"Muthoot Microfin Limited

Q2 FY'26 Earnings Conference Call"

November 06, 2025

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

Moderator: Ladies and gentlemen, good day, and welcome to the Muthoot Microfin Limited Q2 and H1 FY '26 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 touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Mayank Mistry. Thank you, and over to you, sir.

Mayank Mistry: Thank you, Mark. Good morning, everyone, and welcome to the Q2 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 Mr. Thomas Muthoot, Chairman and Non-Executive Director; Mr. Sadaf Sayeed, CEO; Mr. Praveen, CFO; Mr. Udeesh Ullas, COO; and Mr. Rajat Gupta, AVP, Investor Relations.

I would now like to hand over the call to Mr. Sadaf 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, and thank you once again for joining the earnings call for quarter 2 of Muthoot Microfin. I would like to begin by saying that the second quarter performance reflects the shift in our business trajectory with operational challenges gradually subsiding and overall activity returning towards normalcy.

We are witnessing a steady normalization across geographies supported by the improved customer cash flow, strong ground level demand and better credit discipline. We restored profitability in Q1 itself and build momentum in Q2. There is material improvement across all metrics, which is also noted by our rating agency, CRISIL, where they have upgraded our outlook from stable to positive.

In terms of performance, there is a significant improvement in disbursement. Our disbursements in the quarter grew by 28.1%. There is improvement in our cost of fund and our ability to mobilize funds as well. Our cost of fund has declined to 10.6% and our marginal cost of fund has come at around 9.8%.

The most noticeable improvement is in collections. If you look at our collections, the overdue collections have improved significantly. In the last quarter, we collected around INR57 crores from overdue accounts, which is almost INR19 crores per month.

This number was around INR6 crores per month earlier, which has now improved to almost INR19 crores per month, which is resulting in improvement in asset quality. Our GNPAs have reduced from 4.85% to 4.61%. Our net NPAs have also improved from 1.58% to 1.41%.

Our provision coverage has improved from 68% to 70.4% and our credit cost, which is the most important factor that we have been guiding our investors and our well-wishers about it that it has come down to around 3.6%, and it's a sustainable consistent climb down where it was 9.4% in the last financial year, it came down from there to 4.3% in Q1. It's now at 3.6%.

And we feel that this will continue as we continue to disburse new loans. I think the most important point that I would like to make, there is a strategic diversification of our portfolio that we are undertaking currently. In the presentation, you would have noted there are three products that we have introduced. One is the Individual Loan. Second is Micro LAP and third one is the Gold Loan product.

We have made progress in all these aspects. There is a significance of putting out a presentation of Elizabeth there. That is the kind of customer that we are targeting. I think that story resonates with microfinance progress.

One thing that I would like to mention in the microfinance world, there is a transition which is happening, which is we are moving from just focusing on financial inclusion to moving to meaningful financial inclusion. And that is what Muthoot Microfin is all about. We are looking at progressing the lives of our borrower to the next level, taking them to a journey of entrepreneurship and Elizabeth is the right representative of that.

If you look at that, she is a customer who is from Kerala Vypin branch, and she started with us taking the first loan in 2018, and she first borrowing was around INR25,000. At that time, her earnings were only INR6,000. Over the period of the last 7 years, she has progressed with us.

Today, she has reached a level where her earnings have reached INR60,000 per month, -INR7.2 lakhs per annum. And she is not only working for herself, she has deployed her husband also into our business, and she has employed certain workers as well. So that is the kind of customers that we want to create.

In the previous presentations, we have shown that we have done deep analytical work, and we have identified around out of the 34 lakh customers that we have, there are 4.4 lakh customers, which have a very high score. We have focused on those customers. In our presentation, you would see the Individual Loan disbursement that we have done is mostly for customers above 700 score. And those efforts are playing out well.

Right now, we have around approximately INR475 crores of portfolio in the non-JLG book, out of which INR468 crores is the Individual Loan portfolio. And this portfolio is pristine. There is absolutely no delinquency in this portfolio so far, though it's very early days, but there is no delinquency.

There is a - cheque clearance rate of 95%. There's hardly 5% bounce rate. That also gets collected within the 3 days. So that is an area of focus for us. Apart from that Gold Loans that we are doing, we are right now under a referral scheme. We have already built a portfolio of around INR7 crores. So, it will further grow in coming months.

We have also built a LAP portfolio, which has reached as of today to around INR9 crores, and we will continue to build on this portfolio. This will really, really differentiate us from many of the competition and also help us build a sustainable long-term earnings profile.

The most important aspect I would like to mention here is on all parameters, there is improvement in performance. There's improvement in net interest margin. Our net interest margins have reached to around 11.9%. Our cost of fund has come down. Our operating cost is stable right now around 7%. Last quarter, it was 6.9%. But in the long run, as more and more disbursements take place, that operating cost will come down.

But the most important factor, which is the credit cost, it is steadily coming down, and we are quite confident that our guidance, which was 4% to 6%, we will be at the lower spectrum of below that definitely in the coming quarters. And disbursements are taking place.

We have been able to grow our AUM. Our AUM today stands at INR12,558 crores which is quarter-on-quarter a 10% growth if you look at from the last quarter annualized base. And our disbursements are also growing, which is also resulting in our improvement in our income. And most importantly, PPOP, we have increased by 7.6%. QoQ

In the coming days, the benefits of the yield transferring into the overall portfolio because we have changed the rates in the last quarter, will also show. And of course, the optimization of utilization of funds and also cheaper cost of fund that we have been able to borrow will also improve our margins. Apart from that, the credit cost reduction and also operating cost rationalization will improve our profitability.

We are very positive about our performance, and we've been able to successfully diversify our portfolio, and we are on the right path in terms of catering to the needs of our borrowers. The focus right now is on retaining our existing customers and ensuring the customers that are unique to us remain unique.

If you look at our unique percentage has reached to around 39% and that is what we are trying to do is to cater to the entire need of that borrower. And that is where this bouquet of products, which is Individual Loan, LAP and Gold Loan will come out handy.

In the last half year, we have disbursed INR4,049 crores of loan and if you look at the quality of this portfolio, The 0-plus is hardly 3.8% of the overall portfolio. And if you look at the 30-plus 6.5%, so this portfolio is really behaving well. And this is giving us the confidence. Then in coming months, we will be able to kind of build a very, very robust profitable portfolio, and we will be able to achieve our targets.

If you look at our guidance, we have met on all parameters in terms of growth. We are around 10% quarterly growth. In terms of net interest margins, we are improving. We are at 11.9%. We have guided to around 12.7% maximum. We definitely will be able to achieve that. On the ROA, ROE also we are quite confident that we will be able to achieve. On the credit cost, we are much ahead of our guidance.

I think with that, I'll stop here. And I would like to guide you that we are on a path of transition, and we are successfully moving and Q2 was a demonstration of in exact numbers that the performance of the collections is improving and the portfolio is improving.

Despite all the floods and rains in various regions, our portfolio was not affected because we have adopted prudent risk management practices. We have taken natural calamity insurance, even though we have got 95% of the claim, the balance claim has come after the quarter closed. That's why that's not accounted. But that has really helped us to protect our portfolio.

Apart from that, the superior underwriting quality has also helped us to build a better-quality portfolio that we have disbursed. We have also in-house developed a scorecard, this time independently through our risk management team.

So far, we have been using the help of Equifax. But this time, we have built on our own, and this is much superior. There is a higher correlation with the performance of the portfolio in this scorecard. This will not only help us to underwrite customer better; it will also help us to save certain costs.

We are aiming to save around INR2 crores to INR2.5 crores cost through this. And overall, there are certain steps we have taken to reduce our cost, which will help us reduce around INR20 crores of cost annually and certain rationalization of branches have also taken place.

Branch profitability metrics have been implemented and each and every branch has been focused on generating profit contributing to the bottom line. And any branch which is not contributing, we are looking ways to either merge or improve the efficiencies of that branch. And you will look at the branch productivity, the RO productivity, everything has improved in this quarter.

With that, I'll stop here, and I'm happy to take any questions that are there.

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

Shubhranshu Mishra: Just looking at the Micro LAP and the gold finance part. So, of the disbursements what part is Micro LAP and what part is Gold Loans? The second question was how do we ensure that there is no debt aggregation or any kind of other loan that is getting settled in gold finance or there is, we are avoiding any kind of debt aggregation in Micro LAP? And the third part is do we have enough, have we invested enough for the collection infrastructure of these new products? Thanks.

Sadaf Sayeed: Yes. Thanks, Shubhranshu. I think on the first part, if you look at, we have given a slide which is giving a breakup of what are the various products, Slide number 10. We have around INR2,274 crores of disbursement in the quarter, out of which around INR2,015 crores is IGL business, around INR253 crores is the Individual Loan business and around INR5 crores at that moment for the last quarter is the business which is LAP as well as Gold.

Gold actually at that point of time just started around 1 million odd. The rest is all LAP loan that we have done. That is the breakup. In terms of your question, whether there is overlap of businesses. So, we are following a policy where we are giving LAP or Individual Loan, which are larger tickets. There is only one credit line with the customer from Muthoot side.

So, if the customer was an IGL customer, we are actually closing that loan and there is only one line of credit with that customer. And these are all performing customers. They are having more than 700 credit score with credit bureau score. So, there is no default and nothing. We are making sure that we don't overexpose the customer.

On the Gold Loan, it's a referral scheme as of now, where we are taking the lead and passing it on to our FinCorp team and FinCorp is disbursing the loan against the gold. This is a loan which is a parallel loan along with our IGL loan continues. The average ticket size there is around INR90,000. And you had one more question.

Shubhranshu Mishra: Do you think there is enough collection also which has been invested in the collection infrastructure for Individual Loans and Micro LAP Loan?

Sadaf Sayeed: Yes. So Individual Loan is entirely on a digital platform. So, this is backed by eNACH. As I said, we are seeing 95% clearance on time. So, all the installments are on 5th of the month, and all the installments get cleared through eNACH whatever is the residual forms is followed up. And that also the customer either transfers the money or if he wants to get that collected, that also is collected by the branch.

But there is minimal cash collection entirely completely digital, which is there in Individual Loan. LAP and Gold is actually a bullet repayment kind of a product. The most important thing, even as we sit today, yesterday was the installment date for the November installment. 92% of the installments are cleared in the same day. And there are around a few installments which are 1,500-odd that they will also get cleared in day one, day two.

Shubhranshu Mishra: Understood. And if I can just squeeze in one last question about treasury operations. Have private banks as well as PSU banks or more of private banks taking more positive view of the microfinance players and especially about us, have they been increasing lines? Have they been negotiating on various rates and have the rates been coming up?

Sadaf Sayeed: Yes. Both private banks and public sector banks are supporting us. We had done one of the largest PTC last quarter. We have done a INR500 crores PTC with the State Bank of India, which is one of the largest PTC transaction in a single tranche. So, we have done that. And apart from that, we have done PTCs with HSBC, we have done PTCs with Axis Bank, Kotak. So public sector, private sector, both are supporting, and we are getting term loans also. Maybe Praveen can add up to this.

Praveen T.: Yes. So, I think when we talk about private banks, they have a separate department where the understanding we feel is slightly better. But at the same time, public sector banks are also there. They are not completely out. So, for example, like Sir mentioned, we have done a INR500 crores PTC with SBI. They have a INR1,000 crores umbrella limit with SBI as well as Bank of Maharashtra for assignments.

So, the sanctions are there with both the sectors, private as well as public. And one thing that we are currently doing is that we are doing more structured PTC transaction where the rate arbitrage is there. We are getting a much finer rates in that structure. That is also helping us to bring down the cost of funds.

And we believe there is the rate transmission is to happen, and that also we expect in the second half of the financial year. So, the rate should ideally be come down further. But yes, to answer simply, all the banks are supporting right now, there is no liquidity issues for us.

Moderator: The next question is from the line of Saumil Shah from Paras Investments.

Saumil Shah: My question was on your collection efficiency. So, for the month of October, is that further improved compared to the previous quarter?

Sadaf Sayeed: Yes, Saumil, thanks for the question. It has improved, though there was a lot of holidays during the quarter, there was Diwali, Dussehra as well as your Chhath Puja. So, I can say that it has remained stable as was there in September. So, it has remained stable.

Saumil Shah: Okay. So, I think the overall, it was 93.3%. So, it is stable around same percentage?

Sadaf Sayeed: Yes.

Saumil Shah: Okay. And on the credit cost, as you mentioned that it's about 3.6% for Q2. So, going forward in the remaining half of this year, can we expect it to improve further?

Sadaf Sayeed: Yes, definitely as a percentage, it will improve. So, we don't want to jump the gun and revise the guidance, but we are confident on the portfolio quality that we are originating, especially the Individual Loan and the Secured Product and also the IGL loan that we are doing that the asset quality will improve. If you look at from the absolute number, in the first quarter, the credit cost was INR132 crores. In the second quarter, it's INR111 crores.

So overall, like around INR243 crores is the credit cost,. And we were budgeting around INR300 crores. So, it is much lesser than what we had anticipated. Going forward, I believe this trend will continue. The only thing is that with the growth in the AUM for the standard asset provision, we would have to carry something. So that will have an impact. If you look at our Stage 1 provision has improved. So that will be there. But overall, we anticipate the credit cost will be much lesser than what we had projected.

Saumil Shah: Okay. And what would be the steady-state credit cost guidance, I mean, for next 1 or 2 years? So, I mean we will be settling around this 3.5%, 4% or it would be better?

Sadaf Sayeed: Yes. So, if you look at it in a normal scenario and if you see that if we talk about FY '27 in a normal scenario, the credit cost should be in the range of 2.25% to 2.5%.

Saumil Shah: Okay. And on the ROA guidance, what we have given, 0.5 to 2%. So, I mean, the range is too high. So, I mean, considering the first 6 months have already gone. So, could you, I mean, could you give some guidance on the ROA for this year?

Sadaf Sayeed: So, you have seen the profitability improve. We were just about like around INR6 crores of profit in Q1. We are at INR30 crores of profit in Q2 with an OCI of around INR55.9 crores. Definitely, in the coming quarter as the credit cost goes down and there are, as I explained, there are four levers to the profit.

One is our margins are going to improve as we have increased the lending rates for our customers based on our credit cost. So, there would be improvement in yield on the portfolio. Second is our cost of fund is going down. So that will improve our net interest margin.

Third is our opex will rationalize. We have around 7% opex now. Now that disbursements have started to kick in, we will; even in the October month, we have done good amount of disbursal despite so many holidays. So that momentum will help us rationalize the cost and the credit cost is coming down. So, all four levers will help us to improve profitability. We have guided towards 2% ROA. We are pretty confident that we will be at the upper spectrum of our guidance only.

Saumil Shah: Okay. So, are we confident that the exit quarter may be around 2% ROA?

Sadaf Sayeed: If you analyze including the OCI number, we are already at 1.8% ROA, including the OCI component. So, we are very confident that we would be around 2%.

Saumil Shah: Okay. And sir, my final question on the overall cost to income. I mean, in last one year, it has increased a lot. So, going forward, what would be our normalized cost-to-income ratio? Because I think last year, it was about 47% or 48% and now it's almost around 60%.

Sadaf Sayeed: Yes. So, cost to income actually has started to come down. Of course, last year, it was much lesser because there was much lesser kind of stress in the portfolio at the beginning of the financial year.

But now that disbursements have also started to come in, the cost to income will go down, both on the income side also, you will have a kind of an improvement because of the yield. And on the cost side also, there is a rationalization which will happen because of economy of scale as well as our measures that we have taken.

Definitely, we will be in low 50s and trying to bring it below 50% in the current financial year. It is improving quarter-on-quarter, month-on-month. And as I mentioned in my opening remarks, we have put branch profitability metrics now. It's a system-driven kind of an approach.

Every branch will start for the profitability and contribution to the bottom line. So, we are taking various steps to ensure that cost to income is absolutely in control. Of course, coming back to the same level of 45% and might take a little bit more time, but we are very sure that in the coming quarters, it will go down.

Saumil Shah: Okay. And on the microfinance, I mean, overall, are we seeing all green shoots now happening?

Sadaf Sayeed: So, yes, definitely, as far as we are concerned, we are witnessing a lot of green shoots in terms of our operations. One is the diversification. Second is the collection that is happening, the cash flow at the bottom is improving.

The disbursements are better. The collections that we have seen even from like what tele calling we are doing Promise To Pay PTP generation, that is improving, and conversions of those collections are also improving.

So there are significant number of green shoots even like if you look at overall economic situation is also improving with GDP growth improving as well as cash flow at the bottom of the pyramid is improving because lower food inflation, most importantly, because of the good rains, the crop has been good and the availability of food items is good and that is yielding in lower inflation, which makes it lot affordable for our segment of customers.

At the same time, there are certain government schemes, which is helping at various states, the consumer from the cash flow point of view. So, all of that is really helping us to improve collection and also when the disbursements improve from the industry overall, then definitely more cash flow is there in the hands of the borrower, and they are able to kind of repay their installments.

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

Prithviraj Patil: So, my first question was on the footnote that you have mentioned regarding the Branch Merger Rationalization. And if you could just throw some light on what this is exactly? You have mentioned some employee rationalization also due to the merger. And also, what investments have we done for setting up the Gold Loan business or our book as well? That's the first.

Sadaf Sayeed: Yes. So, thanks for asking that question. I think on the rationalization of branches, as I mentioned, we have adopted a branch profitability module where we are looking at each branch productivity and profitability, the revenue that they generate and the expense that is incurred and everything is taken into consideration, the HO allocation, the regional allocation and everything and credit cost, everything. So, we are looking at PPOP profits also and profit after the credit cost as well.

And based on that, we are identifying the branches where we feel that there is no potential of growth and also the turnaround. So, we are either merging those branches or closing those branches. So, we have identified 84 such branches, out of which around a few branches we have already closed, and a few would be getting closed, we have served the notice and everything.

And when the branches get closed, those staff are also kind of given an option to move to other branches or they are eased out if they don't want to move. So that is the exercise that we are taking place, which is taking place. And with that exercise itself, we feel that we will be able to save around INR50-odd crores in a full financial year in the next financial year.

We are also simultaneously opening new branches wherever we are expanding like in Assam, we have opened branches, in Andhra and Telangana, we have opened branches, the newer territories we have entered. But rationalization is more to ensure that productivity of the branch remains. And you had another question.

Prithviraj Patil: On the Gold Loan part, the investment in the Gold Loan branch.

Sadaf Sayeed: Yes. So, on the -- this is the advantage of being from a Muthoot Pappachan group, and this is the advantage we have over all our competitors that within our group, there are enough and more know-how as well as infrastructure to do multiple businesses. So, on the Gold Loan side, without any additional investment we are doing this business.

We are in partnership with FinCorp, we have just approved in the Board a business correspondent relationship where we would be sourcing the business, and we will be referring them to Muthoot FinCorp branch, and they will be booking the loan, and we will be getting a fee on that portfolio.

That also brings in loyalty of the customer. And once the customer is having a secured loan with us, then definitely she is more likely to continue to have a healthy relationship with us. So that is what we are leveraging on.

We are not putting in separate infrastructure for Gold Loan branches with the help of FinCorp, we are building this portfolio. And similar is for Individual Loan business, we are doing it completely with our own infrastructure. There is no separate infrastructure. There is only centralized team, which is there for underwriting this portfolio.

It is being done at an analytical level where we are identifying good customers which are more than 700 score and giving them an Individual Loan offer without any incremental cost of separate branches and stuff like that.

And this will also help us rationalize our operating cost because the AUM at the branch is building without any additional cost and collection also, the burden is not on the relationship officer. This is entirely eNACH product. So there also. And in LAP loan also, we are leveraging from the same branches. There is an underwriting team, which is separate.

But apart from that investment, there is no other investment that is required to build this portfolio. Of course, LAP is a portfolio which requires a little bit more time to build, but it stays on the book longer. So, it will slowly gradually build it to a level that we want ideally. And all of this will help us rationalize our cost and improve branch profitability.

Prithviraj Patil: And just another question on the asset quality of the Micro LAP portfolio, are we witnessing any stress in the Micro LAP space? And also, since you have utilized all the management overlay, are we considering doing additional provisions for this overlay in the future? Or how do we look at this?

Sadaf Sayeed: Yes. I think on the credit cost from LAP is considered, we don't have any delinquency at all in LAP portfolio so far. Of course, it's a very small portfolio and a very decent portfolio. But so far, we don't have any delinquency there. On the management overlay, we had a INR230 crores overlay at the beginning of the year, which was consciously built for the portfolio, which was affected in a particular state, and we have absorbed that overlay.

We feel that right now, our provision coverage, which is around 70% and if you look at our Stage 1 which is 1.39% and Stage 2 which is at 7.7%. We have adequate coverage. We don't need to have any management overlay. Overlay in IND-AS is only in a situation where which we have uncertainty, and we don't know what is.

We are quite confident of improvement in our asset quality and the way we are building business. So, at the moment, we are not planning any management overlay. We think that the cover that we have of 70% is more than sufficient. And if you compare our competition, our credit cost is lowest among the competition, and our provision coverage is among the highest in the competition. So, we are quite comfortable with that position.

Moderator: Thank you. The next question is from the line of Darshil Jhaveri from Crown Capital.

Darshil Jhaveri: Firstly, congratulations on the greatset of results.. Sir, my question is more towards the AUM growth that we are seeing. So, we are seeing 10% standalone, I see in the PPT, we could see that overall, this is 2.5%. So just wanted to understand how it a bit better also? What figure should we actually see here, is it 2.5% growth or 10% growth, sir?

Sadaf Sayeed: So if you look at quarter-on-quarter and annualise that’s, it's 10%. But stand-alone it's 2.5%. But more important aspect, I think, this is a vary to look at the disbursement growth. The disbursement growth over the last quarter is 28%. And this growth is likely to continue in the coming quarter. And that definitely will help us accumulate more AUM.

And with the business like Individual Loan, LAP and Gold also picking up gradually, we will definitely see the AUM growth kind of taking a robust shape. And we are very confident that the guidance that we have given of around 10% overall growth, we will overachieve that.

Darshil Jhaveri: Okay. We will be able to over achieve that, that was I was going to come to. Sir, you have given very clear guidance on our PPT, but is there any guidance that you want to provide because even credit cost, we see, we've already, I think we might be below our guidance if we take October and ROA also. Just wanted to, you know, with your saying that how would we be able to grow? Like, from a guidance, do you want to revise anything sir?

Sadaf Sayeed: Yes. So, definitely on the operating cost right now, if you look at for the half year, we are at around 6.9%. For the stand-alone quarter, it might be slightly higher because we are in the investment making phase where we have for whatever like Individual Loan training and software changes and all of that are needed. So that is already done.

There is no more software implementation that is needed and that the product is now completely ready and flying. And we see the momentum also. So in the, up till September, the portfolio was around INR253 crores. It has already reached around INR468 crores. And that momentum of growth is there already with us.

So that will help us rationalize the opex. We are quite confident that whatever guidance we have given of 6% to 6.2% on opex, we would be able to achieve. On the ROA, ROE, as I explained, there are four levers that are in our hand.

One is the yield which is going to increase. Already the yield is increasing. If you would have seen the presentation quarter-on-quarter. The yield is improving from 18.1% to 18.6%, and it will further improve in the coming quarter.

Our net interest margins are also improving. We are at 11.9% from 11.5% in last quarter. This is further likely to improve, and it will be upper metrics of our guidance by the end of the financial year.

And most importantly, the credit cost is coming down and opex, as I said, will rationalize. So all of this will help us achieve the ROA that we have guided for. And we are definitely quite confident of achieving the upper metrics of the ROA not at the moment, but definite at a right time, we will revise our guidance.

Darshil Jhaveri: Okay. Okay. That helps a lot, sir. And sir, just also to know like in terms, like, we are going more to, we are starting, you know, Micro LAP and Gold Loans, so they are more secured in nature. And now there, they become a bit higher in our AUM, so, possibility that our NIM is like moderate a bit or, you know, how are the NIMs behavior with these products before we get a better idea of this?

Sadaf Sayeed: So if you look at the products, the yield on all of those products is in the similar range. So we operate from around 20% to 24.85% on average, it is around 23%. So I think most of the products will be in the range of around 22% to 23%. So we are quite confident that yield will remain and it will only improve from where we are. The portfolio that we are building would be a part of overall mix.

So we are looking at this financial year at least to have around 10% to 12% of non-JLG portfolio. That definitely will not have a major impact on the overall yield of that book. And our Individual

Loan portfolio is already at 23% interest rate and a processing fee, which is separate from that. So overall, I think yield will only improve from it.

Moderator: Thank you. The next question is from the line of Mayank Mistry from JM Financial Institutional Securities Limited.

Mayank Mistry: So sir, my question is mainly on the ticket size. We are seeing that across the players, the ticket size is increasing for all the MFI players. Now this is happening because of the indebtedness of INR2 lakh, which is limited to each customer.

So how far can one MFI go in terms of ticket size, higher ticket size where there is a possibility that one can offer more discount in order to gain higher chunk of this INR2 lakh of debt to each customer.

So my question is only on the ticket size. I mean, how is this calculated? And how do you see the yields decline here in case that such kind of competition occurs?

Sadaf Sayeed: Thanks, Mayank, for asking that question. I think one thing is that everybody is focusing on retaining the customer. If you look at our disbursement, 65% of our disbursement are to existing customers, 35% are to new to Muthoot customer. So the focus on the existing customer improves, the customer who is progressing from first cycle to second to third to fourth, definitely, the ticket size will improve and the average ticket size will increase.

Having said that, if you look at our products on the Individual Loan, the average ticket size is around INR1.3 lakhs. In the LAP products, it's around INR3 lakh is the average ticket size on the Gold Loan product is INR90,000. On the main core products, which is the IGL product, the average ticket size is around INR60,000. So I think that will remain.

The most important part is that if you look at our composition of our customers, the Unique Customer Count is improving. Almost 39% of our customers are absolutely unique. And if you look at our count of customers who are overleveraged in terms of outstanding of more than 2 lakh, it is just 0.8%.

It has come down significantly from where it was even though industry was at a much higher level, we were at a lower level. We have still come down from there as well. So we are conscious of that. But the focus is on ensuring that the wallet share of our customer is completely occupied, and we have seen the performance of the customers who are unique to us is much better.

If you look at the 39% customers who are absolutely unique, the 30-plus par in them is around 3.8% only as compared to the customers who have more leverage or more lenders to them. If you look at us plus 1%, then it's 5.1%. And if it goes to us plus 4%, which is the higher, it's around 45%. So that is what we are avoiding.

And the portfolio quality and as I said in my opening remarks, the transition that is happening in microfinance industry from providing access to credit moving to meaningful credit to the borrower. So that is what we are focusing on. That's why the average ticket size is moving steadily.

Mayank Mistry: Sir, and then what would be a yield differential to these customers versus the unique?

Sadaf Sayeed: So from a yield point of view, definitely for a customer whom we are giving Individual Loans, we are earning around 23% yield on that portfolio. The most important part is the opex on that portfolio is much lesser because this is already an existing customer, and we do a major part of its underwriting through our analytical tools where we are able to get a score on the customer, our credit score also at the credit bureau score.

Less of a field work is required in servicing this customer and the entire collection is completely digitized. So the opex is much lesser, but yield remains almost same as the income generating loan, which we are lending at around 24.85%, where we are lending at 23% plus processing fee of around 2%.

Mayank Mistry: Okay, sir. And my next question is on the borrowings. We have seen some shift towards private banks. So what is driving this? I mean, and how is the credit rating outlook from stable to positive going to impact our cost of funds?

Sadaf Sayeed: Yes. I think both things like from the credit rating perspective, there are two developments. One is, of course, our rating has been upgraded from A+ stable to A+ positive. So outlook has been positive because of the performance of the company. That will definitely help us access cheaper fund and which will give a lot of confidence to our lenders also to lend to us.

Apart from that, during this quarter, we have got a global rating also done, which was for listing an ECB on the INX exchange. We have got a global rating done. So that has also helped us to raise capital through an ECB route, and we will be going further in the ECB route.

And that capital has also, that fund has also come at a pretty cheaper cost at around 9.8%. Both the public sector and private sector banks are supporting us. We have been able to raise funds through all sources. In the quarter, around INR1,500 crores were raised through PTC transactions where we were able to place our PTC with public sector bank as well as private sector bank.

We have got term loans also from private sector banks and we have got direct assignment which we have done with Bank of Maharashtra. So all sorts of lenders are supporting us, including foreign banks, BFIs, public sector bank, private sector bank.

The most important aspect is on all type of borrowing, we have been able to reduce cost from term loan where we were borrowing at 10.5%, we have been able to reduce it to 10.29%. ECBs which were at 11.33% have come to 11.12%. The recent one being as 9.8%. Securitization, which was at around 9% is around 8.63%. Commercial paper is one instrument that we have introduced this quarter.

Overall finance cost has come down from 11.02% to 10.6%. So overall, we are seeing that rate reduction is happening, and this is because of our ability to negotiate better, and the performance is also giving confidence to the lenders.

And the passing of the interest rates, as you have heard in the governor's commentary, 55 bps have been passed on out of the 100 bps that have cut, but actual transmission is slightly lower. As that transmission also gets into, we will be able to further reduce our cost of fund.

Mayank Mistry: Okay, sir.

Sadaf Sayeed: And on the liquidity side, we don't have any challenge. We have around INR3,500 crores of sanctions in our hand. INR1,000 crores of liquidity on the balance sheet and overall INR1,500 crores with the FLDG included.

Moderator: Thank you. The next question is from the line of Manish from Manish Trader.

Manish: See, I want to know the new slippages for this quarter. So, if I look at it last time, you have a Stage 2 of around INR350 crores. So how much of that slipped to NPA in this quarter?

Sadaf Sayeed: Yes. The fresh accretion, if you look at overall, like we have a pool of around INR450 crores of NPA portfolio, out of which there are certain write-offs that we have taken from that portfolio. The overall, I think the percentage-wise number, if you look at the Stage 3, it is around -- from 4.85% it has come down to 4.61%, which is also a function of write-off and also some collection. So fresh equation is under control. If you look at the absolute number for the half year,

Praveen T.: Overall, for the quarter, we had around INR110 crores flow that has happened from the previous SMA. So, two factors, the SMA recovery is also very good right now. And out of the overall INR350 crores, which we had in the Stage 2, around INR110 crores has flown in the current quarter.

Manish: Okay. Rest of the portfolio remained in the either the Stage 2 or...

Praveen T.: Either they have remained there or they have rolled back.

Manish: So like in this quarter also, you have around similar around more than INR400 crores in Stage 2? So, the similar amount probably will flow into NPA able to retain most of the portfolio in Stage 2?

Praveen T.: Yes.

Manish: Right. And also, if you can throw a light on the underwriting model you were talking about, which you have made in-house. So, will it increase your rejection rate or how will it impact your overall performance?

Sadaf Sayeed: Yes. Our input we have actually put in filters. So our throughput has improved because we are at upfront only identifying the customers which will not fit our credit criteria. So that way, the wastage of effort has been reduced.

But definitely, our model will help us to identify better customers because as I said the Individual Loan, we are focusing on 700-plus score. Even on the IGL portfolio where we have implemented the in-house developed scorecard, which is helping us to reduce delinquency.

Of course, that performance of the scorecard would be seen in coming years. But it is definitely having better correlation than our existing scorecard. We have tested that and it has helped us to reduce.

So definitely, the rejection rate after the guardrail had increased. But now it has reached a level where there is a better understanding in the field in terms of like what kind of customers we are able to disburse and there is also pre-filtration happening.

So the rejection rate is actually coming down nowadays because the login has also reduced where we used to log in around, in a quarter around 10 lakh odd files. We are logging in around 9 lakh odd files, 10,20,000 was earlier quarter, around 9 lakh files. But the throughput has improved. We are able to disburse more loans as compared to what we were able to disburse last time.

Moderator: Thank you. Due to time constraint, that was the last question. I now hand the conference over to Mr, Sadaf for closing comments. Over to you, sir.

Sadaf Sayeed: Thank you very much, everyone. Thank you for your questions. As mentioned during the presentation as well as in the opening remarks, I would like to reiterate that this is a transformation and transition process that we are going through. And we have given certain guidance all of those parameters, we are committed to, and we will overachieve on all those parameters.

Most importantly, the credit cost, which has improved from earlier year of 9.4%, already it has come down to 3.6%, and we are confident that it will go even lower in the coming quarters. The profitability in the organization has improved from INR6 crores in Q1 to INR30 crores, INR30.5 crores in Q2 and total comprehensive income of INR55.9 crores, which is taking the overall networth to around INR2,702 crores and a capital adequacy of almost 29% is helping us to grow.

The growth momentum is back. And profitability, we will be able to achieve our ROA, ROE target because we are very confident that our yields will improve as we progress and more and more customers, we are able to lend at the newer rate and also there is lesser NPAs.

Secondly, our cost of fund is coming down, which will help us improve our net interest margin, which is already improving quarter-on-quarter. Thirdly, our growth in disbursement will help us to reduce our opex, which will help us improve our margins and also our credit cost is going down.

All of this will translate into better ROA and ROE in the coming year, and we are quite confident that we will be able to achieve the 2% ROA guidance that we have given on the upper metrics. And we look forward to your support. Thank you for joining the call.

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