Muthoot Capital Serv

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Operator: Ladies and gentlemen, good day and welcome to Muthoot Capital Services Limited Q1 FY27 earnings conference call. 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 this conference call, please signal an operator by pressing star, then zero on your touchtone phone. Please note that this conference is being recorded. I would now like to hand over the call to Mr. Manish Khimavat from Elara Securities. Thank you and over to you, Mr. Khimavat.

Manish Khimavat – Elara Securities: Thank you. Good morning, everyone. On behalf of Elara Securities, we welcome you all to the Q1 FY27 earnings conference call of Muthoot Capital Services Limited. From the management today, we have with us Mr. Mathews Markose, CEO and Mr. Ramandeep Gil, CFO. I now hand over the call to the management for their opening remarks. Thank you and over to you, sir.

Management: Thank you, Manish. Good morning, everyone and thank you for joining us today. On behalf of Muthoot Capital Services, let me extend a very warm welcome to all our shareholders, analysts, investors, and members of the investment community. I sincerely appreciate your continued confidence in the company and your participation in today's earnings call.

Let me start with the highlights of Q1 FY27. I think our Q1 FY27 has been an important milestone in our transformation journey, and we believe that we will remember Q1 for the significant strengthening of our balance sheet and franchise. I would like to start by highlighting three key achievements that we made during the quarter.

First and foremost, we received a CRISIL rating upgrade to AA- stable. We believe that this is a very strong external validation of the transformation that the company has undergone over the past couple of years. It reflects a sustained improvement in our asset quality, our governance standards, and our funding profiles, among many other things. More importantly, I think it enhances our ability to access diversified sources of capital at a very competitive price because that is a very critical aspect of our NIM and ROA. Therefore, it will position us well for our next stage of growth.

Second, our public deposit franchise crossed 100 crores. While this number may not be very big, considering that we just recently started scaling up on this and recently launched our online FD module, this is a significant achievement. This is important also from the fact that it gives us a very stable, diversified, and granular funding base, and it is a very important pillar of our long-term liability strategy. This is one business that we want to continue to focus on and scale up to significantly large amounts.

Third, I think we delivered a substantial improvement in our asset quality. Our GNPA level reduced to 3.94%, representing a decline of about 182 basis points year-over-year. This is a function of our disciplined execution on collection, sustained recovery, and a successful resolution of the stress assets. This is a very clear demonstration of our focus on quality even while we pursue growth.

These are really foundational measures. Coming to the business performance, the external environment has been very favorable. In Q1, the automobile industry saw good growth, and the two-wheeler industry recorded a 14% year-over-year growth. At Muthoot Capital Services, we delivered a 6% growth, which may be slightly moderate compared to the industry growth. But all our internal analysis indicates that the gap was not driven by market demand but primarily due to the fact that our credit acceptance ratios were kept moderate. We were approving only 35-40% of the cases that were getting logged in, and that was a measure to continue focusing on our quality.

As we go forward, some of the measures that we are taking include building our own scorecards. Previously, we were using different scorecards from partners; now our own data analytics team is building our scorecard internally, which will be differentiated for existing to credit and new to credit. We are also bringing in a multi-product multi-bureau strategy to enhance our credit profile.

Parallelly, our own retail portfolio has been considerably increasing. We reached 84%, which means our co-lending book has been steadily declining. That is a conscious call that we took. If you compare year-over-year, last year in Q1, we had about 120 crores of disbursement through co-lending, and this Q1 in the first month, we only disbursed 20 crores. The overall dip in numbers year-over-year is a function of that, but Muthoot Capital Services alone has grown. Our portfolio yields remain healthy at about 21%.

As we move forward, our focus will continue to be on accelerating high-quality retail book growth, improving credit conversions, expanding our liability franchise, and, of course, leveraging technology. Over the last couple of years, we have invested a lot in technology, and now we are continuing to invest in AI-driven technology. We have brought in AI in multiple fields. Our entire red bucket collection is being done by AI bots. This month, our resolution with AI bots on the red bucket was as high as 55%, and we will continue to expand there.

Other use cases of AI have been in our welcome calling, our audit and compliance, and our automatic ticket segregation of customer complaints. We are investing heavily in AI. We have already completed a couple of trainings for our senior management and other staff on AI. That continues to be our focus area, and we will continue to invest in that because we see it consuming a lot of space in the BFSI segment. We remain confident that the investments that we have made so far in strengthening our franchise will enable us to deliver sustainable and profitable growth in the periods to come. With those opening remarks, I will now hand it over to our CFO, Raman, to take you through the detailed financial and operational performance of the quarter. Thank you once again. Over to you, Raman.

Management: Thank you, sir. Good morning, all. We will start with the assets of the company. As Mathew sir detailed, the retail portfolio of the company, which was close to 2,300 crores a year back, closed at 2,851 crores. We have seen significant growth in the retail portfolio. The co-lending portfolio, which was close to 1,000 crores a year back, has now closed at 499 crores, and it is safe to say that we have zero incremental business from co-lending. Regarding the corporate loan book, we have not been doing that for the last 2 years, and that book has de-grown again by 16%.

Overall, the focus was on the retail portfolio, which has shown a strong growth of 500 crores year-on-year. Within that retail portfolio, we have seen growth in all parameters, including two-wheelers, CVs, and used cars. Collectively, my CV and used car segments have shown growth of around 40% year-on-year as compared to the previous financial year. Since we excluded the DA and TAFC portfolios, my two-wheeler segment shows a minor stable de-growth of only 1%. Other than that, construction equipment, which we recently started, has shown very good growth of 75%.

As we said, we are not doing corporate loans as of now.

The portfolio has been evenly split throughout India, with the South part containing 40% and the remaining part contributed by the East, North, and Western parts of India. That has also been shared in the investor presentation. The standalone business of Muthoot Capital Services reached 535 crores as compared to 508 crores in Q4. This is growth; generally, we see Q1 business slightly lower than Q4. This is the first time in my tenure where Q1 business has picked up, specifically the Muthoot Capital Services disbursements.

As Mathews sir said, the yield on the product is being closely tracked. We started used two-wheelers, which has given a yield of 26%. While my two-wheeler, loyalty loans, and others have a blended yield for the entire two-wheeler segment of 22%, my CV and CE segments have a blended yield of 17.5%, and used cars are operating at 18.6%. Right now, the co-lending business has already been closed, so the entire business from Q1, except for about 4-5% from co-lending done in April, has come only from the Muthoot Capital Services retail book.

When I say retail, the direct channel has shown significant growth compared to Q1 of last year. In Q1 of the last financial year, we did 421 crores from this channel; now we have concluded 465 crores alone from this channel, so we are seeing growth there. Coming to the asset quality of the company, 96.06% of the total portfolio remains standard, while 3.94% is substandard. Out of that, there is a standalone case of a corporate loan which we already discussed in the last two quarters; the retail GNPA of the company stood at 3.49% only. That one case is contributing 15-16 crores, which is why the GNPA is coming in just at 4%.

On a bucket-wise basis, 85% of the company's portfolio lies in the zero bucket. Last year at the same time, it was 78%. In the first bucket, the company has 7.34% of the portfolio. In the second bucket, it is 2.76%, and then we have the NPA, which is 3.94%. We also shared segment-wise analysis. The GNPA from my CV along with the CE portfolio is only 0.35%. My used car portfolio is showing 1.31%. The remaining GNPA is contributed by the two-wheeler portfolio. Last year at the same time, the GNPA was 5.81% for retail; now we are closing at 3.50%. There is no change in the PCR of the company, which stands at 50%. Hence, the NNPA is 1.94%.

We will speak about the asset quality further. As we mentioned in Note Number 6 of our results, the company has undertaken an ARC deal with Parus. The overall objective was to bring down the GNPA while moving a portfolio that was not contributing and where we were not getting as much recovery as we should have. The company has taken an average valuation of 45% on a portfolio that we sold for around 203 crores. That was a one-time change we wanted to do in Q1 so that by Q2, Q3, and Q4, we should have a portfolio where we are getting recoveries from Muthoot Capital Services itself.

Secondly, for the portfolio we have sold in the last 14 months, the GNPA is only 1%. That gives us confidence that the new portfolio is behaving well, which was the sole reason for doing the ARC deal for the portfolio that was 2 to 3 years or older in the books of Muthoot Capital Services. That deal has also been concluded in this quarter. Our source of recovery, which used to be 75 crores last year via electronic modes, has now reached 100 crores. This is a very significant achievement.

The total other income has been classified from insurance partners and cross-selling, since the company holds an IRDA license. The total insurance income comes to 2.47 crores. On the liabilities front, the promoter shareholding remains at 63.33%. We acquired a lot of banks during the last financial year and relied very little on NBFCs and NCDs. The overall cost of funding is down 0.80 paisa compared to the last financial year. That gain has come primarily in my term loans from banks. The overall change in borrowing from Q1 last year to this Q1 is down 0.43 paisa. With the rating upgrade, we are expecting another 40-50 paisa reduction in upcoming deals.

Regarding fixed deposits, the company crossed 100 crores in this month. The liquidity position of the company remains stable. The company maintains balances over and above the LCR balance required by the RBI. While the RBI requires 100%, the company maintains an average fund balance of 125-130%. The liquidity classified as high-quality liquid assets has been invested in SLR investments, PTC investments, SLR deposits, and collateral deposits with banks. Balances over 100% have been invested in fixed deposits with banks. The company has achieved an overall yield of 6.71% on those investments.

On the liabilities front, the company closed borrowings at 3,318 crores, with an incremental borrowing cost in Q1 at 9%. This is expected to go down in this quarter. We have a fair mix of banks, NCDs, PTCs, fixed deposits, and others. The company AUM is at 3,300 crores, excluding the portfolio sold to DA and the 20 crore GNPA portfolio sold to ARC. The company reported a PAT of 28 crores, which has taken shareholders' funds to 788 crores. The overall balance sheet size of the company has grown by 1% from Q4, reaching 4,079 crores. Q1 business reached 564 crores, which takes our live loan customers to 5,77,834. As shared with investors, the AUM grew by 4%, GNPA went down 182 basis points, PBT was 11 crores, CRAR was 22.07%, and the debt to equity gearing of the company stood at 4.88 times. The total business done in this quarter is 465 crores. Over to you for the questions now.

Operator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Sugrit B. Patle from ICICI Finance Private Limited. Please go ahead.

Sugrit B. Patle - ICICI Finance Private Limited: Good morning to the team. I have two questions. The first question is, beyond the headline disbursement growth, I want to understand how you are planning to structurally reposition the Muthoot Capital two-wheeler and retail lending portfolio over FY 2027 and FY 2028 to defend margins in a rising cost of funds environment, while still maintaining strength against rural stress and identifying competition from Fintech companies?

Management: Thank you. First of all, our portfolio is diversifying quarter-on-quarter. The two-wheeler used to be our single product for a long time. Now we have diversified, and our other three businesses—construction equipment, commercial vehicles, and cars—are growing steadily. This diversifies our portfolio, and the segments that are growing have significantly lower GNPA levels by nature. We have more qualified customers, more documentation, direct personal discussions, and these products are items people need to retain, unlike a two-wheeler where a customer walks in and a decision is taken in five minutes. This is a completely different profile, and our existing portfolio in these segments shows GNPA levels below 0.5%. This reduces the pressure on us to maintain higher provisions.

Second, we received a rating upgrade which will significantly alter our funding. We have already started seeing at least a 50 basis point reduction in our borrowing cost, which will continue. Third, we are aggressively building our liability franchise, which is almost 150 basis points lower than our existing borrowing cost. Fourth, our geographical distribution is such that we are not in direct head-to-head competition with large banks where rates are disproportionately low. Our markets are largely tier 2 and tier 3 areas, and the competitors we face in these markets operate broadly in the same interest rate range as we do. I do not see significant pressure on the top line in terms of NII as of now.

We are steadily watching the portfolio. As I mentioned in my opening remarks, we are developing our own origination scorecards. We are looking to implement risk-based pricing where we will price higher-risk customers significantly higher to cover potential credit losses. This risk-based pricing will be dynamic and monitored weekly. With our internal data team, we will be able to alter rates quickly rather than waiting for quarterly reviews from a vendor.

Sugrit B. Patle – ICICI Finance Private Limited: Thank you for the guidance. My second question is for Mr. Gill. With credit costs showing early signs of pressure and capital adequacy moderating, what frameworks are you putting into place to sustain provisioning discipline, fund digital transformation, and maintain dividend commitments, especially regarding changing regulatory compliances?

Management: Sure. I think there are three things we have done. While the total AUM growth on the book is not huge, over the last year, we almost stopped co-lending. This has helped us as seen in our results. Our total income grew from 147 crores to 160 crores on an AUM growth of only 1-2% because we are doing our own sourcing. While the GNPA remains the same as Q1 last year, excluding the ARC portion, there is a 12.5 crore increase in revenue because the blended yield is going up as Muthoot Capital Services sources on its own.

Second, the finance cost of the company has gone down by 0.50%. Third is the impairment of the company. Two-wheelers are 75% of the book, so most impairment comes from there. On a 14-month MOB, we are seeing a GNPA of 1%, which used to be 3% or 3.5% in Q1 of last year. We are seeing a reduction, but macroeconomic factors are also considered. We engaged EY to help revise our ECL model. In Note Number 5, we have taken an additional 2.5 crore impairment because we want to anticipate macroeconomic factors. Even though the GNPA on the 14-month book went down from 3% to 1%, we kept that 2.5 crore as an additional impairment to avoid a P&L hit later in the year.

Last year, for used cars and CVs, we took an LGD of 50%, which was high since their GNPA remains stable or is declining. We are expecting some reduction in LGDs from 50% to roughly 40-42%. Some advantage might come there, but we are not going to take it now; we will watch it through the full year and potentially take a call in Q4. If required, we will provide additionally as profits allow.

Operator: Thank you. The next question is from the line of Mahem Amit Mahindale from Robo Capital. Please go ahead.

Mahem Amit Mahindale – Robo Capital: Thank you. Sir, my first question is on AUM, where we had an aspiration of about 10,000 crores. How do you see the AUM for FY 2027 and FY 2028? Also, could you indicate any ROA aspirations you have budgeted for?

Management: Regarding AUM growth, in Q1 our credit acceptance rates were far below the industry. While the industry gives 75-80% approval, we were at 35-40%, being cautious. Now that we have seen how the portfolio behaved over the last 1.5 years, we are bringing in a scorecard-based model built internally. We are going to scale up our disbursements from the end of Q2 through the rest of the year. Q3 is the biggest time of the year with Diwali and Dhanteras, and we want to take advantage of that festival quarter. Our AUM projection for this year is around 4,200 crores, and we will reach those numbers. Raman, can you take the ROA part?

Management: As I said in the last call, we have targeted a pre-tax ROA of around 2.5% for this financial year. As of now, we are at 1%, but from next quarter, we expect business to grow. Interest income has already grown, and we are not expecting a significant increase in impairment costs during this financial year. We are on track for our ROA targets.

Mahem Amit Mahindale - Robo Capital: Thank you. My second question is on the ROA for the used car book, as the yield there is significantly lower at 18.6%. What ROA do we expect for this product in FY 2027 and FY 2028?

Management: We track vertical-wise profitability for used cars, CVs, and CE. While the yields are around 17.5% to 18.6%, the impairment factor is very low. CV is at 0.36% and used cars are at 1.31%, compared to 3.5% for two-wheelers. Regarding used cars, 18.5% is the total income. We have a minimum impairment expense of around 0.5% compared to 2.5% for other products. We are expecting an ROA of 1-1.5% for used cars, and the vertical will break even this financial year. The used car business has grown significantly, contributing 8.5% of the AUM compared to 2% last year. Productivity will continue to increase.

Last year, our average productivity for cars and CVs was 13-14 lakhs; now it is over 20 lakhs, and we expect it to reach 30-35 lakhs. That changes the dynamics of the business.

Mahem Amit Mahindale - Robo Capital: Right. And the last question is on the LTV. For two-wheelers, is the LTV calculated on the on-road price or off-road?

Management: It is calculated on the on-road price.

Operator: Thank you. The next question is from the line of Harsh from Sure Securities. Please go ahead.

Harsh - Sure Securities: Can you provide a brief overview of the ARC transaction, including the previous and current numbers and the amount written off?

Management: This is the third ARC for the company. The first ARC was in September 2023, where we sold a pool of 235 crores. The second was in September 2024, with a pool of close to 100 crores. The first was with Phoenix at a 50% valuation, and we had security receipts of 102 crores. We have recovered 75% of that in 2.5 years. The second ARC had a 50% valuation, with security receipts of 48 crores, and we have recovered about 46.7% of that.

The third ARC has two components. The written-off pool was 83.18 crores, and the normal GNPA pool had a vintage of more than 600 days. In total, 203 crores were sold at a valuation of 45.61%. We took a blended valuation of the entire pool, and the company has 81 crores as an investment in security receipts this year.

Harsh – Sure Securities: What is the guidance for GNPA and NNPA for FY 2027 and beyond?

Management: For Q1, we have already addressed the pool that was not yielding recoveries through the ARC deal. Our retail GNPA comes to 3.49%. We have a single corporate loan case; regarding that, we have taken security and parked it as an asset held for sale. we expect to sell that property and recover the loan within 6 to 8 months. For the retail portfolio, we expect the GNPA to be sub-4% and the NNPA to be sub-2%, assuming business continues to grow in this fashion.

Operator: Thank you. The next question is from the line of Vinay Jagwani, an individual investor. Please go ahead.

Vinay Jagwani – Individual Investor: My question is regarding the sale of NPAs to the ARC. What is the accounting impact of this sale and how does it affect the profit level?

Management: Alright, sir. I will explain it. First, for the written-off pool of 83 crores, the company had already taken a 100% impairment hit in previous financial years. That means that pool was not in the books. When we saw recoveries starting, we decided to sell the pool. We recovered 14 crores from the ARC. There is no new gain in the sense that the hit was taken over several years, and now 14 crores has come back to the P&L as a recovery. 85% of that 14 crores is held as security receipts in the balance sheet.

For the remaining pool of 120 crores, which was part of our normal NPA pool, we had a 50% provision. The sale price was 78 crores, the provision was 59 crores, and the book value was 60.34 crores. We reversed the entire income of 15 crores. 85% of that 78 crores, which is about 66 crores, is held in security receipts. Based on the history of previous ARCs, we are confident in these valuations.

Vinay Jagwani – Individual Investor: During the last call, you mentioned planning to raise equity. Can you update us on that?

Management: Our debt to equity is 4.88 times, and we are comfortable up to a level of 6. We are speaking to 2 or 3 investors and have shared data. We expect meetings to happen in Q2. When the valuation is right, we will finalize a deal.

Operator: Thank you. The next question is from the line of Manish Arora, an individual investor. Please go ahead.

Manish Arora – Individual Investor: Are we sticking to the guidance of 10,000 crore AUM for FY 2028? If so, does that imply a very high growth rate in FY 2028?

Management: Yes, our objective of 10,000 crore AUM for FY 2028 or FY 2029 is intact, although we monitor macroeconomic conditions and global impacts closely. Our current year projection of 4,200 crores is also intact. We are gearing up for multiple times growth in the vehicle space.

The main growth driver is non-two-wheelers. Two-wheelers have a fast run-off with an average life of 22-24 months, whereas cars and CVs are 48-60 months. So the retention of the book is faster in those segments. Long-term, we want two-wheelers to be about 30% of the book, with 70% from cars, CVs, CE, and eventually tractors. Our tagline is "Turning Wheels, Changing Lives," and we want to be the entity for everything on wheels under the Muthoot Pappachan banner.

Operator: Thank you. The next question is from the line of Ankur Gulati from Genunity Capital. Please go ahead.

Ankur Gulati - Genunity Capital: Regarding the 10,000 crore AUM target, what is your branch strategy and how will you scale the non-two-wheeler portfolio?

Management: We differentiate between our own hubs and the group-level branches. We leverage the Muthoot Pappachan Group (MPG) ecosystem. Promoters have a mandate to cross-sell across all entities—including FinCorp for gold loans, Microfin for microfinance, and MHFL for housing. The 5,000-6,000 branches of all group entities serve as extension counters for us. Currently, Muthoot FinCorp branches have a 25-30% activation rate for vehicle loans, and we want to take that to 50-60%.

We also work with 5,000 plus dealers and DSAs. It is not a branch-centric business for us anymore. We use QR codes at dealerships for on-the-spot approvals that map directly to our team. The physical brick-and-mortar presence is significant because of the 60,000-65,000 daily walk-ins across the group, which we cross-sell to, but digital is adding the most muscle.

Ankur Gulati - Genunity Capital: How has this group collaboration helped in the last few months?

Management: Currently, 15-20% of our incremental sourcing every month comes from group entities. Our objective is to take that to 40%. The acquisition cost is lower because our related-party transactions are vetted at a lower cost than the market. Each vertical, including the group relations and digital channel, is monitored separately for profitability and each is independently profitable.

Ankur Gulati - Genunity Capital: Is the ROA for business coming through group transfers higher?

Management: Yes, because the OPEX and cost of acquisition for the direct channel are lower, it has a slightly higher ROA compared to the dealer channel. We can share those specific numbers on a future call.

Operator: Thank you. Ladies and gentlemen, that was the last question of the day. On behalf of Elara Securities Private Limited, that concludes this conference. Thank you for joining us and you may now disconnect your line.

Management: Thank you everyone once again.