



“Muthoot Capital Services Limited Q4 FY-16 Earnings  
Conference Call”

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**Moderator:** Ladies and gentlemen, good day and welcome to Muthoot Capital Q4 FY16 Earnings Conference Call hosted by Antique Stock Broking. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing ‘\*’ and then ‘0’ on your Touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Digant Haria of Antique Stock Broking. Thank you and over to you, sir.

**Digant Haria:** Good afternoon everyone. I would like to take this opportunity to thank the management of Muthoot Capital for spending time with the investors on this call. So I would like to welcome Mr. Manomohanam who is the CEO of Muthoot Capital and Mr. Vinod Panicker who is the CFO. I would request them to take you through the key two or three things that the company did in FY16 and what resulted in the good performance towards the end of the year and then probably we can open the floor for question and answers. So over to you, sir.

**R. Manomohanam:** I am Manomohanam here, CEO, Muthoot Capital Services Limited. As mentioned by Digant we had a good year 2015-16. In fact we entered the two wheeler financing in 2008 and last more than seven years we have been focusing on two wheeler and three wheeler financing. In between we stopped three wheeler financing because of slightly higher delinquency in that financing product and we started focusing on two wheeler financing only. 2014-15 we made a disbursement of Rs. 592 crores under two wheeler financing, compared to that we were able to do a disbursement of Rs. 780 crores this year.

In addition to that, as has been, as you are all aware of we started diversifying into business loans also in 2014-15 mostly towards the end of the financial year and we were able to make a disbursement of Rs. 56 crores last year. Compared to that, we did a disbursement of Rs. 148 crores under business loans this year. As a result, against the total disbursement of Rs. 648 crores in 2014-15 last financial year, this year we made a disbursement of Rs. 928 crores. This resulted in improving our book size from Rs. 840 crores as at the end of last financial to Rs. 1,039 crores with the end of this financial that is as on 31 March 2016.

The total revenue for the year was Rs. 229 crores compared to Rs. 191 crores in the previous year. The profit before tax recorded a figure of Rs. 35.45 crores compared to Rs. 34.17 crores in the previous year and the net profit was Rs. 22.85 crores compared to Rs. 22.29 crores.

We have established ourselves as a major player under the two wheeler financing segment in the north and this year as we have mentioned to our supporters, we have started diversifying into north also. We have established an office in Delhi and we have extended our reach to seven states in the north, that is NCR, Punjab and Haryana, Chandigarh, then Rajasthan, UP and West Bengal. But as we started the business only this year, the disbursements are still

picking up, the manpower is there, the processes are in place and we expect this north operations to add to our disbursement substantially during the next year that is the current year.

As far as disbursements were concerned, there has been a steady increase in the disbursement every quarter, The total disbursement in the first quarter was Rs. 196 crores, in the second quarter was Rs. 210 crores, third quarter was Rs. 206 crores and the fourth quarter was the best Rs. 350 crores. I mentioned about the bottom line, as a result of the improved performance the EPS last year was 17.87%, this year it has gone up to 18.32% and the book value has also improved.

The NPA was a concern last year. The book value has gone up from Rs. 107.96 crores to Rs. 118.58. NPA was a concern in during our discussions in this year itself earlier and even when I talked to you last quarter covering the last quarter results, I had informed I had confidently stated that we will be able to give a better performance during this quarter which has turned out to be true. If you take this quarter itself, the beginning of the quarter that is at the end of last quarter the NPA stood at Rs. 62 crores which we have been able to reduce to Rs. 54 crores as at the end of the quarter. So as on the balance sheet date, the NPAs are Rs. 54 crores which Rs. 54.18 crores to be precise and this is 5.1% of the total loan book. The net NPA is Rs. 55.06 crores which is 4.34%.

More important is that we have been able to reverse the trend of addition to the NPA. You are all aware that this year all the NBFCs had a tough time because Reserve Bank of India has implemented the transition from 180 days NPA recognition towards the 90 days recognition in phases from this year which means this year it has moved from I mean last year it was six months recognition, this year it has moved to five months recognition.

We had about Rs. 33 crores of NPA as at the end of last financial year but the transition from six months norm to five months norm itself added Rs. 21 crores to our portfolio of NPAs and every quarter there has been some increase till 31 December but we have been taking our strategies as far as recoveries is concerned collection mechanism is concerned and we have been focusing on not only collection of NPA amount but also preventing slippage of assets into NPA category or even to higher category which has given us excellent results and as a result we stand at 5.1% with the end of this financial year.

I think we have been very well supported by the financial institutions also in our operations. As far as the liability side goes, the loan book of Rs. 1,039 crores has been supported by bank loans of Rs. 738 crores, public deposits of Rs. 110 crores, equity and reserves amounted to Rs. 148 crores, sub debt at Rs. 15 crores, loan fund direct is Rs. 14 crores and debentures of Rs. 3 crores. This is the performance in a nutshell. I think I will request Vinod to add to what I have stated then we will open it up for the questions and answers.

**Vinod Panicker:** Good evening friends. This is Vinod Panicker – CFO, Muthoot Capital. I think Mr. Manomohan has actually covered all the aspects and I think which broadly covered the entire twelve months of last year and now I think it is better that we hear from you and then on the basis of your queries may we answer or give additional clarifications.

**R. Manomohan:** One more thing before we open it for discussions. We also plan to continue this trend of improved performance in the coming year. We are planning I mean we are planning disbursements totaling about Rs. 1,383 crores for the next year which will be contributed which will be supported by disbursements amounting to about Rs. 150 crores from the north. I told you this year we have just established the business there, the manpower and the processes are in place. They have just started expanding, they have started sourcing business and we are confident that we will be able to source about Rs. 150 crores from north in the current year. And continuing the trend of diversification into business loans we are planning to disburse Rs. 200 crores under business loans this year. That is as far as the disbursement for the current year goes and we are planning to take our loan book size to above Rs. 1,500 crores by the end of this financial year. Yes, it is over to you.

**Moderator:** Thank you. The first question is from the line of Kashyap Jhaveri of Capital 72 Advisors. Please go ahead.

**Kashyap Jhaveri:** Could you be able to break up our loan book as of FY16 and FY15 as well as disbursements in terms of let us say SME, MFI, two wheelers and others?

**R. Manomohan:** Vinod you can give the feed.

**Vinod Panicker:** See to break up the loan book as of FY16 vis-a-vis FY15 I will quote FY15 first and then FY16. The hypothecation loans was Rs. 788 crores and now it is Rs. 919 crores. The other loans was about Rs. 66 crores and now it is about Rs. 106 crores. Then there is accrued interest on these loans last time it was Rs. 11.4 crores, now it is Rs. 13.2 crores. On the hypothecation loans, the break up last year it was about the Rs. 788 crores was about Rs. 45 crores was by way of three wheelers, the rest was all two wheelers. This year out of the Rs. 919 crores, Rs. 20.5 crores is three wheelers, the rest is two wheelers.

**Kashyap Jhaveri:** And out of this Rs. 106 crores which is others, how much would be business or SME loans?

**Vinod Panicker:** The entire thing is that.

**Kashyap Jhaveri:** Okay, and we had some MFL portfolio also so is it there or has that been paid off?

**Vinod Panicker:** That is some Rs. 12 crores out of the Rs. 106 crores is MFL which is the one which were given something was given the Rs. 29.999 crores was given last year and **(Inaudible 12:12)** crores

was given in the first quarter of this year. So that total to Rs. 55 crores. Out of that what is left is about Rs. 12.5 crores, Rs. 13 crores.

**Kashyap Jhaveri:** Okay this is as of FY16 end?

**Vinod Panicker:** As of 31 March 2016, Yes.

**Kashyap Jhaveri:** Okay and in terms of FY16 disbursements, how does it break up?

**R. Manomohanan:** Disbursements we have already covered. The Rs. 780 crores was auto loan and Rs. 148 crores is business loans so Rs. 928 crores.

**Kashyap Jhaveri:** And you mentioned your target for next year I just missed that out?

**R. Manomohanan:** Rs. 1,383 crores is roughly our budget for next year comprising of Rs. 1,033 crores from the north and south sorry south and west our traditional area of operation Rs. 150 crores from north and Rs. 200 crores business loans.

**Kashyap Jhaveri:** There was a news article in today's newspaper where our Managing Director spoke about Rs. 2,500 crores of loan book this year driven by SME and business loans. So I mean what should I mean Rs. 1,200 crores sort of disbursement probably will not take us to that?

**R. Manomohanan:** Rs. 2,500 crores is our let us say medium term target. We are planned to reach Rs. 2,500 crores by 2019.

**Vinod Panicker:** Okay because I think either I guess the reporter probably got it incorrectly they have written that this is this year.

**Kashyap Jhaveri:** Okay and in terms of your provisions this quarter how would you break it up between two-wheeler, three wheeler and due to the changes in the norms?

**Vinod Panicker:** See as regards to the provisions in the current year let us talk about what has been the hit for the P&L in the current year the total hit was about Rs. 19.63 crores because it is a hit of about Rs. 15.55 crores last year. This is actually split into four components. The first is the when it is an NPA you reverse the unrealized income. So this year it was about Rs. 3.12 crores which is normal it is netted up from the income itself. And loss on sale of repossessed assets was about Rs. 9.48 crores versus about Rs. 9.51 crores last year. There was a write off of about Rs. 3 crores and this year in the case of provisions it was Rs. 3.99 crores versus Rs. 3.25 crores last year. Now out of the Rs. 19.63 crores roughly Rs. 2.5 crores is on account of the change in the policy.

- Kashyap Jhaveri:** Okay and let us say by FY17 we will stick to RBI framework or are we planning to go to 90 days' past due also?
- R. Manomohan:** It will be difficult to though we would like to shift to 90 days by end of FY17 will be difficult because as such this is proving rather hefty. I told you at the beginning of this financial year or at the end of last financial year 31 March 2015 we had a Rs. 33 crores of NPA. By the transition from six months' norm to five-month norm itself Rs. 21 crores were added to the NPA figure. Now that was on Rs. 840 crores asset base, we have gone up to Rs. 1,040 crores. So this year another tightening by one month it will be even larger. Though we would like to move towards that but we are providing some additional amount. For example, Rs. 52 lakhs have been provided additionally in this year in addition to the stipulated RBI prescribed provisions. We are making some additional provisions.
- Moderator:** Thank you. Our next question is from the line of Saket Lohia of Kanav Capital. Please go ahead.
- Saket Lohia:** Sir, just wanted to know one thing. Will there be any investor presentation for this quarter which you will be uploading?
- R. Manomohan:** We can do that. We will definitely do that.
- Saket Lohia:** Because it was very difficult to note down the numbers which you talked very fluently.
- R. Manomohan:** We will do that.
- Saket Lohia:** Another thing which I really request and appreciate if it gets done is the conference call which always gets sent after the quarter, I request the management to have those links on the website if it is possible?
- R. Manomohan:** That also we will do. From next time onwards we will do that.
- Saket Lohia:** Because it gets very tough to access to the last calls and all.
- R. Manomohan:** Yes we will do that.
- Saket Lohia:** Those are the two requests that if it is. See sir, when you share these numbers on to the call there are large number of people, large number of shareholders which do not connect to those numbers. And that is not, since we have a very high integrity as we all expect as from investor community. So just share this idea that if it is possible at least share before the con call or after the con call but not sharing that is not a very disguised view, so just sharing my opinion, nothing else.

- R. Manomohan:** We will try to provide a link to this presentation on our website at the earliest.
- Moderator:** Thank you. Our next question is from the line of Pranav Mehta of ValueQuest. Please go ahead.
- Pranav Mehta:** Just I missed the quarterly disbursement figures which you gave for FY16 so if you can just repeat it?
- R. Manomohan:** FY16 it was Rs. 196 crores for the first quarter, Rs. 210 crores for second, Rs. 206 crores for the third quarter and Rs. 315 crores for the fourth quarter.
- Pranav Mehta:** So out of this Rs. 927 crores you said around Rs. 780 crores is two wheelers, right?
- R. Manomohan:** If you take two-wheeler alone, it is Rs. 166 crores, Rs. 193 crores, Rs. 186 crores and Rs. 235 crores.
- Pranav Mehta:** And sir what is our 31<sup>st</sup> March net NPA number if you can you share it?
- R. Manomohan:** 31 March net NPA number net is Rs. 45.06 crores, 4.34%.
- Pranav Mehta:** Thanks for that and another question was on our fundraising plan so any plans to raise funds in FY17 because our growth targets are really aggressive so will we need capital this year?
- R. Manomohan:** Yes we need capital as well as working funds. Capital but we have very little Tier 2 as of now. Our immediate plan will be to augment our Tier 2 by way of sub debt or some other instruments. We are planning we have set a target of Rs. 50 crores to be collected under subordinate debt in the first quarter itself.
- Moderator:** Thank you. Our next question is from the line of Rajeshwar Rao of Perfect Research. Please go ahead.
- Rajeshwar Rao:** So you have announced that you are entering into new businesses right, in Corporate and SME funding so what is your reason and logic for entering this?
- R. Manomohan:** See this is only for diversifying the portfolio. Earlier we started business about eight years back and we started business in Kerala financing two wheelers. Later on we expanded to Tamil Nadu, Andhra, and Karnataka. Along with that we started financing three wheelers only in the state of Kerala. Then we expanded to the west also Maharashtra and Gujarat. And last year we added the north also to our area of operation. See there are two ways of increasing business. One is there are three ways in fact one is concentrating on the same business but expanding the geographical coverage. Second one is intensifying the operations in the area where you are present and third one is adding other products.

So we have been gradually doing all three. First we expanded to other geographical areas, now two wheeler business is sourced at the dealer points. You have to put your person at the two wheeler dealer and you have to source the business there. Once you cover all the dealers in a state there is very little scope for improving the business from that particular area perhaps you can maintain the level or slightly improve it but not much scope for improving like we are expanding business. Then you have to go to the other areas.

So we have been expanding geographically. We have been activating the dealers in the states where we are present and last year we found that we need to maintain the tempo of growth it is better to diversify into other products also. That is why we went into business loans. These are not very small business loans, they are medium or large loans where we are financing established companies where the financials are very good and where good security coverage is there.

**Rajeshwar Rao:** So you are also concentrating on startups in technology?

**R. Manomohanan:** No, not yet. We are not financing startups. We are only financing for the time being we are financing we are in financing business and we are going by the track record which means that we are financing only companies with a good track record.

**Moderator:** Thank you. Our next question is from the line of Rukun Tarachandani of Kotak Asset Management. Please go ahead.

**Rukun Tarachandani:** Sir, can you just talk about your dealer penetration, how many dealers do you cover in Kerala and in the nearby states and what is the scope of increasing the dealer penetration in these states?

**R. Manomohanan:** See Kerala we are present in almost all the dealer points especially Honda and Hero. See we started financing Honda and Hero in the beginning even today these two manufacturers contribute about 81% of our disbursements in the last financial year. So we have been concentrating on these two manufacturers then we have been expanding to the other manufacturers also. Here if you take the number of dealerships covered as at the end of 2016 it is more than 2,500 covering in all the states compared to more than 2,000 as at the beginning of the year.

**Rukun Tarachandani:** So sir, as of now the loan book largely concentrated in Kerala?

**R. Manomohanan:** See I told you we started financing in Kerala but as we progressed we have been diversifying into other states also. If you take the progress 2012-13 63% of the disbursement was in Kerala. It came down to 48% in 2013-14 then again to 45% in 2014-15. This is the total percentage of the total disbursement. Last year it went up slightly again in Kerala to 47.7%. Along with the decreased disbursement in Kerala and improved percentage outside the state the loan book

outstanding also has been coming down. It was 68% in 2012-13 as on 31 March 2013 came down to 58% by March 2014 further 53% by 2015 and then to 51% this year. So concentration has been there in Kerala because we started the business in Kerala that is our home that is our base. But as I mentioned we are expanding to the other states and the percentage will come down further with the operations picking up in north.

**Rukun Tarachandani:** And sir, in terms of technology and the time it takes to disburse a loan how do you compare with the competitors?

**R. Manomohanan:** We believe we are competitive as far as otherwise we cannot survive in this market. We are competitive, our benchmark is 24 hour for disbursements from the time we are contacting. We are trying to bring it down by as you rightly mentioned adoption of new technologies.

**Moderator:** Thank you. Our next question is from the line of Digant Haria of Antique Stock Broking. Please go ahead.

**Digant Haria:** Just wanted to check a little bit more on these new businesses that we are doing. So the first one is your corporate loans and the second one is SME. So what would be the kind of ticket size and the lending rates in each of these businesses?

**R. Manomohanan:** See you can call it corporate loans or business loans mainly not many of them are in the SME segment actually. These are mostly business loans and the normal according to the policy the minimum disbursement about is Rs. 50 lakhs and maximum is Rs. 25 crores. Right, Vinod?

**Vinod Panicker:** Maximum is Rs. 20 crores.

**R. Manomohanan:** Maximum is Rs. 20 crores, minimum is Rs. 50 lakhs but most of the disbursements are in the range of Rs. 5 crores to Rs. 15 crores.

**Digant Haria:** And the interest rate on this would be?

**R. Manomohanan:** It is minimum 15% and maximum will be about 18%.

**Digant Haria:** So sir, who are these corporates like are they other small NBFCs or are they in the manufacturing sector?

**R. Manomohanan:** There are NBFCs, there are manufacturing and there are other service also.

**Digant Haria:** And how do we do this business like do we have a separate business head who looks after this or we get these leads through our branches or through our promoters? So how are we sourcing this kind of a business and how are we evaluating? Do we have an expert team who does the credit appraisal just like a bank would do for SMEs?

- R. Manomohanam:** We have sourcing is done through mostly associates who may have vested these business and who may also sometimes.... In many of the cases where they themselves have taken and experts are on these units. About processing we do not have a separate business head for this because the number of disbursements are not that many. The ticket size is less. But we have the expertise in house for getting this. For your information I may train corporate bankers. In fact I am not my exposure is not in retail banking and banking sector I am a banker with 32 years of experience before joining Muthoot Capital Services as CEO and my exposure and my training has always been as a corporate banker. So I myself process sufficient expertise in assessing corporate loan proposals. And I am aided by experts both in the finance as well as credit side. We have got other senior bankers also in our staff.
- Digant Haria:** And do we plan to do SME in a big way because I think the next year's target that you have given for disbursement of around Rs. (+300) crores in the business and the SME space. So would it be mostly business loans or we are also targeting SME say Rs. 10 lakhs to Rs. 50 lakhs kind of ticket size?
- R. Manomohanam:** This year is Rs. 200 crores not Rs. 300 crores the business is concerned and that will be business loans only we are not planning to go to the SME segment this year.
- Moderator:** Thank you. Our next is from the line of Rajiv Pathak of GEECEE Investments. Please go ahead.
- Rajiv Pathak:** Sir, just one point on the business loans. Are these loans focus only in the southern states or this has being done pan India?
- R. Manomohanam:** Pan India.
- Rajiv Pathak:** And sir, on this AUM target I think you have mentioned some Rs. 1,500 crores by FY17. So in three years' time where do you think this can be? Can it be upwards of Rs. 2,500 crores?
- R. Manomohanam:** Yes, definitely it is upwards that is what we are planning Rs. 2,500 crores.
- Rajiv Pathak:** And how will the mix change? So right now I think it is 88% of two-wheelers means vehicle loans. So how will the mix change in three years' time?
- R. Manomohanam:** It will be about 60:40 or 55:45.
- Rajiv Pathak:** So going forward when you have this two businesses which are actually working on two different kind of models right now this business loan is being concentrated within a few people as a decision making authority. So how will that structure change and what will be the kind of cost involved in this?

**R. Manomohanan:** As I told in spite of the quantum, in spite of the higher quantum the number of loans are small. Only thing is it requires a concentrated focus there, appraisal methodology. We have the experts mentioned to you that I myself from a very well trained corporate banker. We have experts from banking sector itself we have got a very good exposure to corporate financing and we have a credit committee. We have a credit committee there is a policy in place and there is a credit committee in place which does the analysis as I told you both from the finance side as well as from the credit side and then the credit committee puts it up to the management and they will try in the board for approval. That is the weightage.

**Rajiv Pathak:** And sir, when you say the sourcing has done through the associates you mean the associate group companies or the associates like the chartered accountants or someone like those?

**R. Manomohanan:** Not chartered accountants but firms who are again the firms where we are convinced are good in. It is not like anybody who gives us the loan but who gives us the lead but people I mean financial consultants who have got expertise in waiting and assessing the business units and in cases I mentioned to you some of these firm to go beyond consultants they themselves take exposure on these companies. So that is also considered.

**Rajiv Pathak:** And sir, when we move the mix towards more of the non-two wheeler portfolio there will be an impact on yield. So how do you then plan to keep your spreads in that kind of a scenario?

**R. Manomohanan:** Yes, as you rightly mentioned there could be if you take the absolute yield there could be shift in the spread but then there are so many factors. One is in corporate business lending the manpower two-wheeler financing we are a manpower intensive business. Substantial percentage for expenditure is for salaries and wages. Then there are also related expenditure like professional expenses like FI verification, CIBIL verification then collection cost so many things are there. The expenses will substantially come down as far as the corporate loans are concerned. And credit costs also. NPAs we expect the corporate loans so we have taken so many steps we do not expect any unhealthy result from whatever we are financing. We are taking so many steps and caution in that. So if you take out all these things establishment expenses, staff expenses and other expenses then credit cost also there may be an impact but there may be slight shrinkage but it will be reasonably good.

**Rajiv Pathak:** So within our entire branch network do you think there is sufficient space to improve the efficiency?

**R. Manomohanan:** Within our?

**Rajiv Pathak:** The branch networks excluding the dealer points the network that we have right now so there is a scope to improve the efficiency from the current network itself, right?

**R. Manomohanan:** Are you referring to business loans?

- Rajiv Pathak:** Yes, the business loans and even the hubs that you have?
- R. Manomohan:** Business loans are not connected to hubs at all. Hubs are only for automobile loans.
- Rajiv Pathak:** So sir, even in this context where do you think our OPEX to OEM can go down to? So we are right now at about 9.5%, 10%. How much can we improve in say next year or two years' time?
- R. Manomohan:** See if you take everything in to consideration we will be able to maintain a spread of about 4% for the business loans.
- Rajiv Pathak:** And on overall business?
- Vinod Panicker:** About 3% that is the aim next year. The return on asset we are looking at around is about 3%.
- R. Manomohan:** So there is not much of a difference.
- Rajiv Pathak:** Okay so 4% is the ROA that you are targeting?
- Vinod Panicker:** See 3% overall. So then auto loan could be in the range of about 2.6%, 2.7%.
- Rajiv Pathak:** And sir, what is the kind of leverage that you are comfortable with? And you stated that you are doing the Tier 2 raising but still at what time are you comfortable going up to say eight times or?
- R. Manomohan:** It will have to be 5 to 6 times.
- Rajiv Pathak:** So we are already at 6% so?
- R. Manomohan:** Yes, we are planning to bring it down.
- Rajiv Pathak:** But sir, should not we leveraging more I means you guys as NBFC you can still go up to say 7 times or 8 times?
- R. Manomohan:** No, capital adequacy ratio stipulates that maximum is 6 months' time. We need to maintain a capital adequacy ratio of 15%.
- Rajiv Pathak:** So you can actually go up to 7x?
- R. Manomohan:** Max is 7, it will have to be slightly less than 7.
- Rajiv Pathak:** Slightly less than 7 but just the scope so you are still comfortable doing it, right so doing the subordinate you can actually stretch it up to slightly more than 7 so?

**R. Manomohanam:** Keeping the benchmark stipulated by Reserve Bank of India only we can function and 15% actually as on 31 March we are around 15.39% capital adequacy ratio. But we want to in fact as of immediate step we want to boost it up. So that will I mean you can say that the Tier 2 we will have to be increase immediately as I mentioned.

**Rajiv Pathak:** And sir, we have witnessed a very good improvement in collection efficiency if you look at the bucket wise home and so you think that this kind of a trend will now continue?

**R. Manomohanam:** It will continue because as I mentioned to you we have been learning we have been finding out what went wrong in collections, how the NPA has increased and we could focus on areas which could ultimately bring down the NPA. As I mentioned to you it is not simply trying to collect the figures or collect the loans which are in the NPA, which are in the nonproductive, non-performing asset class. It is also focusing on the softer buckets like first bucket, second bucket, third bucket etc and preventing it to slip to the next bucket. So that has resulted excellent results and this trend will continue. This trend focuses and strategies have been picked and those chain strategies will continue.

**Moderator:** Our next is from the line of G Vivek of JS Investments. Please go ahead.

**G Vivek:** Just wanted to ascertain the basically the collaterals which we are having gold and the gold prices fortunately is stable now. But what is the contingency plan we have in case it crashes like earlier time and what is the opportunity size for it and is the RBI now serious about monetization of ideal gold lying in millions of homes in India?

**R. Manomohanam:** In our company Muthoot Capital Services Limited we are not at all dealing with gold. In fact our flagship company Muthoot Fincorp is primarily into lending against gold but this company Muthoot Capital Services we do not have anything to do with gold. We are not lending against gold we are as I mentioned to you we have been focusing on two-wheeler financing and last two years we have diversified into business loans also. Other than that we are not doing any lending against gold. So we are not concerned about that we are not affected by the price of gold at all.

**G Vivek:** But two-wheeler financing is a very low ticket segment and any impact how are you fairing it because ICICI Bank was started it and left it but HDFC Bank I believe is doing quite good actually and how do we compete against them vis-à-vis?

**R. Manomohanam:** It is difficult and actually competition is difficult, competition is tough but we are confident we have got our own business strengths. We have got our own what you call name reputation and place not only with the dealers as well as with the customers also. We are as you rightly mentioned the competition from players like HDFC Bank and IndusInd Bank are tough because they themselves are banks and they have access to cheaper source of funds. But as I mentioned to you we have already established in this business. The dealers have a preference

for us and the customers have a preference for us because of our stable continued policies over a period of time. And we do not envisage any problem in improving our business. We have been proving it over the years and we do not have any problems.

**Moderator:** Thank you. Our next is from the line of Kashyap Jhaveri of Capital 72 Advisors. Please go ahead.

**Kashyap Jhaveri:** Sir, could you just run us through your underwriting procedures or any specific things that you do for your business? Like for example in case of two-wheeler loans in some of the earlier conversations you have been quite vocal about what kind of checks and balances that you already have and sort of which comes through your experience. In this business what is the underwriting procedures that you usually follow?

**R. Manomohanan:** Which one, in the business?

**Kashyap Jhaveri:** The SME loan?

**R. Manomohanan:** SME we are not doing, we are doing business loans.

**Kashyap Jhaveri:** Sorry business loans, in that segment?

**R. Manomohanan:** Business loans mostly it is a track record it only we are not financing status we are only financing company's entities which have a proven track record of business growth as well as profitability. And we are also taking the security of their assets.

**Kashyap Jhaveri:** Sir, would this be those corporates or those businesses which already have some form of bank loans which they have repaid in the past and which give you comfort?

**R. Manomohanan:** That is also one of the considerations. Where other banks and other financial institutions are found it easy to extent loans to them. That is also consideration. We also take their terms, we also verify their terms. So when three, four banks found comfort in financing them it is something that we can use for our own. If it is a decision making as well the terms of the loan.

**Kashyap Jhaveri:** And let us say somebody who was already has got a banking relationship any particular reason why would they come to you, would it be rates or would it be something else?

**R. Manomohanan:** It could be the ease of the transaction where we may be slightly faster in processing the loans and disbursing. That could be one consideration.

**Kashyap Jhaveri:** And what would be average ticket size and average yield?

- R. Manomohan:** I mentioned that the ticket size is normally from Rs. 5 crores to Rs. 15 crores and the yield is around 16%.
- Kashyap Jhaveri:** And broadly at this point of time any concentration in terms of sectors or industry that you would have seen or what are the broader industries that you have lined to?
- R. Manomohan:** No concentration but as of now there have been I think you can say that there have been many non-banking finance companies NBFCs are there.
- Moderator:** Thank you. We will take the next question from the line of Pranav Mehta of ValueQuest. Please go ahead.
- Pranav Mehta:** Just one small follow up. This Rs. 54 odd crores of gross NPA what is the now balance left of this three-wheeler loans?
- R. Manomohan:** I will come back to you. Before this over I will give you.
- Moderator:** The next question is from the line of Kashyap Jhaveri of Capital 72 Advisors. Please go ahead.
- Kashyap Jhaveri:** This Rs. 54 crores is currently 150 DPD right?
- R. Manomohan:** 150, yes.
- Kashyap Jhaveri:** So I understand that this probably has resulted in about Rs. 20 odd crores plus increase over there. Let us say 120 DPD and 90 DPD would be what impact on gross NPA number?
- R. Manomohan:** 90 DPD we have not calculated.
- Kashyap Jhaveri:** And 120?
- R. Manomohan:** 120 also we have not calculated yet.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question. I now hand the floor back to Mr. Digant Haria for closing comments. Over to you, sir.
- Digant Haria:** Thank you for your time and for answering the questions and thanks everyone for joining the call. Have a great day ahead.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of Antique Stock Broking that concludes this conference. Thank you for joining us. You may now disconnect your lines.