"Muthoot Microfin Limited
Q4 FY25 Earnings Conference Call"
May 08, 2025

E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchanges on 8th May 2025 will prevail.

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NOTE: THE EARNINGS CALL WAS ATTENDED BY MR. THOMAS MUTHOOT JOHN, EXECUTIVE DIRECTOR, IN PLACE OF MR. THOMAS MUTHOOT, CHAIRMAN AND NON-EXECUTIVE DIRECTOR.

Moderator: Ladies and gentlemen, good day, and welcome to Muthoot Microfin Limited Q4 and FY '25 Earnings Conference Call hosted by JM Financial Institutional Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star 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 Institutional Securities Limited. Thank you, and over to you, sir.

Mayank Mistry: Thank you Manav. Good evening, everyone and welcome to Q4 FY '25 Earnings Conference Call of Muthoot Microfin. First of all, I would like to thank the management of Muthoot Microfin for giving us the opportunity to host the call. From the management team, we have Mr. Thomas Muthoot John, Executive Director, Mr. Sadaf Sayeed, CEO, Mr. Praveen T, CFO, Mr. Udeesh Ullas, COO, Mr. Rajat Gupta, AVP, Investor Relation, and Mr. Ammaar Mohammad AVP –Investor Relations & ESG.

I would now like to hand over the call to Mr. Sadaf Sayeed 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 evening, everyone. Thank you for joining the earning call for Muthoot Microfin for Q4 FY '25 results. Before I get into the financial performance, I would like to take a moment to reflect on what truly actually defines us, our values, our culture and the principle that guides our decision. These may not always translate into immediate financial results, but they are the bedrock of our long-term success.

They shape who we are, how we operate, how we navigate challenges and especially in uncertain times like these. It is these softer yet deeply critical aspects of our commitment to integrity, innovation and resilience that sets us apart from rest of the competition. They may not always be quantifiable, but their impact is undeniably reinforcing our foundation and enabling us to stand strong even in the face of external disruption.

As we look ahead, we will continue to invest in these areas, not merely as a complement to our strategy, but as a core pillar of what makes us unique and resilient. In this context, I'm, proud to share with you a significant development. Within 16 months of our listing, Muthoot Microfin today has been awarded an ESG rating with a score of 72.2. This is a top tier rating for CareEdge with ESG 1 rating. CareEdge ESG Rating Limited is a SEBI licensed ESG rating provider.

This is not only a powerful endorsement of our responsible and sustainable growth strategy, but also the highest ESG rating ever awarded by CARE in the financial services sector. It really,

really indicates our commitment towards environment, social aspect and also governance. If you look at the score, we have scored 79 points in governance as compared to the median of 54 points. So it really shows how the company is committed to its governance aspect.

Apart from that, to highlight some of the key achievements during the quarter, one of the key aspects is that we got an eKYC license from Aadhaar authority. We are now able to do eKYC for our customers. This not only improves our ability to identify customer better, it also ensures that we are able to prevent frauds and eliminate bad customers. And this is going to, play out in a big way in our digital foray that we are trying to do.

Apart from this, we have made progress in app download. Today, out of the 34 lakh customers that we service, 18 lakh customers have downloaded our Muthoot Mahila Mitra app. Our commitment towards overall well-being of our customers is always there. We have around 740 e-clinics in our branches, out of which we have done around 10.2 lakh consultations to our customers, which is also helping us to retain customer and also ensuring that in difficult times, the customer is protected and is getting the service.

Apart from the softer aspects, in terms of our financial performance, our AUM for the financial year has grown by 1.3%. We closed this financial year at an AUM of INR12,357 crores. This was a calibrated strategy. As you are all aware, this was a particularly challenging year for microfinance institutions. We had multiple challenges starting from a Q1 slowdown, resulting in overleveraging of the customers because there was lot of growth in Microfinance segment earlier, leading to guardrails being introduced by SROs, which, of course, had an impact on the number of customers which were able to be eligible for disbursements.

But considering that, we have made sure that we do calibrated disbursement. As a result, we did INR8,872 crores of disbursement during the financial year. Our net interest income has grown by 14.3% year-on-year. We recorded a net interest income of INR1,551 crores. Our PPOP has grown to INR868 crores. And our total income for the year stood at around INR2,564 crores, which is a 13.7% year-on-year growth. And if you look at our overall GNPAs, it has reached to around 4.84% from 3.03% in the last quarter.

One of the things which I would highlight in this financial year, we have paid considerable attention to ensuring that we insulate our balance sheet from uncertainties. So this year, the credit cost has increased. Our overall credit cost has come out to be around 9.4%, which includes around INR230 crores of management overlay. If you exclude that management overlay, our credit cost for the full year is around 7.5% that is in line with the lower band of our guidance of 7.5% to 8.5%.

As a result, of course, the PAT has been impacted. For the quarter, we have a loss of around INR401 and for the full financial year, we have a loss of around INR222 crores. But as I said, what we have laid down is a foundation of a stronger balance sheet which is insulated from any uncertainty. We have had instances like Karnataka legislation which came into place, which had an impact. Even though the legislation is directed towards unregulated entity, but by the time the regulation is put in place, there was lot of speculation and which impacted the collection efficiency.

We have already seen very good improvement in collection efficiency post that. But, of course, our initial portfolio was impacted because of that. We have made adequate provisions to ensure that there are no uncertainties going forward. And this INR230 crores provision includes the provision that we need to have for any adverse impact to the portfolio in Karnataka.

In the meantime, I'm sure you guys are aware that there is a legislation which has been proposed in Tamil Nadu also. But, the good part about it, unlike the Karnataka legislation, this Tamil Nadu legislation is not based on any customer grievances or anything. This is a proactive step that the government has taken. So as far as, at the moment it is concerned, there has been no disturbance in the performance of the portfolio so far.

We have been able to continue to collect that the way we were collecting and the portfolio remains pretty stable in Tamil Nadu as of now. Overall, for the full financial year, our collection efficiency stands at around 93.6%, which is around 4.8% dip from the last financial year. And our X- bucket collection efficiency remains 99.5%. If you look at in terms of our investment, we have opened more branches this financial year.

We have reached a branch count of 1,699 branches, which is around 12.7% growth year-on-year. Last year, the branch count was 1,508 branches. And in terms of our employee count, it has reached to around 15,989, which is also a 15.3% growth year-on-year. Our disbursements have come down as compared to the last financial year. As I mentioned, we have done calibrated disbursements around INR8,872 crores, which is around 16.8% lower than the last financial year.

Meanwhile, our customer acquisition continues. We have reached our customer count of 34,30,000 customers, which is a 2.3% growth over the last financial year. I think in terms of our growth, in terms of our branch expansion, in terms of our strategy, we have put the foundation there. We have also had a very in-depth analysis of our portfolio. During all of these crises, you get an opportunity to understand what you are doing right and what you are doing wrong.

And we have analyzed our 34 lakh customers and we have found that around 12,70,000 customers also have retail loan exposures. And out of those 12,70,000 customers, a good amount of customers have gold loans exposure, very good amount of around 1,14,000 customers even have housing loan or mortgages exposure and around 1,56,000 customers have two-wheeler loan exposure. These are the products that we are already offering to our customers as a part of our cross-sell opportunity that we have through our group company.

In the coming financial year, we wish to leverage on this opportunity. Cumulatively, if we see the customer base that is having exposure and retail loan, their outstanding is almost INR28,000 crores. And if we tap that opportunity, we do feel that we can easily tap those customers out of that and build a good portfolio of secured loans of INR5000 crores. So going forward, this would be one of our growth strategies. This will also help us retain more customers, also build our wallet share of our customers.

The good part about it is that these are all loans which are already outstanding with our customers. And, we will, by offering these products, we will be replacing the existing loans, so we would not be over leveraging this customer. But we were insulating our customers from any sort of unregulated lending and also helping them grow and build better portfolio with us.

So that's the growth strategy going forward and that will really help us build a strong balance sheet. And as I mentioned, our commitment to social goals and double impact, both on the bottom line as well as social impact will remain and we will continue to focus on that. And with that, I'll close my opening remark and I am happy to answer any questions.

Moderator: Thank you very much, sir. We will now begin the question-and-answer session. We have our first question from the line of Shubhranshu Mishra from Philip Capital. Please go ahead.

Shubhranshu Mishra: Hi. Thanks for the opportunity. The first one is just a simple request that result and the investor presentation can be put out in time to have a look at it. The investor presentation is still not there in the stock exchange. Having said that, I just have one question. How are we going to implement the guardrail that is going to restrict us in 2 plus 1 format? How do we restrict the fourth lender coming in?

Sadaf Sayeed: Yes. So on the guardrail, we have already implemented all the guardrails that have been recommended by MFIN as well as Sa-Dhan. The guardrail one, we had implemented in August itself and guardrail two as we started the financial year have already been implemented. And in terms of its impact, of course, there is an impact on the throughput. We have had higher rejections because of that, but that has not deterred us from the business performance that we have continued to do.

But if you look at the impact from those guardrails is more from avoiding overleverage customers. And I think we have given that information in our presentation also. If you look at consistently quarter-on-quarter, the number of customers which were having four loans are coming down. In Q4 it has come down to around 6.2%, (Errata: Actual number to be read as 6.8%) which started from 10.6% in Q2, which reduced to 8.2% in Q3 and around 6.8% in Q4.

And at the same time, the unique customers have increased, which were around 32% in Q2. It has reached to around 35% in Q4. And even if you look at from a INR2 lakh cap per borrower, those percentage of customers have reduced from 3.8% in Q2 to 1.8% in Q4. And unique customers or customers which are only having INR 50 lakh (Errata: Actual number to be read as INR50,000) of exposure with us are around 39%, which were around 38% earlier.

So from that perspective, we are much better placed. Almost83% of our customers are having only us, plus two lenders. So we have opportunity to lend them.

Moderator: Yes, sir. So there was some disturbance from someone end. Please continue.

Sadaf Sayeed: Yes I think, that's all that I would like to say. On the presentation upload, my apologies, but I think, before the call started its being uploaded, we have just concluded our board meeting and uploaded the presentation. We take your feedback.

Shubhranshu Mishra: Thank you. Best of luck for coming quarters.

Moderator: Thank you. We have our next question from the line of Nidhesh from Investec. Please go ahead.

Nidhesh: Thanks for the opportunity. The first question is on, how is the collection trends in the month of April in terms of expected collection efficiency, for the month of April?

Sadaf Sayeed: Yes the collection efficiency is 99.5% in April.

Nidhesh: This is the X-bucket. So trends are holding up quite well. And, how are the trends in Tamil Nadu in terms of X-bucket collection efficiency. Though I think are still a bit early to say, but do you expect any disruption in Tamil Nadu the way we have seen in Karnataka?

Sadaf Sayeed: Yes. So, Tamil Nadu, there has been no disturbance at all because of this legislation. The X-bucket continues to be 99.6% that collection efficiency is holding well. So there is no such disturbance as of now.

Nidhesh: And the third question is on the stage 1, stage 2, stage 3 coverage. Is it because I think your presentation is now uploaded, and I can get those numbers from there. So third question then is, what is the guidance on credit cost next year, if you have made all the provisions on the existing stress already? So whether the next year credit cost will be steady state credit cost and what will be that number?

Sadaf Sayeed: Yes, I think that's a very good question. I think first of all, I would like to mention that based on the feedback that we have received from various analysts and also our own internal assessment and other thing that the Karnataka issue is also very recent. On the Stage 2, we have increased provision considerably.

So Stage 2 provision today stands at around 30.8%, which was a year ago at around 1.06% , and in the last quarter, it was around 9.01%. Stage 3 provision coverage has also increased considerably. In Q3, it was 58.72%. It is now 73.3%. So, we made considerable effort in terms of making enough provision.

Having said that, I think Karnataka portfolio is, in fact, is still very new. Not, much of the loan has raised to Stage 3. We don't anticipate that to raise to Stage 3 because the collection pullback has been pretty good in Karnataka as well. But we have made adequate provisions. We are carrying a INR230 crores of management overlay, which should be adequate to take care of any concerns that may come in Karnataka.

But in terms of our guidance, we are guiding towards 4% to 5% credit cost. That is our worst case kind of a scenario. That is what we are guiding towards -- 4% to 6% sir.

Nidhesh Jain: Because, as you have made all the provisions right now, next year, credit cost should be a steady state number of, let's say, more than this number, or you expect higher rate cost earlier in the start?

Sadaf Sayeed: Yes. Nidhesh, I think that's what our anticipation is also there. But again, as I said, situation has developed in Karnataka just happened in February and the impact of it is being seen. And we are right now, the early trends are positive and Tamil Nadu there is no impact. So if all of that hold good, then definitely, there could be no incremental cost or no surprising cost.

But since these situations are very, very nascent and they are still developing, I don't want to say that this cost would be like a normal here, but what we are guiding towards 4%, 6% credit cost for the next financial.

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

Mayank Mistry: So, sir, my question is that if for the quarter, we have taken such elevated credit cost. And even after that, our Stage 3 is also up by almost 180 bps, from 3% to 4.8%. So now, my question is that if we have taken such high credit cost, what would be your write off? Because, 73%, although we are providing, again, there is some stress we are looking at in our book, right?

Sadaf Sayeed: So, Mayank, to answer to your question, as I said, we have increased the credit cost because we have increased our provision in the Stage 2 bucket. Stage 2 bucket, if you look at, it has gone from 1.06% in the last financial year to 30.8%. And also from last quarter, it has gone from 9% to 30.08%.

So because the Karnataka portfolio is very new in terms of the delinquency, we don't anticipate all of it to go to NPA and then to write off subsequently. But we are providing it for, so making sure that there are no further shocks that are there. As far as the write off are concerned, this year, we have had cumulatively around INR538 crores of write off, which includes, around whatever waiver and settlements are there and any ARC related write off and other write off that we have done is INR538 crores of write off.

This is on a worst year. We don't anticipate similar kind of write offs to come in the next year. The elevated credit cost will ensure that we have sufficient buffer. If you look at overall NPA versus provision, it's 127% provision cover over the NPA, so which really, really kind of puts us in a comfortable position to ensure that there are no shocks.

Mayank Mistry: So there is a possibility that some of the book also might reverse from Phase 2, for which we are already making 30% coverage?

Sadaf Sayeed: Yes. Correct.

Mayank Mistry: And secondly, sir, how is this Tamil Nadu ordinance different from Karnataka? Because I think that both are only for unregulated entities. It's not like Karnataka is is on both regulated and unregulated in both entities. So there is a possibility even from Tamil Nadu that the people might start taking advantage of situation like building in Karnataka?

Sadaf Sayeed: Yes. I think both the things, being a part of SRO where I sit on the Board and had an opportunity to engage with the state government at both the sides quite closely, from the SRO side, I have a very good perspective on this. I think on the Karnataka legislation, it was driven by a lot of news reporting which started before and multiple news items were there that there is stress because of microfinance lending and all of that and because of which, government came up with the legislation.

Essentially, it was only targeted at microfinance entities and stuff like that but we were able to demonstrate to the government that it is not microfinance entities which are causing the distress. It is unregulated entities which are causing the distress. Most of the microfinance entities follow a code of conduct which has been laid down by RBI and also SROs. So, we were able to convince.

But, of course, because of the news reporting, there was certain amount of confusion which was created by among the borrowers. That had an impact on overall collection. But as the legislation came in, there is lot of clarity which has come in that regulated entities are not part of this. So we're seeing better connections coming in.

In Tamil Nadu on the contrary, there is a very good clarity. The legislation is more driven out of proactive steps that have been taken by the government to avoid coercive lending. If we reach the act, the name of the act itself is Prevention of Coercive Lending Practices and it is not taking about microfinance, it is talking about all the lending practices. And it is very clearly from the day 1 focused on unregulated entities. It has not focused on microfinances.

So I think that is the main part. Apart from that, of course, Tamil Nadu is a very mature market. It has been one of the top markets for microfinance business for last 20 years and we have not seen any such confusion being created in the market. So, I think from that perspective, the market is pretty much insulated. We have not seen any such impact of this legislation so far and hopefully that will not be there in coming days as well.

Mayank Mistry: Okay. Okay, sir. And, sir, are Muthoot Microfin plus three lenders currently are at 11.1% and plus four and above that is 4.8%. So…

Sadaf Sayeed: Yes. The four lenders is at 6.8% and three lenders, yes.

Mayank Mistry: So, when do this book go to 0% now from here on?

Sadaf Sayeed: So, if you look at from an AUM perspective, it is already at 1.8%, the four lender plus. I think in a couple of quarters it should be less than 1% or close to 0% as the loans wind up. Usually, microfinance loans wind up quite fast. So, I think by September we should have close to a zero number.

Mayank Mistry: By September. Okay. Okay, sir. And, yes, that's all from my side. Thank you and all the best for coming quarters.

Sadaf Sayeed: Thank you.

Moderator: Thank you. We have our next question from the line of Anil Tulsi Ram from Contrarian Value Edge . Please go ahead.

Anil Tulsi Ram: Yes. Thank you for the opportunity. Sir, we have always highlighted our use of scorecards and separate credit officers in our process and how this will help us to reduce the credit cost compared to our peers. But I don't think it has helped us in any way. So, can you help us understand how this process has helped you in any way and what is that I am missing and what more changes we have made or plan to make in the underwriting process so that we can avoid such huge credit costs in the future? Thank you.

Sadaf Sayeed: Yes, I think if you look at from a perspective of industry GNPA versus our GNPA, they have considerably kind of different. We are at 4.84%. The industry is close to 13% GNPA. So, from that perspective, of course, the credit scorecard is making that impact. But again, the credit scorecard does not take into consideration any political kind of a disturbance that is created. So, that, of course, cannot be modelled in.

But having said that, I think what is our future strategy? As I mentioned in my opening remarks, we are looking at a little bit of diversification of our portfolio. As an industry, as SRO, and as a company, we have made multiple representations to RBI in terms of looking at liberalizing qualifying asset criteria.

And there is a high likelihood that RBI may look at that. And that will open us an opportunity to do multiple products. And we have already started products likeMicro LAP . And also, we have a product called MSDB, which is a gold-based product. And we have tool of financing and housing finance available from our company.

And I think we will leverage on this opportunity and the analytics that we have done on our portfolio. We have around 12.37 lakh customers, which have multiple retail loan products. Almost INR17,007 crores of portfolio between these three products, which is gold, LAP, and two-wheeler loans. Around INR8,000 crores of gold portfolio alone. That definitely will help us minimize our cost.

One thing we have also noticed in our analytics is customers which are having gold loan exposure, they are compared to delinquencies lesser. This is from a point that those customers are having some ability to save. That's how they have created gold assets. And they are able to generate some surplus cash. And they have the better ability to service their capital. So as we increase our exposure to the customers who have gold loans and build a portfolio, that will definitely help our balance sheet to be more secure.

Anil Tulsi Ram: Yes. Sorry to harp on this point more. Sir, Ujjivan, which is based in Karnataka itself and which is also facing the same climate, has reduced much lower credit cost and the guidance is also much lower. So that is what I am trying to understand. What exact -- something must have went wrong in our internal processes that our cumulative credit cost is 15% for the current crisis. So can you elaborate a few of the steps which went wrong and which we are planning to fix it going forward in microfinance?

Sadaf Sayeed: Yes, so I think barring Karnataka, if we look at southern portfolio has really behaved well. Karnataka, because of specific issue, has had an impact. But other than that, if you look at for us, Kerala is one of the best portfolio for us where credit cost, as well as any sort of delinquency is lesser. The collection efficiency is 100% on X bucket and close to 99% overall. Our focus would be to continue to focus on this market and build a little bit more portfolio.

Also, the new market that we have entered, which is Andhra and Telangana, we have 100% digital collection and 100% collection on time. Our focus would be to build those markets also. So going forward, our focus would be to build more portfolio in south and have a 60-40 ratio instead of what we have today, 50-50 ratio.

Anil Tulsi Ram: Okay, thank you sir. That's it from my side.

Moderator: Ladies and gentlemen, in order to ensure that the management is able to take questions from all participants in the conference, please restrict yourself to only one question per participant. Should you have a follow-up question, we request you to rejoin the queue. I repeat, please restrict yourself to only one question per participant. We have our next question from the line of Nitin from Green Capital Single Family Office. Please go ahead.

Nitin: Hi, good evening to the management. So I speak more as an investor rather than an analyst. So just for the record, extremely disappointing set of results from the company. My question is in terms of impairment of financial instruments. You've taken an impairment of INR652 crores this quarter. And your total impairment for the year is INR1042crores. Which has obviously, your net has gone down to INR222 crores versus PAT of INR449 crores.

Something is drastically going wrong and it is not about the microfinance industry. What is the company doing? And this is a tough question to ask to the management. What is the company doing to come back from this? And can you please tell us how will you ensure that your gross NPA levels are not crossing? Because your gross NPA levels are shooting and there is no demand in the market.

Sadaf Sayeed: So our GNP levels are at 4.84%, which is at an elevated number. But this is the peak of these GNPAs. We feel that in coming quarters, these numbers will only come down because we are seeing better collection efficiency, as well as this year we have calibratedly not grown our portfolio. Our portfolio has remained almost stagnant. The new trend that we are seeing that there is opportunities to bid portfolio, the markets are stabilizing.

Also, we, as I outlined, that our strategy is to diversify towards some of the new products which are more secured in nature, that will definitely help us to ensure that our portfolio remains more stable and we don't have higher GNPAs. But having said that, from the current portfolio also, we anticipate better collection.

We have seen that in our vintage curves that the peak of those NPA cycle has already been achieved, and they are all coming down. So going forward, we don't anticipate such high credit costs barring any sort of an event. The focus is on to build a sustainable balance sheet. That's why the credit cost is high, and it includes around INR230 crores of management overlay.

And despite, like these provision costs and the loss that we have incurred for the full financial year of INR232 crores(Errata: Actual number to be read as INR 222 crores), we continue to have around 27.9% capital adequacy. And consistently, like, we are able to bring our cost of capital down, and our leverage is just around 3 times. And we have focused on maintaining adequate liquidity.

We have around INR700 crores of liquidity on our balance sheet. And all of that ensures that our balance sheet remains robust and there is consistency and stability in the business. Of course, the year was a challenging year and there were multiple challenges which came around, and this has impacted the performance for this financial year. But in the history of Microfin, we have never reported losses. This would be an exceptional year. And hopefully, going forward, we will continue to improve from here and report better results.

Nitin : What I wanted to check was that is the financial impairment going to stop or will the provisions reduce or is it going to continue in quarter 1, quarter 2, quarter 3, quarter 4 of next year? What is the management perspective on the reduction of the provision? Because it's hitting your bottom line.

Sadaf Sayeed: Yes, so we have guided towards 4% to 6% credit cost as compared to 9.4% for the full financial year. We are carrying INR230 crores of management overlay, which will sub-assume if there is any challenge. We anticipate a lot of these provisions or the right of recovery to happen, and also provisions to roll back so the credit cost would not be as elevated as this is for this financial year.

Nitin : Not very convinced, but I wish you all the best. And I hope you can return some more wealth to the shareholders through dividends because, obviously, the growth is not there.

Moderator: We have our next question from the line of Anush Mokashi from Yadnya Academy Private Limited.

Anush Mokashi: So, sir, my question is about, I mean, I've observed this, that there are banks, which are opting for this CGFMU, which is sort of a hedge against microfinance strength. So can Muthoot Microfin opt for the same, and then that can help us reduce the provisioning number and the credit cost eventually? Your thoughts on this, please.

Sadaf Sayeed: The credit guarantee scheme CGFMU is a useful scheme, definitely. But there are certain limitations of that scheme. One is that there is certain amount of coverage that can be availed in that scheme which is limited to around 15% of your portfolio. It comes into effect. It's like buying an insurance. In the year you buy, it is not effective. But in the subsequent year, it is more effective.

It is also having an upfront cost, which is in the tune of 1.5% to 3%. And subsequently, there is a first loss which you need to take to around 5%. So in a year like this, where your credit cost is more than 5%, it definitely helps. But in a year where credit cost is much lesser, that CGFMU becomes a little bit of a cost prohibitive. But we are critically evaluating this. For certain portfolio, we can definitely take that. That is something that our risk management team is evaluating.

Moderator: We have our next question from the line of Kamal Mulchandani from Investec Capital Services.

Kamal Mulchandani: Sir, can you please guide us what is our current policy of giving a top-up loan or a second tranche of loan while the existing loan of the customer is going on?

Udeesh Ullas: For the next cycle of loans, the current policy is she should complete at least 50% of the loan amount or 50% of the net disbursement amount should get as a loan amount, and she should complete at least 9 instalments without any delinquency.

Kamal Mulchandani: 9 instalments without any delinquency or…?

Udeesh Ullas: And the next disbursement amount should be greater than 50% of the loan amount.

Kamal Mulchandani: So whichever -- one of that is met then you consider, giving a second loan.

Sadaf Sayeed: Yes.

Kamal Mulchandani: And this is same for your existing customers or a new customer?

Sadaf Sayeed: This is only for the existing customer. So a customer who have taken up INR50,000 loan, she should have at least repaid back INR25,000 for her to be eligible for a second cycle loan or a top-up loan. And minimum installment should have been paid is 9 months.

Kamal Mulchandani: And have there be any interest reversals during the quarter, and if you could quantify this?

T. Praveen: Yes. So we have taken a higher write-off in the current quarter, which is around INR332 crores for the entire year, and the bulk of the write-off is taken in the current quarter, Q4, which has led to an interest reversal to the tune off of INR49 crores.

Kamal Mulchandani: And can you give some guidance over your disbursement and AUM growth for next year? That would be my last question.

T. Praveen: So we have dated for 5% to 10% growth into the next financial year. And we expect we can retain the NIM, which we have reported in the previous in the current financial year, because the cost of fund is coming down. In this difficult environment, we have seen the cost of fund is coming down by around 18 basis points. And plus we have seen the rate cut very recently.

And it will take around 6 to 9 months to translate this rate cut into the real system. So that also should help us in terms of managing the NIM. And the opex also, we will retain in the same range as in the current financial year. The credit cost, as we discussed earlier will definitely come down compared to the current financial year, because of whatever stress.

So I think, we expect a better performance of coming up in in FY '26.

Kamal Mulchandani: But sorry -- I am not seeing the PPT. It was late. I just saw in your guidance. But, why is the growth so low is what we are expecting for the next year? Like, if you are expecting the credit cost to peak out, and the effect quality stress to peak out, so why are we not too much confident overgrowth?

Sadaf Sayeed: No. We definitely can grow more. I think, what we are guiding here is based on how the guardrails kind of play out, the second guardrail has just been implemented. And we are seeing increased rejection rate definitely, which is also impacting on the operating costs. But I think in a couple of months that will smooth out.

And I think the field officers will also understand the policy and they will source better qualified customers. And our strategy of looking at other products will also play out. So I think these are conservative guidance. Definitely, we can do better than this.

Moderator: Thank you. We have our next question from the line of Anant Mundra from Mytemple Capital.

Anant Mundra: So, firstly, the PCR across buckets has been increased, so that's a good sign. And I just wanted to understand, is this going to be a standard feature going ahead, or over time will be revert back to the earlier provisions that we had, in our stage 1, stage 2, and stage 3 buckets? So is this a permanent kind of a change? That was question number one.

And my second question was on -- I just wanted to understand, what is the total write off tool size that we have? As at the end of this quarter from which there could be potential recoveries in the future?

Sadaf Sayeed: So on the provision coverage, as I said, there is a INR230 crores of management overlay. So management overlay, as I think things play out, it will be sub assumed in the overall credit cost. So while we would continue to maintain sufficient provision coverage, but stage 2 coverage might have some changes. Stage 3 coverage, if you look at historically, we have maintained stage 3 coverage of 66%, 65% on an average, based on the portfolio and based on our ECL calculation, will remain.

And definitely, I think, from a perspective of recovery from write offs, that will happen. This year, we have around INR538 crores of write off. And previous year, we had INR131 crores of write offs. So between these 2 pools, we have seen recovery of good 20% over the period of time. So we anticipate that money would be recovered and that will contribute to the bottom line.

Anant Mundra: Got it. And so when is it that we review our ECL model? Like, is it an annual exercise or something? Or when do we review it?

Sadaf Sayeed: Yes. So, this is a very good question and a very relevant question. So we have reviewed our ECL model with our statutory auditors. And based on our reviewed ECL model, we have expanded it a little bit. Earlier, we were only considering the GDP growth and we were considering inflation. But now we are also considering, what is the employment ratios like in terms of labor participation rates.

And also the per capita income of each state because each state has a different impact. So our ECL model is a lot more robust now. And, we will be implementing that, from Q1. So, the management overlay that we have created is considering that ECL model. And, the idea is to have one full financial year with the existing ECL model and change only in the next financial year going forward.

So we have taken into consideration the impact on the portfolio that has happened over a period of time, and new PD, LGDs have been developed. This has been vetted by BDO and our internal auditors as well -- statutory auditors.

Anant Mundra: Got it. And sir this management overlay that we've created is lying across buckets. It's not in a single bucket?

Sadaf Sayeed: Yes. Yes. Correct.

Moderator: We have our next question from the line of Ashlesh Sonje from Kotak Securities.

Ashlesh Sonje: First question is just a clarification on your comment around Tamil Nadu. This 99.6% collection efficiency number which you have given, I assume that one is for April. What are the trends in this month, specifically in the last few days in the month of May?

Sadaf Sayeed: Yes. So we have not seen any adverse impact on the portfolio in the last 6-7 days of operation. And 99.6% is for April, it's for X bucket for April. And currently, also, the collection remains quite robust.

Udeesh Ullas: Yes. So the ordinance has just come on 27th. It came on the newspaper. So on 28, 29, there were few questions were asked by the customers, but afterwards, there is nothing. Even if you look at the May first week also the collection remains as earlier we used to get.

Ashlesh Sonje: Okay. Got it. And, secondly, how is Karnataka trending now in terms of collection efficiency for the month of March and April for you?

Sadaf Sayeed: Yes. So, collection efficiency is improving. So if you look at the fresh delinquency, which was there in Karnataka was in February, the peak was there, which was around 9.1%. So, X bucket collection efficiency at that point of time became around 91%. In March, it has gone back to around 94% and it continues to improve month-on-month. So even for April month, it was around 95%.

Ashlesh Sonje: And just lastly, can you explain the chart which you have put on slide number 17, where you have shown the impact of delinquency on specific retail loan products for any type of loan and so on?

Sadaf Sayeed: Yes. So if you look at this chart, basically talks about the delinquency on various product exposure that is there. So if you look at the customer who's having a gold loan exposure, the delinquency for those customer is much, much lesser. So these are customers who are having a 1 type of loan or 2 type of loan or 3 type of loans. So I think if the customer has multiple type of loans also for one loan on them and gold loan.

So you will see the delinquency is lower. I think the second lowest category is Credit Card. If the customer has a Credit Card exposure, they have a lesser delinquency. But among our products, if you look at, if they have some sort of a mortgage loan, then also there is a lesser delinquency.

I think both of them basically indicate towards if the customer has an ability to create asset that is creating savings, which shows that their income is creating some sort of a surplus for the household. And that really makes them a more credit worthy customer. Whereas if you look at our business loan product, where the delinquency is much higher, which indicates that the customer is a higher profile, which is there for business loan, but she is coming out and taking a microfinance loan only because she is not getting any more business loan. And hence, the delinquency relatively is considerably higher. So we are not looking at those set of customers. We are looking at gold loans, we are looking at mortgages. We are looking at vehicle loans.

Ashlesh Sonje: Understood, sir. Thanks a lot.

Moderator: Thank you. We have the next question from the line of Deekshant from DB Wealth. Please go ahead.

Deekshant: Sir firstly, since you have mentioned that this is a peak of our provisions, can you one mention excluding the management overlay, what is our total provisions? And secondly is what is the percentage of these total provisions that can be recovered in the coming three to four quarters?

Sadaf Sayeed: So excluding the management overlay, our credit cost is 7.5%. And the bulk of this overlay around INR134 pertains to Karnataka portfolio, which is basically kind of just 2 months or less than 2 months kind of an old problem which started in mid of February. So we anticipate good amount of this money to come back because usually, the customer gets influenced because of the media reporting and other group customers who are not paying.

And then eventually, when she realized that it is hampering her creditworthiness and the future borrowing, then she starts repaying. So, after 2 months, 3 months, they generally start repaying. So we anticipate not all of this to go into an NPA and or write off further. This -- good amount of this will get reversed, that is our anticipation. That's why our guidance towards credit cost is 4% to 6%. 6% in a worst case scenario is similar thing like a Karnataka happened elsewhere. But in a normal scenario, it will be close to around 4%.

Deekshant: So you are expecting around 70%, 60% of your provisions to come back to you?

Sadaf Sayeed: Traditionally, not 70%, but around 60% of our provisions come back over a period of 2 to 3 years.

Deekshant: Okay. Sir, the question I'm sure that our management had asked to ourselves is that what is wrong with the system that we have right now on the lending that we are doing? And we have identified which are the lowest and high-risk areas. What I really want to understand from you is, what are we changing right now which will make us a better business going forward?

Sadaf Sayeed: So we have made multiple changes. So, of course, I think the events like Karnataka, which are more driven by political interventions are beyond our control. But in terms of improving on our underwriting, our constant endeavour is to ensure that we improve our underwriting quality, understanding of our borrower.

We are focusing more on digital. We have got an eKYC license, so we'll be using that to authenticate customers. You have a better KYC, like Aadhaar ID then it helps us to do -- or Aadhaar or a PAN card. It helps us to do a better credit bureau check, which will also give us a comprehensive view of the customer's leverage and the repayment track record that will also help us.

Apart from that, we are introducing products to capture the wallet share of the customer. Our existing customers out of that 12,37,000 customers are having multiple products, which cumulatively amounts to around INR28,000 crores of portfolio. We want to capture that without overleveraging those customers. We will be able to make a greater wallet share of those customers and those customers will actually become part of our performing portfolio. And that will really result in better quality of assets and better customer retention and better return on assets.

Deekshant: Sir, I understand that what we are doing ahead, but like and Karnataka is a very recent issue as you have mentioned. But apart from Karnataka and even some of these cyclones that have happened, there seems to be a higher stress in our book than the total markets book in the regulated space. Something else must have also gone wrong as many people are thinking here.

And, I don't want to harp on this question too much, but sir, if you could just give us some color on what has really been the deciding factor that this is something that we won't be doing again. Is there something like that for our business, sir?

Sadaf Sayeed: So, if you look at the industry level, the delinquencies are much higher as compared to us. But in terms of prevention of any impact of natural calamity like a cyclone, we have a natural calamity insurance product, Nat Cat insurance, which has really helped us in preventing any damage that was caused due to cyclones in Tamil Nadu or heavy rains in Tamil Nadu. 50,000 of our customers were impacted, but we were able to get those claims on time hence their agreement has remained better as compared to the industry.

But, I think overall, we have relooked at our scorecard as well. We have included more variables into the scorecard, something like what we have just discussed regarding customer having gold loan exposure, having lesser of a delinquency. Those kind of inputs have gone into the scorecard, which will help us underwrite better.

Deekshant: Okay. So my last question is on our ROA and ROE outlook. Since we are not expecting a lot of top line growth right now or since we're not guiding a lot of top line growth right now, what do you think the ROA and ROE target should be for FY '27?

Sadaf Sayeed: So ROA guidance, what we are giving in terms of FY '26 is around 2%. And ROE translates to around 10%. And we feel that with the moderate growth also, we would be able to make sure that our operating costs rationalize, our credit costs will come down considerably. And more importantly our net interest margin remain robust, so we should be able to deliver around 2% ROA comfortably. And '27 onwards, FY '27, definitely, we will be back to around 4% ROA, provided there is no event situation that comes in.

Deekshant: Sir do you think that this microfinance issue that we are seeing all around at this point of time, of course, we are seeing that a lot of managements have also peaked out. And since our management has been so good in lending and borrow in both parts. Sir, do you think that it has grown out of proportion at this point of time because we are seeing better collection ratios also?

Sadaf Sayeed: Yes. So I think every business goes through a cycle. So definitely microfinance, these cycles have become little bit more frequent. We had COVID a couple of years ago and now we are seeing a crisis of over leverage and then state level legislation. I think from a point of view of rebound, definitely microfinance as an industry has shown multiple times, whether it was Andhra Pradesh crisis, whether it was demonetization or COVID, it has bounced back reasonably well.

So, definitely, we get impacted quite a lot because nature of our product is unsecured, but we get back and are able to kind of get back to normalcy also equally fast because the nature of the loans is short term loans and the borrowers are quite reliable borrowers and most of the borrowers are not intentional defaulters. They are situational and circumstance which lead to these delinquencies.

So I think definitely microfinance has a long-term kind of space in this lending space and will continue to play a very important role. And as we continue to see more and more borrowers are getting into this space and getting benefit and getting into the formal segment, it plays an important role in financial inclusion. And I don't think so that it will have dark future. It will have a bright future going forward.

Deekshant: Thank you so much for the clarity. Wish you the best.

Moderator: Thank you. We have our next question from the line of Sarvesh Gupta from Maximal Capital. Please go ahead.

Sarvesh Gupta: Good evening, sir. Sir most of the questions have been answered. Just wanted some more color on how the growth in terms of new disbursement is getting impacted because of the guardrail 2? What are you seeing in the ground that you're seeing like, we have been having that for the last five weeks, six weeks?

Sadaf Sayeed: So I think because of the guardrail 2, we have seen little bit of a jump in the rejection, which is on a temporary basis around 5% to 6% additional, 3% additional incremental rejection has come in. I think definitely that impacts the ability to retain customer because if a customer has other loans outside, we are not able to give her a loan.

But definitely, it is in the interest of the industry. We have seen the industry has degrown from INR4,40,000 to INR3,75,000 crores as of March. And the leverage has also gone down among the borrowers. I think from a long-term sustainability point of view I think it is pretty good. And as a player who has been there for a long term, we have good capital adequacy which continue to contribute to the growth. So definitely we'll be benefited once this overleveraging scenario kind of unwinds.

Sarvesh Gupta: And, sir, on the Karnataka situation, so I think till December it was one of the better performing states. So I think we saw a lot of spike happening in the month of February for the industry also. And, so now do you expect this problem to sort of take its own slow time or do we think that a pullback in terms of asset quality can happen in a very short time? Because all these problems have happened over, late Jan and Feb.

Sadaf Sayeed: So, I think that's the benefit of microfinance that all of these challenges gets un-winded also quite quickly. We are already seeing a pullback in Karnataka. We don't anticipate any challenges. See, the guide, the regulation that is there it is restrictive towards unregulated vending. So definitely in the long run, that will help the regulated entities like us to service our customers because the unregulated players will move out of the space and the bad name that the industry gets because of the practices of an unregulated player that will not impact our borrowers. So that definitely will help us in the long run. It's a short-term pain, but for the long term, definitely this will be beneficial for the borrower as well as for the industry.

Sarvesh Gupta: And by the -- when do you expect the situation to normalize there, sir?

Sadaf Sayeed: I think by September onwards, things will start looking a lot better. And already we are seeing improvement. But these are early days, so I think we need to see a little bit more trend. But by September onwards, we should definitely see positive trends coming in.

Sarvesh Gupta: Okay, sir. Thank you and all the best.

Moderator: Thank you. We have our next question from the line of Anush Mukherjee from Yadnaya Academy. Please go ahead.

Anush Mukherjee: Hello. Yes, thank you for the opportunity. So you called out that by September you see things to be turning out better. But in FY '25, Q3 was impacted also because of some festive reasons. So do you expect the same to happen in this Q3 as well?

Sadaf Sayeed: No, we don't anticipate that to happen because I think we have taken some proactive steps. So certain things like we have introduced a policy where all the instalments which are falling on a festival date, they automatically get kind of into an extension of tenure. While we are originating not for the existing loans, but any loan that we are originating at the time of fixing the installment, if we see that installment is falling on a validated holiday or a holiday for the state which is celebrated at a large level, that loan tenure gets extended.

So our 24-month loan becomes 25 months and then 26 months of one installment. That has been multiple ways. One is on the collection because on a festival day, the staff is also not available and the customer is also not available. Then the collection does not happen. But now that it will not be an installment day, so it will not impact the portfolio.

Secondly, it will also help in staff retention in a big way because when there were no such holidays, then the staff was required to go and collect either just before the festival date or after the festival date, which also impacted his ability to celebrate his festival with the family. So that led to attrition and all those activities. But all of these initiatives will help us build a robust portfolio and help customer satisfaction, as well as employee satisfaction in a big way.

Anush Mukherjee: Okay. Thanks for that clarity. And you said that FY '27, provided there is no adverse situation, you see ROA of roughly 4% odd. Can you also call out the estimated, like the ROE number for that year as well?

Sadaf Sayeed: So we can, depending on the leverage, including the off-balance sheet portfolio, we will have around 4.5 to 5 times leverage that can result into around 18% to 20% ROE.

Anush Mukherjee: 18% to 20%. Okay, okay. Thank you. Thank you so much, sir.

Moderator: Thank you. As there are no further questions from the participants, I now hand the conference over to the management for closing comments. Over to you, sir.

Sadaf Sayeed: So once again, I thank you all for participating in our earnings call. As I outlined in my opening remarks, our focus is on building a robust and sustainable business model and short-term pains are for the purpose of laying down the foundation of a long-term sustainable growth. We are taking up a very strategic move in terms of exploring products which are of secure nature for our customers. I'm hopeful that the regulatory guidelines on the qualifying assets will also come in rather quickly and which will allow us to take benefits of these data mining that we have done.

I think with these products, we will be able to retain our customers better. We continue to have a very strong brand. We are strong leaders in digital space. We have 1.8 million customers who are having our app and we have seen the repayment trends. We have a very strong rating and we continue to maintain our rating. We have a good ESG rating also now. We have a very strong liability franchise which is consistently bringing down the cost of capital. We have adequate capital adequacy of 27.9% and we have a strong stable team with a very, very robust branch infrastructure.

All of these are fundamentals which are in place. The year which has gone by has been challenging. But I'm very confident that going forward, these fundamental pillars of success that we have put in place will help us achieve the double bottom line that we have wished to and we have aimed for forever, that is a social impact and also a sustainable return for our investors. With that, I appreciate your patience and request your support and look forward to interacting with you in future calls.

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