“Muthoot Microfin Limited

Q1 FY‘25 Earnings Conference Call”

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“E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 12th August 2024 will prevail.”

MANAGEMENT: **MR. THOMAS MUTHOOT – MANAGING DIRECTOR – MUTHOOT MICROFIN LIMITED**
MR. SADAF SAYEED – CHIEF EXECUTIVE OFFICER – MUTHOOT MICROFIN LIMITED
MR. PRAVEEN T. – CHIEF FINANCIAL OFFICER – MUTHOOT MICROFIN LIMITED
MR. UDEESH ULLAS – CHIEF OPERATING OFFICER – MUTHOOT MICROFIN LIMITED
MR. RAJAT GUPTA – ASSISTANT VICE PRESIDENT, INVESTOR RELATIONS – MUTHOOT MICROFIN LIMITED

MODERATOR: **MR. MAYANK MISTRY – JM FINANCIAL**

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Moderator: Ladies and gentlemen, good day and welcome to Q1 FY25 Earnings Conference Call of Muthoot Microfin Limited, hosted by JM Financial. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star and then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Mayank Mistry from JM Financial. Thank you and over to you.

Mayank Mistry: Thank you, Yashashri. Good morning everyone and welcome to Q1 FY25 Earnings Conference Call of Muthoot Microfin. First of all, I would like to thank the management team of Muthoot Microfin for giving us the opportunity to host the call. From the management team, we have Mr. Thomas Muthoot, MD, Mr. Sadaf Sayeed, CEO, Mr. Praveen, CFO, Mr. Udeesh Ullas, COO, and Mr. Rajat Gupta, AVP, Investor Relations.

I would like to hand over the call to Mr. Sadaf Sayeed for his opening remarks, post which we will open the floor for Q&A. Thank you and over to you, sir.

Sadaf Sayeed: Thank you very much, Mayank. Very good morning to everyone. Welcome to the earnings call for the quarter ended 30th June 2024 for Muthoot Microfin. I would like to take this call in three stages. I will be talking upon three topics. One is the prevailing macro environment and the challenges that the industry is facing. Key steps at Muthoot Microfin that we have taken to counter these challenges and then I am going to focus upon the Muthoot Microfin performance during the quarter.

So first of all, the prevailing macro environment, As you are aware, the Q1 had numerous challenges. One was the heat wave. India recorded some of the highest temperature in most of the northern region. The temperature went up to 50 degrees which created challenges for conducting center meeting and also for the relationship officers to visit their branches. It had also an impact on the economic activity of our borrower.

Secondly, most importantly, there were general election held in the first quarter. During the larger part of the Q1, there were general elections across the country which had an impact on the ability to conduct center meeting gathering large number of people and also carrying cash when you collect. So that had an impact on overall activity and also on the disbursements. There was also an underlying issue due to the elections which were prevailing. There was activism.

There were Karj Mukti Andolan which had disturbed several parts of the northern territory where collections were impacted mildly. Punjab was affected rather severely but other districts were affected mildly. In southern states, there was not much of an impact of such activity. However, in south, monsoon also hit on time and there were excessive rain noticed in certain regions.

And excessive rain creates a problem of conducting center meeting and also the mobility of the staff gets restricted. So these were the challenges which were there during the first quarter. Having said that, your company has taken prudent steps and we have put together a strategy which addresses most of these challenges. Considering the environment, first of all, we have moderated our disbursements.

So, for the quarter, we disbursed around INR2,204 crores worth of loan and maintained our AUM at INR12,210 crores. We also took a strategy of further diversifying our portfolio. We have made inroads into two new states which are Andhra and Telangana. Telangana already is operative. Andhra, we have already put together branches and we have plans to expand there. With this entrance, south contributes around 51% of the portfolio for the company. And it's a more evolved market.

It has seen more cycles and it is also a market where the cash flows of the customers are better. And it has not seen disturbance from extraneous events during the entire period. So that is our strategy to focus on this market. We will continue to focus on our core strength market and meanwhile we will continue to add more customers. Another strategy that we have adopted is to focus on our existing customers

So if you look at our disbursement, the share of existing customers in disbursements have gone up and share of new to credit customers have gone down. While we continue to open new branches in new area and look at customers who have lesser exposure to microfinance or no exposure. But our main focus would be to retain our good customers or ensure that they get adequately funded whenever they are needed.

During this quarter, we further strengthened our credit operations. So one of the themes that I have noticed across the industry, now people are talking about more evolved credit underwriting. At Muthoot Microfin, we have always been prudent about it and we have always believed in underwriting at the front-end level and also at the HO level. So we have a 1,600 member strong team which is stationed at each of the branch.

We have one credit officer who is responsible for underwriting the loan. It is very important to capture the obligation of the customer correctly. So this credit officer basically does this activity which allows us to underwrite better and also understand the customer better, take all the obligation into consideration at the household level. And if there is any negative comments coming out from the field, we are able to capture better.

So that is paying out well. We have heard a lot of the other industry players also talking about now starting up with the credit vertical, but your company has been in the lead and we have established this team already. And they are well-oiled machine and they are doing a good job and the impact of this will be seen in the coming days.

Further, as a prudent policy, considering that this environment plays a role, there are natural calamity events, especially during the monsoon season. There are floods and like rain, excessive rain. So we have taken a natural calamity insurance. This is again one of the unique prepositions that Muthoot has and we have offered this to most of our clients. And this also safeguards us from any sort of uncertainty.

The benefit of this was noticed during the Tamil Nadu recent floods. In eight districts, there were a lot of floods during December. There were 25,000 borrowers which were impacted, but thankfully because of this product, our portfolio had no impact. We were able to get all the collections and we were able to get all the claims. So there was no impact in Tamil Nadu for our company. Moreover, we have also strengthened our analytics team.

We have tied up with a company called Scienaptic. We are building a predictive model. We are able to identify customers who show a trend that there is a possibility of them becoming delinquent or there is a possibility of them flowing into a higher bucket. So we have a specific collection strategy for that. So we are working proactively to ensure that our collections are on time.

Thirdly, and more importantly, we have a strong collections team. We have a risk containment unit of around 230 people who are looking at loans which are 60-plus or 90-plus. The team was essentially focused on 90-plus, but during the quarter realizing it's important that we address the customer early, we have also allocated 60-plus cases to this team and we have seen good results in collection.

As a consequence of all of these initiatives, which are unique to Muthoot's credit team, National Calamity Insurance, a dedicated collections team, our underwriting models, scorecards we are using, and now this predictive analytics in terms of detecting an early default, this has all resulted in better performance and better output for our business. And as a consequence, our results have been better.

I think the total income this quarter has grown by 33.5% year-on-year from INR 480 crores in Q1 of FY24 to INR 641 crores of Q1 of FY25. Net interest income has grown by 36.6% year-on-year from INR 280 crores a year ago in Q1 to INR 383 crores. Our PPOPs have grown up by 50.4% from INR 148 crores to INR 223 crores. This actually shows that overall the portfolio yields are improving.

Our AUM has increased by 21.6% year-on-year from INR 10,038 crores to INR 12,210 crores. Most importantly, our NIMs have increased by 123 bps from 12.05% in Q1 last year to 13.29% in Q1 this year. As a result, our PAT has increased by 18.3% from INR 96 crores in Q1 FY24 to INR 113 crores this year. Most importantly, we have had good control on our portfolio quality. Our GNPAs have gone down by 65 bps from 2.75% in Q1 last year.

It has gone down to 2.30% in Q1 FY25. If you look at quarter-on-quarter also, as compared to the last quarter, the GNPAs have gone down from 2.29% to 2.1%. Our net NPAs have also gone down by 38 bps from 1.09% in Q1 last year to 0.71% in Q1 FY25. We have also made effort to report NPAs as a net of Stage 3 provisions as compared to and as a net of the whole provision. If you look at the number that we had reported last quarter, which is net of the whole provision, the net NPA stands at 0.23% in Q1, which was 0.51% for Q1 last year.

And as Q1, if you compare, it's 0.35% for the last quarter. More importantly, we have been able to manage the steady flow of capital in terms of debt, and we have been able to negotiate on our term loans, which are existing, as well as the newer borrowing that we are borrowing. So our cost of fund has come down by 15 bps from 11.22% in Q1 FY24. It has come down to 11.07% in Q1 FY25. We expect this trend to continue, and we will get better benefits in the coming quarters, and we will be able to bring down this cost.

During the quarter, we expanded our operations, and we opened 54 branches. The branch count today stands at 1,562 as compared to 1,508 at the end of the financial year. We have a strong liquidity position. We have a good amount of cash, INR 1,070 crores of unencumbered cash on our balance sheet. Apart from that, we have more than INR 3,000 crores of sanctions in hand, which we can draw down.

Also, the capital adequacy situation is quite robust. Our capital adequacy improved from 29% to 30.29% as of today. Some of the new initiatives during the quarter, which will play out in the coming quarters, which are -- we have got a corporate agency license from IRDA. We already have multiple insurance products, which we are offering to our customers. This insurance license will also allow us to customize products to suit to our customers' needs and get better quality of products, and it will also help the company to earn some revenue.

Now we are already in talks with several insurance companies and forming up the tie-up as a corporate agent, so this will definitely add to the bottom line of the company. We have also entered during the quarter into a co-lending agreement with the largest bank in the country, State Bank of India. The aim is to empower the microfinance borrower, and this will also allow us to continue a free flow of disbursement to our customers. There is a credit line, which is available from SBI, which is on a consistent basis we can continue to do on a day-to-day basis or a month-to-month basis, and as TLM2, we are able to do this transaction. During the quarter, just recently, we have cut the rates. 35 bps rates have been cut to benefit our borrower because of the efficiencies that we have brought in. Our incremental borrowing rate has gone down to around 10.34%, and we have passed on certain benefits to our customers, and that is reflected in the 35 bps cut that we have announced for our customers.

Also, I would like to inform that we had a very good response to our ECB. We had a follow-on green shoe portion, which we issued to our subscribers, investors who were interested in giving that. Apart from the $75 million that we had raised in the last financial year, there was additional $38 million, which were raised during this period, and total ECB, through this route, stands at around $113 million. And this, we feel, is a very effective way of borrowing because this gives us access to long-term debt.

It is also very competitive and cost-effective because we are able to hedge. The company adopts a policy of a fully hedged borrowing. We hedge our currency as well as the interest rate, so there is no kind of surprise for the company, so it becomes kind of a fixed rate for us, and it's a three-year period, three plus three months kind of a borrowing, and it allows us to utilize that loan for a multiple kind of lending that we do, so it's a very efficient way of borrowing.

Our long-term strategy has always been to diversify our sources of mix, so this is in line with that. We will be doing more such borrowings, which will allow us to get our cost of fund down and also allow us to have access to longer-time debt, which will also improve the ALM situation of the company. With this, I would like to mention that the company maintains this earning growth and also projections, which we have given out.

We have consistently kind of continued to improve on our performance, and the guidance that we have given, we hold on to that guidance. Definitely, this was a challenging quarter, but with the prudent strategies that we have been putting in place, definitely the coming quarters would be much more quarters. There’s a seasonal impact also during Q1, usually for microfinance industry, quarter one is a slow quarter.

This quarter, we had multiple challenges, but still we have been able to deliver good results, and we hold on to our guidance, and we think that we should be able to definitely deliver. I think that's all from my side. I'm happy to take any questions.

Moderator: Thank you very much. We will now begin the question and answer session. We'll take our first question from the line of Shubhranshu Mishra from PhillipCapital. Please go ahead.

Shubhranshu Mishra: Hi, good morning. Thanks for this opportunity. Just want to understand the situation of over leverage in our customers. What proportion of our customers have more than five loans or what proportion of our customers have a gold loan or a personal loan which is not getting captured in the SRO guidelines? Thanks.

Sadaf Sayeed: Thanks, Shubhranshu, for asking that question. I think that's an important kind of information. First of all, I would like to mention that during the quarter, apart from the company taking the initiative to ensure that the portfolio quality remains robust, the SRO has also taken initiatives in terms of introducing certain guardrails and guidelines. Both the SROs, MFIN and Sa-Dhan, have issued guidelines for responsible lending and ensuring that the portfolio remains.

So to answer to your question, Shubhranshu, in our portfolio, if you look at more than four lenders, that is us plus four, the number is 6.94%, if you look at MFI portfolio. And if you look at the whole universe, I must tell you that your company has been prudent in taking into consideration the credit bureau report not only for the borrower but for the co-borrower. And also we take consumer credit reporting also.

We don't only look at microfinance reporting, we also look at consumer credit. So that percentage, more than four, if you take the consumer loans also, non-MFI universe, that is around

14%. So I think this is definitely under control and we are ready with the guidelines that have been put in place by both the SROs. They have been already put into the systems and we have a better kind of a position in terms of managing those guidelines and ensuring to continue to do disbursal to good customers.

Shubhranshu Mishra: Understood. And the second question is around assessing the household income. What all components do we take? Do we take the leading male and female members of the family or are we taking an adult child also into the household income? How do we assess the household income? Because I don't think there are any guidelines either from the regulator or from the SRO to assess the household income as such. And the next question is how do we look at the credit cost in FY25 going forward? Thanks.

Sadaf Sayeed: Yes, so I think I'll take the second question first. As I mentioned that we have maintained on our guidance we have given a guidance of around 1.7% to 1.9% of credit costs. Q1 we have taken a lot of upfront costs whenever we wanted that there was certain uncertainty. We have taken that already. We are sticking to this guidance. This can go to from 1.9% to 2% maybe, but there would be no further shocks provided there are no new events that come in our way. I think we hold on to that guidance.

As far as the income assessment is concerned, I think you are right. Right now there are guidance notes as in like guidance given by Sa-Dhan that how to income to be calculated, but there are no strict regulations on that. That's why I think the importance of a credit officer becomes very, very critical. That's why Muthoot Microfin is better positioned to assess the income of our borrower. And we take into consideration the income of the applicant as well as co-applicants.

And we take into consideration also the income of any other third members of the family who are a part of that family unit. We not only go by what the customer has declared, we have a method of triangulating the income where we take a customer declared income, we take income calculated by included margin that we have put in, and then we calculate the income which has been reported to the credit bureau.

And we take the lowest of the three as the income for calculating the eligibility. So it's a very prudent policy, and we do personal discussion with every customer in assessing the income. We don't only go by what they are reporting on a peak season. We ask them what is your income on a peak season, what is on a daily basis, what is on an off-season kind of an income, and the average of that, we take that as an income.

Shubhranshu Mishra: Understood. Thank you and look forward to future quarter. Thanks.

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

Nidhesh: Thanks for the opportunity. The first question is on collection trends. So in Q1, we have reported a collection efficiency of 96%. How is the collection trends in the month of July?

Sadaf Sayeed: Yes, thanks, Nidhesh, for asking that question. So in our presentation, if you look at, we have also given collection efficiency as a breakup of each state. So if you look at southern states, the collection efficiency remains better. So around 98%, 99% collection efficiency still remains in Kerala, Tamil Nadu, Karnataka. Northern states, though we have seen a dip in the collection efficiency during the Q1, and that trend for July was still there, especially the places which were affected by rain and other issues.

So overall collection efficiency has definitely improved in southern states, but if you look at overall, it's around 96% for July because of excessive rains. There are no other issues, but we think these are very, very transitional and seasonal. Every year, if you look at this trend, July and August is a period where the collection efficiency dips a little bit because of rains, and then it comes back very quickly. So August has been a lot better.

Nidhesh: Sure. And secondly, what are the trends on Karj Mukti Abhiyan? Has that movement stopped or is it still going on in pockets in northern India?

Sadaf Sayeed: Yes, so that majority of that activity has stopped. It was almost linked with the election activity that was going on during that period in Q1. So now we don't have too much of activism. In Punjab, of course, there are certain districts, there are four districts which are affected. They remain affected, but there is no further deterioration of those portfolios. In fact, some of the collections have started coming in, so we are seeing improvement in collections there. So to summarize, there is no additional impact from the Karj Mukti anymore.

Nidhesh: Sure, sure. And lastly, what is the growth guidance for the full year given that there is slight stress in the sector and MFIN has also changed the underwriting guidelines? So what will be the growth guidance for FY25?

Sadaf Sayeed: Yes, so we have looked at those guidance very carefully, and we have also assessed that what would be the impact on our throughput if we go by whatever sourcing that we were doing and we implement those guidelines into that. The impact is around 11% on our portfolio in a sense that what we were processing. So we were processing around two lakh loans a month, so 10%, 11% of those loans will get rejected because of the newer guidelines.

But as I mentioned, our focus is on retaining the existing customers. I think because of this full inter-cap norm, it would become even more important for us to ensure that we remain in existence with our existing customer and the good customers. So that is our strategy. We will continue to focus on those. Our guidance remains steady. We still maintain that we will continue to grow at around 25% for the full financial year.

The Q1 is usually a slow quarter anyway. We have been able to navigate that very well. We have put together a strategy how we want to run because one of the strategies that we have done is we will have a centralized kind of pre-approved campaign where we can identify our good customers and feed that data to our relationship officer that these are the customers who are ready for conversion and subsequent cycle and they can be disbursed if they are interested in taking a loan.

So this will ensure that the good customer will remain with us and this will also ensure that the policies that have been recently introduced are effectively and prudently implemented because this is not only a credit underwriting issue, this is also a compliance issue. So we don't want any subjective call to be taken at the branch level. These guidelines are very new because it will take certain time for people to understand and be trained on these guidelines.

So that's the strategy. And on the guidance, we are holding on to it as of now. Barring any other challenges that we face which we can't predict at the moment, we will continue to hold on to our guidance.

Nidhesh: And lastly, there is an ARC transaction in this quarter. So the loans that were sold to ARC, were they return of loans or they were loans from the NPA pool?

Sadaf Sayeed: They were NPA pool but we analyzed those portfolios and we mentioned in certain portfolio which was affected in Punjab. So we have a very limited exposure in Punjab, around INR31 crores in those four districts. So the whole of Punjab is not affected. There are four districts around Amritsar which are affected. So INR31 crores portfolio was there, out of which around INR19 crores we had written off and around INR12 crores was there which we have sold to ARC.

Similar portfolio which is beyond 180 days, not yet written off, but we didn't see any traction in collection. So those portfolio we have sold off. We have done our transaction of INR150 crores of ARC and that evaluation of 45%. And in the past experience has been really good. So we don't see any challenge there. We have seen collection consistently coming out of our write-off pool as well as NPA pool.

Our RCU team which is focusing on 90 plus collection, they collect almost around INR12 crores out of this pool every month, which if you look at a breakup, around one and a half crores is from the write-off pool and balance is from the overall 90 plus collection overdue.

Nidhesh: Okay. Thank you, sir. That's it from my side. Thank you.

Moderator: Thank you. We'll take our next question from the line of Mayank Mistry from JM Financial. Please go ahead.

Mayank Mistry: Hi, sir. We have taken 35 bps cut recently and I would like to know, do we see any more yield cuts going forward? If you could give us some idea on the margins trajectory from here?

Sadaf Sayeed: Yes, so as we have shown in our presentation that our margins actually year-on-year have improved. We are operating at around 13.3% margin. Our guidance for the full year is around 13%. We maintain that we will be able to achieve those margins very easily. The rate cut that we have taken is a second rate cut during the calendar year. In January, we had cut rates by 55 bps and now we recently have cut rates by 35 bps, overall 90 bps of reduction.

But despite that, we have been able to improve on our margins The idea here is to ensure that benefit of lower cost of funds we are able to share with our customers and reduce their overall obligation and burden of interest. And we believe that even with reducing interest rates, we will be able to maintain our margins. We definitely believe as the rate cut cycle gets implemented in India and globally, the rates will come down and we will get benefit of reduction in cost of funds.

While we are diversifying our sources of funds also, the ECB borrowing that we are doing and we will announce few more transactions shortly. So those will help us to bring the cost of funds down and definitely we would share some portion of that with our borrowers as well. But we maintain that we will be able to easily manage our NIMS at 13%.

Mayank Mistry: Okay, so what percent of our borrowings would be floating rate loan?

Sadaf Sayeed: Around 40% of our borrowings are on floating rate. I think that's right now paving out well because we are negotiating with banks. Most of the banks, we are asking them to reduce their rates even on the existing borrowings that we have. And even the new sanctions, actually the good part about ECB is that it allows us a room to negotiate because usually when we are only dependent on bank borrowings, they are co-terminus.

So we have two years of loan that we lend to our customers and we have two years of borrowing. So most of our collection goes in repaying the loan. But with the ECB, the repayments are tail ended. We have to repay at the end of the tenure. Only the interest has to be serviced. So we have enough cash available for us. Whatever collection comes, we can again deploy in the field. So this allows us more room to negotiate with the banks.

We are able to negotiate a significant number of banks and reduce our cost of fund. Maybe, Praveen, you can add to it.

Praveen: Yes, thank you, sir. So on the cost of funds, I think we are incremental cost of borrowing is around 10.3%. And we expect the overall cost of fund also to come down in the current financial year. In the last call also, we have highlighted that this year the cost of fund will come down. And we can see that it is happening in Q1 as well. And going forward also, there are three transactions that are lined up in the current quarter. So we will be doing that.

And we have enough liquidity on the balance sheet as well. So as the disbursement picked up, the overall liquidity gets utilized. And that will also help us to maintain NIM. And the capital benefit also has fully benefit in the current financial year. So we believe that despite both the cuts that we have done in the current calendar year, we will be able to manage more than in the range of 13%.

Mayank Mistry: Okay. And on the top line, secondly, congratulations on the corporate agency license from IRDA. So from here on, how do we see the fee income? I mean, by what time would we see the income from this insurance to come in from here on?

Sadaf Sayeed: So Mayank we are in the process of negotiating with various insurance companies, we have tied up with few already as a corporate agents. We have signed up the agreement. Depending upon the agreement, I think definitely there's a scope of around 5% to 10% commission income that will come through this arrangement.

We process around -- last year we processed around close to INR500 crores of insurance premium. Considering our 25% growth, we should be processing somewhere around INR600 crores or INR650 crores of premium this financial year. Of course, one quarter we have already completed, but we can assume around 5% kind of this coming into the top line.

Mayank Mistry: Okay, great. And on the asset quality front, I had one data related question on the Stage 2 provision. What is our Stage 2 provision? And secondly, has the Wayanad's landslide affected our portfolio in any way? If you could throw some light over there on the on-ground Kerala-based portfolio?

Sadaf Sayeed: Yes, thank you very much for asking that question. I think this is one thing that I want to inform everybody on the call. We are really concerned about the Wayanad development, but we as an entity do not have any exposure to Wayanad. We have been prudent in that policy. And considering Wayanad is a hilly area, we have not exposed ourselves there. So we don't have any branches or portfolio there.

So we are not affected, but definitely our sympathy is with the people who are living there. And as a group, we are taking initiatives to help the community. And our Muthoot Pappachan Foundation is doing activities and donating sufficient amount to take care of all the challenges there. But as the thing stands, we don't have any exposure and any impact of Wayanad at the moment. Yes. -- So SMA-2 provision is around 35%. Praveen, is that correct?

Praveen: That's a cumulative one. Stage 3 is around 66%, but Stage 2 we have a percentage of 0.78%.

Mayank Mistry: 0.78% Stage 2 provision?

Praveen: Yes.

Mayank Mistry: Okay, fine. Thank you.

Moderator: Thank you. We'll take our next question from the line of Saumil Shah from Paras Investments. Please go ahead.

Saumil Shah: Hi, sir. Congrats for the good set of numbers. So I wanted to ask you, looking at the current MFI industry, do you really think we can maintain our guidance of 1.7% to 1.9% credit cost for this year? And how do you think the next one, two quarters look like?

Sadaf Sayeed: I think this quarter, Q2, would be definitely better than Q1, and Q3 and Q4 usually are very productive quarter. So we have taken already prudent steps to ensure that the impact on portfolio is not there and everything is under control. We are instituting certain policy processes which will ensure that we have a better kind of an outcome from our portfolio. So we are very confident that we should be able to contain our credit costs on predicted lines.

Barring any new event, I think we should be able to achieve well within that. I think we have sufficient buffer. If you look at our IRAC provision versus the ECL provision, there is almost a hundred crores buffer between the IRAC provision versus the ECL provision that is there. I think that is sufficient to take care of any uncertainty. Our provision coverage has also improved. If you look at overall provision coverage, we have around 86% provision coverage.

And if you look at provision stand-alone for Stage 3 assets, it has improved from 61% to 66%. We will continue to adequately provide for all the loans and we believe that we should be able to kind of maintain within our guidance while there is new event that comes our way.

Saumil Shah: Okay. So my next question is on the guidance of 25% AUM growth for this year. So how well are we placed to achieve this 25% growth? And can we expect a similar 25% growth in bottom line or maybe even higher than that? So if you could give some guidance or clarity on the same?

Sadaf Sayeed: Yes. In terms of our AUM growth, we are very well positioned. If you look at our branch network, it has expanded to 1,562 branches. During the quarter, which was slightly slow on disbursement, we have still opened 54 branches. Last year, we had already invested in 336 branches. So all of these new branches will start contributing and productivity will improve. So that will definitely contribute to our growth. We will easily be able to achieve 25%. We want to be prudent.

We don't want to take unnecessary risk. We have always believed in calibrated approach of lending. So considering that, the Q1 disbursements were lower as compared to previous quarter and even the quarter in FY24. But coming quarters, definitely with things improving, the disbursements will be in line and we should be able to achieve that 25% growth target. And we have predicted ROA of around 4.3 to 4.5. We should be able to achieve that ROA. That should not be a problem.

Saumil Shah: Okay. And, sir, do we have any exposure in Punjab?

Sadaf Sayeed: Yes, we do have an exposure in Punjab, but our exposure is very limited. We have stopped disbursements around nine months ago. We have a total portfolio of around INR31 crores, which was affected, out of which INR19 crores we wrote off previously. Around INR12 crores remain, which is put into ARC. So as such, the exposure would be less than around 2% of our portfolio.

Saumil Shah: Okay. That's it from my side. All the best for your future quarters. Thank you.

Sadaf Sayeed: Thank you.

Moderator: Thank you. We'll take our next question from the line of Ashlesh Sonje from Kotak Securities. Please go ahead.

Ashlesh Sonje: Hi, sir. Good morning. A few questions from my side. Firstly, on the MFIN guardrails, have you already incorporated these guardrails in your credit process? And what do you plan to do about those customers? You said 10% to 11% loans will get rejected. What do you plan to do about those customers?

Sadaf Sayeed: Yes, I think that's an important question to ask. One of the things that I want to assure and help you understand is that we have already implemented the guardrails. But one of the advantages Muthoot is that we have our own in-house technology team. We have a 100-member team, which has developed our LMS, LOS. So we have an agile system of kind of managing our changes and implementation of new policies. So we were able to implement as soon as these guidelines were introduced. So within 15 days, we were able to implement.

So as we speak, already the guidelines have been implemented through the system. So all the incremental lending which is happening is happening within those guidelines. Of course, that has meant a little bit more rejection. So that is why we have adopted a strategy of looking at our data scrub, analyzing at the HO level that customers who have more than four kinds of exposure and anybody who is crossing the INR2 lakh of exposures.

And those customers are already kind of eliminated from the dump that is to be sent to the branches for disbursement because these guidelines are new. We don't want branches to miss out on anything. So that's why it is being filtered at the system level and the HO level itself. And then the loans, the pre-approved data is being passed off. It also takes off the burden from the branch team because branch can easily focus on quality business rather than looking at more new to customers which usually come with higher risk profile.

So that is one thing that we have done. In terms of this incremental rejection, I think they will come down as we filter the cases upfront. So that percentage will come down. Even within those customers who are getting rejected, we have multiple products to offer to them. These are products which are within the 25% non-qualifying criteria. So we have products like MSGB, which is a gold security kind of a product where customer has to keep security of gold.

And they can still borrow. We have tie-up with certain banks like SIDBI, which offer larger ticket loans up to around INR5 lakh. So customers who are eligible, who have a sound income, they might have a higher number of loans, but they still have supporting income. They have been offered those PRAYAAS loans. And we have been able to generate revenue from those customers. So we are not missing out on good customers

That is the strategy that we have adopted. And we will maybe put out the data. Definitely there is a correlation between higher number of loans and delinquency, but it is not like 100% that entire population which has more than four loans is a defaulting population. So part of it may be defaulting, but there are a large number of customers who are also worthy of higher credit. And collectively, the customer and the borrower may have more than four loans. So that's why in the micro-loan system, they might get rejected, but they are definitely worthy of credit.

Ashlesh Sonje: Got it, sir. Thanks for the elaborate response. Sir, you gave a couple of data points. One is that number of borrowers with more than four lenders is around 7%. You also said that 10% to 11% loans will get rejected. So the differential of 3% to 4% would be borrowers who have more than INR2 lakh of outstanding in MFI. Is that right?

Sadaf Sayeed: No. So when I say 6.967%, which is more than four loans that is at the time of lending. So when I say 11% will get rejected, that is on an incremental basis. So this is a universe which is different because I'm talking about we have analyzed the disbursement of the last quarter. So whatever has been disbursed is around 11%. We are assuming will get rejected. And if you look at the whole universe of our existing borrower, on that 6.96% is having more than four loans.

That is kind of at the time of disbursement when we checked them. So not to assume that the data is actually INR2 lakh and all that. The rejection could be because of the default or any other reasons as well.

Ashlesh Sonje: Understood, sir. You also referred to some analysis to understand what proportion of those borrowers are likely to default. Have you also done a check on what proportion of your defaulting customers are actually those with more than four lenders?

Sadaf Sayeed: Yes, we have done that analysis. We'll put out that data. That's why I was saying that it's not necessarily a direct correlation that if you have more than four loans then you are bound to default. There are customers who have evolved with us over a period of time and they have gone from a JLG borrower to an individual borrower and they have a higher repayment capacity and higher kind of an exposure.

So those borrowers are pretty good borrowers. So we'll put out that data. I don't have that handy right now but we'll put out that data.

Ashlesh Sonje: Thank you, sir. The question was actually the other way around. I was asking what would be the proportion of your defaulting borrowers who would have more than four lenders? Because what I'm trying to understand is if I remove all those over-leveraged borrowers out what is the potential of defaults coming from the other set of borrowers which is who don't have more than four lenders?

Sadaf Sayeed: Yes, so I would simply say that I don't have that data right now. I'll maybe share that data with you separately.

Ashlesh Sonje: Perfect. Sorry, one more question if you allow me. You spoke about adding an additional credit officer. Sorry, you have already had the credit officer at the branch level for checking the obligations of the household. Can you just explain his role a bit more? Because from what I understand the credit bureau would already report on the household level obligations, right?

Sadaf Sayeed: Yes, the obligation definitely comes from the credit bureau report but also in the credit officer there also checks about any other obligation that the borrower has which is from an informal segment that is not getting reported to the credit bureau. That is one piece. Apart from that, the most important piece is to establish the income that the customer is reporting. So if she's claiming that she has a INR2,50,000 or a INR3,00,000 of annual income.

The credit officer does a personal discussion -- does a house visit to understand whether she has an income source and whether she's able to generate income. We have a well-established mechanism. As I explained, we take three sets of income. One is the customer declared income. Second is customer calculated by included margin which the credit officer does. And then the third is the credit bureau reported income.

And lower of the three we take as an income of the household. And based on that, the eligibility of the client is calculated. So this is a very important role that the credit officer plays. Doing a personal discussion and also doing the house visit. He's also responsible for ensuring that the loan utilization, that is the purpose of the loan, is correctly captured. If the customer is saying that she's borrowing the money for buying a sewing machine or any sort of a cattle.

So when he does the house visit, he's able to identify whether that customer is actually having that kind of a business or she is just putting that reason just as an excuse for borrowing this money. So it is a pretty important role in terms of filtering out wrong elements that is coming in.

Ashlesh Sonje: Thank you, sir. This was very useful. Good luck for the next few quarters.

Sadaf Sayeed: Thank you.

Moderator: Thank you. Next question is from the line of Chirag Singhal from First Water Fund. Please go ahead.

Chirag Singhal: Yes, thanks for taking my question. So just two simple questions and apologies if those are repeated questions. First one is the digital collection. So what are the measures you are taking to increase the digital collection share? And if you can also give some guidance as to what this digital collection will look like over the course of next few years?

Sadaf Sayeed: Yes, thank you, Chirag, for asking that question. I think one of the key differentiator that Muthoot's Microfin has as compared to all the other players is the 26% digital collection that we have. And that 26% digital collection when we talk about is the direct money that is coming out of the customer's bank account or customer's wallet to our bank account. That is a great initiative that has been possible because of the customer app that we have created.

So we have our own in-house developed app, Muthoot Mahila Mitra, which is downloaded by 1.66 million customers, around 1.7 million now. And this is being used to digitize our collection. So this is the most important tool which is helping us digitize collection. One of the things that we are doing is to ensure the use of this app is more and this app becomes the primary app for the customer to use. So we are contemplating an integration of this app with our super app at the Muthoot Holdco level, Muthoot One.

And once that integration happens, then the customer would have access to multiple services including remittance, buying gold, buying any other kind of a loan or insurance and multiple other products. So the effort is to make it more useful for the customer so that she continues to transact through this and that is what is helping us to improve our digital collection. Apart from that, we have conducted awareness exercises to our customers to ensure that digital collection has taken place.

It's more than a process change. It is a change in the behaviour of the customer. Customer has been used to paying cash. To change the behaviour of the customer from paying cash to digital, we have to kind of incentivize the customer. So we also pay INR10 cash back for the customers who are paying digital for the first time and we also explain the advantage of digital collection to our field officer because of the digital collection, the productivity of the field staff is improving.

He doesn't have to collect money, go to the bank and deposit that money. Instead, the money comes directly into our bank account so it improves the kind of work environment for our field officer. Also, we operate mostly in rural area. 96% of our branches are in rural area. Usually, carrying high cash is a risky proposition in rural area so we also tell our field officer, the more digital collection you do, less risk you are taking on yourself.

You don't have to worry about carrying cash. So that is another way to incentivize them to do more digital. And overall, I think we feel that it is moving in the right direction We should be able to go this year around 30%- plus in terms of digital collection by the end of the financial year, definitely.

Chirag Singhal: Great. Thanks for the elaborate answer. So my second question is on the collection efficiency. So what led to a sharp decline in the non-southern region and since we have reaffirmed the FY25 guidance in the PPT, just wanted to understand what kind of...

Moderator: Yes, Mr. Singhal. Please go ahead.

Chirag Singhal: Yes. Sorry. So just wanted to understand that since we have already reaffirmed the FY25 guidance, is it fair to assume that we have seen a significant improvement in the collection efficiency across the regions in the current quarter?

Sadaf Sayeed: Yes, definitely. I think, as I explained, there is an element of the events that happened in the Q1, especially the Karj Mukti Andolan and elections. Because of elections, it's not a customer's kind of a default. But because we are not allowed to conduct center meeting and gathering too many people, there is an impact on collections. In certain places, even the cash gets confiscated because of the Aachar Sanhita, the election code of conduct which is deployed, and that gets released.

We received a lot of cash in July, for that matter, which was held by the local agencies because cash was not allowed to be carried at that point of time. So that had impacted a little bit on the collection efficiency. That definitely has tapered down. Having said that, there was an impact of monsoon also, excessive rain, that has played out by and large now. I don't expect too much of heavy rains, though there is prediction in north for heavy rains even now. So I don't see that will impact too much. It's only a transitional phase.

And if you look at the past years also, July, August, usually the collection dips because of heavy rains, the ability of the ROs to reach the places. Also, the center meeting attendance thins down during this period. So I think this is a seasonal trend, and we have seen that come August end and September, all of these things get back to normal, and we are able to kind of get back to 98%, 99% collection efficiency.

So we feel that by the end of Q3, we should be back to around 98%, 99%. By the end of the year, we should be back to normal.

Chirag Singhal: Understood. Thank you for the answers. That's it from end.

Sadaf Sayeed: Thank you.

Moderator: Thank you. We'll take our next question from the line of Srinivasan from General Insurance Corporation of India. Please go ahead.

Srinivasan: Sorry, ma'am. Actually, you misspelled the name of the company. Okay, that's fine. Sir, my question is with regards to the credit cost. On a sequential basis, the credit cost is going on the higher side. As compared to one of the peers, they have done the accelerated provisioning for the Stage 1 and Stage 2 assets. So you are also doing anything on that front, sir?

Sadaf Sayeed: So, Mr. Srinivasan, we have already taken the accelerated credit cost in this quarter. We did an ARC transaction of INR150 crores. So that impact of that has already been taken into the Q1. So that's why the credit cost is looking on an annualized basis slightly higher at around 2.5%. But going forward, it should normalize, and we hold our guidance to around 1.7 to 1.9, which may go up to 2%. So you assume 2%. And we think that we should be able to achieve that. We have a reasonable provision coverage.

If you look at it in terms of like IRAC, your provisions, ECL versus the IRAC, there's INR100 crores of buffer that is there. So we should be able to kind of ensure that the credit cost does not go out of that. Of course, if there is any unforeseen event that we see in the future, we can't predict that as of now. But things are under control, and collection efficiency will get back to normal, and we don't see that credit cost going anywhere up.

Q1 has an element of ARC, because when we sell off the transaction, the portfolio, we have to take whatever is the residual value upfront, the write-off. So that's why the credit cost is slightly higher in Q1.

Srinivasan: So you have taken more haircut on the ARC book that you have sold?

Sadaf Sayeed: Yes, so it's an improvement over the previous transaction. So we did two years ago a transaction which was at a 30% value. This is at a 45% value. So there's much more improvement, almost around 50% improvement on the value of the asset. And also, this pool is better because that pool was affected by COVID and all of that. This pool is better. So we expect good recovery from this as well.

Srinivasan: Okay, understood. Because, sir, one of your peers, what they've done is, the credit bureau data, they've foreseen some of the stress in their Stage 1 and Stage 2 book being roll forwarded to Stage 3 asset, and they have done the accelerated provisioning. So you are not seeing any that stress on your Stage 1 or Stage 2 book. Is my assumption right?

Sadaf Sayeed: No, we are doing adequate provisioning as predicted by the ECL method. So under IND-AS, we have to go by the ECL method, and that can't be changed every quarter. It's a consistent approach that we need to maintain. So we are creating provision according to that. But to counter that, actually, the other entities might have done an accelerated provision, but they don't have a proper collections team which is there. We have a 230-member dedicated collections team on the ground.

So our recovery on the overdue accounts is much better as compared to the industry, and that is what is translating into a lower probability of default, a loss-giving default, and that's why ECL is throwing what number it is throwing.

Srinivasan: Great. Thanks, sir. That helps. That helps, sir. That's it from my end.

Moderator: Next question is from the line of Anant Mundra from Mytemple Capital. Please go ahead.

Anant Mundra: Hello. Good afternoon. Thank you for the opportunity. So I just wanted to understand, so our branch count has increased quarter-on-quarter, but the number of employees have reduced. What explains this?

Sadaf Sayeed: Yes, so branch count has definitely increased by 54 numbers. So these are the new branches that have been deployed. Usually in Q1 you have a churn. This is an appraisal cycle. So people who are like not appraised or people who are not performing, so they are allowed to kind of go. So that's why this is a usual kind of seasonal turn.

So you would see a dip in kind of a number a little bit, but then again in Q2 and onwards you will see numbers getting back to that. Also because of centralization of certain activities, we have cut down on the manpower. So there were file stores earlier which were being maintained at decentralized location.

Since we have completely digitized everything, these file stores were storing files which were four-year-old and five-year-old files. So those files we have centralized and certain digital, these stores have been kind of done away with. And all the files are now in the digital format which is available.

So there is a little bit of a manpower cut there. We have also used robotics in some activities like reconciliation and also analytics. So in that aspect also almost like 85% of the task of bank reconciliation is done by the bot itself. Only the 15% of the task if there is a mismatch or something that is done manually. So there is a significant cut there as well.

Anant Mundra: So what is the branch opening target for this year?

Sadaf Sayeed: So we are opening around 150...

Anant Mundra: So the branch opening target for this year?

Sadaf Sayeed: Yes. So we have like 150 to 170 branches we will open. And we had opened around 336 branches last financial year. Usually we open around 225 branches a year. So already we had invested quite a bit last year in excess. So I think overall the number would be still 225 if we will take average of the last two years. But this year it would be around 150 to 170 branches.

So one of the prudent policy that we have taken also into consideration that our AUM per branch right now is around sub 8 crores. But we will be taking that AUM per branch to around INR9 crores. Definitely the competitor has a higher number per branch. But like as you move there is a diminishing kind of marginal utility of increasing AUM per branch.

Even most importantly in this environment it is definitely higher risk if you give a larger portfolio to be managed by single employees. So we are keeping that in mind. But to answer to your question around 150 to 170.

Anant Mundra: Thank you. So so some of our peers are maintaining a management overlay of some kind of contingency provision over and above whatever comes out from the ECL model. And given that the nature of the industry is cyclical it seems logical. So what is our view on this? Do we also plan to do something like this?

Sadaf Sayeed: Yes so as I said if you look at the IRAC provisioning norms which is the norms which are applied by RBI on the entities which are not governed by ECL. The provision requirement is INR100 crores lesser than what we are already providing. So based on ECL. So there is already a buffer of INR100 crores. During COVID there was because of uncertainty there was a management overlay that was allowed.

But increasingly the regulator is also discouraging any sort of an overlay because the ECL model should cover for everything. Our ECL model takes into consideration the overall macro environment like GDP. We are also looking now at the inflation, the labour rate, the employment rate, everything. So I think the ECL model is quite robust.

The buffer that we have over the IRAC is sufficient we feel. There is no additional management overlay that we are envisaging. So we are going by the model and we are believing in the model.

Moderator: Thank you. Ladies and gentlemen we will take that as last question for today. I now hand the conference over to Mr. Sadaf Sayeed for closing comments. Over to you sir.

Sadaf Sayeed: Thank you once again for joining the call. As I said your company continues to maintain the guidance. We have shown that in the difficult quarter which is for the industry still our GNPAs are under control. Our net NPAs have come down. We will continue to focus on portfolio quality and build a healthy portfolio. The growth targets are also maintained. We have a good steady flow of funds that is coming.

Our capital adequacy is quite robust. That gives me confidence that we will be leaders in the market. We have already put in place steps like credit vertical, collection vertical which most of the industry is now trying to do. We already have a much ahead of lead in that. Plus we have a credit scorecard which is well established and it is helping us to reduce. We are using technology in predictive analysis of default which is helping us in improving collection.

So all of these initiatives will definitely help our company to become a market leader. Our focus in South and our exposure in South will also give us good enough kind of insulation from all the events that are happening. The prudent policy such as natural calamity insurance that we have taken will protect our portfolio from any kind of an event risk that is there in terms of cyclone or flood.

I am pretty confident that we will be able to achieve our guidance number. I give this assurance to our investors and everybody who is analyzing us. And look forward to better Q2, Q3 and Q4. Thank you very much.

Moderator: Thank you sir and thank you members of the management team. On behalf of JM Financial that concludes this conference. Thank you for joining us and you may now disconnect your lines.