"Muthoot Microfin Limited
Q1 FY26 Earnings Conference Call"
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MODERATOR: **MR. MAYANK MISTRY – JM FINANCIAL**

Moderator: Ladies and gentlemen, good day, and welcome to Q1 FY '26 Analyst Conference Call from Muthoot Microfin 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. Thank you, and over to you.

Mayank Mistry: Thank you, Avirath. Good morning, everyone, and welcome to the Q1 FY '26 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 this call. From the management team, we have with us Mr. Thomas Muthoot John, Executive Director; Mr. Sadaf Sayeed, Chief Executive Officer; Mr. Praveen, CFO; Mr. Udeesh Ullas, COO; Mr. Rajat Gupta, AVP, Investor Relation.

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 morning, everyone. Thank you for joining the Q1 earnings call from Muthoot Microfin for financial year 2026. The quarter gone by brings much needed change in microfinance operating environment. This was after a difficult year of financial year '25. This environment change is on the back of improved macroeconomic trends and robust disbursements, which happened in Q4 of financial year '25.

As you all know, the rabi crop was good. And because of the good harvest, we have adequate supply of vegetable and food items, which brought inflation under control. And with good crop also with good disbursement, there was a good amount of cash flow, which was available in the rural indolence and there was money in the hands of the customers. That's why there is an improved trend in overall microfinance macroeconomic operating environment.

Usually, quarter 1 is a slow quarter. However, despite the Guardrail 2 that has been introduced by MFIN, which was implemented from 1st April, the disbursements have been decent. In the quarter gone by, we have disbursed 3,11,026 loans under 6 different products, valuing INR1,775 crores during the quarter 1. This is a lower disbursement as compared to year-on-year, around 19.4% lower and around 9.4% lower to the last quarter, which was quarter 4.

Usually, quarter 4 is a most business-generating quarter, but considering Q1 is slightly slower quarter, we have been able to manage within the 10% of the disbursement, which is a good indication. And this despite that the regulation has tightened and there are guardrails of 3 lenders which have been implemented.

If you look at overall portfolio, our disbursements or our portfolio, the 3-lender count is consistently reducing. If you look at as a percentage of overleveraged customers in terms of more than 2 lakh exposure, it has come down to just 1%.

With the disbursement that we did in the last quarter, our asset under management has reached to around INR12,252 crores and our borrower count has reached to 34.1 lakh borrower. This is an increase of just a nominal 0.3% year-on-year. But important point is that we added 1.1 lakh new to Muthoot customers in the quarter, and we added around 34,000 new to credit customers in our customer base.

During the quarter, we opened 27 new branches, and we closed 1 branch. Our overall branch count reached to around 1,726, and our expansion was more in newer territory that we have entered is Assam. And we have deepened our presence in Telangana and Andhra Pradesh during the quarter. Even though liberalization of qualifying asset, which was earlier requirement of 75% has been reduced to around 60% was announced later.

But from the day 1 in this financial year, the focus of Muthoot Microfin has been on a calibrated approach towards product diversification. And during the quarter, we have introduced 3 product lines, which is loan against property, which is Micro LAP. It's a loan which is between INR1 lakh to around INR10 lakh for our customers. We have introduced a product which is gold loan.

We are in the process of post the newer guidelines on co-lending has been introduced just recently. We have taken an approval from the Board to have a co-lending tie-up with our parent company, where we would be extending gold loans to our customers. We have also introduced another product, which is individual loans. It is micro MSME financing.

If you look at the approach has been to look at the data in the presentation, we have given the breakup last time about the penetration of these customers from retail lending point of view. Out of the 34 lakh customers, around 12,37,000 customers were having retail loan exposure. Out of that, around INR11,000 crores of business was done through business loan and PL. Around INR8,000 crores of business was done in gold loan business and around INR6,000 crores of business, which was done in individual loans in loan against property and mortgage business.

So if we look at cumulatively, this is an opportunity of around INR25,000 crores which if we are able to carefully select these customers, we should be able to have at least a 20%, 25% penetration because these are all customers who are already having an engagement with us.

We have had an approach of deep diving into the data and bringing in the best or the cream of these customers. We have done that analysis with a data-driven approach. We have identified 440,000 customers, which have a credit score of more than 730 plus with us, so which means the credit bureau score of 730 plus.

We are targeting these customers. 35% of these customers are absolutely unique to us. Around 29% of these customers are having us plus one more relationship, which is in retail lending. So cumulatively, this is around 64%, 65% of our customer base. This will become our base for our calibrated and careful product diversification going forward.

I'm also happy to inform you that recently, our credit rating agency, CRISIL has reaffirmed our long-term debt rating to CRISIL A+/Stable. Our MFI Grading has been M1, and our code of conduct assessment rating has also been C1. M1 and C1, both being the top-notch rating for the organization.

With efficient utilization of fund, we had adopted a strategy of focusing on using PTC as a source of capital. We have been able to raise INR1,450 crores during the quarter. The most important feature of this fundraise is that we have been able to bring the cost of fund down by 23 bps. Our cost of fund for Q1 stands at around 10.79% as against 11.02% in the previous financial year.

And mind you, this is without the reduction in rate that has yet to be percolate to all the borrowers from the banks. The rate cut benefit will translate further over and above this. For the first time in history of Muthoot Microfin we have been able to bring the incremental cost of borrowing overall to below 10%. Our incremental cost of borrowing has reached around 9.97%.

And this has been possible because of our calibrated approach of focusing on sources of capital, which was cheaper. We have done PTC transactions at fine rates of 8.8%, 8.5%. We have raised almost INR890 crores during the quarter through the PTC source.

During the quarter, our net interest margins have also improved to 11.5%, which were around 10.9% in Q4. We have revised our lending rates. Our loans are now available from 18% to 24.85% with a weighted average rate of around 23.5%. This impact of this will be seen in coming quarters coming from Q3 and Q4 as largely book is right now at a lower rate. But going forward, the average rate will continue to increase, which will also help us improve on our margins. Apart from that, definitely, the cost of fund rationalization as it continues to come down will definitely help us bring the margin better.

During the quarter, we have also implemented a comprehensive and robust ECL policy. The new ECL policy takes into consideration macroeconomic indicators such as inflation, per capita income at a state level and unemployment rate at the state level and GDP growth, which we were already considering. This comprehensive approach definitely helps us to build a provision cover, which is more robust as compared to the previous ECL policy.

During the quarter, as you know, last quarter, we have created certain management overlay amounting to close to INR230 crores. We have utilized that management overlay to write off some of the flows from Karnataka, which we anticipated last year. So INR132 crores of that has been utilized to write-off loans. Another INR97 crores of overlay, which remains with us has been utilized to build cover on the portfolio.

As of today, we stand at a very robust provision coverage ratio of 68.5% for Stage 3, 8.17% for Stage 2 and 1.16% for Stage 1. This is a significant improvement year-on-year, where our Stage 2 covers were much lower as compared to Q4 or for that matter, if you go by financial year '24, Q4, it was around 1.06% in Stage 2.

We are now at 8% at Stage 2, which is a decent cover considering the environment. We have almost between the IRAAC and the ECL cover a gap of around INR297 crores. So the coverage is adequate. Overall coverage on our provision is around 97% if you calculate all the provision against the Stage 3 asset, which is a decent cover.

But most importantly, despite all of this robust cover, our credit cost remained at around 4.3%, which is within the range of our guidance, much lower to credit cost as compared to 9.4% for the last financial year. And we feel that as we build more and more newer portfolio, this credit cost will further rationalize.

Our GNPA remains stable at 4.5% and that was our effort to ensure that we utilize the cover that we have created in the previous quarter to not let the GNPA further balloon. And our net NPA increased marginally by 24 bps to 1.58%, but they remain in a very comfortable position.

I'm also happy to inform you that we have understanding from the banks on the covenants, which are based on GNPA and net NPA and others. Those covenants were in breach for INR2,500 crores facility, but now they are at INR750 crores facility. It has reduced considerably, and we are in talks with other lenders who will be giving us the waiver for these covenants. And these lenders have continued to support us in funding.

We continue to maintain a robust capital adequacy ratio. Our CAR for the quarter 1 stand at 27.85%. We concluded the quarter by reporting a modest profit of INR6.2 crores prior to the OCI. But if you include the total comprehensive income, it's around INR8 crores. Though it's a very modest profit. But more importantly, it indicates a firm ushering of a turnaround within the operation and the financial performance of the company.

We are now better placed and more confident of building a robust, sustainable, and well-diversified business, a business which is built on strong foundation of data analytics, use of technology, focusing on customer centricity and robust underwriting practice. I'm sure the coming quarters would show the results of the portfolio that we have built, and we are trying to build. I think with the ability to diversify and leverage within the organization, within the group with multiple group companies who are already offering such products, we will be able to build a robust business.

So I think I'll conclude my opening remarks here, and I'm happy to answer any questions that our participants will have.

Moderator: Thank you very much. First question is from the line of Shubhranshu Mishra from PhillipCapital. Please go ahead.

Shubhranshu Mishra: So a few things really don't add up here. We still have our customer count at around 34 lakhs, and we are going aggressive on new to credit customer acquisition, whereas at an industry level and other microfinance players have reported purging of customers, hence, the customer count has reduced. And when I add this up to, say, the 3-plus customers or 4-plus customers, that number is much higher. So are we not purging customers? Why are we going aggressive on new to credit customers? That is first.

Second is we have a big concentration in UP. What are we doing to derisk from UP, where we would most likely have nascent to credit customers with nascent banking habits. What are our plans to derisk from that particular state?

Third is that with the qualifying assets getting reduced, what are the new products going to launch, whether they'll be secured, unsecured, what kind of IRRs we are looking at? What is the opex increase we should build in?

Sadaf Sayeed: Thanks Shubhranshu. Thank you very much for asking that question. A number of questions there. I will answer one by one. Firstly, on the customer base. In terms of our 34-lakh customer, this actually captures the entire customer base, the accounts which are live when we are even writing off or when the accounts are delinquent, these are also counted on in this customer base. If you look at customers who are not in NPA, the account base is around 29 lakh customers.

The new acquisition of customers is essentially from areas where we have entered into more recently, so Andhra, Telangana, and Assam. That is the new customer base that is coming from. While we continue to focus, we have strictly implemented the guardrails, which MFIN and Sa-Dhan has recommended. We continue to focus on retaining our existing good customers. But at the same time, we need to look at customers who are less leveraged and they don't have multiple exposure.

So both strategies go hand in hand. The disbursement, if you look at in terms of distribution, earlier, we used to have 50% new to Muthoot customer, 50% existing customer. But now we have around 38% new to Muthoot customer and 62% to existing Muthoot customer.

So already, our focus is on existing customers. But more importantly, our effort is to increase the wallet share in the base of our good customers. And that is where I said we have done a deep analysis and we have identified among those customers, 440,000 customers who are having a credit score of 730 plus from the credit bureau.

So these are actually cream of the cream customers, and they are able to service higher installment, and we feel that they are in a higher income bracket. These customers will become basically our pillar for expanding into the other product category. So we are offering Micro LAP, we are offering gold.

We are offering individual loans. And we are basing our product thesis on the base of the data that we have seen where our customers are already having an exposure with the other retail lenders. So that's basically on the new products and on the customer base.

I think you had another question, sorry, I missed that.

Shubhranshu Mishra: How do we derisk from UP?

Sadaf Sayeed: Yes, UP -- yes, correct. So currently, if you look at our largest customer base is in Tamil Nadu and Kerala, which constitute almost around 42% - 43% of our overall portfolio and around 45% of our customer base. Our effort is to have around 50% in South and 50% in the rest of the country. While as we expand to Assam, a good amount of share would be given there. We are also doing rationalization of certain branches where we don't see that profitability or the operating cost is being justified.

So we are also consolidating those branches, especially in UP and Bihar. Overall, if you look at portfolio has remained stagnant or come down in UP and Bihar, and it will continue to be so. As we leverage on more customers out of these 440,000 customers, almost 75% of these customers are in South only. So when we build more portfolio with these customers, our portfolio share of southern states will increase. And of course, North, especially UP and Bihar will reduce because we are not offering more of gold loans and individual loans in those areas.

LAP is being offered there. Our markets like Haryana, Punjab, Himachal will also be more of an individual loan market. So I think from that perspective, we will be able to balance our portfolio mix. Our long-term strategy has always been to have 50% portfolio in South, which has really served us well in terms of repayment and as well as the customer satisfaction, and we will remain on that strategy.

Shubhranshu Mishra: So just wanted to know what is our opex increase that we'll be building in to bring out the new products?

Sadaf Sayeed: Yes. So I think that's a very important question, and you asked about the opex. In the short run, the opex has gone up to around 6.9%, which is largely because of calibrated disbursement and reduction in disbursement. But in the coming months, as we increase our disbursement, this opex will rationalize. And our strategy for building this portfolio is to utilize our existing branch network. We are not kind of planning to have separate branches for this. But we have a specialized credit underwriting facility.

For LAP, we already have a team, which were doing our MSGB business. They will be utilized for underwriting these loans. Individual loan, we are adopting a very well thought technological process. We have done a lot of innovation. We are tying up with an organization which is GenAI artificial intelligence-based technology where based on the personal discussion of the field officer with the client, we will be able to record that and the voice will be converted into text and that text from vernacular would be converted into English automatically, and that will give us a CAM, credit appraisal memo.

Basically, we have to make sure that during the PD, the field officer ask those 10 questions, for example, like what is your income, what is your expenditure is your house owned? And if it's not, what is the rent you are paying, things like that. And based on that, a credit appraisal memo would be created.

Then there is a centralized credit underwriting team, which will analyze that credit appraisal memo and also look at the credit score of that customer. And based on that, a decision would be made on those customers. So we have seen this. We have already disbursed certain loans under this. Last month, we disbursed around INR18 crores of these loans.

And so far, the repayment has been absolutely on time. All the repayment of these loans is 100% digital through eNACH. And so far, all the eNACH have gone successfully through. There is not even a single bounce. So that itself will bring a lot of operating efficiency. We will be able to leverage our branches better.

Apart from that, the good part about being in Muthoot Group is that we have a leverage of other group companies who are there. We are already in talks of having a co-lending business with Muthoot FinCorp, where we have identified that a lot of our customers are having gold finance business with other companies. So we will focus on those customers and give them customized gold finance facility within the group, where we will have a co-lending share where 60-40 partnership is there, 60% would be on Muthoot Microfin book and 40% would be on Fincorp book.

Similarly, on housing finance, we have identified customers who are having loans there are 1,14,000 customers who are having loans outside. We have identified that around 50% of those customers are having loans which are higher than our LAP rates.

So we will be focusing on those customers to build that in our book and the customers which are having lower rate of interest, we will be facilitating a BT for those customers with our housing finance company, where we will earn some fee income on those products. So from that income and utilization of our existing branches and tie-up within the group company, we will be able to significantly rationalize our operating cost.

Shubhranshu Mishra: If I can just ask one last question, which is a data point. How many customers we bank on a monthly basis, which is like how many customers are presented NACH mandate for EMI?

Sadaf Sayeed: So the IGL product, which is more of a cash collection product, there is no -- we have a NACH mandate signed by the customer, but we don't bank that NACH mandate. That is only utilized if there is an overdue. But if you look at individual loan customers and LAP customers and certain our

PRAYAAS loan customers, we do a NACH mandate for them, banking of NACH mandate. I don't have the ready number, Udeesh, what is the number for that?

Udeesh Ullas: So we do around 1,000-odd cases eNACH processing month-on-month and plus there is a digital collection of around 23% to 25% every month. So that cumulatively comes around INR200-odd crores of collection.

Shubhranshu Mishra: this EMI collection, digital is basically UPI, right?

Udeesh Ullas: No, it's eNACH. and this digital collection is for the microfinance customer, basically the UPI collection, BCCS.

Shubhranshu Mishra: Balance of cash collection, 70% in this...

Udeesh Ullas: Balance of cash collection.

Moderator: The next question is from the line of Ankit Sonkhiya from Oculus Capital Growth Fund.

Ankit Sonkhiya: Sir, our loan per branch and employee has continuously gone down and still we are opening more branches. So aren't we looking for sweating the existing branches so that our opex ratio comes down? And the second question is when we are going for this co-lending model, as our opex ratio is 6% to 7% right now, on the 40% that will go to the parent book, are we getting compensated for the 6% to 7% of operating expenditure that we incur on sourcing of the clients, the branch expenses, the collection, et cetera? So that was the second question.

And the last question is, as our NIM has been below the guidance level and the opex ratio is also higher, and the entire management overlay we have already utilized. So any changes in the guidance for this year in terms of credit cost, NIM and the opex ratio? These are the 3 questions.

Sadaf Sayeed: Thanks, Ankit. I think firstly, on the branch productivity, the AUM has been pretty much consistent for us. We closed this year at INR12,200-odd crores of assets under management, INR100 crores down than previous quarter. But already, the growth trend is already being noticed in July, and this will continue to grow. As I said, we will be rationalizing our branches and also looking at leveraging our existing branches. So of course, the AUM per branch will definitely increase going forward. You will see that in Q2 and Q3 and significantly in Q4 that will automatically result in rationalization of our opex.

Currently, our opex is around 6.9%. This is largely because of lesser disbursement that we have done during the quarter 1. Already, the trend is that disbursement per month is improving. In the last quarter, we were doing around INR630 crores, INR640 crores of disbursement. July itself, we have seen around INR727 crores of disbursement. And in coming months, it will touch around INR800 crores, INR850 crores and reaching to around INR1,000 crores disbursement by September and going forward quarter. So that will automatically rationalize some of our expenses.

Apart from that, we are not looking at opening many branches. The branch count pretty much will remain the same. As we expect –that by the end of the financial year, it will marginally go up.

On the co-lending piece, we are having a 60-40 relationship where only a lead from our side would be passed on where we have identified that our customers, existing IGL customers is having a gold loan exposure outside. The rest entire customer underwriting assessment of gold, storage of gold and servicing of the customer would be done by MFL, the gold loan branch, which is our parent company.

In this, our operating expense is next to negligible. Our yield on the portfolio would be sufficient for us. We are looking at incremental benefit from this, considering our cost of fund is coming down. We will continue to have a decent spread on this loan without incurring any amount of operating cost or a very marginal operating cost.

We have also seen in gold loan products, the credit cost is very, very minimal, below 1% or even below 50 bps most of the time. So that is where we think that it will benefit us in overall cost-to-income ratio will rationalize because of that.

On the NIM. The NIM has already started expanding. The guidance that we have given is for the full financial year. We are quite confident that by the end of the financial year, we will, definitely, be within the guidance or overachieve the guidance. The expansion of NIM is happening on both the sides. One on the rationalization of the cost of fund. As I explained, we have already reduced around 23 bps in cost of fund in quarter 1 itself.

And this is even before the passing of the rate cut happens. As that benefit of the rate cut is passed to us, we will be able to further reduce our cost of fund. And at the same time, we have revised certain lending rates, and we will have a well-diversified portfolio where we will be earning some fee income as well. So overall, our NIM will also expand, and our profitability will also improve.

The third question that you have was on the management overlay. Out of the total INR230 crores, INR132 crores of the management overlay has been used for writing off, which was the intended purpose we knew that certain portfolio from Karnataka will flow into NPA and that would be slightly difficult to redeem, so which has been utilized to write off those loans. But INR97 crores of that provision still remains.

However, that has been absorbed in the overall provision requirement because we have changed the ECL model. If you go back to the old ECL model, the provision requirement would have been lesser. So we would continue to have INR97 crores as management overlay. But because the ECL model, we have changed, we have made it more robust. We have looked at more aspects on the macroeconomics to be considered for calculating so that there is no volatility in the income. So that management overlay has been utilized to make provision.

On the credit cost side, we are quite confident that going forward, the credit cost will reduce. We are seeing a tremendous turnaround in collections, where we used to recover around INR6 crores to INR7 crores from overdue loans. In the quarter gone by, we have recovered around INR38 crores from overdue loans and -- which is around INR13 crores per month kind of a run rate. And if I give you an example of July month, we were able to recover around INR18 crores.

So this number is consistently increasing. But if we even if we take an average of around INR16 crores to INR17 crores also for the balance period, good amount of INR150 crores from the overdue loans would be recovered. And we are seeing good traction everywhere the collection efficiency is improving. And more and more new loans that we do, there would be better recovery on those loans.

We have seen that in the vintage curves, the loans that we have originated in October, November onwards, their data quality is much better repayment quality as compared to the loans prior to that. So post guardrail, the recovery quality has been much better. So which will automatically translate into a lower credit cost -- and we are quite confident that we will be on the lower spectrum of the guidance that we have given.

Ankit Sonkhiya: Awesome. Very nice to hear that, sir. One doubt that I had is this co-lending part. You mentioned that you will be mainly doing the lead generation, but then the collection and all the servicing will be done by the parent. So -- but let's say, the branch network, they will not have in the same areas that we have. So how the collections will be done? Won't it be cost -- it will increase cost for them if they come and collect the money from these guys where they don't have branches?

Sadaf Sayeed: Yes. Ankit, usually, the gold finance repayments are bullet repayments. And the tie-up is based in such a manner that we have pincode basis identified branches that these branches would be able to service these customers. So whichever customers are there within the 5-to-6-kilometer radius, we will be servicing and focusing on that branch.

The good part is that Fincorp, which is our parent company has around 3,900 branches spread across the country. And we have around 1,726 branches. So there's a decent amount of overlap. A larger part of these leads, almost 75% are from South where we have a tremendous density. So we should be able to service this customer and Fincorp would be able to service these customers.

Ankit Sonkhiya: Okay. And one last thing. So let's say, once the customer has taken the gold loan and the bullet payment has been done, won't that customer directly go to Muthoot Fincorp now because they will have the data of the customer, and we will not get the repeat customers in the gold book?

Sadaf Sayeed: So we have a clear understanding the customers which are sourced from Muthoot Microfin will remain Muthoot Microfin customers. We have a concept of UCIC, unique customer identification code. So for each customer, there is a UCIC, which will be there for whatever comes through Muthoot Microfin and that will remain throughout the journey of the customer within the system.

Moderator: The next question is from the line of Mayank Mistry from JM Financial.

Mayank Mistry: Sir, just one question. I think it was partly answered in the previous question. But I wanted to know, I mean, see, in this quarter, we were already at the lower end of our guidance, right, at around 4.1% (Errata: actual number to be read as 4.3%) of credit costs. And like the collection efficiencies are also improving given that we had the extra provisions in previous quarter, mainly expecting that the Tamil Nadu book might start showing some dip in collection efficiencies. But it seems like the situation has actually turned out pretty positive.

So is it possible that -- I mean, most of the MFIs, even others are largely seeing the declining trend in credit cost. So I'm assuming that even at 4.1% in this quarter (Errata: actual number to be read as 4.3%), this trend should be declining from here on. So what is your take on the remaining quarters on credit cost? I mean you already said that we will try to maintain at a lower end of the guidance. But is it possible that it might even turn out even lower considering that we are already in the lower end?

Sadaf Sayeed: Yes, Mayank, very apt question. Actually, we would definitely be at the lower spectrum and could be below our guidance as well. We didn't want it to revise the guidance because we just issued the guidance in Q1 at the beginning of the financial year. We will monitor this. I'm quite confident that coming quarters, the credit cost would be comparatively lesser.

And as you have correctly interpreted, for the whole financial year, definitely, since we are already at the lower spectrum, it could be below what we have guided also. But at the moment, we would want to see how it pans out. We are quite positive, and the trends are quite positive. The collections are improving, disbursements are improving. The new products that we are doing, there is a good offtake of those products.

And also, we are seeing that the repayment trend among the customers that we have identified with a higher credit score, the repayment is holding good. So all of this translates into better quality of portfolio and lower credit cost. Definitely, we are confident that we would be at the lower spectrum, but this can also turn out to be significantly lower than what we have guided. And our AUM growth would also be above what we have guided. But we would want to watch this trend to continue for at least 1 or 2 quarters before we change any of our guidance.

Moderator: The next question is from the line of Jaspreet Singh from VA Capital.

Jaspreet Singh: Any restriction on fund flow from the banks which NBFC MFIs are facing?

Sadaf Sayeed: So that's a very good question. Actually, we are not seeing any restrictions from banks. Banks are focusing on, I think, the larger set of NBFCs first. And the most important aspect that I wanted to highlight is that there is a marked change in the way NBFCs are looked at now since the new Governor has taken over.

In fact, very recently in Delhi, Department of Financial Services had organized a symposium of NBFCs, which is for the first time, such kind of an interaction with the Honorable Finance Minister was organized and in which the Finance Minister very candidly said to the banks that NBFCs play an important role and they should support it.

And we are seeing that translation into action and most of the banks, most of the public sector banks, which were away from action for some times are coming back in lending. We have active conversation. We have just done a largest PTC transaction for us in a single go with State Bank of India, around INR500 crores of PTC transaction that we have done.

Apart from that, there is a good amount of funding that is available. We are quite choosy about the funding. Now that there is growth momentum with us, we should be able to draw these loans as well and would be able to utilize INR1,450 crores is what we have borrowed. We definitely have more in hand. Praveen, you want to elaborate on that.

Praveen: Yes. So I think from the company side, liquidity is not a concern as of now. So we have more than INR2,000 crores of liquidity available in the form of prefund, some investment in G-Sec through HQLA as well as sanctions, which is undrawn. So on the liquidity side, it's been perfect. And like the public sector banks have started coming back.

They have been slightly slow, especially in the last couple of quarters. which they are coming like CEO has confirmed, we have very recently done a large deal with SBI. Similarly, we see momentum picking up in terms of fresh sanctions as well as disbursement.

So overall, we don't see any challenge in liquidity. We we have enough liquidity to manage the growth that we are talking about. Plus, I think the NCD market, and the CP market also started becoming more active, especially from last couple of months. So that flow also will start coming to the sector.

Sadaf Sayeed: Yes. As you know, the transmission of rate in the CP market happens faster and so as in the PTC market. So the rate cut that has come in has been transmitted through PTC to us. So we are doing deals in PTC space at 8.5%, 8.8% kind of a rate, and we are able to get that benefit from our overall cost of fund.

We have done some marquee deals like for private sector bank, the first PTC transaction for HSBC, first PTC transaction for DBS, we are trying to do. So all of these transactions are happening. There are DFIs who are looking at PTC transactions. And there is also active interest from foreign banks to lend to us through the ECB route. So we are utilizing all sources. And in terms of availability of the capital and in terms of our liquidity, there is no concern.

Jaspreet Singh: Okay. Sounds good. And what is the bottleneck in increasing the disbursements immediately that you're facing right now?

Sadaf Sayeed: So the current bottleneck, if you ask me, was because the Guardrails 2, which was introduced in April. So in the field, it takes a little bit of a time for people to understand and kind of ensure that their sourcing pattern changes according to the guidelines. We have implemented these guardrails from the day 1. So initially, it resulted in higher rejection ratio, which, of course, results in higher operating cost and lower productivity.

But now that system is set, now people have understood what kind of customers they should source to ensure that it goes through. So the productivity has automatically improved. We were disbursing around INR630-odd crores previously. We are now disbursing around INR727 crores in July. And we are most likely to improve that to INR800 crores to INR850 crores and by the end of this quarter around close to INR1,000 crores.

And going forward for the balance 6-month period in northward of INR1,000 crores per month. So that is the trajectory we are seeing. With the diversification of other products also, I think the new product line will ensure that we continue to kind of cater to those customers better.

Jaspreet Singh: Okay. All right. My last question is that in this kind of environment where there has been some problem in the recovery and the implementation of the guardrails has taken some time to get adopted in the system; do you think banks or small finance banks have advantage against MFI-NBFCs?

Sadaf Sayeed: So if I see in the current environment, the share of NBFC MFI is consistent and improving. But at the same time, small finance banks are looking elsewhere mostly in the secured space. So definitely, I think we have more space to operate. I think more importantly, because of these guardrails, people who have well-established customer base, they would be able to retain those customers, there is less scope of new entrants coming in.

And also at the bottom, there would be a little bit of a consolidation and winding down. So that will also help. If you look at the overall industry, the leverage customers were around 20%. They have come down to around 8%, which is more than 4 loans. And this is happening from conscious implementation of guardrail and some of the loans which were available from smaller MFIs, those are winding up.

So I think there is enough and more for both SFBs and NBFC MFI to operate. But I think NBFC MFI with the 60-40 guideline, which has come up, it has put us on an even keel with the small finance bank, and we would be able to utilize this customer base to offer more products to our customers just like SFBs have been able to do.

Moderator: The next question is from the line of Nidhesh Jain from Investec.

Nidhesh Jain: First question is, what is the quantum of interest income reversal in this quarter or interest income write-off that we have taken from the interest income line item?

Sadaf Sayeed: Yes. The interest income is around INR36 crores of write-off.

Nidhesh Jain: Sure. And secondly, how is the ex-bucket collection efficiency trends for the month of July?

Sadaf Sayeed: July is improving. Every month, the collection efficiency is improving. It's 99.2% -99.3% in terms of overall ex-bucket collection. The important aspect is that collection efficiency in states like Karnataka, where it has dipped significantly is improving. And we have given a specific slide for Karnataka.

If you look at the 0 plus PAR, which reached to a peak of around 15% has now reduced to around 8%, and there is a sharp decline there. And collection efficiency which has dipped down to around 83%, reached to 87%. It's now touching closer to 90%. And X-bucket in Karnataka remains at 99% if you look at that way. And overall collection efficiency is also improving.

Nidhesh Jain: Sure. And sir, what is the X-bucket collection efficiency which used to be -- which we used to see in normal times? I'm just trying to understand how far we are from normalcy in terms of X-bucket collection...

Sadaf Sayeed: Yes, it around 99.7%, 99.5%.

Nidhesh Jain: Okay. So we are at 99.3%, quite close to that?

Sadaf Sayeed: Yes, we should be very close to normal. And I think the important part is that the recovery from the overdue book needs to continue to come. And this is what we are seeing that overall, our collection efficiency in terms of recovery from overdue is improving significantly. If you look at one of the charts we have given, quarterly, we have been able to recover INR38 crores which was usually around INR6 crores to INR7 crores per month, around INR18 crores per quarter.

So it has already more than doubled. And in the month of July, we were able to recover INR18 crores on stand-alone July month. So this should definitely continue to improve the productivity from a field officer, which is the collection office stand-alone dedicated for overdue loans, which was around INR65,000 to INR70,000 earlier. It has now reached to around INR1,50,000 per month. So that improvement will definitely help us improve the overall collection efficiency.

Nidhesh Jain: Sure. And overdue collection efficiency, how do we measure it? Is it 1 to 90 DPD collections or it is written off collections that you're talking about?

Sadaf Sayeed: All due, whatever -- whether it's 90 plus if it's a due installment versus whatever the recovery is there. And one installment, we don't club the installment if there are 3 installments overdue.

Moderator: The next question is from the line of Prithviraj Patil from Investec.

Prithviraj Patil: Yes. So my question was on the attrition ratio. So what is the attrition rate right now for Muthoot and compared to the industry also, if you can give a sense of what is happening at the employee level?

Sadaf Sayeed: Yes. So I think usually, Q1 is a quarter you see a slightly uptick in the attrition rate because post the appraisal or post the performance appraisal, people look at opportunity and also certain people that we don't want us to continue with us. There's a grading that we do. There is a meet expectation, exceed expectation and needs improvement category.

So needs improvement category is automatically put on a performance improvement plan kind of a guidance that they should look out. So considering that, the attrition rate has been quite reasonable in terms of around -- it has been around 26% annualized for the year.

The important part is that what we had done a few initiatives to reduce our attrition rate, that has really shaped up well. So one initiative that we had taken was to focus on more female field officer, the relationship officer. We now have around 1,300 female employees, out of which around 1,100 are female field officers. And we are proactively comparing the performance of both female and male officers.

We have seen that the collection efficiency in the centers which are managed by female officer is 2% higher than the collection efficiency of the male officer in the same territories. And productivity is almost same. Both are disbursing around INR11.8 lakhs of business, around INR12 lakhs of business per month.

And in terms of attrition, the attrition rate is significantly lower as compared to the male field officer. Apart from that, we had created some residential facilities wherever there was higher attrition. That has also helped us to reduce attrition. I think first quarter, as I said, is slightly difficult quarter to measure attrition. But I think going forward, it should significantly reduce further.

Moderator: The next question is from the line of Rishikesh Pise, an individual investor.

Rishikesh Pise: I joined late to the call, so maybe I missed a few details. I had a question that in the previous conference call, management had mentioned that they were expecting that this year could be exceptional going forward and we're expecting like 5% credit cost for FY '26 and generate 2% ROA and 10% ROE. So is that guidance intact? Or has it changed looking at the current scenario?

Sadaf Sayeed: So in terms of credit cost, we have an improved number. So we have given a guidance of 4% to 6%. We are within the guidance, but we are at the lower spectrum of around 4.2%. And definitely, what we are looking for the remaining part of the financial year with the improved collection and diversification of the products, we anticipate that the credit cost would be within the guidance or likely to be below the guidance as well, which automatically would mean that the return on asset and return on equity will definitely improve. That is there. On the operating cost also, definitely, the operating cost will rationalize and it will be within the guidance that we have given of around 6.2%.

On the growth side, we are anticipating a positive revision. But before revising the guidance, we would like to wait for 1 or 2 more quarters. We are seeing that trend in Q2 already in the first month. And what we have devised as a strategy, we are quite confident that in terms of growth and in terms of credit cost, both we will be able to outdo the guidance. But before revising, we will watch out 1 or 2 more quarters.

Rishikesh Pise: But what exactly went wrong in this particular quarter because we see that the loan growth is quite subpar. It's almost flat. So is it really like -- is the scenario that break in the economy that you are not seeing gaining the confidence to lend faster at a good pace?

Sadaf Sayeed: If you compare to our peers, definitely, we are among the ones who are lending more. And if you look at from like disbursement for quarter 4, we are just down by 9.4% as compared to quarter 4 disbursement in the Q1. Q1 usually is a slower quarter for lending entities usually. Considering that, plus the guardrails, which were implemented, the Guardrails 2.0 of MFI came into effect from 1st of April. That also had an impact on certain rejection ratio.

But despite that, we were able to disburse around 3,11,000 loans. And we are quite confident that we would be able to do more business already in the month of July, we have seen increase in business by around 15% to 18%, this will further improve in the month in August. And going forward also, it will continue to improve. So we are quite confident of building a robust portfolio and meeting our growth guidance of -- overachieving our growth guidance.

Moderator: Ladies and gentlemen, as there are no further questions, I would now like to hand the conference over to Mr. Sadaf Sayeed for closing comments.

Sadaf Sayeed: Once again, thank you very much for participating in the call with us. As I said, our focus is on diversification. Our focus is on building a robust underwriting model and use of technology. We will be utilizing our existing branch infrastructure and our customer base to offer more diversified products to our customers, and also looking at acquiring newer set of customers, which are falling within that liberalization of qualifying asset criteria.

And with that, we would be moving to build a diversified balance and sustainable book, which will help us to ensure that we have consistency in our earning and consistency in our growth. We have put in all the necessary pillars that are needed for this from a robust ECL model to a well-established technology in place to underwrite and source business.

At the same time, a robust collection practices, which is helping us to recover more from the overdue loans. I hope in the long run, this will definitely help us improve on our performance, and we are looking to outdo our guidance in the coming quarters. And we wish to have this continued support from all our large investors. Thank you on behalf of entire management and Muthoot Microfin.

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. Thank you.