



# “Muthoot Capital Services Ltd. Q3 FY16 Conference Call”

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**MANAGEMENT:** **MR. R. MANOMOHANAN – CEO, MUTHOOT CAPITAL LTD.**  
**MR. VINOD PANICKER – CFO, MUTHOOT CAPITAL LTD.**  
**MR. BALAKRISHNAN – GM, MUTHOOT CAPITAL LTD.**

**MODERATOR:** **MR. DIGANT HARIA -ANTIQUE STOCK BROKING LTD**

**Moderator:** Ladies and gentlemen good day and welcome to the Muthoot Capital Q3 FY16 Conference Call hosted by Antique Stock Broking. 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 a '\*' then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Digant Haria. Thank you and over to you sir.

**Digant Haria:** Good evening to all of you. It has been a rather tough week and probably a tough quarter for most of us as well as the corporate. In that we have had some decent set of performance coming from Muthoot Capital. So today we have with us the management of Muthoot Capital which is represented by Mr. Manomohanam who is the CEO, Mr. Vinod Panicker who is the CFO and Mr. Balakrishnan who is the General Manager. So welcome all of you on the call. Sir it would be great if you can give a 5-minute overview of how the quarter was and what are the trends that you are seeing in your sector and then we can probably open the floor for question and answers.

**R. Manomohanam:** Okay, I, Manomohanam, CEO of Muthoot Capital Services Limited. As Digant just mentioned we have just concluded our third quarter 2015-16 with a decent performance.

To start with if you are aware of the disbursements have been quite good. We are primarily into two-wheeler financing and we have started our business in the south and predominantly we are operating in the southern states plus Maharashtra and Gujarat. The disbursements for the first quarter this year has been Rs. 166 crores, second quarter has been Rs. 193 crores and the third quarter we just concluded with Rs. 186 crores. Slightly lower than the second quarter disbursement because the second quarter is the festival quarter for Kerala where Onam falls where the sales happened. So the three quarters we did Rs. 545 crores disbursement compared to Rs. 592 crores for the entire year last year. In the year ended 31<sup>st</sup> March, 2014 we did Rs. 581 crores and the 31<sup>st</sup> March 2015 we did Rs. 592 crores. So the growth last year in disbursement has not been good but this year we are picking up again and we are doing very well. So far we did Rs. 525 crores compared to Rs. 393 crores for the first three quarters last year and we are poised to exceed a disbursement of Rs. 780 to Rs. 790 crores for the full year because we are quite confident of continuing the momentum that we are having.

On the revenue side the total revenue has been nearly Rs. 58 crores and we entered with a profit after tax for Rs. 6.06 crores which was slightly lower compared to the second quarter this year. Again I mentioned the disbursements have been very good second quarter and revenues have also been good. So there a slight decrease in the profit after tax for the quarter even though it is much better compared the profit after tax for the corresponding quarter last year, which was only Rs. 5.34 crores. There is roughly a 14-point increase in the PAT when you compare the quarter this year with the quarter last year.

We are aware that we have been having an increase in NPA problem and NPA is 55.8 crores at the beginning of this financial year. The prime focus in addition to disbursements is all controlling and reducing the NPAs. We started the year with Rs. 55.8 crores of NPAs and in the first quarter that is the quarter ended 30<sup>th</sup> June, 2015 it went up to Rs. 59.7 crores. But for the second quarter it was almost at the same level at 59.85. This year this quarter there has been slight increase up to Rs. 62.06 crores may be about 1-1.2 crores of increase compared to the last quarter. But efforts that we are taking in controlling the NPAs are yielding results. And we are planning to close the year with Rs. 55 crores, I mean that is the immediate target to bring it down to Rs. 55 crores and from there to keep on reducing the NPA further.

This is the performance in a nutshell. You want to anything to add Vinod?

**Vinod Panicker:** Good afternoon everybody. I think Mr. Manomohanam has covered everything and I think we would just go directly to the set of questions that you guys would have so that we can address them more specifically.

**Moderator:** Thank you. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Pranav Mehta from Value Quest. Please go ahead.

**Pranav Mehta:** First of all I just wanted a breakup of the gross NPAs between two-wheelers and three-wheelers.

**Vinod Panicker:** Out of 62.06 crores of NPA which is there as of 31<sup>st</sup> December, 2015, 51 crores are on account of the two-wheelers and 11 crores is on account of three wheelers.

**Pranav Mehta:** And what are the same numbers in Q2 if you can share that with us?

**Vinod Panicker:** Q2 it was 13.5 crores for three-wheelers and the rest about Rs. 46.5 crores was the two-wheelers.

**Pranav Mehta:** And what was the figure for the net NPAs in this quarter and in Q2?

**Vinod Panicker:** The overall NPA, net NPA is about 51 crores and last time it was 50.51 crores.

**Pranav Mehta:** And this growth which we have seen around 30% disbursement growth, geography wise that would primarily be in non-south geographies or how is it spread out?

**R. Manomohanam:** I can answer that question. As you are aware we started the business in Kerala and we spread to the other states in the south and gradually we have been spreading to the other states of India also and as you are aware we have set up operations, we have commenced operations in the north also. Based in Delhi we are trying to disburse loans in the northern states Punjab, Rajasthan, Haryana, UP and West Bengal. If you state the disbursements, the state-wise disbursement if you are taking in 2012-13 i.e. the year ended 31<sup>st</sup> March 2013 the disbursements from Kerala was 53% of the total came down to 48% in 2013-14 further to 45%

in 2014-15. In the nine months' period so far it has gone up slightly to 48%. This is because of the higher disbursement in the second quarter in Kerala due to Onam and all that. But by the end of the year it may come again to about 45%. This has been the level of disbursement and accordingly the loan book also has been decreasing. It was 69% as of 31<sup>st</sup> March, 2013 in Kerala which came down to 58% as 31<sup>st</sup> March, 2014, 53% as on 31<sup>st</sup> March, 2015 further to 51% as of 31<sup>st</sup> December, 2015. So as I am telling the focus on the disbursement, the dependence on Kerala market for the business is coming down and it is increasing in other states. If you want the state-wise details I can mail it to you.

**Pranav Mehta:** Sure, and in terms of products so is the growth coming mainly from two-wheelers or I believe we had entered into some SME financing also?

**R. Manomohan:** Out of loan book size of 933 crores as of 31<sup>st</sup> December 2015, 853 crores of two-wheeler, automobile, let us say automobile including two-wheelers and three-wheelers and others are Rs. 70 crores. As of 31<sup>st</sup> March, 2015 that was the last balance sheet date the total loan book was 841 which consisted of about Rs. 60 crores of other loans. It went up to Rs. 70 crores now.

**Pranav Mehta:** Last question, for FY17 have you set any disbursement growth target?

**R. Manomohan:** Definitely we are planning to increase upon our current year. We are planning about Rs. 1250 crores disbursements.

**Moderator:** The next question is from the line of Mr. Digant Haria. Please go ahead.

**Digant Haria:** If you can elaborate what has changed in the last 12 months because 12 months back we were not able to grow that fast, we had a huge attrition problem. Then we also had provisions and NPAs which had started rising. So what has changed now that because when I see the last two quarters the growth has come back even when the primary markets have slowed down. So you can break it down into how have we changed our growth strategy, our employee strategy and our NPA and our asset quality strategy?

**R. Manomohan:** Last year we have been severely impacted by staff attrition as we have explained and you have understood. In 2013-14 2-3 new NPLs we started operating in our traditional areas of operation and they have been targeting ours for doing their business. As a result, they started poaching on our – there has been a problem of attrition. We have been able to counter that, we have been able to do more recruitment, roll out a slightly better compensation package and incentive package and as a result we have been able to stem that rot as far as staff attrition is concerned, that is one thing. Second thing, we also started sourcing our business from MSL branches also. This also you are very well aware. In 2012-13 we were able to source Rs. 18 crores of loans from Muthoot Fincorp branches. In 2013-14 it increased to Rs. 58 crores and 2014-15 last year the figure was Rs. 111 crores. Now in the nine-months period so far we are already Rs. 107 crores. So one is we have been able to counter the staff attrition and on the other hand we

started relying more on our group company synergy by getting the branches of Muthoot Fincorp involved in generating leads.

**Digant Haria:** Can you repeat the number of 9-month FY16?

**R. Manomohanam:** 9-month FY16 is 107.

**Digant Haria:** And what explains this higher growth because the system is not growing so much, your competitors are not growing so much so how have we been able to grow so well especially in the last two quarters?

**R. Manomohanam:** See we are very well established in the areas of operations where we are present – the four southern states, Maharashtra and Gujarat. Now we started operating in North but that is as yet insignificant. We have our own business like you know that the loan origination takes place in the dealer points as far as two-wheeler financing is concerned. To explain to you the first reaction that I have to make in explaining the growth that we are having is that as I have already explained many times in the past we are as it is a minor player as far as the All-India scenario is concerned. Our market share is about 2.2% of the total disbursement for two-wheeler financing in India. So to improve our position we are in an ideal position as far as increase in the business is concerned because we are rather young and at the same time we are already there in the business for about 7 years so we are well-known in the market where we are operating. And we adopted business model which is very well-accepted by the dealers. I was telling you that the origination takes places at the dealer points and in this business you have to keep the dealers also happy to get the leads. There is an incentive structure for dealers also. We are not very liberal with the dealer payout and in fact we pay much less than the other lenders we have put as ceiling on the maximum percentage that can be paid. But what we are committing to pay, we made payment say within 15 days of the closure of the month. So far in the 7 years of our business there has not been any contradiction as far as the dealer incentive is concerned. I am citing only one example. So Muthoot has got a name, it has got certain business principles and we adhere to those business principles where the interest of the customer as well as the dealers are concerned. And these are accepted in the markets where we are operating and when we are ready to expand our business we expand the business by activating dealer points and originating business through the MFL branches. Activating dealer points is placing an executive at the dealer point. So when we are ready to expand the business we do not find any resistance in disbursement.

**Vinod Panicker:** We just launched an excellent scheme called Ladies Only, that we have given finance only to ladies customer, then we have done a lot of activities ATL and BTL activities that has created very good awareness among the public that comes to the dealer point and they visited our MFL branches. That created a lot of inquiry for us. So that is one of the main reasons to increase our business.

**Digant Haria:** So do you see that next 3-4 quarters should also be reasonably good for us?

**Vinod Panicker:** Yes definitely it is good for us because the scooter model is moving very well. Earlier we focused mainly on Honda and Hero, now Hero has a drop of 30% sale in last year. Now from September Hero has launched two scooter products that have given excellent results for Hero so that gives a good volume for us in coming months.

**Digant Haria:** Thanks for that, now on the NPA front we have seen a steady rise in NPA over the last two years from as low as 1.5% we are now close to 5.5-6% in the two-wheeler space. So one is what is gone wrong there and I understand that 180 to 150-day migration is also partly responsible but basically what kind of level should we look at and what efforts are you putting in because I think that is one reason why your profits have not been growing at the same pace as your loan book?

**R. Manomohanam:** Yes, you rightly mentioned, even I mentioned during my initial remarks increasing NPA is what is preventing the company from reaching higher positions in higher profitability. The increase in two-wheeler NPAs are mostly happening in two states that is Tamil Nadu and Karnataka. There are many reasons for that. One is that we changed our strategy from in-house collection to outsourced collection about two years back. In Kerala it has been yielding excellent results. I can mention that as far as the NPA levels are concerned in Kerala it has come down from Rs. 33.92 crores at the beginning of the year to Rs. 23.83 crores. There is an actual reduction of Rs. 10 crores in NPAs, almost one-third reduction in NPAs if you take the state of Kerala alone. But Tamil Nadu and Karnataka the NPAs have been increasing in spite of our efforts. Most important reason is that in Kerala what has happened is we have changed it over from in-house collection to outsourced collection. We limited the scope of employees to the lower bucket, the softer bucket, bucket 1 to 3. And above that we engaged agencies for collection and that has been giving very good results. Tamil Nadu and Karnataka we have been finding it difficult to get good agencies. We have been finding it difficult to get good agencies. We have enrolled some agencies but we are concentrating on these two states trying to improve the collection by providing them a better incentive so that we get better results. We are also focusing on the doubtful portion of the NPAs in this state so that the recovery improves in the harder buckets and the provisioning figures come down. Vinod, Balakrishnan you want to add something?

**Vinod Panicker:** Like the CEO said rightly over the last one year we have been engaging in agencies which have actually helped us keep the NPAs under check but I think more importantly what has happened is over the last one year the team has actually got into a focused way of collecting. In fact, earlier there was a target for a company as a whole. Now there are targets for each of the buckets. So which is where you would have seen that while we are going from 180 days to 150 days the NPA numbers went up from 32 odd crores as of 31<sup>st</sup> March to about 55 odd crores as of 1<sup>st</sup> April just because we moved from 180 to 150 days. The subsequent growth has been very negligible, in fact I would say, till the end of April when it moved from Rs. 55 crores to Rs. 59 crores after that the growth has been very muted kind of thing. From Rs. 59 crores it remained constant at Rs. 59 crores right up to end of September over the last Rs. 59.8 crores. It

has gone up by about couple of crores but then I think it is just an issue of timing and we will overcome that or we will reduce it substantially by the time we are on 31<sup>st</sup> March.

**Moderator:** We just have a question that has come up in the queue. That is from the line of Mr. Ankit Shah from Vallum Capital. Please go ahead.

**Ankit Shah:** Question was regarding the gold loan book. So in terms of competition from the nationalized and private banks, and I just came across an article where it mentions that ICICI Bank has a loan book of around Rs. 10,000 crores in the gold loan.

**R. Manomohanam:** We do not have any gold loans.

**Vinod Panicker:** Gold loan is done by Muthoot Fincorp, our group company.

**Ankit Shah:** I am extremely sorry. I got into the wrong conference call.

**Moderator:** The next question is from the line of Manav Vijay from Peerless Mutual Fund. Please go ahead.

**Manav Vijay:** If you can just tell us a breakup of your book in terms of sourcing of funding, that will be helpful.

**Vinod Panicker:** Out of the Rs. 545 crores that was sourced in the current year I will answer about that and maybe we can go into details if you want further information. Rs. 107 crores is what was sourced through the Muthoot Fincorp branches and the rest was sourced through the dealer points.

**Manav Vijay:** I was talking about your sourcing of funding, not about your loan book.

**Vinod Panicker:** See about 80-81% is sourced through the bank. 15.71% is from public deposits and so that is about 95% and the balance 5% is through subordinate debts, some amount of debentures.

**R. Manomohanam:** If you want the figures the bank borrowings as on 31<sup>st</sup> December is Rs. 631 crores. Debentures is about Rs. 3.76 crores, sub-debt is about Rs. 16.16 crores, public deposit Rs. 123.23 crores, loan from direct debt is Rs. 9 crores, from ICD Rs. 1.38 crores.

**Manav Vijay:** So in total what is the total source of funds in total?

**R. Manomohanam:** Total borrowings is Rs. 796 crores.

**Manav Vijay:** And sir what was our capital adequacy ratio, if you could tell that as well?

**Vinod Panicker:** Rs. 17.91 crores.

**Manav Vijay:** Sometime back. I think close to one year back we were thinking of getting an independent rating and based on that we wanted to come out on our own terms, I would say bonds. So I believe that we already have rating. Am I correct in my memory?

**R. Manomohanan:** Yes, we have been having a rating for many years now. We have been having an independent rating and we have been making some serious efforts for diversifying the liability side primarily for going for NCDs and all that. But unfortunately you are all aware that last year the market for NCDs has been very bad. We made some road-shows and all that. We visited many mutual funds and made presentations last year but then market has not been very conducive for NCD. We still have the plan but we are waiting for improvement in the market.

**Manav Vijay:** Sir if you could tell me few more data points, the yield on assets.

**Vinod Panicker:** For the December quarter it was 24.91.

**Manav Vijay:** And the cost of funds?

**Vinod Panicker:** Cost of funds was about 11.15.

**Moderator:** Thank you. As there are no further questions I would now like to hand the floor to Mr. Digant Haria for closing comments.

**Digant Haria:** Thank you everyone for joining the call and thank you for the management for taking the time out and explaining the quarterly performance. Thanks all. Have a nice evening.

**R. Manomohanan:** Thank you very much for taking part and taking the time out.

**Moderator:** Ladies and gentlemen on behalf of Antique Stock Broking that concludes this conference. Thank you for joining us and you may now disconnect your lines.