“Muthoot Microfin Limited

Q2 FY 25 Earnings Conference Call”

November 06, 2024

E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchanges on 6th November, 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 – AVP, INVESTOR RELATIONS -- MUTHOOT MICROFIN LIMITED

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

Moderator: Ladies and gentlemen, good day and welcome to Muthoot Microfin Q2 FY25 Earnings Conference Call, hosted by JM Financial. As a reminder, all participant lines will be in 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 touchtone 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, sir.

Mayank Mistry: Thank you, Sejal. Good morning, everyone, and welcome to the Q2 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 this call.

From the management team, we have Mr. Thomas Muthoot, Managing Director, Mr. Sadaf Sayeed, Chief Executive Officer, 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, Mayank. Good morning, everyone, and once again, welcome to the Muthoot Microfin Limited Earnings Call for the Quarter Two and H1. At the outset, I would like to inform all people who have joined on this call, it was a very important quarter. In this quarter, we had an extensive workshop within our organization where we laid out our long-term vision and our mission.

At Muthoot, we have always believed in building a long-term sustainable business, and we believe in this segment of the customer. We believe this is our niche as a Group, and considering that, we believe that it's a long-term business and a sustainable, resilient business that we need to build. We are building for a marathon, not a sprint.

We have laid down our vision, which we have also announced publicly. I'm sure you guys are aware of it. We want to be the most innovative and most successful financial service institution serving the needy and unserved, and we want to serve this in a timely, transparent and affordable manner, and the long-term goal is to reach out and transform the life of 10 million households.

With that vision in mind, of course, we are progressing and moving forward. The Q2 was a little bit of a challenging quarter. There was spillover effect of Q1, which was affected by a multitude of reasons. Q2 had its own challenges of excessive rains in certain pockets like Bihar and Gujarat and other parts of the country. Having faced that, we have built in a system where we have adequate cover and natural calamity cover, which has really helped us to overcome those challenges. However, considering the environment, , this quarter, we have taken up provision which we needed for ourselves to ensure that we have adequate cover on our assets.

Before I go into those details, I just wanted to highlight the business progress. The business has grown well. The asset under management has grown by 15% year-on-year and around 2.5% quarter-on-quarter. Our disbursements have grown to INR2,673 crores, which is around 21% growth quarter-on-quarter. Last quarter was ~INR2,200 crores disbursements.

Our branch has reached to 1,593 branches, which is around 18.9% growth year-on-year and around 2% growth quarter-on-quarter. Our client base has reached to around 34,40,000, which is 7.7% growth year-on-year and 1% growth on quarter-on-quarter. Our collection efficiency for this year came around at 95.2%, which is down by 60 bps quarter-on-quarter. But overall collection efficiency, if we include the overdue and the pre-closure, it's 97.4%, which is down by 30 bps quarter-on-quarter.

Our overall income has grown by 18% year-on-year from INR565 crores for the quarter to INR667 crores. And our NIM has increased by 57 bps from 12.79% in Q2 FY24 to 13.36% in Q2 FY25. Our overall NIM for the half-year stands at 12.94%. Our PPOP has increased by 26% year-on-year from INR187 crores in Q2 FY24 to INR236 crores.

Our GNPA has increased in 33 bps year-on-year and around 60 bps quarter-on-quarter to 2.7%. Meanwhile, our cost of funds has decreased if you compare year-on-year, on quarter-to-quarter, it has almost remained stable at around 11.06%.

I think the important aspect is that the GLP has grown by 15%. We have reached around INR12,518 crores of asset under management. While we know that we can grow this at a much faster pace, but we have taken a calibrated approach to grow. Our disbursements have grown as compared to the last quarter, but still they are around at the same level as last year's same period.

We feel that Q3 and Q4 would be much better kind of an environment for us to grow. All the issues that are there are behind us. Our main focus is retention of our customers. We have done our analysis. We have put out in the presentation, 33% of our customers, one-third of our customers are only unique to us.

We have a very strong presence in South. Around 51% of our portfolio is in South, which is Kerala, Tamil Nadu, Karnataka, Andhra Pradesh, and Telangana. Kerala, we are seeing very good performance in terms of the portfolio and despite the overall trend of the collection efficiency in the industry, Kerala still remains 98% collection on time. Tamil Nadu also remains much healthier in terms of collection efficiency and so is Karnataka and this will be our core engine of growth and stable portfolio.

The collection efficiency is also strong here and the performance of the branches are also much more stronger here. While we continue to expand our business in Andhra and Telangana, our focus would be to ensure that we retain our good customers, at the same time acquire more new customers.

During the quarter, we have acquired around 1.5 lakh new customers. In that, around 15% customers are absolutely new to Credit. I'll also take this opportunity to explain the impact of some of the regulations that have come in during the quarter because of various challenges within the industry. Both the SROs, MFIN and Sa-Dhan, have come out with certain regulations, which are guidelines to prevent overlending. The four lender norm has been introduced by MFIN. We have been following a very strict credit process.

In Muthoot, we already have a strong credit culture. We have a strong credit team of almost 1,750 employees. Every branch has a Credit Officer and we have an underwriting process, which is completely independent of the sourcing team and this process is further strengthened. And as a result, you can see, month-on-month, we have almost around, ranging between 35% to 40% rejection from the sourcing of the business.

The bulk of the rejection, almost 25% of the rejection, comes from the Credit Bureau and which is where we strongly underwrite and take into consideration all the obligations of the customers. We not only do a credit bureau of the customer, we also do a credit bureau report of the co-applicant and any other earning member at the household and we not only check the Microfinance Bureau, we also check the Consumer Credit Bureau where there are any other loans for the customer.

And we take a holistic picture of that household and based on that, we lend. That is why we have been seeing a rejection ratio of 40% on an average. This has been there. As compared to the industry, this is slightly higher because we are doing a proper underwriting on each and every customer.

There is around 5% rejection from scorecards. So we have one of the unique features in our underwriting practices, a scorecard that we have developed with Equifax and this scorecard basically analyzes each and every customer on 40 different parameters.

Based on that, it gives a score which is classified into four categories of customers, that is low-risk, medium-risk, high-risk, and very low-risk. We focus on low-risk and very low-risk customers. Medium- and high-risk customers, we don't do.

That is where the 5% rejection is coming from. Then there is an additional around 5% rejection which is coming from the field verification and the GRT and the personal discussion that the credit officer is doing with the customer. Based on that, a loan is sanctioned, which is why I think in the long term, credit cost for Muthoot Microfin is comparatively lesser as compared to the industry.

As compared to the industry, we are also not facing new challenges in terms of large rejection all of a sudden because we have been following this process very objectively. I think one of the important disclosures with regards to this regulation which is present in the investor presentation on Slide 22, where we have shown what is the composition of our portfolio in terms of more than four lenders. This is very important to mention that this is the picture of the overall portfolio of our Muthoot Microfin.

Some of the entities in the market have given a sample of their portfolio, but this is the entirety of the picture for Muthoot Microfin. Here, if you look at from a borrower count perspective, around 10.6% of our customers are having our loan or four and above kind of a loan. And if you look at within those customers, if you look at delinquency which is PAR 30+, around 14% of these customers are in a delinquent bucket.

Overall, our PAR 30+ is around 5.1%. 14.1% represents a percentage of customers who are having more than four loans who are delinquent, which shows definitely there is a linkage of multiple loans and higher delinquency. If you look at as a portfolio percentage of these customers, the portfolio contributes around 10.9% in terms of our overall AUM that we manage in terms of portfolio. If you go to Slide 23, we are looking at people who are having higher exposure in terms of INR2 lakh and above.

That portion at a borrower count level, it's around 3.8%. If you look at a portfolio level, that percentage comes out to be around 5.7%. And if you look at that in terms of how much of that portion is contributing to delinquency and which segment or which cohort is contributing higher in delinquency, it's 9.4% which is coming at INR2 lakh and above. There is definitely a correlation between our higher exposure and delinquency. This exposure has been built over a period of time.

We have given sanctions and some other sanctions were given by other lenders. That's how the customer has more than four lenders. The system and the process that we have put in place which does not allow any loan to be given to any customers who have four lenders already.

That is something that we have already plugged in. Also, we have seen that in the areas that we are operating, there are lesser competition in South. That is why if you look at the unique borrower composition, almost 33% of our customers are absolutely unique.

There are no other borrowers who are linked. We have around 18% customers who are with us more than six years and around 13% customers which are more than four years, four to six years. So put together, that also is around 31%, 32% customers who have more than four years of vintage.

Having said that, realizing that there could be challenges in the market and the environment that the way it is operating, we have created a buffer provision in our portfolio. For the financial year, we have reported a PAT of around INR61 crores and we have a total comprehensive income of around INR74 crores. Our overall PAT for the half year is around INR175 crores which takes our net worth to around INR3,000 crores.

We have a capital adequacy of around 28.67%. So from a capital adequacy point of view, we have sufficient cover. We have also created a INR31 crores of management overlay and if you see our provision coverage, on Slide 19 it has improved. If you look from a perspective of overall coverage on Slide 21, it is around 96.42% which was around 89.13%.

If you look at alone Stage 3, it is 64.80% but what was important was to create more buffer for the Stage 2 provision because stage 2 bucket for temporarily is swelling. It's around 3.1% in terms of the bucket Stage 2 size. We have created additional INR31 crores provision which is a management overlay and which takes our coverage at the Stage 2 from around 1% which was there for last quarter to around 11% this quarter. So that's a significant jump and we feel that is necessary in this environment and we will continue to create buffer wherever needed.

But overall, the guidance on the credit cost that we have given is that the conservative side we would like to kind of outperform that and we are very confident on that, that credit cost would be on the lower spectrum and below that for sure. And growth is something that we are conscious about. We can build in growth and as I said initially that we are building a sustainable long-term business. So our focus is on building a robust portfolio and a resilient portfolio rather than just continuing to grow in an environment which is not conducive for very high growth.

Meanwhile, we continue to maintain a decent margin on our portfolio, continue to cut cost, provide benefits to our customers as well and continue to deploy strong underwriting practices and strong sourcing practices and overall hygiene. One of the products that we have introduced is a NATCAT product which is Natural Calamity Insurance. It has played a huge dividend.

I think there were around 20,000 claims, almost 19,183 claims out of which 19,023 claims we have got in the last quarter and definitely there are some more claims because of the Odisha cyclone and Bihar floods which are in the process around 20,000 odd claims which definitely we will get it because if you go by the previous track record, the claim to settlement ratio is 99.2% and 99% around.

So this has really helped us to tide over difficult circumstances and any sort of an event scenario and we feel that this will help us build a robust sustainable portfolio and coming quarters I believe would be much better. We are already seeing a green shoot in October itself even though this was a month which was filled with festivals but disbursements have come out good and also the collection is stable despite last two days being a holiday.

So I am sure the coming quarters would be much better, Q3 and Q4 and we will be able to outperform on the guidance that we have given. I think I will stop here and I am happy to take any questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Shubhranshu Mishra from PhillipCapital. Please go ahead.

Shubhranshu Mishra: Hi, good morning. So two or three questions. The first one is it's a welcome move by the SRO to have four loans for customers. However, the genesis of the problem is in assessing the household income. So is that in the works either by the SRO or do we have a scientific method to assess the household income of the household? That's the first. The second is what were the write-offs in this quarter and first half and what is the expectation in the next two to three quarters? The third is what is the overlap of our customer pool with gold loans? Thanks.

Sadaf Sayeed: Yes, thanks Shubhranshu, for asking that question. I think on the first question in terms of the income assessment, you rightly pointed out I think that is one area that is quite important. And I am happy to tell you from Muthoot Microfin side, we have a strong track record of underwriting and assessing a cash flow-based income. Of course, the customer that we are dealing with does not have a documented income, but there are enough and more ways to establish near to accurate income for the household.

In our practice, we follow a method of triangulating the income through three sources. One is a customer-declared income. Second is we have a process of contact point verification. And our credit officer who is stationed at the branch does a personal discussion with every customer and he understands from the customer that what is our best-day sales, what is our worst-day sales, what is our average sale. And based on that, he calculates the sale and there is an included margin that we have for every business and we apply that and based on that, we arrive at an income.

The third input comes from the credit bureau report, what has been the income reported by the other players. And we have adopted a conservative strategy. We take lower of the three assessed income. That is the way we are dealing with that income thing. At the moment, the SROs have recommended everyone to strengthen this process. There is no well-established process, but the guidance notes have been put out by Sa-Dhan on how to calculate a household income. I think this would be an emphasis by the regulator and also by the SRO.

And I am happy to tell you that Muthoot Microfin is in a much better place in terms of assessing a household income. I think that basically is driven by the credit culture and focus on underwriting the customer well. And that is what we have believed in from day one. That is why in our vertical, there is a credit resource. And we have believed in from day one that we need a credit underwriting team which is independent of any pressure on target and everything and which is paying good dividend to us right now.

On the second question, in terms of write-offs, for the Q2 standalone, the write-offs were around INR62.5 crores. Overall, the credit cost for this quarter is INR155 crores. If you look at in terms of our projection, our credit cost guidance is there 3% to 3.5%, 3.75%. But we estimate that it should be much lesser than that. And we write-off where we see that there is no hope of recovery from the customer. But essentially, we don't see too many write-offs coming in out of ordinary. We have been able to kind of recover money through natural calamity insurance wherever there has been an incident of natural calamity. Otherwise also, we have a strong team of around 250 people in collections which we are strengthening further.

We have just hired more people in that team and we will be building a team of around 500 people which will be focusing on arrear collection and overdue collection. So, in the past, we have seen around 40% to 44% recovery on the NPAs. And we think that by strengthening this team, we will have similar or better recovery. So, I don't anticipate the write-offs to go much higher. I think it will be well within our projections. And you had a third question, can you repeat the third?

Shubhranshu Mishra: What is the overlap of our customers with gold loans?

Sadaf Sayeed: So in terms of the gold loan customers, the overlap is limited. If you look at in terms of our portfolio, 30% of our customers have consumer loan exposure out of which around 5% to 7% would have a gold loan exposure.

Shubhranshu Mishra: Got it. I have one follow-up question just counterintuitively, if we are going to deploy more people to collect arrears which implies that we will also have to give them much higher incentives. So this would impact our opex in that case, right?

Sadaf Sayeed: Yes, so if you look at our current opex cost, it has gone up a little bit. We were projecting it to go a little bit lower. But I think the main reason is that disbursements have remained subdued. Though the disbursements have grown by 20% as compared to the last quarter, but still it is almost at the same level as same time last year. In the coming quarter, definitely the disbursement will improve and I think overall ratios will improve as well.

I think this investment is a trade-off between how your credit cost looks like versus your operating cost, and I believe that is a worthwhile investment. We can definitely improve our portfolio quality, reduce our credit cost by deploying these resources, which will have a marginal impact on our operating expense, not very huge.

Shubhranshu Mishra: Understood. I have a few other questions. I will come back in the queue. Best of luck for the ensuing quarter.

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

Nidhesh Jain: Thank you for the opportunity. A couple of questions. First is, what is the write-off policy for us?

Sadaf Sayeed: We write-off any loan which is 365 days. It has remained more than 90 plus. But there are also specific accounts we pick for write-off where we think that there is no hope of recovery, there is no contractability. So those accounts also write-off.

Nidhesh Jain: Sure. And it's quite surprising that the rejection rate for you has actually reduced when MFIN and Sa-Dhan have come up with card rates. So what is driving that, is it because the competitive intensity from other players has reduced? What is actually driving the rejection rate in Q2?

Sadaf Sayeed: So, I think we are seeing that, there is a trend in the industry where rising delinquency is there. So we have decided to focus on our existing customers. So if you look at our disbursement, earlier it used to be almost 50-50, which is 50% new to Muthoot and 50% existing customer.

That has gone to around 40-60, which is 40% new to Muthoot, 60% existing customers. And it is even fewer in the following month. And that is a strategy that we are following on the customers who are tried and tested and loyal to us.

We are focusing on them rather than taking chances with the new to credit or new to Muthoot customer at the moment. Of course, we are using our scorecard. Wherever there is a low-risk customer or a very low-risk customer, we are still going and lending to them. But our focus is on maintaining the existing customers. That's why the rejection ratio is coming down.

Nidhesh Jain: Okay. And can you share PAR 30data for very low risk customer, low risk customer and medium-risk customer on the portfolio? How much is the correlation between your scorecard and the PAR 30experience that you are seeing?

Sadaf Sayeed: In the presentation, I think we have given the scorecard impact on the underwriting. If you look at the scorecard-based collection efficiency, if you look at the very low risk and low risk customers, the collection efficiency remains on time. That is, new today, receive today remains 94% versus anything which is medium. High risk, we don't do. Medium is 88%. So I think this reflects. This is more like zero DPD, not 30 plus, but we can really cut on 30 plus and share that as well.

Nidhesh Jain: And the last question is that in quarter 2, we have seen slight reduction in adoption of digital, whether it is digital collections or share or digital customer acquisition. What is the reason for this?

Sadaf Sayeed: There are two reasons which has impacted. One is, of course, the primary focus is on ensuring the recovery is on time and recovery is there. So if the customer prefers to pay cash, we are accepting cash. Earlier, the focus was to promote more digital. But it's a temporary phenomenon.

The second impact is Bihar, which used to contribute almost 44% from their portfolio in terms of digital, has faced challenges in terms of collection and also more recently flooding. So their collection portion in terms of digital has dipped a little bit. And I think this is a temporary phenomenon. As we see in the coming months, it will definitely go up.

Nidhesh Jain: Sure. That's it from my side. Thank you.

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

Saumil Shah: I have a couple of questions. So the portfolio for MML plus 4 is at 10.9%, which I suppose you mentioned in previous call about 7%, if I'm not wrong. So has that increased in this quarter or there was some error maybe in the reply for previous quarter?

Sadaf Sayeed: No, there is no error. The 6.76% was as of March portfolio what we had because at that point of time, guardrails were new and we had only the March data which was available from the credit bureau. So that was the March number. This is the number as of September. So in a sense, you can say that there is an increase from 7% to around 10.9%. That is people who have linked after us.

Saumil Shah: Okay. And in future quarters, so maybe next two quarters, where do we see this settling down?

Sadaf Sayeed: See, having seen that the industry has deployed this and this is something that the SROs are monitoring very closely, I believe that 4 plus exposure should continue to trade down in the coming quarters. As we have implemented in our system within when these guidelines were issued, immediately we implemented this. I'm sure the other institutions are also in the process and they have almost implemented.

I think the impact of this you will see in Q3 and Q4. I believe that this number should trade down. I think more important is from the exposure point of view rather than the count point of view. If you look at from an exposure point of view, which is around 10.9%, it will come down I think below 8% by the end of the financial year itself.

Saumil Shah: Okay. And sir, our AUM revised guidance is now 10%-12% from earlier 25%. And also our credit cost guidance has gone up from 2% to 3%-3.5%. Even the operating costs are going up. So how much impact can we see on our bottom line for all this?

Sadaf Sayeed: Yes, so we have given a guidance on ROA as well. So, of course, the credit cost will have an impact. So ROA guidance is between 2.75% to 3.25%. I think growth is something that we have consciously calibrated that there is no hindrance of us in growing at 25% also, but in an environment where we are operating, where all the competition and others are facing challenges, we don't want to go and lend very aggressively. So as I said that we want to build a sustainable and resilient business. So we are being cautious.

We will see that Q3 how it plays out and Q4 definitely. So on a conservative side, we have given a guidance of 10% to 12% on growth. In terms of credit cost also, this is a conservative guidance of 3.3% to 3.75%. In my estimate and my experience, I believe this would be even lower than the lower quadrant which is 3%. So we would wait out and watch in the Q3 how the collections are coming in. The trend has been positive in the first month. My sense is that we will outperform the guidance.

Saumil Shah: Okay. And sir, finally, as per your knowledge and experience, how many more quarters you see pain in MFI industry?

Sadaf Sayeed: I think this Q3 would be more like be the turning of the cycle. Whatever pain has been there, people have taken it in Q1 and Q2. Q3 will see stabilization for some of the entities, some of the entities turning to the kind of an upside and then Q4 should be good definitely.

Saumil Shah: Okay, that's it from my side. All the best for your future quarters.

Moderator: Thank you. The next question is from the line of Shreepal Doshi from Equirus Securities. Please go ahead.

Shreepal Doshi: Hi, sir. Thank you for giving me the opportunity. So my question was on this. You said that the credit cost might be lower than what you are guiding for the full year. So what are the aspects that you are sort of tracking which gives you this comfort apart from collection efficiency?

Sadaf Sayeed: We look at the resolution rate in each of the buckets and also recovery rate in the 90-plus bucket. We have seen that in the last quarter, our recovery from 90-plus has improved as compared to the previous month. And as I mentioned that we are strengthening our collection teams, I believe this will further improve and that is where we are very confident that this will improve our credit cost.

I think the important aspect is also that with all the regulations in place, all the guardrails that have been put in place. It will reduce the unnecessary over-lending in the segment and definitely that will benefit us like the customer will not be unnecessarily over-leveraged which will definitely help us to maintain a better portfolio. That's why I am pretty hopeful that these credit costs will reduce than our credits vertical is also really helping us to underwrite better and our focus on existing customers, we have traditionally seen that existing customer delinquencies are much lesser as compared to new-to-credit customer

Our focus is on that segment. So that gives me confidence that definitely the credit cost would be lesser than what we had.

Shreepal Doshi: Could you please highlight collection efficiency for states like Bihar, Maharashtra, Karnataka, Tamil Nadu for us?

Sadaf Sayeed: Collection efficiency for Tamil Nadu is at 97% and Kerala is at 98%. You mentioned about Bihar, Udeesh, what is the collection efficiency for Bihar?

Udeesh Ullas: 94%.

Sadaf Sayeed: Bihar is at 94% considering that the last part of Bihar is flooded with water. This is excluding the claims that we have got from NATCAT. We will get those claims. If you include that, that will still be around 96%.

Shreepal Doshi: And Karnataka, sir?

Udeesh Ullas: Karnataka is 97.6%. So, Karnataka and Kerala,Tamil Nadu are showing a good performance in terms of collections. Bihar, because of various external events including the extensive holidays because of extensive natural calamities, flooding also, we had issues. Around 22,000 cases is pending for claim settlement. Once the claims are received, I think the collection will improve in these states as well.

Shreepal Doshi: Got it. Is there a similar trend for these states if you could give for June quarter as well? I guess this is for September, so if you could also give for June quarter.

Udeesh Ullas: June in Tamil Nadu, it was 96.9%. Almost the same. There is not much of a difference. Kerala, it was around 97.8%. Karnataka, it was 98.7%. Bihar, it was 97%.

Shreepal Doshi: Got it, sir. Thank you so much for your time. Thank you.

Moderator: Thank you. The next question is from the line of Vatsal Parag Shah from Knightstone Capital. Please go ahead.

Vatsal Shah: Hi. I just wanted to know the slippages for this quarter.

Sadaf Sayeed: Yes, so if you look at in terms of our stage 2, has increased from INR175 crores to INR312 crores. So around INR137 crores increase there. But if you look at INR90 plus stage 3, there is around INR80 crores of increase from Q1, which was around INR199 crores. It has gone to INR271 crores. So around INR72 crores of increase.

Vatsal Shah: And generally from the SMA 0, SMA 1, SMA 2 bucket, what percentage flows into the 90 plus pool generally on an average like 40%, 50%? What is the number?

Sadaf Sayeed: Yes, that is I think a very good question to ask. I think this is where our credit cost, we have given a guidance which is conservative because traditionally our 0-30 bucket, the recovery is in excess of 90%. But because of various external events and also flooding and everything, the collection efficiency in 0-30 and then from, 30-60, 60-90 has been affected more recently.

But we are experiencing that to improve in the post Q2 kind of performance. And we feel that with the strengthening of our collection resources, we will be able to. So traditionally, to answer to your question, 0-30 bucket has been around 89%-90% collection efficiency. And 30-60 has been around 60% collection efficiency.

And 60-90 has been around 50% and 90 plus around 40%.

Vatsal Shah: Got it. That was helpful. Thank you.

Moderator: Thank you. The next question is from the line of Mayank Mistry from JM Financial. Please go ahead.

Mayank Mistry: Yes, sir. Sir, you mentioned that the NATCAT has been limiting our rise in credit cost. I would like to know how long does it take for the NATCAT claim if a person defaults? So basically, it has to go through the NPA before the claim should be made, right?

Sadaf Sayeed: No, no. It is immediately. Like immediately as soon as there is a flood impact, we ask the customer to take a photograph and send it to us. And based on that, the claims are released by the insurance company. Typically, it is during the 0-30 bucket. If some claim settlement delays, then it goes to higher than 30 bucket.

But usually, it happens immediately. And we have seen that almost 90%, 99% of our claims get settled immediately. We don't wait for too long. Because the relief to the customer, the design of the product is that during the difficult times where the customer is facing flood and any sort of these things, then he should not be pushed for collection.

So that is the whole design of the product. And in the flood-like situation, the situation improves quite rapidly. Like if it is not a Wayanad kind of a situation, then the flood will, water will recede and people can resume back to the experience. While mentioning the Wayanad, I would like to also mention we don't have any exposure to Wayanad at all. So there was nil impact of the Wayanad flood in our portfolio.

Mayank Mistry: Okay. So if we adjust these claims during this quarter, then what would have been the quantum of our credit cost and it would have a major impact, right?

Sadaf Sayeed: Yes. So definitely there are 20,000 odd customers for which the claim is still pending, which is at I think stage one or stage two level. If you look at the stage two level, there is a 10% provision. So these 20,000 would amount to around INR80 crores kind of a portfolio. There would be definitely an INR8-INR9 crores of impact on our provision.

Mayank Mistry: Okay. And secondly, you said that you will be adding 50 people to the collections team. So is a healthy process already started? I mean, how many have already been hired and how would this impact our opex? I mean, how do we see the opex going from here? Because this quarter also there was slight increase, not so meaningful, but going forward, how do we see this?

Sadaf Sayeed: I think our opex will remain in the range of 6% or just marginally below. Even though we will hire more people, , I think the workforce is not increasing substantially. The productivity of the field officer will improve because he doesn't have to focus on the arrear clients. The collection team, which is getting censored, will focus on the arrear clients. Earlier we were only focusing on 90 plus cases with a team of around 200 people. We are strengthening that to 500 and beyond.

They will be focusing on 30 plus cases. So the workforce that will get freed from following up on the arrear accounts a little bit, they would be able to do more business. I think this definitely will improve the productivity and I don't see too much of increase in the opex.

It will remain in the range of 6% to 5.9% in the long run. And I think 250 workforce addition would not have a very huge impact. I think on the credit cost on the other side would have a positive impact of these resources.

Mayank Mistry: Okay, thank you. Thank you.

Moderator: The next question is from the line of Ashlesh from Kotak Securities. Please go ahead.

Ashlesh: Hi, sir, good morning. A few questions from my side. Firstly, you indicated that you seem to have made a few changes in the underwriting, especially shifting focus away from new to credit and new to Muthoot customers in the last few quarters. Do you see this resulting in any improvement in early delinquency metrics on the newly originated cohorts? Let's say the [6 MOB 30 plus number or 9 MOB 30 plus number. Is that improving now?

Sadaf Sayeed: Yes, definitely. I think this is something which we have made a shift very recently. So impact of this would be seen in the coming quarters. But definitely focusing on existing customers which have had a proven track record. And we have a strong analytics team of around 20 people which is looking at the behavior of the customer and based on the repayment track record and various other inputs. We are approaching those customers, existing customers for further loans. So that will really help us to pick out cream of the cream customer and improve the portfolio quality.

Ashlesh: Understood, sir. So secondly, would you have a sense about w what proportion of your MFI portfolio qualifies as microfinance? Because I guess there would be some customers where the incomes could be higher than INR3 lakh?

Sadaf Sayeed: So almost 94% of our customers are in the microfinance space. Around 6% of our portfolio is the non-JLGcustomers which are not in microfinance kind of definition. I think that's a good question to ask.

One of the strategy that we have looked at is also focusing on increasing this segment of customers. We have introduced a new product which is a kind of a micro LAP which is for customers who are slightly more involved in microfinance space, have some collateral to offer to give them those customers. If you look at year on year, our portfolio in this segment has increased quite a bit.

With this product, I think we aim to achieve this 6% to around, take it to around 10% in a year's time and then further build on it to around 15%. Within the scope of the non-qualifying asset that RBI allow us.

Ashlesh: Understood, sir. And just last one, firstly, thanks for the disclosures which you have provided on slide number 22 and 23. If I look at slide number 23 specifically, the proportion of borrowers in the 0 to 2 year vintage is at 50%.

And the proportion of portfolio to that vintage is roughly 60%. Does this number seem a bit too high in your sense? 60% portfolio to borrowers with less than 2 year vintage?

Sadaf Sayeed: Yes, so our focus earlier was expansion of the branches. So we have almost added around 250 branches every year in the last couple of years. This year also, in the first six months, we have added almost 100 branches. So the focus was in acquiring new customers. As I was speaking earlier, it was around 50-50 kind of a disbursement. 50 were new to Muthoots and 50% were existing customers.

So some of the customers are also like one year tenors which are getting renewed, which are also considered as Muthoot existing customers. But this proportion will change because we are focusing more on existing customers. In the last month, around 60% disbursement was to existing Muthoot customers and these percentages will continue to grow.

In the coming month, there will be a 70-30 kind of an approach and the proportion would improve in terms of existing customers.

Ashlesh: Understood, sir. Thanks a lot. And good luck for the next few quarters.

Moderator: Thank you. The next question is from the line of Paritosh from DCB Bank. Please go ahead.

Paritosh: Hi, sir. Some questions on the numbers. So this is regarding the recent article that RBI is asking the NBFC to stop netting off loans. So I have two questions on that. So what is the policy of Muthoot for micropayment in terms of pre-closures and removals of loans with respect to this? And after this request by RBI, are there any change in the policy of the advertising process? That's all. Two questions.

Sadaf Sayeed: Okay. This is a very important question. As far as I know, there is no circular from RBI referring to anything about netting off loans. I know you're referring to a news reportage which has come out in one of the online portals. I'm not too sure what is the source of that information. But as far as we know, there is no net off restriction that has been put by RBI.

Again, I think as an SRO co-chair, I can also confirm that there is nothing like this which has been recommended by any of the SROs or anybody because if you look at microfinance, the business model itself is retaining our customers. And we give first cycle loan, we acquire the customer and then we give a second cycle loan after the customer has completed certain tenure before the closure of the loan. And at that process, the net loan is passed on to the customer, that's the business model of the entire industry.

Having said that, I think the concerns that might be coming out from the practice of giving loan to customers who are in overdue, so somebody who's in 30 plus or 60 plus where there is being a subsequent cycle loan being given and out of that loan, recovery of overdue is being done. So that is definitely a borderline evergreening which RBI might be wary of. I can assure you from the Muthoot side in our credit policy itself, any customer which is more than 30 days DPD we don't lend.

So whether it's our internal customer or it's an external customer, we don't lend. So from that side for us the impact is nil as far as the overdue customer is concerned, but definitely the process of giving a subsequent cycle loan to the customer who's already served certain instalments with us is a business model on which the whole microfinance industry thrives on. So this will continue. In our process, we wait till one year for a customer to at least serve 12 instalments to make him eligible.

Till recently this was 9 months, but now we will be making it 12 months. And at least like the customer has to service after 12 instalments then she's becoming eligible for the second cycle. At the second cycle, again, we do a FOIR calculation. We do a credit bureau and we set the obligation of the customer. If she's fitting into that, then only we lend the second cycle loan. I hope that answers your question.

Paritosh: Thank you, sir. Thank you for clarifying on the article also.

Moderator: Thank you. The next question is from the line of Sameer from JM Financial. Please go ahead.

Sameer: Yes, hi. Thanks for the opportunity. Just wanted to understand on this overlay piece of INR31 crores, can you kind of indicate what could be the ongoing run rate or any aspirational level where you want to reach on the overlay creation?

Sadaf Sayeed: Yes, thanks Sameer for asking that question. I think this management overlay by itself is designed to deal with the unpredictable circumstances. We are going through a phase where things are evolving. It's not very crystal clear where the credit costs will settle in. We definitely are adequately covered if you look at from an ECL point of view. The ECL recommendation, if you look at from our provisions are well within the guidelines which is around INR230 crores, but we thought that on the Stage 2 where we have seen a larger spillover of the loan, we needed a better cover.

Though our ECL model suggests that 1% cover is sufficient, but we thought that we need to build some more cover to ensure that there is consistency and sustainability in the numbers. So that we have built. Going forward also on the Stage 2, we will continue to build. It will not be at this level as what we have done INR31 crores in a single quarter, but definitely over the period of time consistently we will have a larger cover in the Stage 2 as well.

And we would like to give our investor a sustainable, predictable kind of a credit cost structure which with this kind of cover we will be able to provide. And if you compare our IRAC cover with the ECL cover, we have INR153 crores of buffer provision. So that is sufficient for us to kind of cover up any risk.

Sameer: Fair enough. Thank you, this is helpful. All the best.

Moderator: Thank you. The next follow-up question is from the line of Vatsal Parag Shah from Knightstone Capital. Please go ahead.

Vatsal Parag Shah: Hi, just wanted to understand how does actually the natural calamity insurance cover work for the customer? So how does it help them and you as well?

Sadaf Sayeed: So in the event of natural calamity, the customers are usually displaced from their houses. So the local government, like for example a recent cyclone in Odisha, as a precaution the government moved all of those people who were in the zone of cyclone affected area, but moved into rescue shelters. So when the customer is not available, it is difficult to collect instalment and also the areas which are affected because of flood or anything it is difficult for people to carry out their day-to-day activities and the businesses.

So in that scenario, the obligation of repayment goes away from the borrower and this insurance cover comes into play and with this insurance, we are able to recover our instalment. So our collection continues the way it is as in we don't get affected and the customer also has the relief of this obligation going off her head. So that is how it helps.

Vatsal Parag Shah: Got it and do we have any partners for it?

Sadaf Sayeed: Yes, we have multiple insurance companies which are partnered with us for this product. So we have four companies which are including the leading state bank backed-company.

Vatsal Parag Shah: Okay. Thank you.

Moderator: Thank you. The next question is from the line of Chinmay from Pursuant Capital. Please go ahead.

Chinmay: Good morning, sir. Could you give some color on the long-term trajectory of PAR30? So what has it been like during times of steady asset quality? Right now, it's around 5% and where do you see it going once the credit issues iron out ?

Sadaf Sayeed: Sorry Parag. Can you repeat the question your voice was a little bit muddled, so I couldn't follow.

Chinmay: Sir, I want to understand the trajectory of PAR30 numbers. What was it like during 2023-2022 and where do you see it going once these industry-wide issues settle down?

Sadaf Sayeed: Yes, thank you. I think the current position is around 5.1%. Traditionally, this has been in the range of 3% to 3.5% PAR30+. It has been at the peak in COVID, of course, for different reasons, but in normal circumstances we operate with a PAR30 of around 3%. So that is where I think it will settle down to. Of course, there is certain recovery from that also happens as I said in various buckets. So 0 to 30 you get 90%. So there is a 10% which spills over which is overdue and then that gets collected in the subsequent buckets with the collection teams also, but in a steady-state position, it should be below 3%.

Chinmay: Got it sir. Thank you.

Moderator: Thank you. The next question is from the line of MB Mahesh from Kotak Securities. Please go ahead.

MB Mahesh: Just two questions. Again, just going back to Slide 23. When you look at your portfolio in terms of the PAR30+performance, is it possible for you also to tell us where are you doing better in terms of the performance of the portfolio as compared to other industries?

Sadaf Sayeed: Yes so I think especially the Southern states, the collection efficiency is better. I think traditionally also the Southern states, we have done better. Kerala even though the industry trend will show that the Kerala delinquency is high, but in our portfolio we are getting good collections from Kerala still the collections are around 98%-plus. And this is going to further improve in the coming days. Similarly, in Tamil Nadu we are doing better than the competition. The collection efficiencies are much better.

I think the challenge that we are facing is in Bihar, which is much like the industry, but still our collection efficiency is better than the industry. And especially these states, which are affected by various events like Gujarat there were floods, in Bihar there were floods, we will do better than the industry.

MB Mahesh: Sorry, just to clarify this question. See, if I were to go to Slide 23 and I look at Muthoot + 4, and above, the zero to two year delinquency is about 14%. Are you doing better than the industry or are you doing worse than the industry? I'm just trying to see this chart and compare your performance with where the industry trends are?

Sadaf Sayeed: Okay, yes. You have various cohorts that you're talking about.

MB Mahesh: What's your observation of this cohort with the industry trends?

Sadaf Sayeed: Yes, I think if you look at the cohort of 2 lakh and above, definitely there is a higher delinquency in the industry as compared to us. I think one or two players are better than us, but largely I think there is a higher delinquency. I think it correlates with the issue that I mentioned to you, because if there's 2 lakh plus exposure, being in a southern state, the income levels of people are better, so they are able to absorb.

That's why in our portfolio, you will have a lesser impact of this, even though within the cohort, this is the most delinquent cohort, but as compared to the competition, it will be slightly lesser. So I think that is where we are, but by and large, I think trend is holding good. There is an issue with the new to credit customers.

So delinquency across the industry for new to credit customers is higher. So up to 50K, which is 50K, and below is like a first cycle loan, 30K, 40K. So that is where the delinquency is higher, which is for us also for the industry also.

MB Mahesh: Just to clarify this question again, when the borrower is at 2 lakhs and above, you are showing the early delinquencies to be much higher, but whereas the same borrower, let's say a slightly higher vintage borrower with a lower indebtedness seems to be showing lower delinquency? Can we just understand as to what is driving this performance?

Let's say, okay, just to go back to your own file on this, let's say a zero to two years, Muthoot Plus three will, let's say about 6.8%. I'm just trying to give another example here. Muthoot +3 is 6.8%, whereas a 6 year delinquency is at 2.7% for a Muthoot Plus two customer. Why is there such a sharp difference in the delinquency patterns?

Sadaf Sayeed: See, definitely, I think there would be a reason which is over leverage. There would be other extraneous reasons also which will have an impact. So this is one cut which shows that various buckets have different delinquency patterns. And you would assume that this is a fair kind of a reflection, but there could be underlying other reason also.

If you look at it from a perspective like a delinquency pattern between 50 to 100,000 buckets, which is 6 years and above vintage, the delinquency is just 1.9%. And I'm looking at the Slide 23. Whereas the 6 year vintage, if you have a 2 lakh, the delinquency is almost double that.

So I think these are a multitude of reasons, but generally this is what the trend is. I think this is point in time analysis. Ideal situation would be the analysis should be on a static pool. On a static pool, if you do an analysis, then you will know that which pool affects you more rather than doing a point in time analysis.

MB Mahesh: Okay. Thank you.

Moderator: Thank you. The next question is from the line of Yash from Maximal Capital. Please go ahead.

Yash: Yes. Sir, I just wanted to understand our views on the credit cost side. Sir, as we move ahead, what are we seeing in terms of election efficiency? Is it getting stabilized, improving or bottoming out or degrading further? I mean, you had mentioned that in October, at least there was some green shoots. So in terms of election efficiency, is it stabilizing on incremental slippages or is it improving?

Sadaf Sayeed: Yes, it is already stabilized. I think in the coming quarters, it will improve. We should have seen an improvement in October itself, but last few days of October because of Diwali were holidays. So we didn't see much of improvement, but still saw a very stable trend. I think in the coming quarters, it will improve very much. And that is why we are confident of outperforming on our guidance in terms of credit cost and also on overall performance.

Yash: Okay. So we are expecting that incrementally, slippages would be less. But in terms of additional provisioning due to shift of markets from stage 2 to stage 3 and further from GNPA stage 3 it will GNPA, do we see our credit cost getting impacted because of that?

Sadaf Sayeed: So our credit cost will not get impacted much. I think we have created the buffer. So that is what the management overlay is that if there is any excess flow, we have the buffer to kind of take care of that. And our strategy is to build a significant buffer at the stage 2 level also. But we will build it over a period of time, not in 1 or 2 quarters. This is 1 quarter that we have taken a call to build because of the environment.

But as the management overlay is defined, it is for a specific period and in uncertain circumstances, which is what we are dealing with. I think going forward, we don't see that. And definitely we will see some rollback from stage 2 and stage 3 also. Some rollback and some write-off. I think definitely we don't need too much of management overlay going forward.

Yash: Okay. And our provision coverage would be similar to H1, even in H2?

Sadaf Sayeed: Sorry, come again?

Yash: Our provision coverage ratio, which is currently there, because of management overlay, it has increased. So in H2 also, we will strive to maintain the same coverage?

Sadaf Sayeed: Yes, we will build over a period of time. As I said on the stage 2, we will improve on. Stage 3, we feel that we have a decent cover. We will continue to retain that, slightly improve on that because of the rollback on the stage 3 and improved collection. Stage 2, we would like to gradually build on, which will be over a period of next 24 to 18 months.

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

Sadaf Sayeed: Once again, thank you very much for joining the call. Thank you for asking very relevant questions. I would once again like to mention that we should, rather than focusing on 1 quarter, look at the long-term vision that the company has put out there. We are out there to build a business which is sustainable, resilient, and consistent, and that is what our performance looks like. We have reported a profit of INR61 crores while taking a management overlay of INR31 crores.

If you look at our PPOP and overall top line, there is reasonable growth, but we are taking a conservative strategy. But we are sure that we are building a long-term sustainable business and we will continue to trade that path to create a very innovative and successful financial institute. And we look forward to your support and guidance. Thank you very much for joining the call.

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