



“Muthoot Capital Services Limited  
Q3 FY '25 Earnings Conference Call”  
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**Moderator:** Ladies and gentlemen, good day, and welcome to the Q3 FY '25 Earnings Conference Call of Muthoot Capital hosted by Elara Securities India Private 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 Ms. Shweta Daptardar from Elara Securities. Thank you, and over to you, ma'am.

**Shweta Daptardar:** Thank you, Alare. Good morning, everyone. On behalf of Elara Securities, we welcome you all to Q3 FY '25 Earnings Conference Call of Muthoot Capital Services. From the esteemed management, we have with us today, Mr. Mathews Markose, CEO; Mr. Ramandeep Gill, CFO. We express our gratitude towards the management of Muthoot Capital to provide us the opportunity to host this conference call.

Without further ado, I now hand over the call to Mr. Ramandeep Gill, CFO, for his opening remarks, post which we can open the floor for Q&A. Thank you, and over to you, sir.

**Ramandeep Gill:** Thank you, everybody. Very good morning to all of you. I'll just provide you the glimpse of our Q3 numbers. And after that, we'll be having a Q&A session. So talking about the business of the company, we had an ever highest quarter wherein we have sourced INR846 crores of business. With this, we have taken our AUM to INR2,833 crores which marks an year-on-year jump of 46 percentage. The company has taken a total balance sheet size to INR3,282 crores with borrowing outstanding of INR2,566 crores.

In this process, we have acquired over 1 lakh customers in 1 quarter, which has took our customer base to more than 500,000 for the first time. The PBT of the company stood at INR17.29 crores, taking our shareholder funds to INR652.12 crores. Talking about the GNPA of the company, wherein Q2 ended -- in Q2 end and we have taken a very conscious call of selling out one more pre-COVID NPA pool or a bad tool to ARC. Therein also we -- even after that the GNPA of the company is standing as we speak, at 4.73 percentage.

The NNPA of the company standing at 2.22 percentage. So just to give you a brief on that NNPA as well, wherein we have also specified in the notes as well wherein when we have done the first ARC of the company with Phoenix ARC, where in a major pool of the company has been sold to ARC, which was a pre-COVID pool bad pool.

After that, we have revised our PCR norms, taking it at 75 percentage. Then after immediately selling the second pool to the ARC wherein we have again further revised those loans. Still, we are one of the highest PCR providers in the company -- sorry, in this segment. And therefore, our PCR as we speak, is now 60 percentage.

Then talking about the AUM growth of the company. Last year, at the same time, the company was at INR1,940.30 crores. Now the company is operating at INR2,832 crores of AUM. As I said, year-on-year, it was a 46% jump. Quarter-on-quarter, it was 18.5% jump from Q2 to Q3.

Talking about the products of the company. The company operated with 2-wheeler with corporate loans, 4-wheeler, 3-wheeler, loyalty loan and CVs.

So in this quarter or as we talk about the portfolio with year-on-year for portfolio, 2-wheelers, we have recorded a jump of 49 percentage, corporate loans since we are not doing, so it has shown a degrowth. 4-wheeler has been gone up. By 4-wheeler and PL that has gone up by more than 300 percentage, loyalty loan and PL, 3-wheeler has gone up by 100 percentage.

So as the CV, which we have started at the start of this financial year, it has again shown a remarkable growth quarter-on-quarter, it grew up by 272 percentage. Talking about the business. Same year-on-year, Q3, we did INR478 crores. In quarter 2, we did INR643 crores. This quarter, we closed, as I said, INR845.70 crores.

Now talking about the total business. This year, for the first 9 months, the company has been able to do a business of INR1,987.11 crores, which is again one of the ever highest. We already spoke on the GNPA, wherein I told about the GNPA percentage has been 10.69 percentage has now from the last -- in Q3 of the last financial year has gone down to 4.73 percentage. Last quarter, it was 4.80 percentage.

Talking about the NNPA, as I said, because of the change in the estimate and since the entire bad pool has been sold out, still we kept PCR on the high side at 60 percentage. Talking about now this year on -- quarter-on-quarter growth we have seen in each and every parameter now, we -- as a company, we operated at an average LTV of 84.6 percentage, and the company is having an own funds of INR652.10 crores.

The profit after tax, we are reporting at INR12.7 crores. We can see quarter 3 of last financial year, year-on-year, it was INR10.2 crores, that has moved up to INR11.1 crores in quarter 4 of last financial year. In quarter 1 of this financial year, the profit after tax was INR11.4 crores. In quarter 2, it moved up to INR16.3 crores, that also contain one of the profit on the reversal because of ARC that we did. And then in quarter 2 -- in quarter 3, it is standing at INR12.7 crores.

The company has -- for this quarter ending, the company is having an ROA of 2 percentage with ROE of 8 percentage. And EPS is standing at INR7.6. We also did some analysis on our cost and yields wherein we have seen continuous improvement in the last 4 quarters on the yield front of the company as we speak about the retail loans of the company. Corporate loans remains flat.

As I said at the start of the call, we are not doing much. Investor yield, we have been able to increase, and borrowing cost of the company is, again, hovering at a range of 9.90 to 9.50 percentage, which we are assuming that it will be hovering in the same range till our Q4 results will be out.

So talking about the own channels business vis-a-vis the co-lending business. So in this quarter, right from the October itself, October, November and for the last 3 months, the company has been able to increase its dealer business as compared to the quarter 3 year-on-year by 227 percentage. The business which have been sourced by the group companies that has been increased to -- increase by 203 percentage.

And we have seen a dip in the co-lending, which has been dropped down by 8 percentage. So incrementally, 75 percentage of the business came from MCSL channels. And then remaining through partners we have. Talking about the portfolio analysis, which we've done, 95.27 percentage of the portfolio is remaining as a standard portfolio of the company, 4.73 percentage is our substandard portfolio, which comes under Stage 3.

Further dividing this into the portfolio of a -- standard portfolio of the company, the 0 bucket portfolio stood at 85.22 percentage. The first bucket portfolio ensued 7.14 percentage; second bucket standing at 2.44 percentage; then above 3, and 3 and above it is standing at 4.73 percentage.

As we said, we do have that partnership in terms of co-lending and VC models, VC models we are doing with our group companies, Muthoot FinCorp and Muthoot Automotive. With partnerships, we do have co-lending partnerships with organizations called WheelsEMI, MANBA, CWC. EV.FIN, specifically for our green funding and Up Money during the last quarter.

So we divided our ECL, and we have also seen that what sort of -- even after revising our ECL -- and not revising our ECL, the change in the estimate, what is the -- even after revising the PCR of the company, what is the total provision which the company is having. As per the IRAC requirement from the RBI norm, company was required to keep a provision on Stage 1, 2 and 3 amounting to INR55.30 crores.

Whereas in terms of ECL provision and considering 60 percentage effect to company was having a provision of INR97 crores, thereby, we are keeping an excess provision still of INR41.45 crores. The requirement for IRAC norms was at 2 percentage, whereas we are providing our -- as per ECL we are providing it 3.5 percentage.

Talking about how the company has done in terms of ARC sale, which we did, when we did the first ARC sale that gave us the confidence to do the second one. Therein, we recorded a security receipt balance of INR102.22 crores. Those security receipt balance only through hard core cash recovery in 15 months of time, INR102.22 crores has come down to INR41.09 crores. It's a good -- great achievement for all of us.

Talking about the ARC 2, wherein we did at the end of September, at the end of Q2, which also become a reason for my change in the PCR. So therein also we have seen a remarkable growth in the -- remarkable improvement in the first 3 months itself. We recorded an SR of INR41.73 crores at the start of the ARC security receipt, ARC 2. Now that balance is INR36.75 crores. So therein also the company has been able to recover more than INR6.5 crores only in the 3 months itself.

Talking about the funding of the company, the company has been able to borrow INR838 crores from the market in Q3. Out of that, INR590 crores remain as my long-term funding and remaining has come as a short-term funding. When I talk -- when we talk about short-term funding, it's a mixture of working capital demand loan and also there are CPs which we are raising. We have also analysed that where is the total funding of the company.

Total borrowing of the company as of now, we are at INR2,576.59 crores, majority contributor -- contribution has come from two things, one from bank approximately INR1,050 crores, then there comes the NCD, which is again approximately at INR1,000 crores. Then there comes the contribution from commercial papers, from PT, from FI and others. The company has been successfully able to roll all its working capital demand loans from PSU in last quarter, which amounts to INR475 crores.

We have also done one analysis on the change in the MCLR rates. So we have taken State Bank of India rate as an average MCLR rate. We can see that approximately 0.35 percentage of average MCLR rate has been increased. In the first 9 months, whereas borrowing costs of the company against that has been increased by 0.14 percentage.

Talking about the fixed deposits of the company, the balance outstanding is of INR40 crores, wherein the majority of the balance is coming from 2 to 3 years and more than 5 years. From that, we are having a good liquidity wherein we track our liquidity through our LCR. In this quarter, since RBI norms have been changed from 85 percentage to 100 percentage the company was successful in carrying that liquidity at 116 percentage of LCR.

So that's it from a brief snapshot of the company for Q3 and as of Q3 as well. Over to you, Matthews, sir.

**Mathews Markose:**

Yes. Good morning, everyone. Let me start by wishing all of you a very, very happy and prosperous 2025. Since Raman has already extensively covered all the numbers I don't want to repeat those numbers. But I would just give some of the achievements that we've done over the last quarter, and some of the very important changes that have happened in our organization on the positive side.

So first of all, we had a -- we had the fresh blood of the young next fourth-generation Muthootian coming in our Board of Directors. So Tina Muthoot has joined as our Executive Director; and Susan Muthoot and Ritu Muthoot have also joined as Non-Executive Directors. So the company has brought in fresh blood into the company.

Two, we have got the much awaited corporate agency license from IRBA. So that is going to be a really big thing for us because all the insurance premiums, which we were already doing till now because of the security of our customers, we were almost doing about 95, 97 percentage coverage on the credit life insurance side. But we were not able to realize the income on that because we were not a corporate agency.

Now that will be an additional income line for us. We have -- we are proud to say that on all the forecasts that we had given to investors on our -- all our previous calls in terms of numbers,

we have overachieved all those numbers. In fact, we had given a guidance of about INR3,000 crores of AUM to exit March '25. We are already on INR2,833-odd crores. So we should hopefully, by the grace of God exit at around INR3,200 crores. So that's a huge positive.

On the technology side, again, we have made investments. So we have changed our LOS for used car and commercial vehicles. So that has gone live, which is a big thing because now these two businesses are anyway picking up, and this will add wings to the momentum. And these two businesses are going to be really big for us in the coming year for -- on two accounts: one larger ticket size; two, lower credit cost; and three, the lower tenure of loans, which means that the AUM will build faster than our 2-wheeler loan, the runoff will be smaller.

Then again, on the technology side, we have launched the risk-based pricing in with CIBIL. CIBIL has built the score card for us and that we have launched therein. Now we will be able to price the customers in different risk buckets, low, medium and high-risk customers separately. Till now, we were pricing all the customers based on schemes. So any customer taking a particular scheme, irrespective of the risk profile would have got the same pricing.

But now we will be able to differentiate it, and we will be able to give a better pricing and better -- yes, better pricing to the low-risk customers, whereas we will be able to price the high-risk customers appropriately. So all these investments we have made on the technology side, we have introduced a new CRM and lead management solution from LeadSquared that has gone live in the last quarter.

Now all our leads that we had tied up with the marketplaces are now passed on to the frontline through the LeadSquared platform. Earlier, it used to be passed on through Excel, which was a very inefficient way of tracking it. Now we are able to track end-to-end the lead. All our customer service is happening through the LeadSquared platform, which is a CRM solution where customers can -- or every complaint has a TAT prebuilt into the system.

And if the TAT is reached, then it automatically escalates to the next level, coming up to my level if there is a need. So all those are really good for the customer. And so all these things we've done over the last quarter, of course, the work was in progress, but we were able to successfully launch this.

Looking forward, I think Q3 is also has started well. January was good. compared to market standards. Yes, you also did a benchmarking of MCSL against other lenders in this business through the credit bureau. And on all the vectors, we are happy to say that on all vectors, we are -- we've done better than the players in the same line of business.

I think overall, the company has been doing well, and we're extremely proud to present this result in front of you. Thank you.

**Moderator:**

The first question comes from the line of Devarshi Raj from Elara Capital.

**Devarshi Raj:**

Congratulations on a good set of numbers. I just had two questions. The first one is on the 2-wheeler sector and how the rural outlook is panning out in light of the budget and as well as how it will pan out in the next 2 years? And the second question is on the margin outlook, like what do you expect in terms of after the rate cut happens?

**Mathews Markose:**

Thank you for the question. So this is something -- this data, which we just took last week from the credit bureau. So actually, over 50% or close to 50%, 49.67 percentage of the overall originations across quarters have happened from the below 100 cities. So we have segregated cities into top 8, then 9 to 51 and then 51 to 100, and above 100, okay? So 50% of the originations across quarters. So it was 46% about a year back and has come up to 49-point-something. So 50% originations are happening from the BP100 which is below 100 cities.

So that is where the market is growing and that is where the market will continue to grow. This year, fortunately, we had good monsoons. So rural demand is also picking up. And we continue to -- we'll continue to see rural demand, and this product is also largely the area where we operate in, we operate mainly in the commuter segment and not on the high-end bike, commuter segment is and has been growing in the rural belt, and it will continue to grow. That's on the number side.

And two question that you asked around the margins. So as of now, rate cut, nothing has come in. But even if it comes in, I think it will be beneficial for us because it may impact immediately the MCLR's and therefore, the benefit will accrue to us. We are currently operating at a finance cost of about 9.75% and 9.8% that should come down progressively because I've also read articles about maybe the rate cut going up 2.75% over a period of time. So whatever -- whenever it happens, and if it happens, it will benefit us.

For us on the lending side, since we have implemented risk-based pricing, that is also beneficial for us because we will be able to price good customers lower and slightly higher risk customers appropriately. So I don't think it is going to impact us on the yield side. But of course, it will impact us on the overall NII because our cost of borrowings should go down.

**Moderator:**

The next question is from the line of Tejas Khandelwal from Prudent Equity.

**Tejas Khandelwal:**

Okay. So sir, the other expenses have increased to INR20 crores this quarter from INR16 crores. So could you explain the key reasons behind this rise? And what kind of other expense do you expect in next quarter and, let's say, in FY '26?

**Ramandeep Gill:**

Okay. So I'll take this. So in terms of my other expenses, there are two, three things wherein as said -- I said as well. We have heavily invested in the software, so there are multiple AMC's which have come, we have taken that hit in the Q3 as well -- Q3 only, wherein we have taken approximately INR2 crores of hit in our software usage fees itself. It's more of a cloud services, which we have taken. Then in all other parameters, we can see that other than that, our expenses have gone down itself.

There are some branches and somethings -- which we have opened. So there, we can see some size of around INR50 lakh, INR60 lakh over there. And other than that, there are expenses --

INR1 crore of expenses, I will say that has been divided between our cost of acquiring new offers for my -- for the pending advertisements, which we have booked within the -- we don't want to take it to Q4. So we have taken that it. Otherwise, if we talk about Q4, the 5 percentage here and there from Q2, that would be my other expenses as of now.

**Tejas Khandelwal:** Okay. So what kind of run rate do you expect in other expenses in next quarter? And in FY '26?

**Ramandeep Gill:** Yes. So as I said, we have -- if we have to talk about -- and compare about the Q2, Q2 we do have the other expenses of close to INR16.50 crores. We are expecting 5, 10 percentage jump only on that, wherein we have to book some sort of expenses in Q4 being it's the last quarter of the year. So we are expecting to close it somewhere around INR18 crores, INR18.2 crores.

**Tejas Khandelwal:** Okay. Okay, sir. Got it. And sir, my second question is on NPA. So what portion of your total NPA is from pre-COVID period right now?

**Ramandeep Gill:** So I'll tell you. So as I said, majority of the portion has already been splitted between two ARCs, right now, there is a very small portion, which is there from the pre-COVID, which comes around INR15 crores, INR16-odd crores, which is still there in the books.

**Tejas Khandelwal:** Okay. So do you expect to sell this INR15 crores, INR16 crores to ARC going forward?

**Ramandeep Gill:** Yes, we wanted to, but the pool that -- earlier also, that has become part of the previous pool, which wherein I did ARC 2 transaction. ARC 2 transaction, which wherein we can appreciate the fact that after INR100 crores, we have to do a switch challenge on the ARC and all. Therefore, intentionally, we kept it below INR100 crores while doing the ARC 2, that was a very conscious call.

Now, I don't think there is any need for doing another ARC at least for another, I'd say, 12 to 15 months from now onwards because what will happen in that 12 to 15 months, that will make as a third seasoning post-COVID period. Post-COVID about the two -- if we have to talk about the 2-wheeler where in my seasoning generally happens in 2 years of time. Whereas I'll get to know the quality of the portfolio somewhere in between 15 to 18 months of the time.

So with that, after 15, 16 months, it will be a third seasoning, which is going to happen. Then we will see if we have to take any call on the ARC, including this pool. See, one more thing, which wherein you will appreciate us that doing ARC is not because we wanted to -- we don't know that whether this pool will be behaving what -- we can -- we have also aided, we have also provided you the evidence that we have been able to bring down our security receipts.

That security receipt has been brought down only through the hard cash recovery. It does -- preponing the NPA because end of the day, we have to make our finance costs also down. So for that, we have to approach all the bankers and the PSUs as well. And the post criteria was that your GNPA should be 6 percentage.

**Moderator:** The next question is from the line of Nemin Doshi from Geojit PMS.



**Nemin Doshi:**

I have a few questions. Firstly, as you said that 50% of the overall origination has happened from below 100 cities. So just to get more sense here, where are we in terms of the market share with dealers, especially in the mature market? And what percentage of market share do we aspire to reach over a medium term? Is just because will our first area of focus be to capture the incremental market share from the existing market or the newer locations selling out in...

**Mathews Markose:**

Okay. So let me divide that question in two parts. So one is that I will talk about market share in the locations that we operate in, because we don't operate in -- operate across the country. So we are present in roughly about 34% to 36% of the overall vehicle sales. So in that location where we are operational, we are at a market share of about 7% to 7.5% now. But on the overall pan-India scenario, we are at a market share of 2.6%. But then that excludes about 60%, 64% where we are not at all present. So that's on the market share.

As of now, we are getting into a few markets, new markets, like we are expanding in Assam. Because Assam, we are only present in Guwahati and near about. But now we are expanding slightly more into Assam because our portfolio has behaved extremely well there in all parameters, whether it is RC pendency or on delinquency, everything the portfolio has behaved excellently. And we are also expanding into Bihar, which is a new market for us. We were not present in Bihar.

So that's a market that we are entering into because that's a big market for 2-wheeler. So that is on existing side or other locations, we will be going deeper in our existing locations wherever we are playing. So in the location, we may be operating in 3 or 4 dealerships, but there could be about 10, 12 dealerships, we'll get into all of them. So going deeper in existing geographies and selectively spreading our wings into new geography, that is one plan.

Two, we will shortly be launching our used 2-wheeler product also because that will help us on two counts. One is on the building a better yield portfolio because there -- typically, the yields tend to be about 400, 500 bps higher than the new 2-wheeler business. And two, we will also be able to give an end-to-end solution today wherever we have to repossess, we repossess and sell it online, et cetera, and there are vendors who quote online and take it.

When we launched this product, we will be able to place them in the dealerships whom we have tie-up with, and we will be able to sell it off at a better pricing, maybe closer to the cost outstanding than what we are currently selling. So from -- and that -- but that business will also be present only in the markets where we are present. We'll not be venturing into new markets to do that. So this is a new line of business that we are getting into.

**Nemin Doshi:**

Okay. Okay. And secondly, just related to this, how is the competition intensity panning out given the fact that banks have a cost of funds advantage and they would be -- they are looking to aggressively look into this 2-wheeler segment, are you facing any competitive -- high competitive pressures from banks?

**Mathews Markose:**

So interestingly, we have data which we took from CIC, which is Credit Information Center. So Interestingly, the share of both private sector banks and public sector banks have come

down in the vehicle loan segment, and that share has been captured by NBFCs. So NBFCs have outperformed private banks and PSU banks in the vehicle loan space. In fact, in most of the retail lending products, NBFCs are now doing better but especially in vehicle loan space, NBFCs have an edge.

So competition whatsoever will be more from the NBFCs itself. I'm not saying there is no competition. The competition is intense. But it's there from NBFCs, not because of the banks entering that. And two, on 2-wheeler business, nobody -- because the opex is relatively higher, nobody indiscriminately cuts their pricing. So maybe there may be about 100, 200 bps lower, but overall, it's range-bound. We don't go indiscriminate.

**Nemin Doshi:**

Got this. This is helpful. And second -- and next thing on -- like you mentioned that there is competition intensity in itself. And how are the position better compared to peers, in terms of underwriting or sourcing?

**Ramandeep Gill:**

So this year, origination, we have some interesting data, we took it from CIBIL. So we had -- we did a benchmarking of us with private banks and other NBFCs. This was a cohort. So I'm not at the liberty to disclose the names of the cohort, but we had put up some larger everything, and we indexed that number. So suppose in Q1 of '23 is -- the originations were 100, that 100 for a private sector bank has gone up to 108, whereas it has gone up to 120 for other NBFCs, the cohort.

But for MCSL, it has gone up to 274. So we have been clearly an outlier. So -- and even in terms of the AUM growth, MCSL has grown by about 46% on the AUM. The NBFC cohorts have grown their book at 18%, while private sector has grown their book only by 10%. So there also, we have been an outlier. But of course, you have to appreciate the fact that our book size was smaller, so it was achievable. However, on hard facts, we've outperformed.

**Nemin Doshi:**

Okay. Perfect. This is helpful. And lastly, if I may, in terms of your PCR coverage, it has reduced to 60%. So are we saying that the incremental asset quality is holding up. Is that true in -- especially in the 2-wheeler segment? And how are we scaling up the other than 2-wheeler segment in terms of disbursements because it's still less than approximately 5% of our AUM as you were there?

**Mathews Markose:**

Yes. Yes. So revision of PCR is a reflection of our better quality portfolio. Raman, would you want to give more details on that, please?

**Ramandeep Gill:**

Yes, yes, yes. So I will just tell you, first, on the other portfolios that we are building, right? So we have started CV in this financial year itself. So therefore, we are not seeing any stress. For used car, we are doing it for the last 2.5 years only. And therein, we have a stress of only 0.86 percentage, right? So then there comes now the 2-wheeler. 2-wheeler, wherein we have seen -- we have analysed that, as I told at the start of the call itself. We have analysed that where we are in terms of various stages, in terms of my portfolio quality.

Therefore, we have found that a 0 bucket, 85.22 percentage is there. In 1 bucket, 7.14 percentages there, right? And this 0, 1 bucket, 2 bucket it's coming from the post-COVID

portfolio itself, right? And then even if you see the industry or you compare with the peers, right? All the industry specifically are working in -- who are operating in 2-wheeler segments, they are hovering around with a GNPA of 5 to 6 percentage, right?

But within the kind of control we have seen and basis on, yes, 2.5 years back, 3 years back, we have seen the slippages has happened for a COVID pool. So on that, when we have taken the call on the new pool, we can see that there are no slippages as such, which we are seeing and which could be alarming for the company. Then based on that, we took a call, still after taking this call, we are still being operating at 60 percentage of PCR, right? Wherein even if you compare with the peers or industry, industry operates at 45 percentage somewhere around that.

Last thing, in order to summarize the entire thing, we are still carrying in excess of INR42 crores as a provision in the book, which will continue to carry because we will assess that the portfolio which we have created over the last 1 year or so, that will get seasoned in the next 6 months. So that also we have to look. So considering everything, the third seasoning of the portfolio will happen.

Then only we'll be able to absolutely know, okay? Where we have to actually operate in terms of PCR of the company, whether it should be 40%, it should be 45% or it should be equal into the IRAC norm sometimes. So therein now, keeping a very conscious approach, we are still keeping at 60 percentage.

**Moderator:** The next question is from the line of Souresh Pal from CRSP Capital Limited.

**Souresh Pal:** Yes, my question is if I see from previous quarters, that is quarter 2 of this financial year versus the quarter 3 of this financial year, I can see that our gross NPA has increased from INR100 crores to INR120 crores. So does it imply that we are seeing any stress in the asset quality? That's my question, the first question.

**Ramandeep Gill:** Okay. Sir, may I answer this?

**Mathews Markose:** Yes, go ahead.

**Ramandeep Gill:** So sir, as I said at the start of the call, we did a disbursement of close to INR2,000 crores in first the first 9 months, right? That is one. And even if you see in this quarter, we did the ever highest business of INR845 crores. The total slippages, if we talk about the GNPA of the company, excluding the pre-COVID pool, it is hovering around INR100 crores itself, right? So the slippage as a percentage of the business which we have done and as a percentage of the AUM, it is in check as of now.

And as I said to my previous question as well, we are keeping a check considering our industry peers as well, that where the GNPA is going up. The normal slippages, which happens in our portfolio that we are totally assessing the same. And if we have to take all on that, which I don't think so as of now because we are analysing this slippage each and every month.

So there is no requirement of taking the call. The slippage, which has been moved from bucket 2 and 3, and 3 and above is basically a normal slippage which happens in every 2-wheeler business. So that comes to around 3 to 4 percentage.

**Souresh Pal:** Okay, sir. And sir, as we are seeing as well as -- that Microfinance sector is getting hit. So is there any slippage effect we are seeing in our loan book?

**Mathews Markose:** No, nothing whatsoever because Microfinance, see, our customer segment is separate. So the Microfinance borrowers are ladies. In our portfolio, about only 15% to 16% are lady customers. 85% are men. And we have not seen any slippage or percolation of that stress coming to the vehicle loan portfolio.

**Ramandeep Gill:** And one more to answer on this. I have also shared one slide, wherein we can see that MFI stress has come in the month of June. Post that, we can see that each and every parameter of our efficiency in each bucket has been increased only, right? So the stress has not come as our CEO has said, we are only having 15, 16 percentage of the portfolio, wherein the customer is having MFI loan and a 2-wheeler as well.

**Souresh Pal:** Okay, sir. And my last question is, in the presentation, I can see that our opex -- operating expenses has increase from INR41 crores in quarter 2 to INR45 crores in quarter 3. So is there any specific reason?

**Ramandeep Gill:** So as I said on the first question, which has come, so there are two, three reasons for that. Since we have heavily invested on the softwares of the company, wherein we do have a separate LOS for our 2-wheelers, separate LOS for our used car and for CV. All that has come in the last 18 months or so and CVs and used car has come in this financial year itself.

So yes, because of that, we can see a spike of -- INR2 crores, INR2.5 crores of spike that we had seen in my software expenses, which is the hit that we have taken in the Q3. Other than that, there was a normal opex price, which we have seen considering the kind of business which we have done in this financial year.

**Souresh Pal:** And sir, in the last quarter, you have given guidance that we will see rise in our ROA and ROE. So when do you see that happening?

**Ramandeep Gill:** Yes, yes. Very well said sir, and thank you for asking this question. Sir, again, I would want to stick on that, that we want to keep an ROA of 2.5 to 3 percentage at all times, right? Yes, even if you see in the slides, which I have shown, the yield of the company is only increasing. We need to work on certain areas which -- wherein we have identified and we can see that in our Jan portfolio itself, we can -- we are also seeing that what sort of things which we have to do in order to improve.

So a proper check mechanism is there in the company, we can see that -- one more thing, sir, you can also see our Q3 results. Our top line for the first time has been increased by INR17 crores, right? And since we did the ever highest business in Q3, the interest impact and income impact will come from Q4 onwards.

So therein, considering that we can see that, and I want to stick with that promise that, yes, we will be operating at an ROA of somewhere between 2.5 to 3 percentage. Yes, if you do any sort of DA, which would be over and of that, so that will make to 3 to 3.25 percentage.

**Souresh Pal:**

And sir, that will translate to what type of ROE? Return on equity?

**Ramandeep Gill:**

Yes, yes. Concerning debt to equity of the company at 4x, and we will be somewhere around 4.5x. So we can say that 4.5 multiplied by 3, which comes to an 14-odd percentage as an ROE.

**Souresh Pal:**

So that can be seen in next quarter since we have grown our loan book in quarter 3. So the impact will be seen in quarter 4?

**Ramandeep Gill:**

Yes. Yes, yes. Sir, in this stress scenario where in the industry is operating, we just wanted to be very cautious, specifically with the NPA side of the company, right? We don't want to have another black swan or another shocker for all our investors. Therefore, we are keeping check, even for doing all those checks, if we have to implement some software tools additionally, we will do that. Because at the end of the day, if after 6 months or 8 months.

If you have to ask me, we want to have a stable ship who can give continuous returns to our investors. We just don't want to go that aggressive and we don't want to miss the seat belt during this period, wherein the industry is not looking that good, specifically on the NPA. So I assure you, we -- at a normal steady state, we'll be operating at 2.5 to 3 percentage as our ROA.

**Souresh Pal:**

Because as a lending company, it's very easy to show growth, so what other players, they end up if they're going aggressive in terms of loan growth and later brewing of the asset quality. So as a shareholder, I really appreciate that you are not going aggressive by compromising the asset quality.

**Moderator:**

The next question is from the line of Kshitij Verma from Rest Assured Wealth Advisors.

**Kshitij Verma:**

Yes, sir, I had a query. What is the NPL ratio for co-lending book, which we had?

**Ramandeep Gill:**

Okay. So for co-lending portfolio, as of now, we don't have any NPA. As I said at the start, the portfolio for the co-lending portfolio will be getting seasoned after 2 years. So this seasoning is about to come. That is one, right? Second thing is we are sourcing a very high-quality portfolio with our co-lenders. It is not something that only they are approving. We also approve each in every case.

Therefore, if you see the blended yield of the company has gone down in last year or so because those -- all those places that we are sourcing at a very lower yield right? And proper mechanisms are there, wherein if there is anything, which is going beyond 60 days of H2, we immediately instruct our co-lending partners that please change the customer.

Why it is not happening? If there is any mechanism, go there and foreclose and everything. So that's what the strategy we have adopted in the co-lending as of now. But yes, the portfolio quality of the co-lending will come after 6 months or so.

**Kshitij Verma:** Sir, so are we expecting a spike in NPA on that front? Because in the past, we've seen that it has been consistently 0% and it felt as if the underwriting quality of the co-lending book was pretty good because I think incrementally was slipping there.

**Ramandeep Gill:** Yes. Sir, zero percentage, we will not pay. Yes, NPA had happened in the co-lending, but those NPAs either got closed, foreclosed, wherein we have been able to take a -- their co-lending partner has been able to take a reposition out of it and close it. Second thing, the yield on which I'm operating. I'm operating at an 8 percentage lower yield in co-lending as compared to my normal 2-wheelers portfolio.

Therein, also we don't -- though we go and I'm not incurring any cost of recoveries or any opex on to that. But still, we expect a good portfolio. Third thing is that. If you see my co-lending, wherein I was somewhere around INR600 crores as of March of last financial year. Right now, if you see, I'm hovering around some INR800 crores, INR850 crores only.

So the growth is also less because we also, as a company, want to see this 3-seasoning. And with God grace, as of now, we have not seen any major hiccup and we don't expect any sort of further NPAs on the co-lending portfolios as well. Third thing, sir, which we do in order to give assurance and in order to see what is happening.

We do have audits of co-lending, which is happening each and every quarter, wherein all our partners will get audited through our independent auditors appointed by us, so that we can see that if there is any portfolio thing or anything related to entity, anything which is coming, that can also come into the picture on a real-time basis.

Again, with God grace, the audits have been well as of now and we are not seeing any hiccups to come in the future.

**Kshitij Verma:** Sir, could you confirm me what is normally the average ticket size of the loan which is sanctioned on our books for 2-wheeler business?

**Ramandeep Gill:** Okay. So right now, it is coming at 84,000.

**Kshitij Verma:** So my belief would be that suppose if our customer is in this segment would primarily consist of, say lower middle and middle-income groups, if I'm correct, correct? So now this new tax breaks, which have been announced by the government, which will start from next financial year, so does the credit underwriting change because there will be more disposable income in the receiver's hand and maybe some NPL ratios may also become better looking because their incremental flow we can recover, is there some working on that, which we are looking into?

**Ramandeep Gill:** So yes, Mathews, sir, if you can take that question, I'll just give you that -- so we have divided this our portfolio into the formal income -- sorry, and the informal income. So most of the customer, we are operating documented income is not there, either they are through business and also, Mathew's sir, if you can take that question and basis on this because income tax...

**Mathews Markose:** Yes, I think that's a very valid question. You are right. I think it should see -- portfolio should see some improvement because the disposable income of people would go up. But we will see as the situation evolves, we are not going to make any changes right now on our underwriting now. We will continue to use whatever we are using right now. And as and when we see the segment or maybe we'll be able to build something specific to that segment by...

For instance, now we have launched a couple of products based on GST returns and all that for traders. So those kind of product development is an ongoing process, and we will continue to do as and when the situation evolves. But thanks for giving that idea. As of now, we do not plan anything on those lines.

**Kshitij Verma:** Sir, just last 2 questions from my side. One, this RBI, now they are saying that there is an expectation of a rate cut, which may happen during the current calendar year at some time. How much does it translate for us in terms of margins? And second, sir, as a credit rating outlook now that I believe you are A1+ phone, any securities. But as we are doing since last 2, 3 years, we are trying to repair the quality and gradually build a new asset book.

So do you expect any upgrades and these 2 factors can help in any input you have on that? that will be all from my side.

**Mathews Markose:** Raman, do you want to take the question?

**Ramandeep Gill:** For rating, I can take on that.

**Mathews Markose:** Yes. On the margin side, see, whenever there is a rate cut, if and -- if at all, there is a rate cut, that will translate into a benefit on the MCLR. So MCLR has been slightly going up over the last 1.5 years, but rate cut would surely mean that the transmission will happen sooner than later, and that will benefit our MCLR. And we will see a proportionate increase in our NIM because on our book, as I mentioned before, we have increased our risk-based pricing.

So risk-based pricing would mean that today and applying a flat rate of interest to everybody based on the scheme and not based on the customer segmentation. But starting first of February, we have launched that risk-based pricing. And I will be applying 1 grade to the low-risk customer, slightly higher rate to the medium and slightly more rate to the higher-risk customers to take care of my collection costs.

So that clubbed with the fact that if the transmission of repo rate cut comes to the MCLR, we will see a definite positive movement on our NIM.

**Kshitij Verma:** On the rating side of the company.

**Ramandeep Gill:** Yes. Rating side of the company. What we'll do, we'll be having our annual financials getting prepared by May end. And then we already spoke to agencies, we are constantly in touch with them. We are sharing our each and every quarter financials also. And we will expect a jump in rating in the upcoming financial year, specifically after our Q4 results.

**Kshitij Verma:**

Sir, normally, if an upgrade in rating happens, how much does it impact our cost of borrowing? Is it a significant jump?

**Ramandeep Gill:**

So, I say that -- so there are 2 factors to it now. One till September, we can say that our cost of borrowings were higher, but we had to do our own sourcing and business as well. Why our cost of borrowings were higher because of this onetime GLP hit, which the company has to face, right? So they're in all the rollovers, every term loan, which has come and for all the long-term funding, which we have started taking.

So therein, the cost of fund has increased. There is a good chance now and that we have already started from Q3 itself. Therefore, we have also provided in this slide as well that even if the increase in the MCLR rate by 0.36 percentage, our cost of fund has grown only by 0.14 percentage up.

So we are continuously on a wedge of improving it. Second thing, I still believe that once we will be out with our annual financials having the NPA of lower than 6 percentage, more PSUs will welcome us and all the applications, which are there and that will come. So from PSUs, I'm expecting a rate cut of at least, at least 0.50 percentage for sure that might go up to 0.50 to 1 percentage.

Then when our rating will get improved, so marginal impact can come from it, that we will see what would be the impact. That impact will only be coming through the NCDs I will be placing in the market. So therein, right now, if I'm operating at an XRR for the NCD side, XRR, I'm talking about at 11.3%, 11.4% that we can bring below 11%.

**Kshitij Verma:**

And sir, are we looking at any avenue to raise equity in the future because currently, our share price is trading below price to book? So it might look as an undervalued asset and may not be beneficial to existing shareholders. Do you have any feedback on some?

**Ramandeep Gill:**

Yes, yes. So there is a -- so here we are again on a path of recovery. Whatever happened 2, 2.5 years back wherein the company has reported onetime loss. After that, 2 things we have done, first focus on increasing the sourcing of the -- of our MCSL, how and that sourcing with an improved asset quality which we can see also in the results, right? Second is taking care of the GNPA of the previous pool.

If I talk about on the call that I'm -- that we are having INR 15 crores as a GNPA from the previous pool as of now, 2.5 years back, it was INR 535 crores. So it was a huge improvement therein the company has so on each and every parameter, we have started working. And whatever we have set to the shareholders during our quarter-on-quarter call wherein earlier -- 1 year back, the question remains to us was the company is hovering out at INR 2,000 crores AUM.

Right now, if it -- when we'll be taking Q4 call or as we speak, we have already crossed INR 3,000 crores of AUM. So on step by step, we are improving on each and every parameter, and I'm 100% sure that ship is steady now. We know what to source, and we know how to



source it. Basis on that, more than that, we also have each and every week call with our promoters and EDs wherein they track on the NPAs of the companies personally.

So that is how the kind of responsibility, which flows from top to the lowest of level. So therein, we can also expect good -- we can also set drop down in the GNPA as an absolute term as well in the quarters to come.

**Moderator:** The next question comes from the line of Aditya Lathe from Akshita Capital.

**Aditya Lathe:** So sticking to the NPA theme, I had a question on Slide 32 of the presentation that you've shared. So the broad NPA for position as on December end is INR134 crores and the net NPA is INR61 crores. So just noticing that the gross NPA has grown by around INR19.7 crores over the last quarter and the net NPA has grown by a higher amount by around INR24 crores. So could you just help me reconcile the reason as to this?

**Ramandeep Gill:** So both GNPA to NNPA has a function wherein PCR comes into the picture. GNPA for last quarter, wherein we used to apply 75 percentage. Now, we are applying 60 percentage. The movement in the GNPA, which we have seen is basically the normal movement where the portfolio has seasoned. And if you see in a 2-wheeler industry, generally, you will see the seasoning of the portfolio will come in Q3.

Why there is a specific thing because entire business, it starts into quarters only, whereas in Q2 and Q3. If you see the entire scale-up or any tubular organization, their higher sourcing will be there in Q2 and Q3. So in all cycles will get either completed in the Q2 or some year or Q3 of some years. So therein, you might see some jumps, but all those jumps are in control.

And we are below par as far as the industry is concerned, which is that 5.5, 6 percentage of GNPA, we are still at 4.73% percentage of the GNPA, that also includes some portion of the pre-COVID era as well, and I hope I have also answered your NNPA question.

**Aditya Lathe:** Fair enough, sir. So I just wanted to understand why the net NPA growth should be higher than the gross NPA. So that is the only query that I had. So is it something to do with the reversal of around INR18.1 crores, which you've taken due to reduction in provisions?

**Ramandeep Gill:** That is the -- that's what I have told you. The PCR of the company is down 60 percentage. If we apply on 153.86% -- sorry, INR153.86 crores to 60 percentage, you will get this percentage, INR61.34 crores, right?

**Moderator:** Aditya, does that answer your question?

**Mathews Markose:** So Aditya Ji, one more thing. If you see our GNPA has been increased, right, in absolute terms, and so I'll give you some mathematic examples to that. For example, the GNPA was INR100 in quarter 2. On that, I was applying 75 percentage. Remaining was my NPA. That INR100 has become INR130 now. On that, I am applying a lower percentage.

So growth in NNPA would always be on the higher side, because therein, the GNPA terms has not changed. The NNPA terms has been changed significantly from 75% to 60%. That change

has become -- that change is because of the factor, as I already told you that we felt we don't need the requirement of that high PCR.

**Aditya Lathe:**

Understood. Understood, sir. So just a word to this. This 18.1, would this be routed through the P&L, the reduction in provisions that we had released?

**Ramandeep Gill:**

So it will automatically form my part of my P&L whenever I bring down any PCR because we don't find any need for -- we didn't find any need for keeping the higher PCR. So therefore, we have applied lower amount of PCR on the NPAs, but the lower amount, 60 percentage on my NPAs. As compared with the previous quarter, wherein we used to apply 75 percentage.

Now we are applying at 60 percentage. Because, end of the day, sir, one more thing, the business is growing, everything is going. So everything we want from the industry standard. So at PCR too, we want to keep it into -- keep as per the industry as well.

**Moderator:**

Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to the management for the closing comments.

**Ramandeep Gill:**

Sir, thank you so much to all of you for joining us today, and having asked such lovely questions. And also some of the questions are really thought-provoking, which would give us some ideas for building our business on those lines. Thank you once again, and I wish you all a very happy and prosperous 2025 once again from the side of management.

**Moderator:**

Thank you so much, sir. Ladies and gentlemen, on behalf of Elara Securities India Private Limited, that concludes this conference. You may now disconnect your lines.