

## Transcript

### Conference Call of Muthoot Capital

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#### *Presentation Session*

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**Moderator:** Good evening ladies and gentlemen. I am Joseph, moderator for the conference call. Welcome to Muthoot Capital Q2FY17 earnings conference call. We have with us today the management from Muthoot Capital represented by Mr. R. Manomohanam, CEO, Mr. Vinod Kumar Panicker, CFO, and Mr. R. Balakrishnan, General Manager. At this moment all participants are in 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 hand over the floor to Mr. Digant Haria. Please go ahead sir.

**Digant Haria:** A very good evening to all of you and a special thanks for taking out time late in the evening. We apologize for the delay of around 7 minutes, that's largely because the Equitas call, which was preceding this one got delayed, so we had to wait for some participants to log in. So, we have with us the management of Muthoot Capital. The company has delivered the best ever results in the last 20, 25 quarters. I think without further ado, I will hand over the floor to them where they can explain the outlook for two-wheeler financing and how Muthoot Capital has done so well for itself. So, over to you Manomohanam sir.

**R. Manomohanam:** Good evening friends. Good afternoon friends, rather. Happy to be with you again after the quarterly results for the second quarter of this financial year. First of all I will put you in the picture as regards the market and the opportunity available to us. We have projection that two-wheeler sales for the whole year this year will be about 1 crore 80 lakhs in India and the sales are really going up and if anything the projections will be exceeded. Out of this 1,80,00,000 units projected for the financial year, about 70 to 72 lakhs will be under finance sales and this will amount to about Rs.32000 crores, which is the total finance that will be extended for two-wheelers in India for the entire company for the entire year. This is the opportunity that we are having. And one more thing that I would like to point out in this context is that as far as two-wheeler sales are concerned, the preference for gearless scooters is increasing. In the last five years the gearless scooters sales as percentage of the total two-wheeler sales, increased from 20% to 30%. And it is expected to reach 40% by 2020. This is the scenario. This is the market in which we are operating. We did disbursement of 780 crores under two-wheeler financing last year and compared to that this half-year, up to 30th September 2016, we did a disbursement of 506 crores that is under two-wheeler financing only. As I mentioned, it is against financing of 780 crores last year. And the proposed budget for current year is about Rs.1180 crores. So we are doing well as far as sales, disbursements are concerned. And if you take the quarter alone, we did a disbursement of 273 crores compared to 233 crores preceding quarter.

If you compare it to the corresponding quarter last year that is quarter end of September 30, 2015, it was 193 crores. So here are the figures, 193 crores in the quarter end of September 2015, 233 crores the last quarter, that is quarter-ended 30th June 2016, and 273 crores the current quarter. Based on this, the total revenues for the quarter has been Rs.70 crores and I believe all of you have got the presentation that we have prepared for the board. To recap whatever has been stated, the profit before tax for the quarter has been 12.38 crores and the profit after tax has been Rs.8.06 crores, which is the highest ever quarterly profit after tax that the company has recorded so far. This is for the quarter.

If you take for the half-year, the cumulative sales, as I told you, was 506 crores under two-wheeler financing. We did other loans amounting to about 55 crores. So the total disbursement was 560 crores and this resulted in a total revenue of 134 crores for the first half-year cumulative up to 30th September 2016 giving profit before tax of 19.33 crores for the first half-year and a profit after tax of Rs.12.54 crores for the half-year. Corresponding half-year last year the profit before tax was 15.15, this year it has gone up to 19.33, an increase of 28% nearly. Profit after tax was 9.93 last year for the first half-year; it has gone up to 12.54, which is an increase of 26.3%. This is on the finance side.

As I mentioned, I mentioned to you about the opportunity that is available. I also mentioned to you about the shift towards gearless scooters as far as the customer preference is concerned. This is very relevant in our case because we were the pioneers in announcing the Ladies Only scheme and the company has been doing substantial disbursement under the Ladies Only scheme where loan for women are disbursed at a concessional rate of interest. This was launched by us in the year 2014-'15. The financial year '14-'15 we did 55 crores of disbursement and we did 185 crores last year. This year also we have done substantial disbursement under Ladies only scheme. Balakrishnan, can you?

**R. Balakrishnan:** 47 crores we have done so far in this financial year.

**R. Manomohan:** 47 crores in this financial year up to 30th September that is for the half-year. Vinod, you want to add something?

**Vinod Kumar Panicker:** No, maybe when the figures are seen by our friends, I am sure they will possibly realize that there is a reduction in the AUM compared to the immediately preceding quarter on the books. One of the reasons for that is the securitization transaction of about 111 crores that the company undertook during the current quarter. With that the transaction has been seen by the company as beneficial for it financially and that is the reason this transaction has been done. I just wanted to bring, I will bring that highlight. Otherwise Mr. Manomohan I think has covered all the points.

**R. Manomohan:** In addition to the performance as far as disbursements are concerned, there are two key features, which are to be pointed out. One is, as Vinod rightly mentioned, about the securitization transaction, which involves sale of a pool of loan assets that we are having through transaction, which has effectively transferred part of our assets to the balance sheet of some other companies. This gives us access to additional finance for ongoing business, continuing our business for lending under two-wheelers that is one thing. Second one is, all you friends have been aware of the impact

of NPAs on our profitability. We have been taking focused steps in containing the NPAs and reducing the NPAs. As you are well aware of, last year, that is 2015-'16, 2015 closed with an NPA of 33 crores, that was on 31st March 2015, the company contained an NPA of 33 crores. But Reserve Bank of India has revised norms for NPA recognition from 180 days to come down to 90 days in a phased manner. So in the financial year '15-'16 the recognition norms has been revised from 180 days to 150 days. We, on account of this revision, there was an additional 21 crores of NPAs to our total NPA size as on 1st of April 2015. So, 31st March it was 33 crores, on 1st of April it increased to 54 crores, 21 crores increase on account of the revision in norms. Since we have been taking focused steps in containing NPAs, we were able to maintain this level of NPAs without any addition to NPA for the year. That is we closed the year on 31st March 2016, the level of NPA was still around 54 crores. But again, on 1st of April 2016, the norms further got revised to 120 days and as a result there was an addition of 16 crores. So 54 crores became 66 crores. So what I have to point out is, last year when the norms were revised from 180 days to 150 days, the addition to NPA was 21 crores. This year when the norm was revised from 150 to 120 days, the addition of NPA was only 16 crores. This is a considerable reduction because for one thing, the loan book has been increasing, the base has been increasing, AUM has been increasing. In spite of that the addition was less. The second aspect is that normally a higher bucket that is a harder bucket, the size is larger. That is the 150 days bucket will be smaller than the 120 days bucket, but the harder buckets will be smaller. If I made a wrong statement, I am correcting it. The larger and harder buckets will be smaller in size compared to the softer or smaller buckets. The fourth bucket will be smaller than the third bucket. The fifth bucket will be smaller than the fourth bucket. The sixth bucket will be smaller than the fifth bucket, and so on, because the overdue in a performing company, running business, the over dues become...get reduced as the duration increases. So, in spite of the fifth bucket last year was 21 crores, the fourth bucket of this year was only 16 crores. It should have been the other way around. The quantum, the amount to be added should have been other way around. So we have been reducing not only NPAs, efforts were taken in containing the over dues also, even in the lower buckets. That has been yielding results. That is one thing. The second aspect is, by the end of the half-year, that is by 30th September 2016, the 70 crores NPA has been brought down to 66.5 crores roughly. So last year we were able to stabilize the level of NPAs without any addition to that. This year we have been able to actually bring down the numbers. And we hope to continue this and we are planning to reach, close the year with about 62 crores of NPA, which will be a significant reduction. Vinod?

**Vinod Kumar Panicker:** I think we have covered the...the profit and loss we have covered the main transaction that we have done in the quarter. There are couple of other things, which I thought we should bring to your attention. While Mr. Manomohan did mention about robust two-wheeler business, this was possibly, September was the first time in the history of the company that we did about 100 crores disbursement in a single month. Now that's something which we thought we should bring to the notice of our friends. I think otherwise there is, I think we should wait for you guys to actually ask based on the financials that you have seen online.

**R. Manomohan:** Balakrishnan, you want to add anything?

**R. Balakrishnan:** I want to add one or two points. Because the growth is almost 21% compared to last year July to September, there is also, as Vinod mentioned that last month we have disbursed 100 crores. Then there is good monsoon also one of

the reasons to increase the sales in two-wheeler industry. Then again one more point, to be added is the 7th Pay Commission, so the purchase power has increased by the common buyers. These are the three points I would like to highlight apart from what the CEO has explained.

**R. Manomohanan:** So these are leading the two-wheeler sales and thereby making the market good for us and opportunity for disbursement better. I think we can throw the floor open for discussion now.

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*Question and Answer Session*

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

**Pranav Mehta:** Yeah, good evening sir. Congrats for a good set of numbers. Sir, firstly can you just give me the breakup between our on book and off book AUM as on September.

**R. Manomohanan:** As on September, the on book AUM is 1081 crores and off book is about 88 crores.

**Pranav Mehta:** Okay. And can I also get the net NPA number for the quarter?

**R. Manomohanan:** Net NPA number...Vinod, net NPA?

**Vinod Kumar Panicker:** About 53 crores.

**Pranav Mehta:** Okay, thanks. And sir, coming to the disbursements, you said your two-wheeler disbursements were 273 crores for the quarter, and what was the non-two-wheeler, other than two-wheelers disbursements for the quarter?

**Vinod Kumar Panicker:** 31 crores.

**Pranav Mehta:** Okay, thank you. And sir, in your last con call you had said that you were planning to enter into used car financing by Q3 of this year. So just wanted an update on that front.

**R. Manomohanan:** The plan is ready, but as mentioned, two-wheeler sales is giving good results. We have not yet finalized the other arrangements.

**Pranav Mehta:** Okay. So, are we planning to go ahead with the launch in Q3 or it has been delayed?

**R. Manomohanan:** Q3... may be getting delayed.

**Pranav Mehta:** Okay. Any specific reason for that?

**R. Manomohanam:** No, nothing actually the two-wheeler sales has been good and the financing has been good, so we have been focusing on two-wheeler financing and also in the reduction in this portfolio. Of course, diversification of portfolio is very much on the cards, but we thought we will give it a little more time. That is the only reason.

**Pranav Mehta:** Okay. So can we assume that you will launch this product in say first half of FY18?

**R. Manomohanam:** Yes, we can.

**Pranav Mehta:** Okay. And finally on our capital adequacy, so last time you had highlighted that you are planning to raise some tier 2 capital, so an update on that, and whether we would need to raise equity in the next year or so.

**R. Manomohanam:** Some infusion in the tier 2 space has already happened. The subordinated debt has increased from 15 crores to 31 crores with an increase of 15 crores. Plus we are planning, I mean, we are seriously planning further infusion in the tier 2 space, maybe 50 to 100 crores before the end of this financial year. And, as I mentioned in the last con call itself, our tier 2 is very small compared to tier 1. We have substantial sales in augmenting this tier 2 for the capital adequacy for the short term. For medium and long term we may definitely have to go for equity infusion, which may be after (inaudible). We may be able to sustain with tier 2 infusion for FY17 and FY18. By the end of FY18 we may have to go for equity infusion.

**Pranav Mehta:** Okay sir. And the final question from my side, so looking at your H1 performance and the kind of scenario you see in the market, what kind of disbursement growth and loan book growth you are targeting to achieve in FY17?

**R. Manomohanam:** Yeah we have a plan I mentioned in the previous con call also. The budget for the year and the two-wheeler financing disbursement target is about 1200 crores; 1180 is the budget that the Board has approved. Maybe 200 crores under other loans. That is the disbursement budget; that is 1180 plus 200, 1380. We are confident that we will be able to achieve this budget. If that happens, we should be around a loan book size of about 1500 crores.

**Pranav Mehta:** Okay. Alright sir, thank you and all the best.

**Moderator:** Thank you sir. The next question comes from Mr. Sangeetha Purushotham from Togitho. Please go ahead ma'am.

**Sangeetha Purushotham:** Good evening sir. This is the first time I am actually attending the call, so I had a few basic questions on the company. In the last four years, if we exclude the current year, there have been a substantial increase in our book size as well as revenue but the profits has been flat. Could you just help me understand a little, why is that so? That's question number one. The second question I have is what is the average tenure of the loans and how does that relate to the aging of the NPAs? I do understand that the part of the increase in NPAs is because of the change in norms but at the end of.....what do we expect our actual credit cost to be? How much of these NPAs would we be eventually able to collect?

**R. Manomohan:** See many of the other friends who are attending the concalls regularly, I have explained to them that there has been an increase in the NPAs of the company which started in 2012-2013. There has been a spike in NPAs. Initially this was on account of the three-wheeler loans we had. We had some three-wheeler financing. We found that the repayment with respect to three-wheeler loans is getting impacted. We started curtailing the loans for three-wheelers and ultimately we stopped doing any three-wheeler loans. This was the initial impact to the quality of our assets. Later on two-wheelers also (audio disturbance) despite the disbursements going up, instead of AUM going up, the profitability remained quite stagnant because of the credit cost. But as I mentioned, we have been focusing on NPA recovery and this quarter, the profit after tax has reached 8.06 on the basis of those efforts also. As I mentioned the NPA has come down from about 66.5 crores in this quarter. There has been a reversal of...write back of income. Normally when assets become NPA, the interest income is reversed. This quarter there has been a write back of income and provision has come down. So all these things contributed towards better profitability for the quarter. End of the year as I mentioned we are planning to reach a level of about 60 crores...68 to 62 crores which will be a reduction of...if you reach 60 crores it will be a reduction of about 10 crores in NPA for the year which is really substantial considering an AUM growth of nearly 500 crores. On the one hand the base is growing; we are planning to reach a level of 1450-2500 crores in spite of the enhancement in the base if we are able to reduce the NPA to about 60 crores, bring about a reduction of 10 crores, that will be substantial. But then we have to live with this additional NPA on account of reduction of norms for one more year. This year it has come down to 120 days, next financial year it will come down to 90 days again. So one more year we will have to live with this enhanced NPA on account of norms revision before we reach a level playing ground. But in the meantime we are keeping the company profitable. On the one hand we were hit by this spike in NPA about three years back. This problem has been adequately addressed by us. There were many corrections which we have to make in the collection mechanism...follow up and collection mechanism. It is already implemented and those are yielding results. But the other side, NPAs are increasing on account of the revision in the norms. But in spite of that, as we mentioned we kept the company profitable and this year the profitability will be substantially improved due to the reduction in the NPA.

**Sangeetha Purushotham:** Right. Sir what is the tenure of our loan and if we were to look at the aging profile of our net NPAs, what would it look like? So what I am trying to get at is, that out of this 4% plus NPAs that we had in 5% plus gross NPAs, how much of it will we...it is something that will eventually have to be written off and your loans are...you said the problem started in 12-13; so typically the loans that you gave, are they for two years, three years and have we already dealt with in terms of fully providing for the writing of the older loan?

**R. Manomohan:** The tenure of the loans vary from 12 months to 36 months normally. In certain stray case only it may go upto 42 but generally 12 months to 36 months. This is the tenure of the two-wheeler loan. Irrespective of the tenure of the loan, an account becomes NPA if any installment is overdue for more than 120 days now. So NPAs take place in all these tenures. Let us say in 12 months tenure also NPA is there but that is slightly higher. 24 months is lower. Am I right Vinodh?

**Vinodh Kumar Panicker:** Sir for a 12-month tenure NPA that we have on our books is significantly lower. 24 months is slightly higher, as we go more and more...

**R. Manomohanam:** As tenure increases the percentage of scheme tenure increases, the chances of NPA is becoming more.

**Sangeetha Purushotham:** Right. What I am trying to understand is that loans which had become NPAs, two or three years ago, is it 5% gross NPA that we have? How many of those old loans are still there or have we written them all off?

**R. Manomohanam:** We don't write off. There are....we don't allow it to remain overdue for three years and all that because there is an asset involved that is the two-wheeler. We go for re-possession of the asset and we sell it so once the asset is repossessed and sold, what we do is we absorb the difference. The sales realization will definitely be lower than the.... In almost all the cases what we realize from selling the asset is lower than what is due to the company; so there is a difference which we absorb as our loss immediately.

**Sangeetha Purushotham:** When do you absorb them where does that figure in the books?

**Moderator:** Excuse me ma'am If you have any more questions Please come back in the queue for more questions ma'am.

**Sangeetha Purushotham:** Okay can I Please get the answer to the question and then I will come back in the queue.

**R. Manomohanam:** Sure. If you have gone through the presentation, there is loss on sale of re-possessioned vehicle that is the loss that is there.

**Sangeetha Purushotham:** Alright thank you.

**Moderator:** Thank you sir.

**Digant Haria:** This is Digant, I have two questions. How do you see the competitive intensity shaping up? Have these capital players like Hero and TVS, have they started going beyond the large cities and are players like L&T Finance and Capital First giving a lot more dealer commissions to get entry into the dealers where we are? Sir can you just help us give just competitive dynamics...where do we see the opportunity for us?

**R. Manomohanam:** Balakrishnan?

**R. Balakrishnan:** Still in the rural areas they are not there. They are penetrating only in the cities that too the radius of 10 to 15 kilometers. Even if you talk about Hero, they are servicing only on 10 to 15 kilometer radius. They are not going strong into the rural areas. We are very strong in the rural part. So I do not see any competition for the next three years for Hero and L&T.

**R. Manomohanam:** There are two points I want to add, one is that they are a minor player. If you take All India disbursements, I mentioned 32,000 crores which is estimated, our disbursement of 1200 crores will be about less than 4% isn't it? We are still a minor player. In fact we are eating into the market share of major players like HDFC Bank or Indus Ind Bank....that is one thing. Second thing, we have got our own

name. We have got our own reputation in the market. We have been in the business for eight years. As I told you we are still not a major player but we are a recognized player in the market and we have got our own reputation. I am aware of the fact that competitors are trying to get more business by giving....increasing incentives to the dealers but we do not try to get business by giving more incentives. We are very consciously controlling the incentives for....this is a necessary evil, let me say to get business. We are trying to control that and we are still controlling that thing. But there are other strengths that we have, for one thing, dealers prefer us because whatever business that they are giving to us, we pay them the commission whatever has been agreed without any dispute, without any demand and we pay them the incentive normally within 15 days of closure of the month. So these are points which are in our favor as far as dealers are concerned, and we are getting good business.

**R. Balakrishnan:** More than that, I am giving you 4000 numbers through my MFL branch routes, so that is substantial numbers for the dealers. So I am planning to increase my branch for another 30%. So if I am going to give 10,000 numbers in the next financial year to the dealers and manufacturers then I am going to dictate the terms with the manufacturers and dealers. I am going to ask commissions from the dealers because I am giving them 10,000 additional numbers without any effort of the dealers.

**Digant Haria:** So sir the activation of Muthoot Fin Corp branches, that program is going on in a very....?

**R. Balakrishnan:** Yes, yes it is going on very well.

**R. Manomohanam:** Last year we did 21,000 of our disbursement through business source by MFL branches. This year the projection is about 23% of be it 1200 crores we have proposed, we will try to exceed that.

**Digant Haria:** Okay, okay and my second question is on the collection model. I think we have hired a lot of collection agencies for collecting in the lower bucket which is the fourth, fifth and sixth bucket. So looking at your provision cost, it looks like we have got a good control over them now and we have been quite successful in arresting the NPAs. So if you can just highlight a few things that you have done there and what can we expect out of the new loans that we disbursed specially with the 60, 70 collection agencies that we hire?

**R. Manomohanam:** We started by handing over the difficult areas to the collection agencies. Difficult areas I specifically mentioned Tamil Nadu because that was an area where we had substantial increase in NPAs in the beginning. But subsequent to that we found that in the harder buckets especially NPAs and accounts which are nearing NPAs we found that using collection agencies was better than using in-house man-power for collection. So across the country we started handing over harder buckets to collection agencies and this is giving us good results. In addition to simply collecting the NPAs, there are specific targets allocated to all these collection agencies for improving the collection in the softer buckets also. Vinodh can you please highlight on this?

**Vinod Kumar Panicker:** What we have....you are referring only to the softer buckets?

**R. Manomohanam:** No what I am telling is in addition to collecting NPAs, the collection agencies are given targets for improving the quality of softer buckets also that is reducing the flow and increasing the roll back.

**Vinod Kumar Panicker:** Here what we have done is certain area we have given even from bucket two onwards we have given to collection agencies and not only collection agencies, but let me add, this kind of targets are there for our in-house staff also. The way it is done is, they are given targets for each and every bucket and they are incentivized based on the roll backs they do to the previous bucket. And if they don't achieve individual targets for each of the buckets they don't get incentivized. This has helped us to move away from an overall collection kind of model to a bucket wise collection model which has helped us control the movement of NPAs into the harder buckets.

**R. Manomohanam:** When we were doing the in-house collection, there was another thing. The area wise allocation was done. In the sense the person was made responsible for collection of all the loans in a particular area whether it is NPA, hard bucket or soft bucket, due or overdue. That has changed now by allocating responsibilities to different...even under the agency model, responsibility for harder buckets are allocated to different people and responsibility for softer buckets are allocated to different people. So bucket wise specialization is also there in collection. Second thing as Vinodh mentioned, in addition to actually collecting the amount, there is also specific target for roll back. Roll back is reducing bucket from higher to lower. From fifth bucket to fourth bucket, from fourth bucket to third bucket. This is also given target and the incentive depends upon achieving the targets under all these heads.

**Digant Haria:** Okay, okay. So I think it is fair to say that our NPAs in percentage terms should at least the trajectory should be only on the declining side. Once the impact of ninety days also comes in, I think then should we see an improvement overall?

**R. Manomohanam:** True.

**Digant Haria:** Okay thanks those were the questions from my side.

**Moderator:** Thank you sir. There are no further questions. Now, I hand over the floor to Mr. Digant Haria for closing comments. Please go ahead sir.

**Digant Haria:** thank you everyone for joining on this call. Thanks to the management and thanks for all the participants. Have a pleasant evening and a great Diwali.

**R. Manomohanam:** Digant let me add one word. There was a question regarding the provisions and the write offs...as far as loss on sale of assets etc. as far as India is concerned. I invite your attention to slide number 8 if you are in possession of it, where quarter wise the effect of NPAs is given. That is quarter wise the credit costs have been estimated, unrealized income, loss on sale plus provision for diminished value in re-possession of debts, write off, NPA provision, all these things are given. The total credit scores has been estimated and it has been given in slide number 8. Okay you may go ahead please.

**Digant Haria:** Alright. Thank you so much sir for your time and thanks everyone for the participation. We will close the call here.

**R. Manomohanan:** Thank you very much.

**Moderator:** Thank you sir. Ladies and gentlemen, this concludes your 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 evening.

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**Note:**

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