"Muthoot Microfin Limited

Q4 FY'24 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to Muthoot Microfin Limited Q4 FY24 Earnings Conference Call hosted by JM Financial. As a reminder, all participants' lines will be on 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 star then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Sameer Bhise from JM Financials. Thank you and over to you, sir.

Sameer Bhise: Thank you, Manuja. Good morning everyone and welcome to the 4Q and FY24 Earnings Conference Call of Muthoot Microfin Limited. First of all, I would like to thank the management of Muthoot Microfin for giving us the opportunity to host the call. From the management team, today we have Mr. Thomas Muthoot, Managing Director, Mr. Sadaf Sayeed, Chief Executive Officer, Mr. Praveen T., CFO, Mr. Udeesh Ullas, COO and Mr. Rajat Gupta from Investor Relations. As always, we will have opening comments from the management team, post which we will open the floor for Q&A.

With that, now I would like to hand over the floor to Mr. Sadaf Sayeed, Chief Executive Officer for his opening comments. Over to you, sir. Thank you.

Sadaf Sayeed: Thank you very much, Sameer. Good morning everyone. I welcome you to the First Q4 Call after the listing for every investor. I think this is the first earnings call after closure of the full financial year. We had a very successful financial year 2024. We had a robust listing of our stocks. We raised around INR960 crores of capital through the IPO, of which INR760 crores were primary.

I would like to inform all the investors and listeners here that, the whole of this money has been deployed for business purposes and we have used this money to expand our business and disburse more loans. Financial year 2024 was a landmark year for Muthoot Microfin, not only because of the IPO, but we achieved many milestones which were a first. This year we recorded ever highest number of disbursements in a single financial year. We disbursed INR10,661 crores worth of loan. This is an improvement of 32% year-on-year. Last year we disbursed around INR8,104 crores worth of loan and this has been growing because of our expansion of our businesses.

We have added 336 branches this financial year. Our branch count has reached to 1,500 branches covering 19 states. We have added 336 branches which is around 111 branches more than our average 225 branches that we add every year. We have used this money to upfront the cost and investment and ensure that the business continues to grow.

In this financial year, we have also entered in Telangana. We have opened branches there and we have increased our footprint in states that we had entered last year, Uttarakhand, Himachal, as well as the existing market space where we are number one player: Kerala, Tamil Nadu and other locations where we have branch operation in North and East and West.

As a result, our asset under management grew by 32%. We have closed the financial year with asset under management of INR12,194 crores worth of AUM which was INR9,208 crores last financial year. So, it's a robust growth of 32% in terms of asset under management. We have grown by expansion of our branch network and also increasing our customer base. We have added around 6.5 lakh customers this financial year. Our customer count has reached to 3.35 million. This is a growth of around 21% over the last year customer base.

At the same time with the growth, the portfolio quality remains very robust. We have reported a GNPA of 2.29% and net NPA of 0.35%. This is an improvement of around 60 bps over the last financial year. We had last financial year GNPA of 2.97% and net NPA of around 60 bps. So, we have an improvement of 25 bps on the net NPA also.

Our collection efficiency remains robust of 98.4%. This is an improvement of 260 bps over the last financial year where our collection efficiency was 95.8%. And our credit costs are in line with our projection. We have reported a credit cost this financial year of 1.7% and while reporting at this, we continue to maintain very robust provision on our asset. Our provision coverage remains around 85%. And we believe that our portfolio that we have originated post-COVID is performing really, really well. Overall, our GNPA is 2.29%. But the portfolio that we have originated post-COVID, the GNPA is 1.77%. And we believe in the coming quarters, definitely, the asset quality will continue to improve.

During the financial year, we have also raised around INR9,200 crores worth of loans. Even though our cost of fund has gone up by around 24 bps, we have closed this financial year at cost of fund of 11.17%. But this is mainly because of two reasons. One is on the floating rate borrowing that we have done, there is division of rates. And the second impact is more on the withholding tax structure that is now applicable. So, there is an additional cost because of it. But all of this withholding tax, there are close to INR500 crores worth of borrowing which are maturing.

So, this cost will rationalize. Also, the impact of the entire fund raise that we have done in the last financial year, INR760 crores of capital, which will have an impact on this financial year. If you look at our incremental cost of fund, it is around 10.39%, which is an improvement over the last quarter by around 2 bps. But this will definitely continue to go down. We had also closed a very, very landmark deal of external commercial borrowing of around USD75 million, which translates to around INR622 crores. This provides us with a very effective cost of fund and also a long term availability of debt. These funds are available for us for more than three years. So, that also helps us to have a better asset liability mix in our portfolio.

Overall, the performance of the company is improving rapidly. Our cost to income ratios have come down from 51% last financial year to 45.5% this financial year. Our operating cost is also rationalizing from 6.16% last year, it has come down to around 5.97%. There would be further rationalization of this cost because we have affronted an investment of 336 branches this financial year. That branches, once they leverage and increase the portfolio, definitely the Opex will come down.

Apart from that, we continue to focus on digital collections. 100% of our disbursement is digital, but at the same time, through our Mahila Mitra app, we are promoting digital collection. Last year, we had collected for the full financial year around 20% of our collection in digital format. This year, we have collected around 26% of our collection in digital format, which is an improvement of 30% over the last financial year. And incrementally, if you look at almost 30% month-on-month, our collection is coming in digital format. This has a lot of advantages in terms of reducing the operating cost and also ensuring that there is a less amount of fraud manipulation or any sort of mishandling of collection.

Overall, this year has been very robust. Not only ever-highest number of disbursements, largest kind of ever-highest number of opening of branches, acquisition of customer, we have reported the highest ever profit in the history of Muthoot Microfin. We have reported a profit for the full financial year of INR449 crores. This is in line with our projection. If we include the total comprehensive income or other comprehensive income, then the total comprehensive income is INR463 crores, which is well above our projections of around INR450 crores.

As a result, our ROAs have reached to 4.2%. This is almost 203 bps of improvement over the previous financial year, where our ROAs were around 2%. We are reporting an ROE of 20.3%. This is a kind of an impact of the capital base. Definitely, this ROE will continue to improve as we continue to grow. In the coming year, we estimate our growth to be in the excess of 25%. We will definitely ensure that our NIMs, which have improved to around 12.7%, will continue to improve between 12.7% to 12.9%. Our operating cost will further rationalize by 20 bps. We are at 5.97%. It will be around 5.7% to 5.75%.

Our focus on the credit quality and our investment in the field in terms of our underwriting will remain. The use of technology that we are doing for underwriting our credit scorecard, not only looking at the field that we are underwriting, but also using technology, which has helped us to improve our portfolio quality and focus on the low-risk and very low-risk customers, will continue to help us to keep and maintain a healthy portfolio quality and the credit cost will remain in the same range of 1.7%.

We estimate that our ROAs will improve in the coming financial year. Definitely, it will reach to the level of around 4.3% to 4.5%. And ROE will continue to be at 20% above. I think that's all from my side.

I'm happy to take any questions.

Moderator: Thank you. We will now begin the question-and-answer session. The first question is from the line of Sanidhya from Unicorn Asset. Please go ahead.

Sanidhya: My question is on ROA and ROE. What is the long-term guidance like two, three years down the line we are taking for that?

Sadaf Sayeed: Traditionally, we have reported around 4.5% of an average ROA if you look at pre-COVID period. Definitely, I think we are hitting that range. In the coming years, we believe that we can easily achieve around 4.5% ROA and that will continue to be there for a longer period.

Sanidhya: Currently, I think our average is around 4.5% to 5%. What is the guidance there? I don't think there is much space for more, right?

Sadaf Sayeed: As we look at the leverage post-capital infusion, we are four times levered. In our business, there is an opportunity to do direct assignment and securitization. Also, we are looking at a co-lending partnership. So definitely, we can leverage the capital much more. We have traditionally levered around 5x but that is what we feel is a comfortable level. But beyond five also, through direct assignment and also through PTCs and through co-lending partnership, we can continue to grow.

Sanidhya: Last question is on the side of branch extensions in the northern part of the country. Basically, you have expanded your branches in Uttarakhand and I think Uttar Pradesh as well. So, what are we seeing? How is the traction in this belt rather than what has been for us in southern belt? It has been robust there. But how is we are taking here in the northern end?

Sadaf Sayeed: Yes, I think it's a part of our diversification strategy. So, we had a long-term strategy of having 50% in our core market which is Kerala, Tamil Nadu, Karnataka and 50% from the rest of the country. Currently, around 23% is contributed by North and around 12% is contributed by West and rest is contributed by East. So, we will continue to expand in other locations which allows us to acquire more new to Muthoot customers.

If you look at in the current mix, we have around 48% disbursement which is going to new to Muthooth customers and 52% which is going to the existing customers. We feel that's a healthy mix. We will continue to have that and these branches in North are doing well. They are growing at a much better pace as compared to South and the portfolio quality as of now has been pretty robust.

Sanidhya: Yes, just I wanted to know how much has been the like average time period for the ways the loans have been distributed? How is the credit cost looking in these areas?

Sadaf Sayeed: So, credit cost at the moment is relatively lesser. We are incrementally if you look at this around 1.2% overall in the newer branches in the northern state if you look at and that has also been seasoned. So, because we have been in North for almost 5 years now. So, with the 5 years vintage having COVID and everything still the credit cost is at 1.2% and overall I think the growth is the main kind of contributor we are able to acquire new customers and grow there. Once we open a branch, it takes around 9 months to 10 months for us to reach to a break-even period and post that it started contributing to the bottom line.

Sanidhya: Yes, so like we have been like for quite long in North. So, now we are expecting that this market share from North-South to be much more balanced than what it was earlier like because we are almost ready for our overgrowth in North as well?

Sadaf Sayeed: Yes so our long-term strategy is that we will continue to be market leaders in South. We are number one in NBFC-MFI in Kerala. We are among the top three players in Tamil Nadu. We will continue to do that. At the core market, we will retain our customers and have a deeper wallet share with our customers. But at the same time, we will continue to grow in northern states. So, if you look at the mix, a long-term strategy is to have 50% in South and 50% in rest of the country.

Sanidhya: What is the average ticket size compared in North versus South?

Sadaf Sayeed: Average ticket size in overall is around 57,000 and in South it is around 60,000 and in North it is around 48,000.

Sanidhya: Okay. Thank you so much. Congratulations.

Moderator: Thank you. The next question is from the line of Nidhesh from Investec. Please go ahead.

Nidhesh: Thanks for the opportunity, sir. Can you share some details on this Equifax scorecard where we tag a customer as very low risk, low risk and medium risk? And how is the, let's say, some asset quality indicators in each of these buckets?

Sadaf Sayeed: Yes, so I think this has been a unique feature for our business operation. We have worked with Equifax and developed a scorecard which we have evaluated the entire 6.5 crores customer base of microfinance and identified around 40 parameters which have an impact on the portfolio. And we have given weightage to each of these parameters. Based on that, there is a score which is given to each and every customer. And based on the score we categorize the customer into four different buckets which is a very low risk, low risk, medium risk and high risk. Our focus is on low risk and very low risk customers.

So if you look at 97% of our disbursement has gone to low risk and very low risk customers only. Only 3% has gone to medium risk which are existing customers. So that has really helped us to improve our portfolio quality. In low risk customers, very low risk customers NPA is only 0.41%. In low risk customers, it's 0.7% and in medium risk it is around 1.2%, but overall if you look at our NPAs have really, really come down because of use of this scorecard and incremental lending whatever we are doing, overall NPAs is 1.77%.

Nidhesh: So can you visit PAR 30 data for this quarter and last quarter?

Sadaf Sayeed: Yes. So if you look at in our stage 1, stage 2, stage 3 bucket, 96.6% of our assets are in stage 1, that is 0 DPD. And stage 2, anything which is 0 plus up to 90 bucket is around 1.06%. And stage 3 is 2.29%. Okay.

Nidhesh: Sure. And how should we think about the yields that we are charging to the customer given that there is a lot of noise around the need to reduce the yields on the microfinance loans from the regulator? How do you see the trajectory of yields for us in the coming year?

Sadaf Sayeed: I think that's a very important question that you've asked, Nidhesh. Our yields on the portfolio remain robust, even though we have after the last quarter's call, we had reduced our interest rates. We had reduced our interest rate by 55 bps, but our net interest margin remained robust. We are reporting at 12.7% of net interest margin. And if you look at for the quarter standalone, the margins have improved to around 13.5%. Our incremental lending is at around 23.4 to 23.95%. So weighted average around 23.7. We have been able to command this net interest margin because of our reduction in incremental borrowing costs.

So incremental borrowing costs have come down to around 10.39%. So that's why the yields are improving. And we feel that in the coming quarter, because the effect of the capital raise that we have done in the last quarter of the financial year of December will have a full year impact this year. So our yields will improve further. And also, there is an advantage in terms of borrowing money through ECB, which is long term money, which will also allow us to use this money for churning for a number of times on the loan, which will also improve our yields overall.

Nidhesh: So we don't expect any further decline in yields going forward?

Sadaf Sayeed: Even though we would be able to pass on the benefit to our customers, our yields net interest margin will continue to improve.

Nidhesh: Okay, sure And if you look at the client retention for us, that is very high at 90% plus. So how first of all, how we do we calculate this client retention? And what are the reasons why this number is so high?

Sadaf Sayeed: So the client retention is calculated by numerator is the number of clients who are eligible for follow on loan. sorry that's the denominator and people who eventually take the loan are 94% out of them. So all the customers who get rejected because of credit bureau or they have some DROG, external DROG that we exclude out of them people who are not eligible. And people who are eligible for the loan constitute this whole database and then out of that 94% avail this loan.

And the reason for this is because we are actually customizing the product as per the customer's needs. And also, we are ensuring that the turnaround time to the customer is efficient. And we are using this Mahila Mitra app, which empowers the customers quite a bit. She is able to track her loan through the app, she can repay instalment through the app, she can check her loan track record, she can register any complaint.

Apart from that, we also provide additional services like medical insurance, and also a facility of e-clinic at the branch almost out of the 1500 branch, 542 branches are having an e-clinic where a family of five can go any number of time and have a consultation with a trained doctor.

That services provided at a nominal cost of 250 rupees per annum, unlimited consultation and we also provide generic medicine to the customers. So that really creates a pull. And we have interesting products for our customers, like we have MSGP, which is a gold-backed loan that the customer can avail.

We have PRAYAAS loan for customers who are graduating to kind of higher category and higher loan that they want. So that really creates the pull and of course, the service level at the Muthoot and the brand name generates its own kind of a pull for the customer.

Nidhesh: Sure, sir. And lastly, can you share some data on Suvidha loan? What is the size of the book? And incremental cost of sourcing this loan should be quite negligible for us. So as the share of Suvidha loan increases, should we expect improvement in cost to income ratio?

Sadaf Sayeed: Yes, so definitely Suvidha loan would improve the cost to income ratio. We are also ensuring that the customer awareness is there in terms of using digital technology. So Suvidha loan disbursement that we have done is INR150 crores, which is a nominal number for us for the last financial year. But this can definitely go up. But we want to make sure that the customer is fully aware of the technology that we are putting in place. That's why we are gradually increasing this.

But in the long run, I definitely see that Suvidha loan, which is completely kind of a digital loan, which is taken through the app based on the customer's performance with us, will definitely help us reduce the cost of operation and reduce the turnaround time.

Nidhesh: Sure, that's it from my side. Thank you.

Moderator: Thank you. The next question is from the line of Kaustubh Kakati from Pramerica Life. Please go ahead.

Kaustubh Kakati: Good morning, Mr. Sayeed. Congratulations on a very good set of numbers. Sir, my question is mostly on, I think you had alluded to this the last time around also, this increasing regulator scrutiny that has come about for most of the lending businesses. I think yesterday also we had seen some noise around the lending restrictions on some of these fintech companies. So I just wanted to know, I mean, from the last quarter till now, has there been any further indication from the regulator on, you know, sort of trying to calibrate maybe the lending growth or the yields or any sort of indication around that side?

Sadaf Sayeed: No, thank you for asking that question, Kaustubh. Actually, regulator creating awareness and being a little bit more customer conscious is actually music to our ears. For an organization and a group which is very customer conscious, we keep customers' interest at the top priority. So for us, I think it's good that RBI is putting in place frameworks to ensure that the customers' rights are protected. I should mention here that we are certified CPP at the gold level of certification, which is the top level of customer protection principle. This is an international ranking.

So we are very focused about ensuring that there is transparency, there is awareness, there is complete robustness in terms of sharing information with the customer. So something like a fact sheet, which RBI has implemented for the rest of the lending industry, it was already prevalent in the microfinance phase. And I am happy to tell you that Muthoot Microfin is in full compliance of all the new regulation that has been put in place already.

So for an organization like us, I think it works well. It augurs well because we believe in being transparent and being sincere towards our customers. So I think it should not impact our business operation. In fact, it should help us to reach out to more customers because some of the other competitors who are maybe taking time to follow the regulation will create space which definitely Muthoot Microfin can take over.

Kaustubh Kakati: So I mean, in a sense, it could possibly even give you a head start in that.

Sadaf Sayeed: Yes, absolutely. I think that has been the point in time in previous years also when RBI implemented pay-wise recognition of NPAs. While RBI had implemented that in December 2022, the industry was not ready, but Muthoot Microfin systems were ready and we were able to implement it immediately. And so in the case right now, we are able to implement it. The advantage is that we have our own in-house IT team. We have a strong team of 100 people who have developed our loan management system, loan origination system and customer apps. So for us to implement on the new regulation is a lot more easier as compared to people who are dependent on third party.

Kaustubh Kakati: Right. And the other question that I wanted to sort of get your thoughts on is, have you ever sort of noticed any, I would say, election-related stress, I guess, the kind that we had seen probably in Punjab in the last quarter? I mean, any other incidents or any further incidents which could be a little similar?

Sadaf Sayeed: Yes, so I think there is no such election related stress. In fact, we have seen multiple elections every year. There is one state or the other has gone through elections. But in the last four or five years, we have not seen any challenge because of election. And that is the case today also. In Punjab, of course, there is a Kisan Andolan along with the election that is going on, which is impacting the industry. In our case, our Punjab exposure is around 1.3% of our total AUM. Our total exposure there is 155 crores, out of which the impact among our customers is only around 20,000 customers out of the total 1,07,000 customers.

These are basically five districts around Amritsar which are impacted. So our portfolio that is impacted is around 31 crores. And out of that, we have already proactively taken a write off of 12 crores. So the impact is to the extent of 19 crores, which is not very significant in our scheme of things.

Nidhesh: Understood. And so lastly, I just wanted to touch upon the return ratios. On a quarter-on-quarter basis, we had seen a slight dip. So would that be mostly attributable to the impact of the fundraisers that had actually taken place? I mean, that playing out?

Sadaf Sayeed: Yes, if you compare the last quarter of financial year 23 with this, because in 23, we had loaded the credit cost in December quarter. That's why there would be an impact on quarter-on-quarter. But if you look at an annual basis, definitely there is a significant improvement. Credit cost has reduced from last financial year of 3% to 1.7%. So that is a significant improvement. And we believe that will continue to be even though we have taken an accelerated write off in Punjab.

Still, the credit cost is well within our budget. We believe that this can further improve. And already we are seeing a trend in Punjab. The collections have started to come in. And the credit cost will rationalize further. Our write offs and also the credit cost is significantly lesser even though we have grown by 30%. So definitely, if you look at return metrics year-to-year, it has improved significantly.

Nidhesh: Right. So I guess that's it for me now. Thank you, sir. Thank you.

Moderator: The next question is from the line of Anant Mundra from MyTemple Capital. Please go ahead.

Anant Mundra: Hello. Yes. Thank you for the opportunity. Sir, what is the average ticket size for the loans disbursed in this quarter and the average ticket size for the entire portfolio?

Sadaf Sayeed: So average ticket size for the entire portfolio is around 57,000. And for the quarter, the loan disbursement average ticket size is around INR62,000.

Anant Mundra: Okay, sir. So that, and it appears that it has increased drastically over the last few quarters. Is there any reason?

Sadaf Sayeed: Not really. The increase is around 10 percent in terms of our ticket size. And that is a calibrated increase based on our scorecard, where we see that the customer is at low risk or very low risk. That is where we increase the ticket size. Because that is the whole philosophy of increasing the wallet share with the low risk customers. Otherwise, if you look at our growth is actually coming from acquisition of more customers and expansion of distribution networks. So the ticket size increases to the extent of 10 percent.

Anant Mundra: Okay. And what is the maximum loan amount that we sanction for the lowest risk customers?

Sadaf Sayeed: So in our group loan model, the maximum loan amount that we give is around 80,000 rupees. Any customer who is worthy of additional loan, we have products which are on the individual loan platform, which is PRAYAAS loan, which is in tie up with SIDBI. There we give up to around 3 lakh rupees. And average ticket size there would be around 1.25 lakh. But that constitutes around 3% of our portfolio right now.

Anant Mundra: Okay. So the PRAYAAS loan has to be a graduate from our joint group thing or it can be a new to Muthoot customer as well?

Sadaf Sayeed: Yes, it has to be a graduate. So the idea of PRAYAAS loan or the Muthoot Enterprise loan or MNCB loan is to retain our customers, good customers who have been with us for last three, four years and they have grown and they are now capable to borrow on an individual capacity. So those are the customer instead of losing them to any public sector bank or private sector bank, we ensure that we continue to earn revenue from them through PRAYAAS loans or Muthoot Enterprise loan.

Kaustubh Kakati: Okay. So my second question is around, there were some concerns that the regulator had flagged regarding insurance being bundled along with loans. So I remember in the last concall you had mentioned that we do some kind of a natural calamity insurance and we also have a credit shield insurance. So I mean, is this compulsory for the customer to buy?

Sadaf Sayeed: No, I think that is where I say that Muthoot Microfinance is head and shoulders above in terms of compliance. So our medical insurance as well as the NATCAT insurance is voluntarily. We definitely educate our customers that what are the benefits of that. So if you look at the credit shield product, which is the life insurance product, the penetration is almost 100%. For NATCAT, the penetration is around 80%. And for medical insurance, it's around 40% attachment. So that is where we are looking at. We provide the opportunity for the customer to select which insurance they want to take and which insurance they don't want to take. And based on that, we provide that service.

Kaustubh Kakati: So do our interest rates vary in case they choose to go ahead with the insurance or they don't choose to go ahead with the insurance?

Sadaf Sayeed: No. Our interest rates only are dependent upon the risk profile of the customers, which is basically we identify areas, geographies, where we see that in that geography, the credit cost may be higher than what is expected on the other geographies. There we might charge a processing fee higher. Otherwise, like in the geographies where our credit cost is lower, we give the benefit of lower processing fee.

Kaustubh Kakati: Okay. And for one final question, what are different kind of repayment models that we are following? And do we have a preference of one over the other like monthly, weekly, fortnightly?

Sadaf Sayeed: Yes, I think Udeesh can answer this. Udeesh, you're on the call.

Udeesh Ullas: Yes. So currently, we have two models, weekly and monthly. This is based on the geographies. And at the time of branch survey itself, we will try to understand the customer profile and the cash flow of those particular location. And we will also check with the customers at the time of survey which frequency they prefer. And we decide whether the branch should be on weekly or monthly. If you look at overall our portfolio, almost 70% of the branches are in monthly and 30% of branches are in weekly. Yes.

Sadaf Sayeed: And just to add to what COO has said, are depending upon the repayment frequencies on the cash flow of the customer. So if like customer is on a milk belt like Karnataka or he's into fishing business in Kerala coastal area where the cash flows are more daily, the repayment frequency would be weekly. If the customer is into some sort of an agri business where the cash flow is more elongated, there the frequency would be monthly.

Moderator: Thank you. The next question is from the line of Saumil Shah from Paras Investments. Please go ahead.

Saumil Shah: Hi, sir. Congratulations. So my question is in terms of your AUM growth, I mean for FY '24, we were at about 32% growth and now we are guiding for 25% for FY '25. So any reason for reducing our guidance for FY '25?

Sadaf Sayeed: Thanks for asking that question. So we are saying in excess of 25%. See this, we definitely are confident of achieving the growth rate that we have achieved. We have a CAGR growing at a 39% for the last three years. If we look at even what we have projected, we will continue to grow at a CAGR level for last three year in excess of 30%. What we have projected is considering that there are elections in the first quarter and these are long elections. They are going to continue till 4th of June. The results are there. So almost the first quarter gets affected. It's not because of it impacts the collection, but disbursements and gathering of people and all of that has restrictions during this period. So we have projected a reasonable number, but what we are guiding is in excess of 25% growth. That is what we will achieve.

Saumil Shah: Okay. So these are basically conservative numbers. I mean, we will try to achieve much higher than that.

Sadaf Sayeed: Yes, you can say that.

Saumil Shah: And sir, in terms of our NPA numbers, we are lowest amongst the industry because I mean, current GNPA is 2.29 and net is 0.35. So what would be our target for FY '25? Can we stay at similar levels or any steady state numbers which you can quantify?

Sadaf Sayeed: Yes, so I think GNPA will definitely reduce. There are so many events that we witnessed during this financial year, the GNPA will definitely reduce. Even the credit costs for this financial year is in line with our projection of 1.7%. We believe that the credit costs will remain in the same range or lower, around 1.7% or lower. In the last quarter, it was around 1.4%. But because of Punjab, we have taken some accelerated write-offs. So that's why the credit costs have come to what we have projected. But overall, our experience is good. So GNPA will definitely reduce. I think it should be 200 bps or lower in the coming financial year.

Saumil Shah: Okay. And for net also, can you assume lower than 0.5?

Sadaf Sayeed: Currently, it's 0.35. We will definitely continue to ensure that we have robust provision coverage and they would be in that range or lower. Yes.

Saumil Shah: Okay. And so my final question, sir, if we see our cost to income, it is consistently coming down. I think from around 64%, 65% in FY '22 to 45% in FY '24. So any ballpark number for FY '25? Are we looking to further reduce this?

Sadaf Sayeed: Yes, definitely. I think we are consistently improving our operations. So we have used a lot of technology for rationalizing a lot of costs. The most important aspect is that our investment in the expansion of branches. So this year, we have already done 111 branches for the current financial year, which is the last financial year. So additional another 120-odd branches, 125 branches would be added.

But that average outstanding per branch, which is currently around INR8.1 crores, will go to around INR9 crores. So that will definitely give us much more kind of efficiencies and leverage on our infrastructure. So cost to income ratio will continue to improve.

Saumil Shah: Okay. And so are we doing any gold loans in this business?

Sadaf Sayeed: Yes, we do offer gold loans to our customers wherever they need it. It is available in all the states. But we have a very small portfolio for that. That is a product that we offer for anybody who needs an emergency loan. The nature of the business is that it turns quite fast. The portfolio right now is around INR60 crores. Udeesh, can you add on that?

Udeesh Ullas: Yes. So we have a gold loan also as a product line, which is customer can walk into any of Muthoot FinCorp and take this product. We have a service level agreement with Muthoot FinCorp for that. So as Sadaf sir said, the portfolio turns very quickly in gold loan. We did around INR220 crores of disbursement in that portfolio. But outstanding is somewhere around INR15 crores.

So that is on the gold loan. But apart from that, for an individual loan also, we do a product called small and growing business loan, which is partially backed with gold jewellery as well. So we have these two products for the customers.

Saumil Shah: Okay. But the base is too small. Because if I'm not wrong, we have a different company, Muthoot FinCorp, for gold loan. That is not a listed company, right?

Sadaf Sayeed: Yes, that's not a listed company. That's a parent company for our group. So that's the holding company for us. They are purely into gold loans and LAPs.

Saumil Shah: Okay. So any particular reason, I mean, gold loan is another company. Then I think we have one more vehicle finance company. And now this is a microfinance company. So any particular reason, all these three companies with different set of businesses?

Sadaf Sayeed: Yes. So all of these businesses require specified kind of an underwriting and the portfolio mix, especially at the license level also, there is a requirement. So for microfinance business, there has to be an NBFC MFI category of companies. So that is what Muthoot Microfin is. Gold finance is a core business and it has its own nuances. So secured gold loan and all the secured businesses in one entity. Then vehicle finance has its own distribution network. Vehicle finance is in other entity. And then we have a housing finance company also, affordable housing, that's a separate entity.

So microfinance and housing finance are subsidiary of FinCorp, essentially because it is driven because of the licensing requirement. But the advantage here is for the customer is that for them, they see only Muthoot i.e. Muthoot Pappachan Group, the blue Muthoot. And we offer life cycle need product to our customers.

So a customer who is coming in microfinance, if she wants to take a gold loan also, we provide through FinCorp or our book. If they want a two-wheeler loan, we provide through Muthoot Capital Services. If they want to take an affordable loan, housing loan, we provide through Muthoot Housing Finance. So the catering of the services happens through Microfin for the customer that we originate.

Saumil Shah: Okay. I mean, just for my understanding, wouldn't it be better if we have consolidation, I mean, all companies in the one roof?

Sadaf Sayeed: I think all of these companies are at a different life cycle stage in terms of growth. So at an appropriate time, I think there would be a thought around that. But at the moment, I think all of the businesses individually are doing quite well.

Saumil Shah: Okay. That's it from my side. Thank you and all the best. Thank you very much.

Moderator: Thank you. The next question is from the line of Vignesh Iyer from Sequent Investments. Please go ahead.

Vignesh Iyer: Congratulations, sir, on good set of numbers and thank you for the opportunity. My question is on the co-lending side of the business. I just want to know what percentage of our total lending as of now stands towards co-lending? I mean, if you could give a proportion. And second part of co-lending is what is the ratio of co-lending usually 80:20, 70:30? How is it for us?

Sadaf Sayeed: Yes, Praveen, you want to take this?

Praveen T.: Yes, I can take it. Yes. So currently, the co-lending we have initiated with various banks. We have started discussion. Currently, we have only 2% of our portfolio through co-lending model. But this is because we need the all-in-all integration with the system of banks. It will take some time to run up.

So we have done the initial pilot and it is becoming very successful. And we are looking to add more tie-ups going forward. So it's on the initial phase, but we have currently tie-up with Axis Bank, which is running fine now. And we are adding some couple of public sector banks also into this tie-up. And we are looking to increase this proportion going forward.

Vignesh Iyer: Okay. Is there a number in mind? Sorry, sorry, please.

Praveen T.: So with respect to the split, yes, you're right. The regulatory requirement is 80:20. But because if you fix it 80:20, when the split happens, even if there is a small difference, the regulatory backlash can come in.

So what we are trying to do is that we are doing it 75:25 with one player. With another player, we are trying to do 70:30 so that we have a slightly larger portion where we can ensure that the overall return remains to the company in similar to what we earn in an on-balance sheet transaction.

Vignesh Iyer: Okay. So what is the spread that is there as of now, I mean in co-lending?

Praveen T.: As of now, co-lending, it's in the range of 10.5% to 11.5% spread that we have at an overall level portfolio.

Sadaf Sayeed: Yes, I think to add to that, you would have to look at from two aspects. One is the spread, the second is the credit cost and the provisioning that is not required. So if you add that to this, so overall spread matches the spread that we have for our on-balance sheet portfolio.

Praveen T.: The credit cost is not there for the portion which banks take into their keeping. So that will save us in terms of that. So the overall return will match to what we carry on a balance sheet.

Vignesh Iyer: Okay. And what is the percentage that we are, I mean, do we have any internal estimate as to say 3 years down the line, what would be our co-lending as a percentage of total portfolio?

Sadaf Sayeed: Sadaf this side. If we sort of decide, I see our long-term strategy is that we will continue to increase our share in the co-lending as well as the other products. So as of now, if you look at, it is around 94% income generating loan and 6% other products. This will go in the long run to around 15% in the other product and 85% on the income generating loan and that is medium term. In the long run, it will be 75:25. Out of those 25, in the long run, co-lending would be in the range of 5% to 7%. That is what we started there.

Vignesh Iyer: Okay, sir. So this last question from my side, what would be the steady-state ROA that we are looking at?

Sadaf Sayeed: See, we can easily achieve an ROA of 4.5% and that has been the record for our operations also prior to COVID. We guide towards around 4.5% of ROA for the long run.

Vignesh Iyer: Okay, sir. Okay. Thank you. That is all from my side and all the best.

Moderator: Thank you. The next follow-up question is from the line of Sanidhya from Unicorn Assets. Please go ahead.

Sanidhya: Yes, hi, sir. So I have just one follow-up on co-lending part. So what is the current proportion of co-lending of the entire AUM that we have?

Sadaf Sayeed: Praveen?

Praveen T.: So currently, it is 2%, slightly under 2% at the overall AUM level. And we highlighted this was the initial pilot that we have started doing mainly towards the end of Q3 and Q4 last financial year. And this is only one partner and we are planning to add more partners going forward. The discussions and integrations are going on. So like we mentioned, it will go to like 5% to 7% in the medium term.

Sanidhya: Yes, so exactly on this point I was telling. So what is the growth rate that we are expecting? Like what would be the total percentage of AUM for like next year or two years down the line for the co-lending part?

Vignesh Iyer: So in the long run, we said 5% to 7%. In the immediate terms, if you look at till currently it's true, it might go to around 3% to 4%. But in the long run, we want to maintain 5% to 7% in co-lending and then other products that we will offer from our own balance sheet.

Sanidhya: Okay. And how are we expecting the numbers from that side, like the net interest margins or the credit costs in that segment like co-lending part? Is it better than our in-house book or is it like in line with the same?

Sadaf Sayeed: So I think both have to look at in conjunction because if you look at our yield on the portfolio and the NIM is currently around 12.7%, whereas co-lending, the net margin would be 10.5% to 11%. But at the same time, in the co-lending on the 70% portion, which is with the bank, there is no credit cost. So if you add that to the NIM, that it comes in the same compatible kind of a range around 12.25% versus 12.7% on board.

So that is the kind of difference. The strategy there on co-lending is to help those customers who are graduating to a higher ticket to continue to serve them. So that is what we do in co-lending. Otherwise, the customers who are still falling within the microfinance guideline of RBI, they continue to be on our book.

Sanidhya: Okay. So just to add on, we are expecting like 4% to 5% or 7% in the coming two, three years. So that would be constituting a large part of our new AUM growth, right? So are we seeing any slowdown in our own book AUM growth or are we just doing the new book to be the highlighted growth?

Sadaf Sayeed: No. The growth on the on book portfolio will continue. Our strategy has always been to continue to grow our book. In fact, the growth in our portfolio would be larger. Co-lending is dependent upon the partner's appetite also. So it'll continue to grow steadily, but a growth in our portfolio would be much better.

Sanidhya: And as per from what you said, so the ticket size would be higher for the book, right?

Sadaf Sayeed: Yes, that is the customer that we are choosing to do co-lending for.

Sanidhya: Yes, that makes sense. So what would be the average ticket size here, more than INR2 lakhs, INR3 lakhs or in the range?

Sadaf Sayeed: So it depends upon the partner's credit policy. For example, SIDBI, where we are doing the PRAYAAS loan, the average ticket size is around INR1.25 lakhs. For Axis Bank, where we are doing co-lending, their ticket size is around INR65,000.

Sanidhya: Okay, so this would be the range, not more than INR2 lakhs, we are not looking at that, right?

Sadaf Sayeed: No, not at the moment, yes.

Sanidhya: Yes, okay. Thank you so much.

Moderator: Thank you. The next question is from the line of Sanjeev Damani from SKD Consulting. Please go ahead.

Sanjeev Damani: Hello, am I audible?

Moderator: Yes, sir.

Sanjeev Damani: Namaskar. Sir, I am very new to the financial world. So my basic question is that our cost of credit is 2-point-some percent. So that is the net cost of our borrowing or something like that, sir? Can you kindly explain?

Sadaf Sayeed: Sir, that is the GNPA, 2.29%. Our credit cost is around 1.7% for the full financial year. Borrowing cost for us is incrementally around 10.39%. So basically, like this is a credit loss provision and the credit cost that is their write-off, that is their 1.7% includes that. The borrowing cost is completely independent to that, which is incrementally around 10.39%.

Sanjeev Damani: Thank you for some explanation. Now I am getting some clue. So cost of credit is not the cost of our borrowed funds. It is some other phrase that is being used other than cost of borrowing. Thank you for the clarification. Sir, I did not notice whether the company declared the dividend for this year or not. Can I know from you kindly?

Sadaf Sayeed: No, sir. As of now, we have a policy of not declaring dividend because the Company is in the growth phase. So we are using the capital and the profits that we are turning for helping in growth. I think that is going to continue to give more value to the investor in terms of the share price and the improvement in the overall metrics of the performance of the company.

Sanjeev Damani: Okay. So perhaps the dividend may or may not be declared for next 2, 3, 4 years?

Sadaf Sayeed: I do not want to comment on that right now. But as of now, the policy that we are following is to use that capital to grow.

Sanjeev Damani: Okay. Agreed, sir. And one more thing, sir, that are we purely into microfinance or can we also get into gold financing, housing finance and all other things?

Sadaf Sayeed: So Muthoot Microfin is focused on microfinance. But we leverage on our branch network and the group network to offer products like gold finance, products like 2 Wheeler finance and housing finance to our customer. But the core of this business will continue to remain microfinance. We are an NBFC-MFI company and that is what we will continue to do.

Sanjeev Damani: Okay. So we are licensed to operate as housing finance and consumer finance company also or we have to seek some more licenses to start those businesses?

Sadaf Sayeed: So housing finance, there is a separate license that is required. There is a group company which is into housing finance business. Muthoot Microfin is not intending to be in housing finance business. So we will continue to be an NBFC-MFI.

Sanjeev Damani: Okay, sir. And you see enough potential to still grow in this area of microfinancing as you are entering Telangana, as you are entering Andhra Pradesh and some other states. So can I know from you that how many states we are already present today? And in addition to Andhra and Telangana, how much more we want to add in this year?

Sadaf Sayeed: Yes, so we are already there in 19 states. We will enter into 20th state, that is Andhra Pradesh this year. And in terms of our growth, the growth will come from deeper penetration into the states that we have entered already and also to retain our customer and increase our wallet share among those customers. We feel that the distribution network, we have covered all the key states. We will open more states based on the market survey that we do. We will decide to add to other states. But at the moment, we will be focused on these states that we have identified.

Sanjeev Damani: Despite the larger disbursement, our NPA ratios, GNPA and net NPA have grown slightly, maybe slightly, but they have gone beyond. Despite better collection efficiency in all. Kindly comment on it, sir.

Sadaf Sayeed: Sir, GNPA has reduced. Last year, the GNPA was 2.97%. This year, the GNPA is 2.29%. And our net NPA also has reduced. It was around 0.6% last time. It is 0.35% this year. So both have reduced. Our credit cost has reduced significantly from 3%. It has come down to 1.7%. The portfolio quality has improved very much.

Sanjeev Damani: Okay. Thank you very much and all the best, sir. And thank you, very kind of you to have given me understanding. Thank you, sir.

Sadaf Sayeed: Thank you very much.

Moderator: Thank you. In the interest of time, that will be the last question. I will now hand the conference over to Mr. Mayank Mistry for closing comments. Please go ahead.

Mayank Mistry: Thank you all for joining the call today. And thank you to the management team of Muthoot Microfin for giving us this opportunity to host the call.

Moderator: On behalf of JM Financials, that concludes this conference. Thank you for joining us and you may now disconnect your lines. Thank you.