"Muthoot Microfin Limited Q3 & 9M FY25 Earnings Conference Call"

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

Moderator: Ladies and gentlemen, good day and welcome to Muthoot Microfin Limited Q3 and FY '25 Earnings Conference Call 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 "*" then "0" 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, Mr. Mistry.

Mayank Mistry: Thank you, Renju. Good morning, everyone, and welcome to the Q3 FY '25 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 – Chairman and Non-Executive Director; Mr. Sadaf Sayeed – CEO; Mr. Praveen – CFO; Mr. Udeesh Ullas – COO; and Mr. Rajat Gupta – AVP, Investor Relations.

I would now like to hand over the call to Mr. Sadaf for his "Opening Remarks", post which we can open the floor for Q&A. Thank you, and over to you, sir.

Sadaf Sayeed: Thank you, Mayank. Good morning, everyone. Thank you for joining the Earnings Call for Muthoot Microfin for Q3 FY '25 Results.

First of all, I would like to give an overview of the macro environment that we are operating in. So, quarter 3 was expected to be a little bit better quarter because of the festive season, but there were a number of challenges which came around in this quarter as well. As you know that previous two quarters, there have been challenges of macro nature, which microfinance industry has been facing.

In Q3 also, that got exasperated because of floods and cyclones. So, we faced a Cyclone Fengal in Tamil Nadu, and we had issues which are brewing up in Karnataka because of which the portfolio was getting affected and the quality of the asset was getting affected.

But having said that, Muthoot Microfin has always outperformed the industry and continued to operate with better risk management policies. So, we have Natural Calamities Insurance. So, damage from the Fengal cyclone was minimized. However, since the cyclone happened in the last month of the quarter, some of the benefit that we have received from the insurance companies would be taken to effect in the final quarter Q4. Part of it is already taken. I will go about that in detail in the presentation and when we do the discussion.

But overall to lay the summary, during the quarter, we reached 12,404 crores of Assets Under Management, which is around 8.3% growth year-on-year and just about 1% decline over the previous quarter. Our strategy was to calibratedly do disbursements and not to go aggressive in the current environment. So, we have continued to play on that strategy and hence we have disbursed around 2,035 crores of loans, which is a decline of around 21.5% year-on-year and 23.9% quarter-on-quarter if we look at.

In terms of our distribution network, we continue to calibratedly expand our distribution network. We have now reached to 1,651 branches. This has increased around 16% year-on-year and 3.6% quarter-on-quarter. Our active client base also has increased by around 4.5% year-on-year. There is a minor dip in the quarter-on-quarter.

This is on the back of our strategy that our focus is to focus on our existing good customers, reduce new customer acquisition a little bit, because most of our new customer acquisition was coming through the north, which was UP, Bihar and other states in the north. There we have controlled our disbursement. So, the new customer acquisition has dropped a little bit. Earlier we used to have around the mix of new to Muthoot and existing Muthoot of 50-50. That shift has changed a little bit to around 40-60 and going forward that will remain for the balance of the period.

In terms of our GNPA, we have increased a bit, around 74 basis points increase in GNPA to 3.03% year-on-year. And if you look at quarter-on-quarter, around 33 bps of increase. Considering the macro environment and the industry, this is a reasonably good performance in terms of controlling the GNPA.

The collection efficiency has come down to around 93%. If you exclude the overdue collection and sort of a pre-closure, it's around 93%. And if you look at including the pre-closure, it is around 95%.

Our net NPA stands at around 1.27%. This is something which we will elaborate because we have gone ahead in this quarter taking an incremental provision, ensuring that any sort of uncertainties that are there are taken out. Of course, there are certain things which are still playing out in the macro environment. But most of the overleveraging related issues which were there have been taken care of to a large extent.

If you look at the financial performance, quarterly, we have done really well in terms of our income has increased around 17.7% year-on-year. Our PPOP has increased 39.6% year-on-year. Our cost-to-income has come down almost 550 basis points year-on-year. Quarter-on-quarter, it's also 125 bps reduction.

Our net interest margins have improved around 23.1% year on year. 420 crores is the net interest margin. Our overall net interest margin has also increased around 13%, 13.5%. And if you look at the PAT has of course come down because of the credit cost that we have taken. The PAT is around 38 million, around 3.8 crores. But we have maintained a very healthy CAR. Capital Adequacy Ratio is around 30.51%.

So, we have gone in our strategy where we want to remain very healthily capitalized, have an adequate provision cover, and also at the same point of time remove all the shocks from the system and take whatever credit cost upfront.

Same thing if you look at for the 9-month period, our income has increased around 24.7%year-on-year, our PPOP has increased by 43.1%year-on-year, our cost-to-income ratio has come down to 43.27%. This is a 389 bps reduction year-on-year.

Our NIM has increased by 28.5% year-on-year and if you look at NIM on a 9-month period, our NIM is around 13.07%, so, which is in line with our guidance of maintaining a NIM between 12.75% to 13% and we are confident that we will be able to maintain that NIM. For the nine-month period the PAT is around 178 crores.

So, this is where we are. The key point is that in terms of our operating expense and operating efficiency, we have maintained that our operating expense has not gone above drastically. It's still at around 6.1% OPEX that we are incurring OPEX to AUM. And in terms of our operating efficiency, it is improving consistently. Our cost-to-income ratio is coming down consistently.

The challenges with the credit cost which we are addressing up front, the important highlighted point that I wanted to share with you is, if you look at the over-leverage, which is the key concern, it is coming down significantly.

If you look at as a percentage of portfolio, in Q2, the 4 and above customer were around 10.9%, which is almost 11%. It has come down to around 7.1%. Even our Muthoot +3 customers, which were around 13.5%, have come down to 12%. At the same time, our contribution to the unique customer has increased, which is 27.6% to around 30.1%. And also in Muthoot +1, which is around 26.5% in Q2 has gone to 28.7%.

So, overall, we are calibratedly putting the guardrails and we have effectively utilized them. We are sincerely following the guidelines which have been given by various SROs and ensuring that those are effectively implemented so that the over-leverage reduces.

Of course, the guardrails have had an impact. We have introduced a slide which shows the rejection rates. So, the rejection rate has increased by 15%, but we think that's a short-term cost. We should be able to build a much healthier portfolio with the guardrails that have been implemented and we are committed to it. We have sincerely followed it up and implemented that. We have even put over and above certain filter above the guardrails within our systems where we do not lend any customer more than 30 plus and of course we have a scorecard system which is there.

As we see the environment developing, I think the focus of everyone is coming at around the credit focus lending, which is something that is there. One of the advantages that Muthoot enjoys right now is that we have always focused at a separate underwriting vertical, which is yielding results now.

Also, we have had a strong collections team, which is also helping us. So, because of increased delinquency, since we already have our team, we don't have to incur additional cost to build that team. Some of the other competitors are building team. That's why the operating cost for them is going up. So, in the current environment we have a steady-state return. And as soon as the environment improve, which we are seeing in terms of our collection efficiency, definitely that will improve.

If you look at our X Bucket collection efficiency at an organization level, it is at 99.5%. If you look at, there is a state-wise, month-wise breakup also we have given. It is showing an improved trend. Month-on-month, the collection efficiency on X Bucket is improving. In rest of India, it has reached around 99.2%. The key states were Kerala, it's at 102%, which means some advances are also there and around Tamil Nadu is 99.4%, so, which is our two key states where the collection efficiency is improving. Even in Karnataka, the X Bucket collection is 98.3%.

If we look at overall collection efficiency also, month-on-month it is improving Tamil Nadu is at 95.4% and Kerala remains a very, very profitable and a robust market for us. It's at around 98.8%. We are touching around 99% collection efficiency even now. And in other states also, there is an uptick in collection.

I think the chart may show that October the collection efficiency is higher and November it was lower and then December again. So, October has to be looked at from a point of view that there were certain advance collections for Diwali as well. So, that collection efficiency has to be looked at from that perspective.

But overall, we are seeing a positive trend in terms of improvement in collection efficiency in December. And also in January, we have had a positive traction in terms of our collections.

Disbursements, we are doing calibrated disbursements. Wherever we think that there are higher possibilities of risk, we are slowing down on disbursements and focusing on collections. And wherever we think that we have better control, and the collection efficiency is good, there we continue to maintain robust disbursements.

Having said that, of course, this year it will not be a growth of a very large number. We are given guidance of 5 to 7% AUM growth, and we hope to maintain the asset quality. That is the focus that is there for this financial year.

That's all from my side. I am happy to answer any questions.

Moderator: Thank you. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press "*" and "1" on your touch tone telephone. If you wish to remove yourself from the question queue, you may press "*" and "2". Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question comes from the line of Jai Prakash with L&T. Please go ahead.

Jai Prakash: Hi, sir, good morning and congratulations. How much portfolio do you have in Karnataka? And what is the steps we are taking you already know the new ordinance is coming by the Karnataka government.

Sadaf Sayeed: Yes, I think the two questions there. One is on the ordinance. So, I will preserve my remark, but I will give you my personal perception, not the company's perception. In terms of our exposure, we are just about less than 10% exposure of our overall portfolio in Karnataka.

And in terms of the regulation, I think from a practice of curbing unregulated lending, I think it is something which is good. I think it should be welcomed by the regulated entities. I think this will remove unnecessary over-leverage and coercive practices that have been followed by people who are not be authorized or regulated lenders. These are local money lenders which use strong arm tactics also, which gives a bad name to the microfinance business. So, I think it is something which is very good.

As things stand, I have seen the draft. I can't comment on it till the time it becomes the bill, but as the thing stands, regulated entities are out of it. So, I think overall in the long run, it is a good policy to control the lending practice of unregulated organizations. In short term, it might have a little bit of an impact, but in the long run, I think it's positive for lenders like us.

Jai Prakash: Okay. So, do you actually your collection efficiencies also decreased there, 98.7% in Karnataka right now as you mentioned in your PPT. You are thinking that this collection efficiencies also decreased in January and in February.

Sadaf Sayeed: So, I can't comment on January and February numbers as of now, but I think what we are witnessing is steady. It is steady in terms of what it was in December. That is where it is holding as of now. We are not seeing any incremental deterioration. That much I can tell you.

Jai Prakash: Okay, sir. Thank you so much.

Moderator: Thank you. Next question comes from the line of Saumil Shah with Paras Investment. Please go ahead.

Saumil Shah: Hi, sir. I would like to know your revised credit cost guidance for this year.

Sadaf Sayeed: Yes, so if you look at our revised credit cost guidance, we have given a guidance of around 7.5% to 8.5% as overall credit cost for the full financial year. Again, I would like to emphasize this as budgeting, like basically preparing ourselves for the worst and hoping for the best. So, that's the strategy that we have adopted.

If the environment in Karnataka does not play out the way it is being anticipated as the worst, it might be better than that. But since we are very close to the end of the financial year, we didn't want to give a very optimistic picture and end up at a very bad situation.

So, I think, we have taken into consideration that even if Karnataka legislation, the way it was originally thought of, that it will curb lending and all of that. If that plays out, then what could be the credit cost? That is the kind of thought process we have taken into building that credit cost guidance.

Saumil Shah: Just a quarter back, we had guided for 3.25% to 3.75% credit cost guidance. And, in fact, you were saying that we will be touching a lower band. Now suddenly in one quarter, I mean, how come we are increasing so much of credit cost items?

Sadaf Sayeed: Now, that's a good question to ask. Basically, at that point of time, I said that there would be such an ordinance that will come in and there was no expectation of any sort of a Fengal cyclone. So, both of the things have come in, which is like something which you can't build in a model.

So, both of them are in a critical area of operation where we operate. Tamil Nadu is one of the largest kind of portfolio. We had 25 districts which were impacted because of Fengal Cyclone. And in Karnataka, we have 10% exposure.

Of course, we are anticipating, we are hoping that it will be not as bad as what it has been perceived. But if the worst comes true, that is what has been baked into the credit cost. Both of these things were not visible to us in Q2.

Saumil Shah: Okay. So, I mean, we can see more pain in the coming quarters. The current credit cost is around 5.4%. So, do you anticipate more pain in the future quarter?

Sadaf Sayeed: Yes. So, we have budgeted for that. That's what we are guiding towards, that we would go with a strategy that we will provide and write-off whatever is necessary upfront. We don't want to go light on the provision. So, if you look at overall coverage, we have 89% coverage of the provision. If you look at standalone Stage-3 versus Stage-3, it's 58.8%. But this is because we have taken a large write-off in this current quarter.

The current quarter, the credit cost, which has gone up to around 247 crores, is also because we have taken 164 crores credit cost because of our write-off. And there is some ARC transaction that we have done where there is an 83 crores of credit cost.

So, we have taken the hit upfront. If the things hold normal as it is and there is no intervention that comes in through the Karnataka bill, I think it will be much better than what it is for the Q3.

Saumil Shah: And sir, we do have insurance against this, right?

Sadaf Sayeed: Yes, for the national calamity, we have insurance. As I explained, as of now, we have received around 32% of the claims because it happened in the month of December. And by the time the claim settlement happened, we had received certain claims. Sorry, I will update, 59.8% claims.

The balance claim also, the money we have received, but that did not get settled in the month of December itself. It was received in the month of January. So, we will settle those. So, impact on that would be much lesser. But the impact is in a sense that the disbursements do not happen with the same pace and there could be a spillover effect as well where there is no claim elsewhere.

Saumil Shah: So, out of this expected credit cost loss of 7.5%, how much would it be insured?

Sadaf Sayeed: Insurance is with respect to natural calamity insurance only, and there is a credit life insurance. In terms of any sort of loss due to operating collection efficiency, there is no insurance on that.

Saumil Shah: Correct. Okay. That's it from my side. Thank you.

Moderator: Thank you. A reminder to all the participants that you may press "*" and "1" to ask a question. Next question comes from the line of Anant Mundra with Mytemple Capital. Please go ahead.

Anant Mundra: Hello. Thank you for the opportunity, sir. Sir, I just wanted to understand more on our credit cost guidance. You also mentioned that you want to take all the pain in this financial year itself. So, is it fair to assume that from Q1 we can expect normalization in our credit cost?

Sadaf Sayeed: Yes, so if we take the hit in Q4, most likely we don't get any other surprise in Q4. We should be able to kind of get back to normalcy in Q1. That's the idea. The increased credit cost is taken just to ensure that whatever is the shock of this portfolio, we take it in this year only. We don't carry this for the next financial year. So, Q1 is expected to be a much, much better quarter.

Anant Mundra: All right. And sir, you have also done some kind of accelerated provisioning in this quarter. So, could you just highlight like, is it like 180 plus is completely written off or something of that sort that you would want to give color on?

Sadaf Sayeed: Yes, so we have done an ARC transaction, which is around 344 crores of portfolio. We have received a valuation of around 45% on that transaction, which translates to around 155 crores. It's a 85-15 kind of a transaction. So, we have received a certain 15% cash up front, but the investment remains 134 crores. Because of this, we have taken an accelerated write-off of around 83 crores.

So, this is all 90 plus pool which has been written off. Certain 90 plus pool has flown in from, say, which was Stage-2 prior to the transaction. Just as the transaction happened, they were in Stage-3. So, we have taken that hit upfront. But definitely we are seeing better collections from the arrear pool as well. So, there would be definitely some write-backs which will come in. But to the extent of 83 crores, we have taken an accelerated write-off.

Anant Mundra: Okay. So, all of it is due to the ARC transaction.

Sadaf Sayeed: Yes, this is because of the ARC transaction. Also, we have created a buffer which we had created last time of around 32 crores of management overlay. We continue to carry that.

Anant Mundra: That is sitting on Stage-2.

Sadaf Sayeed: Correct.

Anant Mundra: That is sitting on Stage-2. All right. And on the ARC transaction, on the SRs (Security Receipts), we are carrying a 100% provision. What is the provision that we are carrying on the SRs?

Sadaf Sayeed: So basically, since we have written off all the uncertainties, there is no requirement of provision specifically to SR. They go as an investment. They go as a rated paper. If there is a rating deterioration, then the provision is required. So, as of now, they sit as an investment on our book. And whatever is required in terms of, we have taken the write off.

Anant Mundra: Got it. And sir, if I see sequentially, actually our provisioning across Stage-2 and Stage-3 seems to have actually reduced in spite of there being a higher credit cost. So, I mean, I would have expected, I was kind of expecting that our PCR would have gone up because we are preparing for the worst in Q4. So, why is it in this quarter we have not increased the PCR in these two buckets?

Sadaf Sayeed: So, since we have taken the write-off this quarter, we have already taken around 247 crores of credit costs which includes around overall write-off around 21 crores on the account of portfolio which is on the balance sheet and 83 crores on the account of ARC transaction. So, around 104 crores we have kind of written off.

So, we feel that in terms of cover, we have adequate cover because of the asset that was impaired and really severely affected, we have already taken out. But if you look at overall cover, we still maintain around 89% cover. And if we look at a couple of quarter backs, we had a similar 89% cover overall the asset.

If you look at overall provision against Stage-3, it was 89.1% in Q1, which was an improvement over Q4 number of 85.1%. It is still at 89%. Stage-3 specifically, it has gone lighter because we have utilized that for write-off in the ARC transaction. And the credit cost guidance that we have given is only for the purpose of increasing that provision. So, in the coming quarter, definitely that will increase.

Anant Mundra: Got it. Got it, sir. And sir, so, is it because you mentioned that January has been, so, December, you have given the data. December has seen better collection efficiency as compared to November. And January, you are seeing stabilization. So, is it fair to assume that PAR accretion has stabilized for us? And in the coming... Yes, sir, please.

Sadaf Sayeed: Yes, you please complete your question.

Anant Mundra: So, is it fair to assume that that bucket, like PAR 30 plus or something will see because SMA-0 bucket for us has seen a decline quarter-on-quarter. It's mainly the PAR 30 plus which is seeing a bloat up. So, is it fair to assume that that piece will also get stabilized now?

Sadaf Sayeed: Yes, I think that's a correct interpretation. Our X Bucket collection has reached to around 99.5% overall if you look at for pan-India. And that has been the kind of collection efficiency in the past financial year also where you had 50 bps which will go into zero plus and then you recover majority of it. So, not much of aggression happens in the higher buckets.

What remains to be seen? What is the recovery efficiency on the cases which have flowed in the last couple of months because the collection efficiency for previous months was not as accurate.

I think that is where the whole collection vertical comes into effect. We have a strong collections team and we have seen good collection efficiency coming out of that. In fact, if you look at December was better than November. If you look at arrear collection perspective and even if you look at the collection from January, that was even better.

So, month-on-month, we are seeing better collection on the arrear accounts. And we feel that we will be able to roll back better than what we have seen in the previous quarters and previous months. But however, part of it will flow through. That's where the credit cost has been built in.

We have also seen that customer with a better vintage have better collection efficiency if you look at quarter-on-quarter. This is also included in our presentation.

Anant Mundra: Got it. So, is there, sir, any number that you would want to give us for what kind of a credit cost can we expect for Q1 of the next financial year?

Sadaf Sayeed: See, I don't want to jump the gun and give guidance in a very kind of long shot. Given what development we are seeing in Karnataka and also overall situation, I think we will go quarter by quarter. We will play as it comes. Q1, we anticipate it to be a normal quarter. And in a normal scenario, our credit cost is 2% to 2.5%. That is what we anticipate. But of course, any sort of guidance, we would be able to give post the closure of the financial.

Anant Mundra: All right, sir. And sir, the MFIN 2.0 guardrails that have been partially implemented from January 1, partially. So, in that, is there any kind of regulation or any kind of restriction on giving NatCat insurances?

Sadaf Sayeed: No, there is no restriction in terms of NatCat insurances. The only thing is that it should not be kind of clubbed with the loan in a sense that it should not be deducted from the loan amount. It can be taken from the customer. So, there is no such restriction that is there in terms of giving NatCat insurance. So, that is there.

I think if you look at the guardrail 2.0, 90% of that is already implemented. Only one aspect of it, which is three lender restrictions, which will come in April onwards, I think the rest of it is already implemented.

Anant Mundra: Got it, sir. And sir, one final question. When do you start seeing disbursements improving sequentially?

Sadaf Sayeed: See, in terms of availability of funds and our team readiness and branches, we have everything in place. We don't want to go out aggressively in an environment of uncertainty. So, we are calibratedly kind of doing disbursements wherever we think the disbursements area is good, we will do. So, we will wait and watch.

I think the normal steady-state disbursement guidance is around 2,000 crores per quarter at the moment. If the situation improves and if the Karnataka ordinance, which will come out in a couple of days' time, if it is in favor as we are expecting, then I think it may go up a little bit. But at the moment, we are maintaining our steady base.

Anant Mundra: Got it. So, but at least, I mean, because X Bucket collection efficiency is seeing improvement, can we expect Q4 to have a higher disbursement than Q3?

Sadaf Sayeed: Yes, that's our anticipation, but again, we will see how things develop. We have planned that way, but it is subject to the macro environment, how it plays out.

Anant Mundra: Got it, sir. Thank you. That's it from my end. Thank you.

Moderator: Thank you. A reminder to all the participants that you may press "*" and "1" to ask a question. Next question comes from the line of Ashlesh Sonje with Kotak Securities. Please go ahead.

Ashlesh Sonje: Hi, team. Good morning and congratulations. Sir, first question is on the individual loans book which you have created. Can you share what is the portfolio outstanding in this book, in this quarter as well as the previous quarter? And it would be great if you can start sharing the portfolio size in these other products as well. That is question one.

I have a couple of other questions. A second one is, you indicated something on the lines of the slowdown in disbursements in Tamil Nadu impacting your provisions for the Tamil Nadu exposure. Can you just elaborate on that point if I heard it correctly?

And the last one is, what is the carrying value of these SRs which you have from the recent transaction? Thank you.

Sadaf Sayeed: Yes, the first question on the individual loan. So, basically, if you look at our, I don't have the slide number. There is a slide where we have given the breakup of the portfolio. So, 96% of our portfolio is the income-generating group loans, which is the livelihood solutions that we have put in. The rest of the portfolio, around 3.5% is the portfolio which we have for individual loans and other health and hygiene loans, which is sanitation loan and some secured loan, 1%.

So, the portfolio in terms of value stands at for secured loans, 126 crores. For health and hygiene loans stands at around 200 crores. And for life betterment solutions, which is again individual, but it stands at around 111 crores. Put together, they are around 437 crores. That is the portfolio that stands.

This is a slight reduction from what it was in the previous quarter. In certain buckets, health and hygiene has gone up a little bit by 70 crores. But if you look at individual loans, life betterment solutions, which we are calling it, which has gone down by 5 crores. And secured loan, which was in the form of gold, has gone down by around 40 crores. So, overall, it stands at around the 437 crores as of today.

The second question was regarding Tamil Nadu. Sorry, can you repeat the second question?

Ashlesh Sonje: If I heard you correctly, you said that the higher provisions which are taken in Tamil Nadu is partly offset by the NatCat insurance, but it is still high because of the slowdown in disbursements. If you can just elaborate on that point.

Sadaf Sayeed: Yes, so basically what happens is when the cyclone happens and the customer is not able to pay, then she moves into the buckets. So, those of the customers who have moved into Stage 1 or Stage-2, there would be a provision created for them. Of course, we have received some of those cases, we have received the settlement amount, but that was received in January.

So, our provision will carry that amount. But that settlement that we have received in January, we will settle with that amount. So, to that extent, that provision will be settled off. We will get that back. But again, the ability of the customer to continue to pay is something that we have to see.

So, that's where I think the challenge would be in terms of how many of those customers will continue beyond the kind of a NatCat claim that we have got. So, NatCat claim depends upon the severity of the damage. Somewhere you will get three installments. Somewhere you will get six installments. Somewhere you will get the whole loan. So, that is how it works.

Ashlesh Sonje: Understood, sir. And just the last one was on the carrying value of the security.

Sadaf Sayeed: Yes, carrying value. Praveen, you want to take that?

Praveen T: The carrying value is 134 crores of the current investment.

Ashlesh Sonje: Thank you, sir. Those are all the questions.

Moderator: Thank you. Next question comes from the line of Mayank Mistry with JM Financial. Please go ahead.

Mayank Mistry: Yes, hi, sir. Sir, I have two questions. First is on the margins trajectory. So, given that now there will be a narrow customer base led by this guardrails, so, narrow customer base maybe you have to focus on people who do not have more than three lenders in their book. And so would this lead to even lower rates given the higher competition led by all MFIs focusing on the same category of customers while favorable customer quality would also prompt you to give loans at a cheaper rate? So, that is the first question.

Secondly, our Stage-2 has also increased by 90 bps sequentially. So, how much should we expect this to slip into NPAs? I mean, could you elaborate on how this movement has been so higher in this quarter? Thank you.

Sadaf Sayeed: Yes, I think on the first question in terms of the competition and our ability to maintain ourselves as a priority in the eyes of the customer, see, one thing, if you can look at the data, the unique customer is increasing for us. From 27%, it has gone to 30%. And if you look at on the count basis, it has gone from 32.9% to 34.8%.

So, which is something as an indication that we are able to retain our customers and they are having a trade line only with us, which is a comforting sign. It is not necessarily because of the operations that we are having in North, where we are acquiring new customers. It has more to do with our core market area, which is Kerala and Tamil Nadu.

So, we are witnessing lesser competition in Kerala and Tamil Nadu. Players who had come to Kerala from North and all that, they have considerably stopped disbursement. There were a couple of players on which there were restrictions from RBI also in terms of disbursement. So, that also benefited us.

We will continue to be among the preferred lender because in terms of our pricing, it is very competitive pricing. We have cut rates almost 3 times in the last 12 months. We have reduced rates by 115 basis points. And we have adopted a strategy wherever we will have a reduction in our cost of fund, we will pass on to the customer. So, that way, I think we will continue to have better customer engagement.

Apart from that, we have a customer app, which is a very, very efficient way of kind of engaging with the customer, which actually kind of differentiates us from any of the competitors. The customer can actually check her eligibility, draw the loan, and also repay installment, check her installment, check her loan track through the app.

And we are doing the integration at the level of a super app of our company, of our group. In the super app, the customer would have much more avenues of like buying insurance, buying saving products, booking bus tickets, many other facilities, paying utility bills and anything. So, it will become one-stop solution for financial services for the customer.

So, I think those kind of services that we are offering is ensuring that the customers are more engaged with us. But the key part is that our key market is Kerala and Tamil Nadu. In Kerala and Tamil Nadu, we are seeing comparatively lesser competition than not.

You had another question. Sorry, Mayank, I missed on that.

Mayank Mistry: Yes, the second question was on the Stage-2 increase, which has gone up, I think, 90 bps sequentially. So, would like to know, I mean, what kind of slippages are we expecting from here to Stage-3? And what kind of recovery are we expecting, let's say, since today our GNPAs are at almost 3%. So, from this, how much is expected to be recovered either through insurance or through our own collection, in-house collection team?

Sadaf Sayeed: Yes, so traditionally, we have seen around 44% to 45% recovery on the Stage-3 asset over a life of that asset, which is in a period of around two years after the maturity of the loan. So, around 44% recovery happens on that. On Stage-2 asset, the recovery is slightly better. We get around 69% to 70% recovery.

Traditionally, I think we remain to see how the collection efficiency pans out because in Karnataka, because of the environment, we are not pursuing too hard with the customers. So, we are doing soft collections there. So, there would be impact a little bit.

But overall, I think the collection efficiency would be there. But there would be some slippages which will come into Stage-3 from Stage-2, definitely. Traditionally, it has been around 30 to 40%. This time it could be slightly more than that. That's why we have built in the higher credit costs that we are saying.

Incrementally, the addition to the Stage-2 has reduced because now we are at a 99.5% collection efficiency and whatever even goes, zero plus, that 50 bps, that also gets collected mostly. Very few cases go into a higher bucket. But cases which have already slipped, the collection efficiency that we expect on that should be in the range of between depending upon the environment 50 to 70%.

Mayank Mistry: Okay, sir. Sir, but our credit cost guidance is extremely, elevated now. So, from 3.5%, we have given 7% almost. It comes to, I think, more than 6% again in Q4. So, is my calculation correct?

Sadaf Sayeed: Yes, so, see, basically, as I said in my opening remark, we are preparing for the worst and hoping for the best. So, we have given a guidance where we feel that extreme situation where Karnataka pulls out legislation where operations is not possible and collection efficiency drops significantly. If that does not play out, which is likely the case, I don't want to second-guess that. So, that's why we have built in that credit cost guidance. Our expectation is that if that does not play out, then the credit cost would be much lesser.

Mayank Mistry: Okay. Just one last if I can squeeze in. So, basically, we are not expecting this credit cost to be spilled over even in the next year, right?

Sadaf Sayeed: So, the thought process is that whatever is happened in this year, we will take the hit this year. Next year there should be a clean slate. That's what we are trying to do. That's why the elevated credit costs we have built in. Whatever has to be provided, we will provide in this financial year. And Q1 should be, barring if there is a new event happens, there shouldn't be an issue.

Mayank Mistry: Okay, sir. All the best for the upcoming quarters. Thank you.

Sadaf Sayeed: Yes, thank you very much.

Moderator: Thank you. A reminder to all the participants that you may press "*" and "1" to ask a question. Next question comes from the line of Kamal with Investec Capital Services. Please go ahead.

Kamal: Hi, sir. Thank you for the opportunity. Sir, can you please help us know what was the interest reversal during the quarter?

Sadaf Sayeed: Yes. Praveen, you would have the number on hand?

Praveen T: You are asking about interest spread or? Sorry.

Sadaf Sayeed: Interest reversal.

Praveen T: Yes, so, from the NPA recovery, we have an additional recovery of around 12 crores, which is adjusted to the write-off. And the interest reversal for the specific quarter is around 21 crores.

Kamal: Got it. And so, like, despite everything, we have been able to maintain our NIMs very well. So, would you like to guide something on the NIMs part? Like, how have we been able to maintain the NIMs very well?

Sadaf Sayeed: Yes, so I think that is one of the key things. Thanks for asking the question. So, our NIMs are improving. We have around 13.07% NIM that we are maintaining. And we have been able to reduce our borrowing cost slightly a bit. Year-on-year cost of fund has reduced by 14 bps. Quarter-on-quarter, it has remained almost the same. But the overall incremental cost of fund has reduced by 3 bps. And largely it is driven by our ability to do PTCs at a very effective rate.

So, one of the strategies that we have adopted is that we are going through a PTC route to tap the PSL market instead of doing direct assignments because direct assignments are coming at a higher cost considering that banks are concerned with the risk that is there in the asset. But PTCs are coming at a very fine cost. We have done PTCs at around 8.8% as well and around 9% as well. So, that is really helping us to reduce our cost of fund. And hence our net interest margins are remaining good. And that is all helping us to maintain.

If you look at fundamentally, the PPOP has improved almost 40%, which is a very good sign. And the cost-to-income has come down significantly, almost 550 basis point year-on-year, which is at around 43.2%. So, on the efficiency of the capital and also operation is still there. It's the credit cost, which is the variable because of extraneous events, which is causing the impact on the PAT. Otherwise, I think fundamentally things are moving in the right direction.

Kamal: Got it, sir. I just also wanted to ask that, are we facing some attrition level issues even at the branch manager level and on the overall level, if you could highlight that? And what is the incremental collection team we have built to cater to the asset quality issue going on?

Sadaf Sayeed: Yes, I think on the attrition issue, we have taken certain steps. So, right now, the attrition is well within control. One of the things is that, of course, because of the environment, there is not too much growth in the sector. So, there are not too many opportunities. So, people are not jointly jumping the ship.

The second thing is that we have taken calibrated steps. So, earlier, we were operating in a model where we did not have residential facilities at our branches. Most of the microfinance companies offer residential facilities. But we have noticed that because of this, some of the people were reluctant to join or maybe after joining, they were leaving us. So, we have created 140 such facilities where we saw a little bit higher attrition where we are providing accommodation to our staff.

So, these are standalone kind of places where at a nominal charge to the employee, we provide a residential facility. So, it's kind of a mess where people can stay, eight to nine people can stay, and they pay Rs. 500 kind of monthly charge. And for us, it's an incremental cost of around 3,000 per employee. But definitely it saves a lot on the attrition. But it is not everywhere. It's less than 10% of our branches where we have started this facility. That is one step.

The second step that we have done is that we have focused on hiring a lot more female relationship officers. So, traditionally, there has been a perception that female would not be able to travel too much and there are difficult hours in our operations to work early morning and all that stuff and necessity of the bike. So, I think that we have overcome. We have identified females at the field officer level who are willing to work.

The only augmentation that we have done to our policies, earlier we were posting everyone 60 kilometers away from their base location. But for female staff, we are giving that relaxation that they can be based out of that similar location. They would not be lending in that same area. They can be based within that 30-kilometer radius.

Also, we have tied up with a couple of EV providers. We are providing bikes to these people on a lease model. So, the lease would be in their name, of course. We will be facilitating that. And they would have the two-wheeler also. So, we are tracking this very closely. Now our female employee base has almost reached around 7.5%. We are hoping that it will increase beyond 8% in the remaining period.

And we are tracking the efficiencies also. So, on terms of productivity, they are at par with the male staff. And in terms of collection efficiency, they are slightly better. And it also works well in the environment where we are operating currently because of the regular follow-up with the customer and unnecessary perception that there is harassment. If a female is interacting with a female customer, that will give a better synergy. So, I think the narrow point is that the attrition is well within control and it's coming down.

In terms of the collection resource, Udeesh, you have the numbers on that?

Udeesh Ullas: Yes, so we have added another 200 people in this financial year. So, right now, we have close to 512 people in the collection team. Apart from that, we have added telecallers also. So, we have added around 20 telecallers, mostly for the North India, which is based out of Delhi.

So, yes, and telecallers, they do the calling and generate the promise to pay date and the field executives are going and collecting payment from the customer. So, last month, we have seen a better collection. They have collected around 15 crores of collection from the delinquent bucket. And this quarter also we are adding more people to the collection team.

Kamal: Can you also quantify the number of the employee attrition part? Like if you could just give the number what is the current attrition number?

Sadaf Sayeed: So, the employee attrition has come down to around 30% now, which was slightly higher earlier. So, the industry was seeing almost in the range of 50%, but it has come down to 30% now, which is a normal case in terms of microfinance operation.

Kamal: Got it, sir. And last, if you could just give a comment that with the implementation of guardrails from post-April, like, how do you think the entire scenario would pan out for the entire MFI industry? Would we again see a cycle where there would be some increased level of credit costs to the borrowers whom funding would not be provided? So, what's your view on that?

Sadaf Sayeed: So, in terms of the guardrail 2.0, as I mentioned earlier, 90% of the points are already applicable. Only one incremental point, which is from a four-lender cap, we are going to move to a three-lender cap, which is going to come in force.

So, if you see our numbers data, we are already defocusing on the three lenders. Wherever there are three lenders or four lenders, we are actually not lending to those customers. We are focusing much more on the unique customer or Muthoot +1 or Muthoot +2 customers. So, from that perspective, I think it's in line with our strategy. It will not impact us at all.

Overall, I think in the industry per se, I think it will be good that leverage on a borrower will come down and it might have some temporary pain, but I think in the long run, it should be beneficial for the industry as well.

Kamal: Thank you so much for the answers. Best of luck.

Sadaf Sayeed: Thank you very much.

Moderator: Thank you. A reminder to all the participants that you may press "*" and "1" to ask a question. Ladies and gentlemen, as there are no further questions, we have reached the end of question-and-answer session. I would now like to hand the conference over to Sadaf Sayeed for closing comments.

Sadaf Sayeed: Thank you, everyone, for giving us this opportunity and joining our call. Once again, I would like to emphasize that if you look at fundamentally the company is seeing improvement in the income aspect, maintaining steady net interest margins and improving on the cost-to-income ratio.

The temporary dip in the profit is because of a call that we have taken consciously to take incremental provision and accelerated write-offs. And in the coming quarter also, we have given a credit cost guidance, which is 7.5% to 8.5%, given the uncertainty. But we are hoping that it will be much better than that.

Given the microenvironment, we have given that guidance. But if that does not play out, the fundamentals are very clear that our net interest will remain consistent. Our income from operation and PPOP will remain in that zone, what we have seen, around 40% growth year-on-year. It will continue.

But I think we have to, as we said, play quarter by quarter. So, we have given the guidance of this quarter and we are running a strategy where we want to take that hit only for this financial year and this year. In the next quarter, Q1 should be absolutely clean quarter, given that there are no other macro events. So, that is the strategy.

Overall, I think we are in a steady state. We have not seen any challenge on the liability side. We are getting adequate funding. We are getting good rates on our borrowing as well. So, fundamentally, the business stays strong and steady. This is a time where we need to be a little bit more conservative and cautious. So, that is what we are doing. We are hoping for the better quarter in the next coming months.

So, I will close at that and appreciate your joining this call and all the support. Thank you very much.

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