“Muthoot Microfin Limited

Q1 FY27 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day, and welcome to the Muthoot Microfin Q1 FY27 Earnings Conference Call. As a reminder, all participant lines will be in a 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, please signal an operator by pressing star then zero on your touchtone phone. Please note this conference is being recorded.

I now hand the conference over to Mr. Arun Nalkara from JM Financial. Thank you, and over to you, sir.

Arun Nalkara: Thank you. Good morning, everyone, and welcome to the Q1 FY27 Earnings Conference Call for Muthoot Microfin Limited. First of all, I would like to thank the management of Muthoot Microfin for giving us this opportunity to host this call. From the management side, we have Mr. Thomas Muthoot, Chairman; Mr. Sadaf Sayeed, Chief Executive Officer; Mr. Praveen T., Chief Financial Officer; Mr. Udeesh Ullas, Chief Operating Officer; and Mr. Rajat Gupta, Sr. 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 very much, Arun. Very good morning to all of you on behalf of Muthoot Microfin. I hope all of you would have received our investor presentation, financial results and also the press release. I mean before getting into the numbers, I just wanted to mention that this is a turnaround that we have been talking about the quarter 1 performance actually reflects what strategy that we have developed and articulated, it is getting into motion and getting into execution.

If you look at the industry itself, the industry might have contracted in terms of AUM and numbers. But from the point of view of quality of assets, it has started to improve. The disbursement has started to improve. And there is a clear distinction between the well-capitalized, well-managed companies and some of the companies who are slightly at a lower AUM.

So the companies which are slightly larger are getting good amount of support in terms of funds, and they are able to disburse and are growing and which is what is translating and Muthoot is at the outlier. We have had a very good quarter, quarter 1. We did around INR2,644 crores of disbursement, which is the ever highest disbursement in the Q1 as compared to the last quarter, it is around 49% improvement over the disbursement last financial year in the Q1 itself.

If you look at from a perspective of the way the asset quality is improving, it's improving rapidly. We are at around 97.97%, almost 98% of overall collection on time. X-Bucket remains 99.9%. So the loans that we are lending are really performing well. Almost 65% of our book now represents disbursements, which have happened after April 2025.

And in that book, the asset quality is very good, 30-plus is just 1.2% and 90-plus is much, much lower. The strategy that we have articulated in terms of strategic diversification that is playing out as of Q1 end, 76% of our assets are income-generating asset JLG loans and around 24% is non-JLG loan.

We have focused on individual loans. So that portfolio stands around INR3,200 crores, and that is really, really performing well. There is absolutely very minimal delinquency, 0.02% is the 30-plus, and there is no 60-plus as of now, no 90-plus. So that portfolio is really performing well.

And our strategy is to focus on the creamy layer of the customers that we have. We have around 9 lakh customers in our portfolio, which are 700 score plus. And our effort is to focus on those customers and make sure that we become the number 1 priority lender for those customers. And with our technology, our app and our diversified products that are available to the customer, we'll be able to make us top-of-the-mind recall for that customer.

And our focus is to create products which cater to their needs. We have an individual loan, which caters to their needs of growing business. We have gold loans, which is also there to cater to their emergency needs. We have loan against property, which is there to cater to their need of expansion and bigger kind of improvement in their business or in their livelihood, whatever they want to do.

And we are soon introducing another product in this Board meeting, we have taken an approval for consumer durable loan, which is also needed for the improvement of living standards. I think from a company point of view, we are at a very sweet spot. Currently, we have a huge amount of liquidity.

We have almost INR5,000 crores of sanction in our hand, and this is without counting the credit guarantee scheme of INR1,000 crores that is available to us. At the same time, our cost of fund is coming down. In the quarter, we have reduced our cost of fund from 10.27% to 10.13%, 14 basis point reduction has already happened in the Q1 itself.

And this is before the benefit of the rating upgrade. We had a rating upgrade during the quarter. We are now AA- CRISIL rating. And the benefit of that rating will come in the coming quarters, so our cost of fund is likely to reduce. Even the benefit of credit guarantee scheme, we have not yet availed. We have just taken INR200 crores. Balance INR800 crores is still available for us to draw down.

So I think from a cost of fund point of view, we are at a very sweet spot. The cost of fund is reducing for us and incremental borrowing cost is around 9.8%, which was already at 9.9%. We feel that in the financial year, we should be able to come into single digits in terms of our cost of fund and availability of fund is already there.

The asset quality is improving very rapidly. What we are seeing, the ground, the collection is improving very much. Our overdue collection for the quarter was around INR53 crores, which is almost 27% higher than what was the overdue collection in quarter 1 last year, though it has a lot of scope even further because in March, we had done INR70 crores of this collection.

We can further improve in coming quarters. But this overall improvement will definitely help us improve the asset quality further. It is improving rapidly as such, plus diversification is helping us to have a greater wallet share. I think our investment in the app is really helping us to retain our customers. We have around 2.1 million customers who have downloaded the app, the Muthoot Mahila Mitra app.

And the way we are looking at it is to create an ecosystem on the app where customer can meet their immediate need, long-term needs and sustainability needs through that app, and we will be focusing on the creamy layer of these customers, or 100% of the individual loan customers, which we have identified with a score of 700 plus are already on the app, and we are really, really rigorously following that they are using our app regularly and they are not off the app. 100% of the repayments in the individual loan are digital. There is no cash collection.

Overall collection also has reached to around 40% digital. And every quarter, we are seeing almost 6% improvement in the digital journey. And the guidance that we have given of around 75% digital collection by 2030, I think we should be able to achieve that much earlier. Overall, I think the performance of the company has been great in terms of income also, we have increased our earnings by 5% quarter-on-quarter and 20% year-on-year.

The improvement can be seen in the PPOP. Our PPOP has improved by 43% year-on-year and around 3% quarter-on-quarter. Our operating cost is coming down. Our operating cost has come down to around 6.3%. I think with the disbursement growth, which we are seeing and the efficiencies that we are building in our operations through using technology, this operating cost will come down further.

The credit cost is rapidly improving. We have further reduced our credit cost from last quarter of 2.8% to 2.6% this quarter. And this is even below the lower spectrum of our guidance. And we feel for the remaining year, this credit cost will remain lower. And definitely, this will help us to improve our ROA and ROE.

I think from a growth perspective, we have revised our guidance to 20%. We feel that with the momentum that we have in the quarter 1 and looking at the festive season approaching us and the way the liquidity is available to us and the demand that is there at the ground, we definitely feel that 20% is a growth that we can easily achieve.

And with the success of the products that we have introduced and the way the customer is appreciating, definitely, that is helping us and giving us the confidence that 20% growth we are able to achieve. We have also done a detailed study on our portfolio and looked at where the customer is moving in terms of borrowing.

The thesis that we have initially articulated that now it's a time to look at meaningful financial inclusion. We are progressing in that direction, and we are focusing on providing customers and the household that we are serving products as per their need.

We have seen in the industry that secured and unsecured business loan is the number one need of the customer. The number two need is the gold loan and number three need that the customer is the housing loan or a two-wheeler loan. So all of these products are available with us, and we are catering to the customer.

In terms of our overall performance, we have seen the AUM growth of 18% year-on-year. We will continue to build this AUM with quality and look at the customers' need and continue to improvise on products and focus on products which are catering to our customers' needs, and also at the same time, make sure that we build efficiencies from our cost of fund point of view, our asset quality and operating expenditure.

I think I'll stop here. I'll open up the floor for questions. We look forward to your participation and your support.

Moderator: Thank you, sir. We will now begin the question-and-answer session. First question comes from the line of Varun Dubey with Share India Securities.

Varun Dubey: Congratulations on your strong set of results. I mean your results really display the turnaround that is happening in microfinance industry. I just had a few questions. The first one is on the yield side because the overall incremental cost of borrowing has come down by around 10 basis points and the NIMs are almost flat, so what was the yield for this quarter? If you can throw some light on that.

And also on the disbursement side, your company was aiming around INR1,000 crores of disbursement per month. So that is around INR3,000 crores of disbursement per quarter. So I mean, this year, this quarter, it was around INR2,600 crores.

So do you think the disbursements could come back to INR1,000 crores per month in coming quarters? So there would be a substantial increase in disbursement and that could actually lead to a better AUM growth of more than 20% than the 20% guidance that we had given?

Sadaf Sayeed: Yes. So I think Varun, thank you very much for your question. INR1,000 crores per month disbursement will definitely be achieved. Like I was talking about the whole financial year. On an average, if you see the disbursement that we are planning would be in excess of INR12,000 crores, so INR1,000 crores per month kind of a disbursement number would be achieved.

At a quarterly level, usually, the first quarter is the slowest quarter, but considering the slowest quarter also, we have done INR2,644 crores of disbursement. I think it's a good momentum that we have built in. Definitely, Q2, Q3 and onwards, you will see these numbers traveling upwards definitely.

On the yield part, if you look at our portfolio, the overall lending mix is there, so we are doing group loans at around 24.85%, individual loans at around 23.5%. Then there is a LAP loan, which is between 18% to 22%, and gold loan, which is at around 20%. So blended yield, if you look at the portfolio, would be somewhere around 23%.

But as we calculate, as the overall yield on the portfolio is calculated based on the denominator, which also includes the NPA portfolio, which is not yielding and which has been a historical portfolio, that's why the yield is slightly flat. But as we see more and more collection coming in and more and more of that portfolio going out, the yields will start expanding, and the more portion of the book would be performing portfolio. So the yield expansion will happen.

Already, if you look at from a NIM perspective, as compared to the last financial year, the NIMs have improved. Last financial year, if you look at quarter 4 or the full year, we are flat. But if you look at from a quarter 1 perspective, there is a 50 bps of expansion already has happened. And this expansion will continue, both from the side of the yield as well as reduction in the cost of fund, and that will translate into better profitability, better ROA and also efficiencies will improve.

If you look at our per branch AUM which was in Q1 last year around INR7 crores, it has already reached to INR8.65 crores. So there's almost a 20% more than like what it was in Q1. So operating efficiencies are also kicking in, so overall, I think the expansion on the ROA would be there. That's why we have revised the guidance on the ROA as well. We definitely think that we will be on the upper spectrum of our guidance in terms of an ROA.

Varun Dubey: Okay. Sir, I just wanted to understand one more thing. The company is getting into the consumer durable business. So can you throw some light on that? I mean, what kind of business or AUM are you expecting from the consumer durable side? And what would be the yield that the company would generate from here?

Sadaf Sayeed: Sorry, come again. What is the business?

Varun Dubey: The consumer durable business, I think you highlighted about this in your starting remarks, right?

Sadaf Sayeed: Yes. Yes, consumer durable business you are talking about.

Varun Dubey: Yes. So what kind of AUM are you expecting to generate from here? How big this could be? And at what rate, I mean, would you be thinking over here?

Sadaf Sayeed: Yes. So the consumer durable yield would be somewhat similar around 22% to 23%. And we are starting with a pilot of around INR500 crores. And this is something which we have strategically thought. If you look at our PTC transactions and our CP transaction, they are happening at a coupon rate of around 7.7%.

And if you include all the cost which is involved, it is around 8%, 8.1%, 8.2%. So our idea is the consumer durable loan usually are shorter tenure loan, a 6-month or 9-month kind of a tenure. We will be utilizing CP facility for this.

This will really give us a good yield on the portfolio because we will be borrowing at around 8.2% to 8.1% and building a portfolio, which will give us a yield of around 22% to 23%, so that will really give us good kind of margins on our business. This is at a pilot stage of INR500 crores.

Definitely, as it plays out, we will expand it. We have looked at the industry, the delinquency in this portfolio are around 1%, and 90-plus is sub-1%. So definitely, this is something that is very good and also our customers are wanting to avail these facilities.

Varun Dubey: Okay. Great, sir. So one last question I just wanted to understand. I mean, recently, we have seen floods in Assam and some other places as well. And I think so your company has just entered the Assam area. So I mean, are you facing any challenges over there? I mean, should we expect some kind of deterioration in your books because of these issues?

Sadaf Sayeed: So in Assam, the flood or this kind of a water problem is kind of an annual phenomenon, so one is that this is in upper Assam, we have no exposure to that state. We are at lower Assam, so our portfolio is not affected as of now entirely.

And second aspect is we take natural calamity insurance for all our customers, so that impact is not there at all in our portfolio, even if there is some flood that may come, we don't have any impact on our portfolio. Wherever there are excessive rain, even in some parts of Kerala, there is no impact on our portfolio as of now.

Moderator: The next question comes from the line of Prithviraj Patil with Investec. Unfortunately, the current participant has been disconnected. Prithviraj, can you hear us?

Prithviraj Patil: Yes, I can hear you. Am I audible?

Moderator: Go ahead with your question.

Prithviraj Patil: Yes. So I had a question on the direct assignment. So I see that there were some direct assignments done this quarter. So are we booking that income in the interest income line item itself or that's the first on the recognition policy of that income. And then the second is on the co-lending mechanism and the referral mechanism. If you could just throw some light about how that gold loan referral business is moving? Yes. So these two questions.

Sadaf Sayeed: Sure. On the gold loan perspective, I can say that on the gold loan referral business, we are doing really well. We are disbursing almost INR100 crores every month since the gold loan co-lending guidelines came in and then there was a gold loan guidelines also came in, in April. So in the first quarter, the business was minimal.

But post the first quarter, every month, we are disbursing INR100 crores. Already, we have disbursed around INR360 crores of gold loans, and it is scaling up really well. On the DA side, I'll ask my colleague, Praveen, to kind of explain that. Praveen?

Praveen T.: Yes. This is Praveen. So the income from direct assignment is looked through the net gain on fair value changes. It doesn't go through the interest income portion. It goes through the net gain on fair value changes so that it can be tracked separately. And all the EAS is reported through that account, so last quarter, we did around INR355 crores.

Last financial year, we did around INR1,600 crores of DA, so it's a consistent borrowing that we do. And mostly, we offload the nonqualifying portion of our portfolio through the DA mechanism so that we can get the benefit of capital adequacy as well as asset on the balance sheet.

Sadaf Sayeed: And in terms of quantum of DA, I think Praveen, what is the quantum of DA?

Praveen T.: INR355 crores this quarter.

Sadaf Sayeed: Yes. And on the gold loan, one thing I wanted to mention that we have done a propensity analysis among our customer that what is the propensity to borrow, what is the first loan after the microfinance loan the customer takes. So gold loan comes as one of the top priority for the customer that after microfinance, the first loan that the borrower takes is a gold loan, so there's a huge potential of doing gold loan business.

And we have seen among our customer, Muthoot Microfin customer itself there is INR11,000 crores of gold loan outstanding with all various lenders. So definitely, our effort is to bring that to the Muthoot fold. And we have started that journey, INR100 crores per month we are already doing.

I think there's a huge potential of this. And this product will become a unique product for Muthoot Microfin because if you compare to our competitors, not everybody has the capacity to offer gold loan products because this requires a lot of infrastructure investment.

But because of our parent's association and the network that the parent has created, we are able to offer this product easily. And most importantly, it requires a lot of credibility and trust in the mind of the customer that our precious jewelry or precious gold will remain safe.

And being in this business for more than a century, we have built that trust and we have built that credibility as Muthoot. Definitely, we would have the advantage in terms of customer trying to pledge the gold. And with that INR11,000 crores, which is among our customer itself, we definitely feel that a good amount of 30% to 40% of that portfolio, we should be able to bring into our fold. That has been our effort, and we are focusing at that creamy layer of customers.

Prithviraj Patil: So if I can ask a follow-up question, so I just had a question on the branch network. So for the gold loans, we do a co-lending. So are we investing in the branch network or are you using the parents' gold branches itself for parking the gold?

Sadaf Sayeed: Yes. So we have understanding between the parent and us. We have an agreement where the storage of the gold and assessment of the gold is done at the parent level. The sourcing of the customer because it's a microfinance customer, we source the customer and we handhold the customer, take them to the branch with the gold and help them to assess gold, and the gold is stored at the FinCorp branch.

It's a co-lending arrangement with 60-40, 60% remains on our book, 40% remains on parent's book. But in case of referrals, it remains on parent's book, but we get an earning from that portfolio of 1.5% of referral that is there.

But the idea is to not to invest and duplicate work. So we don't have a gold loan specific branch. It's the parent's branch where we do this. And our branch becomes a contact point from the customer.

And we are not only focusing on Muthoot Microfin customer, we are also bringing in other customers because gold loan currently works on our referral, so one customer pledges it, she tells in her neighborhood, the other person also comes in, so we are doing. So it becomes a good mechanism to acquire new customers as well.

Moderator: The next question comes from the line of Vishal Narnolia with ICICI Securities.

Vishal Narnolia: I basically have two questions. First is there are some FMCG companies which you were talking about some kind of slowdown in rural construction because of the El Nino and uneven monsoon, so if you can give your take about what is happening on the ground. And in case if there is some impact, will our growth guidance be maintained? And second is what proportion of AUM currently is under CGFMU?

Sadaf Sayeed: Thank you, Vishal. Like in terms of the guidance, and we don't see any change happening immediately. We think that we can confidently achieve our -- we have just revised the guidance upwards to 20%. From the El Nino point of view, the deficit of rain, which was there initially was around 43%.

Now the latest number shows it's around 12%, so deficit has come down. And rains are continuing in northern belt as well as southern belt, so we feel that ultimate deficit would be not so significant that may impact like crop yield or affect the businesses.

But we have done a detailed analysis among the agri or agri allied businesses. Our portfolio, hardly 2% of our customers are directly dependent on these activities, which are in sensitive areas, which there could be a shortfall of rain or rain deficit. Some of the parts of Maharashtra, Karnataka that are sensitive to it.

So in that, less than 2% of our portfolio is there and majority of the agriculture or activity that people are involved are in animal husbandry and in fisheries and other activities, so they are not directly impacted by this, so we don't see too much of impact of this.

From a point of view of inflation because of low supply and global macroeconomic event, I think rural inflation is slightly higher than the urban inflation. But what we see generally in this scenario that offtake of loans increases, people generally take more borrowing. But overall, we have seen even cash flows improve in rural area.

That is what we are witnessing in our collections as well. The collection efficiencies are improving every month, and that is why we are able to reach around 98% collection efficiency overall. And because of the rural cash flow improving, we don't see any challenge as of now.

And for any sort of impact of El Nino, we also have the natural calamity insurance, so even drought is covered there, so from that point of view, we would be insulated. I think your second question was pertaining to -- sorry, can you repeat that?

Vishal Narnolia: what is the proportion of AUM under CGFMU guarantee?

Sadaf Sayeed: Yes. So we have applied for CGFMU guarantee. We are yet to get that in effect. The portion that we are looking at is around 20% to have that CGFMU guarantee.

Moderator: The next question comes from the line of Nilesh Patil with Share India Securities. As there is no response, we'll move on to the next question. It's from the line of Chintan Shah with Investyandya.Com.

Chintan Shah: Am I basically looking at the presentation we are uploading in which I am seeing the active clients, which is actually year-on-year and Q-on-Q degrowth. There is a reason because the asset quality was not that good in that time, and will it improve in Q2 and Q3 onwards? That is my question, sir.

Sadaf Sayeed: Yes. So definitely, I think from a customer point of view, if you look at from an industry perspective, industry at peak had around 8 crores customers, which have reduced to around 6 crores now. So almost 25% reduction in the customer base. If you compare from that perspective, we have had a minor kind of a Q-on-Q reduction of 0.6%, but we have taken a step in terms of recruiting new customers. So the products that we are offering now like gold loans, consumer durable loans, also like from the traditional...

Moderator: Yes, sir. Sorry to interrupt, the line of the management has been disconnected.

Praveen T.: I'll take that while he rejoins. So I think we have introduced the new customers, new products such as consumer durable, we have gold loans. And we have also expanded our network to the northern and eastern and western geographies where we are acquiring more new customers, so we are expecting this to be improving from Q2 onwards. It is not that we are adding customers, but at the same time, there are certain customers we are either through write-off or closure we don't want to renew, they are moving out of the system. So the Q2 onwards, the customer base will start improving.

Chintan Shah: Okay. Just a second question, sir. Any from the branch point of view, there is a decline in Y-o-Y basis, so it will improve in Q2 and onwards?

Sadaf Sayeed: Yes. So on the branch network, we have focused on two areas, which is Andhra Pradesh and Assam, which are the newer comparatively, so where the expansion is. Andhra Pradesh, the expansion is more. So the focus is to have a deeper penetration with our customer, have a larger wallet share, so we will be focusing on that.

At the same time, expanding our branch network as well. We will look at some of the newer territories that we are exploring. But definitely, in the coming year, we will open more branches, so this branch number will go up.

Chintan Shah: Okay. Any idea for the FY27 total number of branches you will add or something like that?

Sadaf Sayeed: So we will be in the range of 1,750 to 1,740 branches. We are right now around 1,670 branches.

Moderator: The next question comes from the line of Ashlesh Sonje with Kotak Securities.

Ashlesh Sonje: Sir, first, a few questions on the MFI business. Have you taken any price hikes recently on the MFI portfolio? And are you considering any hikes going forward in the rest of this year? And secondly, within MFI, what are the key areas which are being discussed at the SRO level today?

Sadaf Sayeed: Yes. So on the price hike, we had increased the rate at the end of the quarter, so we had increased the rate by around from 23.5% to 24.85%. So there has been an increase in the yield definitely because of the risk and the credit cost that was there last year. This year, we may evaluate if there is a requirement of increasing rate, we will increase.

But at the moment, we don't see that. In fact, we are getting larger kind of funding at a cheaper cost, so we may share some bit to our customer. But largely, I think it will go into expanding of our NIM.

On the SRO bit, I'm not the official spokesperson, but I can tell you from my interaction, SRO has taken initiative to ensure that the multiple lending and overlending is avoided. I think that is playing out well.

If you look at our customer base itself, we are now around 46% of our customers are absolutely unique to us and another 30% of the customer are us plus 1, so I think that is what is playing out in terms of overall overleveraging customers are moving out of the system. So that's a good trend and overall delinquency of the industry is also reducing.

Another important role that SRO is playing is to provide liquidity to the sector. So there is a INR20,000 crores of credit guarantee scheme that is available with the government, the offtake in that scheme is slightly slow. But definitely, SRO is engaging with the government and the lenders as well and ensuring that, that fund is sufficiently utilized. So those are the two most important initiatives right now SRO is doing.

But apart from that also, the most important activity is to ensure that they monitor what is going around in the industry and evaluating that if there is anybody who is indulging in a deviant behavior that remains an ongoing activity. So I think that is an important role that SRO is playing currently.

Ashlesh Sonje: Understood, sir. Lastly, on the gold loan portfolio, if you can share how large is the overall gold loan book today? And if I heard you correctly, you said some of the loans sourced by Muthoot Microfin they are partly held on the book, while some of the other loans are purely given as referrals to the parent entity.

So what is the size of each one of these two segments? And how do you decide which loans are to be classified under the co-lending piece and which loans are to be classified under the referral arrangement?

Sadaf Sayeed: Yes. No, that's an important question. So gold loan is a big opportunity. I said among our customer itself, there is INR11,000 crores of outstanding as we speak, and this is definitely growing. So if we focus on this, we can generate a good amount of business for ourselves and our group.

At the moment, because the co-lending guidelines came in during the later part of the year, and there was some gold loan regulation, which also came in, in April. So that co-lending business has started just at the end of the quarter. Purely, we were doing referral business before that. So almost 98% of our business for that quarter is referral business, a minimal part is co-lending.

But going forward, in Q2 onwards, there will be a lot of co-lending business that will be built in. That is what we are seeing. And we are disbursing almost in excess of INR100 crores every month. As we speak, we have already disbursed around INR350 crores of loans in gold, and this momentum is carrying on.

And definitely, we are focusing on strategically on this segment of the customer, and we can build a healthy portfolio. Our aim is to have around INR1,200 crores of disbursement and around INR500 crores of gold portfolio. We are likely to overachieve this number for sure.

Moderator: The next question comes from the line of Jyoti Khatri with Share India Securities.

Jyoti Khatri: Yes, Jyoti Khatri here from Ambit. Thanks for taking my question. What is the credit cost guidance for current fiscal?

Sadaf Sayeed: So see, we have given the guidance of around 2.7% to 3.5%. We are already below the lower spectrum of around 2.7%. We are already at 2.6% for the first quarter. And definitely, going forward, it will be improving in the coming quarters, so we have revised the guidance in terms of our credit cost.

So we are likely to overachieve that in terms of credit cost. We are looking at 2.7% at the lower spectrum, but we'll be better than that for sure, the way the asset quality is panning out. In a normal scenario, you can anticipate -- I'm not talking about this year, but overall, around 2% to 2.25% on a long-term credit cost kind of basis.

Jyoti Khatri: And also, what are the margins of potential to improve from the current level…

Moderator: Ma'am, I'm sorry, we could not hear the last question. Could you please repeat?

Jyoti Khatri: I'm saying is there a potential for margins to improve from the current levels given the fact that your cost of funds is coming down, you have just received rating upgrade as well. And on the yield side, I think there is expansion that you're seeing. So all put together, is there any potential of further improvement on the margin side?

Sadaf Sayeed: Yes, definitely, I think the margins will expand. Our NIM guidance is around 12.5% on the upper spectrum and lower spectrum 12.3%. So we definitely believe that NIM will expand both on the side of the yield also as more and more of good portfolio becomes a part of the larger pool and the yield on the portfolio improves and collection also from the NPA improves.

And on the cost of fund side also, we'll be able to reduce our cost of fund because we have yet to take advantage of our rating upgrade. So definitely, there would be a reduction in cost of fund. We are ranging to be around single digit by end of this financial year. We are at 10.13%, definitely, we should be able to come into single-digit overall cost of funds, and that will really help us to expand our NIM.

Jyoti Khatri: Any guidance there? Any ballpark range that you can provide?

Sadaf Sayeed: Yes, 12.3% to 12.5% is what we have guided. I'm quite confident that we'll be at the upper spectrum of 12.5%.

Jyoti Khatri: Okay. And taking all this into assumption, what you think that could be ROE and ROA for the full fiscal FY27?

Sadaf Sayeed: So ROA, we have guided for around 3.3% on the upper spectrum, and ROE of around 18% on the upper spectrum. And we feel that with the...

Jyoti Khatri: Sorry, I did not get that clearly. ROA?

Sadaf Sayeed: Of 3.3%, upper spectrum, and ROE of around 18% on the upper spectrum.

Jyoti Khatri: Okay. And just one last thing from my end. What could be the ideal AUM mix between MFI and non-MFI secured and unsecured, say, over the next 2 years' time?

Sadaf Sayeed: So we have guided that we will be around 60-40 means basically if you look at the AUM mix, it will be 55-45. But as per the regulation basis, the balance sheet direct assignment that we will do of the non-MFI portfolio will be 60-40. And this is the aim that we want to achieve. We had guided for this year at 75-25. We are already at 76-24. So this year, we will be around 70-30. And coming year, definitely, we will look at strategically where we want to be. But in a long-term scenario, AUM basis 50-45 but balance sheet basis, 60-40 will be there.

Moderator: The next question comes from the line of Ishank Gupta with Choice Institutional Equities.

Ishank Gupta: So my first question is what are the three top focus products that will drive the credit growth ahead for next upcoming 2 to 3 years?

Sadaf Sayeed: I think the number 1 product that we are looking at the individual loan. And then, of course, our JLG product remains key. And then gold loans. I think these are the top 3 products for us, which will really drive the credit growth as well as the asset quality mix.

We feel -- as I explained that we have done the propensity analysis when you look at the customer and then we see that what is our first borrowing outside MFI, the first borrowing is gold and the second borrowing is business loan or secured or unsecured, so that is the product that we are looking at through individual loan.

So our priority will remain individual loan, gold loan and JLG loans. And they are doing really well in terms of our digitization drive also, the individual loan is playing a very important role. Almost 100% of individual loan is digital collection, and it has helped us improve our digital penetration to 40%.

Every quarter, we are improving around 6% in terms of digital collection. Definitely, that will help us to improve our efficiency and digital penetration. So the focus is individual loan, gold loans and JLG.

Ishank Gupta: Okay. My second question is that in the Analyst Day, we had said that we are looking to increase the yields on the JLG portfolio, and we have already done that in the last part of the quarter, but we haven't witnessed any increase or improvement in NIM margins for the current quarter sequentially. So then could we realize an improvement in NIM margins going ahead?

Sadaf Sayeed: Yes. I think that NIM expansion you will witness in the next quarter. We are already witnessing that as our month-on-month numbers are looking at. If you look at from an expansion point of view, for the like full year, there is a 10 bps expansion. From quarter-on-quarter, March quarter versus quarter 1, there is a flat kind of a number.

But if you look at the full year, it was 11.9%, which is now 12%. And if you look at year-on-year, which was 11.5%, has come to 12%. So it's expanding. Of course, Q4 versus Q1, it's kind of flat. But in Q2, you will see that expanding.

Praveen T.: To add to that point, one more element is that in Q1, unfortunately, we had to carry a lot of liquidity also because from Q4, we were carrying a lot of liquidity. And the disbursement, even though was best, but still compared to Q4, slightly down. So I think as the disbursement improves, a lot of this liquidity also gets consumed and the negative carry also will come down. So effectively, starting from Q2 onwards, you will definitely see that improvement on there.

Moderator: The next question comes from the line of Girish Shetty with Girik Capital.

Girish Shetty: Sir, congrats on a good set of results. Just one question. If I look at your peers, like your largest peer, they do around 4% kind of an ROA, which even stretches to 4.5%, 5% in a good cycle. So for Muthoot Microfin, where do you think there is a maximum gap that we can bridge to reach this 4% kind of a number or your portfolio composition is such that we should expect 3.3%, 3.5% kind of an ROA even in a normalized cycle?

Sadaf Sayeed: If you look at our guidance for FY30, we are trying to achieve at around 5% ROA and this journey is in that direction. So we are trying to do more with less expenses. So if you look at our branch productivity, it has improved by more than 20%. So we had around INR7 crores outstanding per branch.

Now that has moved to around INR8.6 crores outstanding per branch. We feel that we can take it to around INR12 crores to INR13 crores outstanding per branch, so that will improve the efficiency of the overall system.

The operating expenses already started to come down. We are at around 6.3%, which we were at 6.4%. This we feel in the long run should be at around 5.5% to 5.75%. And our NIMs are also improving as our cost of fund is improving. So both on the NIM side, opex side and also credit cost side, there is a huge amount of lever that we have.

And because of our ability to do business with our parent company, this gives an additional kicker for us in terms of fee income that we earn. So I think 3.3% is the guidance that we have. Definitely, we'll try and overachieve that. And in a matter of, I think, 18 months, we should be in the range of around 4% to 4.5% ROA business and aiming to be at around 5% ROA by 2030.

That is the strategy that we have laid out and the diversification of the product is focusing on that, ensuring that we are able to do more business with limited expenses and limited resources and expand our yield on the portfolio as well as reduce our cost and build a very strong asset quality, which is sustainable, well diversified. And across the cycle, we are able to deliver good ROA to our investors.

Girish Shetty: Okay. Okay. And since you mentioned you'll be diversifying more from MFI to non-MFI and that ratio is likely to increase, from 70-30 this year to 60-40. Will that have an impact on ROA or even that will be at the same ROA and you will still maintain that 4%, 4.5% kind of a number going forward in, say, 18 months, like you said?

Sadaf Sayeed: Yes, that is what is driving ROA. So because of the improvement in asset quality as well as our ability to cater to the customer based on the risk profile, so our pricing is on the basis of the risk. So we are able to understand the customer's credit score internal and external and price the loan accordingly, so we are able to charge the right amount of rate to the right customer, and that is really helping us to improve our ROA.

And gold, for example, is a business which churns fast. A customer can pledge the gold and take a loan of around INR1 lakh. Our average ticket size is around INR1.3 lakhs, and she kind of pledges that, releases that within 6 months and again pledges that. So when this happens, you are able to earn multiple times from the same customer, so that is where I think the ROA gets built up.

And the fee income also kind of adds to our overall top line and to the ROA. So diversification and asset quality will be the most important drivers for us in terms of our ROA. We are also building this consumer durable portfolio, which will also be short tenure product. And with our rating and our ability to borrow fund at a cheaper rate, we'll be able to build a good yield, good margin on this portfolio, which will also add to our overall ROA.

And overall, I think the performance of the company will be more on efficiency side, improved asset quality and focused on customer retention with the diversified product portfolio, and all of this will drive ROA.

Moderator: Ladies and gentlemen, this will be our last question. It's from the line of Varav G with Omkara Capital.

Varav G.: Sir, in one of the calls, one of the peers, obviously, in a different segment, they highlighted that the macros are slightly tricky and banks are charging a higher interest rate. So what is your take on that? And how is the cost of borrowing panning out there?

Sadaf Sayeed: So second question first on the cost of borrowing, we are experiencing that the liquidity is quite good, so we are able to negotiate better. And our cost of fund is coming down. It has come down in the quarter from 10.27% to 10.13%, 14 basis point reduction. And this is without the impact of our credit rating upgrade. With the rating upgrade benefit having had AA- rating, definitely, this will further improve.

The AA rating also opens up avenue to borrow from mutual funds as well as insurance companies. And for short-term borrowing, for CP, mutual funds are an effective source. So we will look at leveraging on that. That will also help us to reduce our cost of fund.

Definitely, as I have guided that for the year, we are looking at reaching single digit in terms of cost of funds, we should be able to be there. Our incremental borrowing cost is already at 9.8%, which is also 10 bps down from earlier 9.9%. So this will continue to kind of reduce.

On the macros that you asked, I think the macros have improved since then. If you look at the deficit rate which was expected before as the deficit has reduced. It was earlier 43% deficit rate, but now it is around 12%, and it's reducing every week and every day. And from the global scenario perspective also, the crude prices have corrected significantly.

RBI has also taken right steps in terms of mobilizing FCNR deposit. We are seeing great amount of dollars coming into our country, which is also giving stability to the currency. So I think macros are improving as we speak. There is a good amount of auto sales that we have seen. So auto industry is doing good.

Industrial production numbers are good. GDP has been revised upwards by RBI from what it was earlier from 6.6% to 6.7% and inflation number has been revised downwards from 5.1% to 5%. So all of these weighs positively on the business. Also, the benefit of this would also be there in our overall performance and overall profitability of the business. So definitely, macros are improving. I would not say it is perfect, but yes, definitely improving.

Varav G.: And just last question from my side. And congratulations on a good step by the way. I just wanted to understand, so on our individual loans, we think we are shifting from JLG to individual loans, what are some of the challenges you are seeing in the business model in that sense customer in that sense?

Sadaf Sayeed: Yes. So we are very selective on the customers. So we have identified a creamy layer of customers, which is around 8.5 lakh customers within our database, which are 700 score plus. So we are very, very selective while we do the individual loan. So the challenge is only that the credit standards that we have put in, we have to maintain that and continue to grow this business.

So as we grow this business to have that base continuously growing, I think that is the biggest challenge that we have, and our focus is there. We are focusing on quality of assets, ensuring that we cater to quality customers. So that's why you might see a minor drop in the customer base, but our focus is to retain the quality customer with us. So I think probably that is the only challenge that we see. Otherwise, the customer is really appreciating our business. That is what we can see in the business volume.

And from a portfolio point of view, it is really, really performing well as compared to the industry, the bounce rate is much, much lower. We are getting only 13% bounce rate in this business as compared to the industry, which is at around 25% to 30% bounce rate. And that bounce is also collected immediately in 7 days.

So I think from a portfolio perspective and customer support perspective, we are doing really well. The only thing is that we have to live up to our standards, which we have built at 700-plus score. That is something which we will see that how we are able to address that. And without diluting those standards, continue to build that portfolio. I think that is the single biggest challenge that we have.

Moderator: Ladies and gentlemen, that was the last question for today. I now hand the conference over to Mr. Sadaf Sayeed for closing comments.

Sadaf Sayeed: Once again, I thank you all of you for participating in this call and supporting our organization. I think as I articulated, this is kind of a golden period for microfinance and Muthoot Microfin. We are in a very, very favorable scenario where our cost of fund is reducing. We have enough support from the banks. We have huge amount of liquidity and algo room to negotiate for better rate.

Secondly, our asset quality is improving. The collections from the field is improving. The on-time collection, the overall collection efficiency, everything is improving. We are at 98% collection efficiency, which is almost at the best times that we had and X-bucket at 99.9%, almost 100% money coming on time for the fresh customers.

And overall GNPA reducing. And in terms of disbursement growth, we have seen it is growing and we have the market. We have the products that we have diversified and we have created. So we are in a very healthy space. We have technology, we have finance, we have capital, and we have the right formula to cater to this customer.

So we are very confident that we will be able to achieve our growth that we have guided, and we will overachieve the ROA and ROE targets that we have given. And we continue to look forward to your support, and we look forward to taking this financial inclusion journey from merely just inclusion to a meaningful inclusion for our customers. Thank you very much for all your support.

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