was pushed to the next bucket.

Hatim Broachwala: Okay, understood.

R Manomohanan: There is some more, which is overdue for more than four months that is more than 121 days. Out of that, whatever is remaining in that bucket, 23% only went to the higher bucket that is 23% only was not collected from that. Uncollected amount from that was 23% in March. But, it increased to 57% in April. There is some worsening of the situation in the first quarter in that bucket.

Hatim Broachwala: Okay, thank you. That is it from my side.

Moderator: Thank you sir. Sir, our next question comes from Mr. Paras Adenwala from Capital Portfolio Advisors. Please go ahead sir.

Paras Adenwala: Just wanted to check on the impact of the monsoon on the sale of two-wheelers. Are you seeing nothing is improving or probably it is little too early to really see the impact on the sales of two-wheelers?

Balakrishnan: We are not finding anything wrong. The sales is picking up now. There is no monsoon, because of monsoon, only because of June, because of (not clear) in Kerala and (not sure) in other States, maybe it has come down. But, we are expecting good sales for one on one; in Diwali we are expecting good sales. I am not saying that because of monsoon, sale is coming down.

Paras Adenwala: I see. It is just normal business.

Balakrishnan: Yeah, normal business. Normal business only.

Paras Adenwala: Monsoon is not making any difference?

Vinodkumar Panicker: That could be mainly because of what Mr. Manomohanan said sometime back that we are a minor player, so obviously if there is an impact also, we may not possibly feel it. Because we are, whatever we are talking about, about 3%-3½%, so that impact may not be there. We may not feel it also.

Paras Adenwala: Okay, alright. Thank you very much.

Moderator: Thank you sir. Ladies and gentlemen, with this conclude our conference call for today. Thank you for your participation and for using Door Sabha's conference call service. You may all disconnect your lines now. Thank you and have a good evening everyone. Thank you sir.

Vinodkumar Panicker: Thank you. Thank you everybody.

Note:

- 1.This document has been edited to improve readability.
2. Blanks in this transcript represent inaudible or incomprehensible words.