



“Muthoot Finance
Q4 FY 2022 Earnings Conference Call”

May 26, 2022



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MODERATOR: **MR. SANKET CHHEDA FROM BATLIVALA & KARANI SECURITIES INDIA PVT. LTD.**

Moderator

Ladies and gentlemen, good day, and welcome to the Muthoot Finance Q4 FY'22 Earnings Conference Call hosted by B&K Securities India Private Limited.

As a reminder, all participant lines will be in listen-only mode. 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 '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Sanket Chheda from B&K Securities India Private Limited. Thank you, and over to you, Sanket.

Sanket Chheda

Hi. A very good evening to all of you. We have with us the entire management from Muthoot Finance to discuss the 4Q results. We have George Alexander Muthoot, the MD, sir; and four Whole-Time Directors: Alexander George, George M. George, George M. Alexander and George M. Jacob. Also, we have Executive Director, Eapen Alexander with CFO, Oommen K. Mammen.

Without any further delay, I would hand over the call to the MD sirs for the opening remarks, post which, we'll continue with Q&A session.

Thanks a lot, sir. And over to you, George sir.

George Alexander Muthoot

Okay. Thank you. Good evening to all. This is George Alexander Muthoot, Managing Director. Along with me, as suggested, we have the Whole-Time Directors as well as the CFO and the COO, Mr. K.R. Bijimon, also with us. We had the Board meeting this morning, and the Board has considered the financial accounts. And the gist of that would be the consolidated loan assets under management increased to INR64,494 crore. It is up by 11% year-on-year.

The consolidated profit after tax also increased to INR4,031 crore, up by 6%. The stand-alone assets under management increased to INR58,053 crore, up by 10%. And stand-alone profit after tax increased to INR3,954 crore, again up by 6%. There are a few key milestones for this year, which is the consolidated AUM has crossed INR64,000 crore in this financial year. And the consolidated profit after tax is also crossed the INR4,000 crore mark. And the net worth also has crossed INR18,000 crore mark. And we have also paid a 200% dividend on the face value of the shares, involving a payout of INR803 crore.

The branch net worth is INR5,581 crore compared to INR5,451 crore, a 2% increase. As I said earlier, the gross assets under management has reached INR64,000 crore and the consolidated profit to INR4,031 crore, both these up 11% and 6% higher than the previous year.

We are witnessing signs of recovering the economy. The RBI rate hike may not dampen overall demand scenario. And we are also expecting borrowing costs to go up gradually during this year. Gold loans are a great help for people in times of need and as the economy recovers and the overall economic demand revise, our focus will be to make the most of the opportunities and keep innovating further.

Gold loan AUM grew by 11% during the financial year '22 and we remain optimistic about a growth of 12% to 15% in the gold loan AUM for the financial year '23 as well. The digital initiatives have all done well. It is -- all these are giving us good results, and we want to also expand our loan at home services to more and more branches in India.

The Q4 results -- highlights a steady performance in this quarter. We had disbursed fresh loans to 4 lakh new customers, amounting to INR4,664 crore and to 4.89 lakh inactive customers amounting to INR4,759 crore in this quarter. We could register a 6% increase in profit after tax for the 12 months.

With respect to our subsidiaries following the rise in demand in the economy, the collections of microfinance, vehicle finance, home loans have improved. We aim to further improve our collections in these segments. However, we will continue to adopt a balanced growth strategy given the ongoing macro environment, and we continue to be cautious on the micro finance and the vehicle finance business.

I think this is just what was discussed -- what is the results of the company and its subsidiaries, which were considered at the Board meeting.

Now I think I will leave it to the audience for their queries.

Moderator

Thank you very much, sir. We will now begin the question and answer session. The first question is from the line of Abhijit Tibrewal from Motilal Oswal.

Abhijit Tibrewal

So three questions. First, what has led to this weak gold loan demand in your core customer segments, which are typically this, I would say, INR40,000 to INR60,000 kind of ticket size gold loan customer? That's the first question.

The second question is on the yields. If I understand right, there was a yield compression of about 200 basis points sequentially that we saw in the fourth quarter. Do you believe that this is the new normal for the sustained yields that you can make? Or do you think that the competitive intensity in the last, I would say, 2, 2.5 months has eased out significantly and that the yields have also bottomed out and then incrementally you can deliver higher spreads in FY'23?

Sir, lastly, I mean from what I see, the gross Stage 3 assets is still elevated at about 3%. Is it because -- I mean, your peer who reported last week, they suggested that they had made some changes in the accounting norms in terms of recognition of NPAs. So earlier, we used to consider even collections received in one month following the end of the quarter while reporting the NPA as on the end of the quarter. So have you also done something similar? Or is it because the auctions were lower during the quarter?

And sir, lastly, if you can share, I mean, what was the quantum of auctions and the accrued interest as on March '22?

George Alexander Muthoot

Okay. Thank you. Your first question was about the low on the average ticket size. The average ticket size has definitely gone up from INR40,000 to INR60,000 -- INR40,000 and INR60,000 to much higher levels. It is actually the part of the growth in the economy only. So people who are borrowing earlier are borrowing more. That's all. It's certainly -- or I should say upward movement of the customers.

The yields and spread, yes, we consciously had done to teaser rates on the yield so that we could get more customers, and it has been quite successful. We were able to get quite a lot of new customers during the last quarter and also during the end of the third quarter. So to that extent, it has been successful. We have been able to grow our AUM. We have been able to attract a lot of customers who are either to go elsewhere. Of course, we have now discontinued the very low yield keeps schemes because the period of the low interest scheme which we started as we wanted to, so discontinued. And so now we should see more customers coming. Since we have got these customers, we will see that we continue to retain these customers going forward. And probably the yield also should start inching up. So certainly, what we did was a conscious decision to

acquire customers. It is for a limited period and that period is over. And now we have gone back to the -- we have discontinued the very low interest keeps.

And your next question was about the Stage 3 assets. Yes, we have not made any change...

Management

No, we have been always following based on a number of days past due. So there's no change as far as we are concerned, the classification. The quantum remains higher because that is a conscious call as we have been telling in every call that we are not too much worried about the Stage 3 assets because ultimately, we are going to record this amount. I just -- we are giving some more time to the customers to pay the amount last few quarters...

George Alexander Muthoot

So your specific question was about whether we have changed -- we've made any change? We have not made any change. If the NPA is less or high, it's just because we are giving more time to the customers to repay. And we are not concerned about -- we're not unduly concerned whether we are going to lose because our -- the gold is safe, the asset is safe, and we will not lose money there.

Management

The auctions for the quarter is INR2,100 crore and accrued interest is INR2,071 crore.

George Alexander Muthoot

INR2,071 crore is the accrued interest. Auctions, we have done is INR2,100 crore.

Abhijit Tibrewal

Sir, if I can just squeeze in 1 follow-up question. I mean does the weak gold loan demand that we are seeing today, I mean does that worry you or do you think this is just cyclical and gold loan demand should improve in the coming quarters?

George Alexander Muthoot

I don't think we see any weak demand. The demand is not weak. It is just probably the hangover of the -- March is only what usually happens in the first two weeks of April. I think demand is picking up and demand should pick up and I think we are back to normal. We don't...

Management

No, we grew by INR3,300 crore in the fourth quarter. So it's not a weak demand for us. We have been able to grow unlike our peers. So -- and finally, we could do a double-digit growth for the full year. We grew by 11% in gold loan for FY'22, though we lost first quarter due to the third wave and third quarter because of the larger auctions. In spite of that, we could do a double-digit growth. So that is quite a good achievement, which we could do in spite of all the headwinds.

Moderator

The next question is from the line of Deepak Gupta from SBI Pension Funds.

Deepak Gupta

My question is, firstly, just continuing the previous participant question on interest yields. Where do you see interest yields for your company ending up? Given the fact that some -- I think this has been the sharpest decline quarter-on-quarter ever for Muthoot Finance. So at what level do you think interest yield is likely to stabilize for the overall book?

George Alexander Muthoot

See, the interest yields may be probably declined because in the last 4, 5 months in the last year, last 4 to 5 months in the last year, we had started the new campaign, the new campaign of the low-interest scheme. And that low interest schemes has actually given us benefit. Now that we have discontinued the low interest schemes, we should go back to the old -- the earlier scheme.

But of course, since the borrowing cost has come down, probably the yield may not be high, but we will try to maintain our spread. That is what we would be trying to do. Our achievement will be not more on the yield, but on the spread.

Deepak Gupta But sir, given now incrementally, your borrowing costs will be going up, right, given the way interest rates are shaping up, so to maintain the spread, you will have to increase the interest rates, if I'm not mistaken?

George Alexander Muthoot No, so I think we will have to -- the whole world rates are going up, then our customers will also understand that rates are going up, and we'll have to do that. So usually, we try to keep our spreads almost same. We'll try our best to keep our spread straight. And that is what is actually what is -- what should we say, our focus should be on the interest spread. If the rates -- borrowing rates are going up, then lending rates, not only for us, the whole world will go up. Whole world means for all the borrowers in the world, and that...

Deepak Gupta I understand, sir. So sir, is there any spread that you want to call out that these are the kind of spreads you want to maintain?

George Alexander Muthoot Yes, yes. We were looking at about -- in the range of 10% maybe plus/minus something here, but the general range would be in the range of about 10%.

Deepak Gupta Understand, sir. Sir, secondly, I just wanted to understand, this quarter, your cost income ratio has been extremely high. Obviously, I understand because the interest income is low -- but how do you see your cost income ratio shaping up for your company in the next few years?

George Alexander Muthoot I think if you take the overall total year, it would be the same. The quarter -- some quarter extra payments may be there in some quarters. But if you look at the year as a whole, it is the same. You look at this for the full year because some expenses come in some quarters, and that is what the cost income ratio. So we should be able to maintain our cost because our per branch AUM is also little going up only. So I think the cost income should be as it is -- will continue as in the previous years, the ratio.

Deepak Gupta Sure. I hear that. Sir, thirdly, on the INR70 crore of reversal that you've done on the impairment, if you could just share some perspective on that, what exactly was this on account of?

George Alexander Muthoot Sorry, can you just repeat the question?

Deepak Gupta Sir, for this quarter, you've done INR70 crore of reversal of impairment of loans in...

Management For the quarter.

Deepak Gupta For the quarter. Yes. So what exactly...

Management Yes. So we review this probability of default and loss given default every March, year-end. Two things have happened. One, our NPA for December was INR2,100 crore, now it has come down to INR1,700 crore. So that has reduced the provisioning requirement for the quarter.

Second, the ratios have come down a little bit lower. So that also has played a role in terms of reversals. It is for the quarter. But the full year, it is not a reversal.

Deepak Gupta I understand. I understand, sir. And sir, last question is on your Sri Lankan subsidiary. Given the crisis which is taking a Sri Lanka right now, what is your view on the subsidiary? And I know it's very capitalized, but how do you see that shaping up over the next 12 months?

George Alexander Muthoot See, one thing which we have -- when we entered Sri Lanka itself, we had decided that we would be growing more on the gold on size. And today, as we

speak, the gold loan business is 75% of the total portfolio. Only the rest is some small trader loans, et cetera.

And as you will understand that because of the depreciation, the value of the Sri Lankan rupee and the value of the dollar and the Indian rupee also going up, the gold price has really shot up there. So what we have given is all gold loans, and that is today, very, very, very safe. The margins, et cetera, are extremely safe there.

So as a portfolio, we don't see any issues. But of course, we have been talking to our people in Sri Lanka. The situation is not as bad as some of the newspapers, et cetera, say. They -- I think they will all survive. So things are getting better also.

Today, I also [Technical Issue] that their depreciation of the Sri Lankan rupee has I think bottomed out and probably it will start going up only. So overall, the economy in the country will revise. As far as our portfolio is concerned, it's extra strong today.

Deepak Gupta

Sure. I hear that. And sir, just last question from my end. Your credit growth guidance, last quarter, last year, you had made 12% to 15% guidance, you've ended at 11%. So would you maintain the similar kind of guidance for FY'23 in terms of credit growth?

George Alexander Muthoot

I think we will maintain the 12% to 15% guidance we will maintain. So it's our job to see that -- as we see we try our best. That is why we are here for.

Moderator

The next question is from the line of Gaurav Kochar from Mirae Asset.

Gaurav Kochar

Yes, good evening, sir. Thanks for taking my question. Sir, in the previous question, you answered the spread is 10%, if I'm -- correct me if I'm wrong. The current spread that we are making is 10.91% for the quarter and for the full year, it's much higher. And even if I look at last year, the spread was anywhere between 13% to 13.5%. So I mean, where does this 10% come from?

George Alexander Muthoot

Yea, no, 10% is something which we said the bottom rate, something 10% is -- we are happy with the 10% even. If good years, we can make 11%, 12%, 13%. Very good years, we will be 13% probably anything above 10%, 11%, that is what is reasonable, and I think we should be able to do that.

Gaurav Kochar

Okay. Okay. So sir, given that the teaser rates have now -- I mean you've stopped doing the loans at rates. Should we expect that spreads will only improve from here on? Currently, 10.93%, at least from these levels, should we expect...

George Alexander Muthoot

Yes, but the teaser rate impact will take some more months in this quarter also. So it's not that the moment we stop teaser rates, it is -- the impact of that will take in this quarter also. But finally, that's what I said, 10% to 11% and around 10% is what we should see the spread. I think that is quite reasonable.

Gaurav Kochar

Okay. Okay. So for the full year, I mean, anything that you'd like to guide for FY'23 full year?

George Alexander Muthoot

I think we have guided a 12% to 15% of goal loan AUM growth, sir.

Gaurav Kochar

No, I'm talking about spread, sir.

George Alexander Muthoot

Spread, that's what I said. We will try to maintain 10% -- around-is 10%, probably something above 10% also, it all depends on how things are panning out also.

Gaurav Kochar

Okay. Sure. And sir, on the growth front, while this quarter, if I look at INR2,100 crore -- if I adjust for that INR2,100 crore auction, the growth is around INR5,400 crore. That's roughly 10% of your AUM. So if the growth is that strong, the demand is that strong, why the guidance is only 12% to 15% for the next year?

George Alexander Muthoot

Yes. See, this is the fourth quarter, we did that. In the first quarter, we did not do anything. Second quarter, we were able to do something. Third quarter, we had, again, the similar auctions also. So there are so many headwinds also coming across. So we didn't want to give a very high guidance and then under achieve it.

We have always been saying 12% to 15%, and that is what we would be trying to do probably. We may be able to do better also. Anyways, thanks for your good calculation of INR5,400 crore.

Gaurav Kochar

Sure, sure, sir. And sir, on the liquidity, now that you've given that margins maybe for next quarter also may be under pressure, and the growth will be probably soft. Just perplexes me why do we keep so much liquidity on the balance sheet? Because maybe a year and a half years back when the growth was very strong, 25% to 30% having 15%, 17% liquidity on balance sheet was reasonable. But now if growth is going to be soft and at least the cost of money is getting dearer and dearer, is it not prudent to cut down some liquidity which we are carrying, around 18%, 20% liquidity as a percentage of borrowings. Would it be fair to reduce this over the next, say, a quarter or two?

George Alexander Muthoot

Yes. So we also would like to reduce it, but understand always that we are an NBFC. We are not a bank. We don't get any support from regulators with regard to liquidity, et cetera. We have to find our own means and ways. And I think keeping a liquidity -- we know it has got a negative carry, but it has always helped us only.

And we don't want to take any risk or any risk, I don't say a risk, at least would have anything negative on our side with regard to liquidity. That is why we are keeping something extra. I know it carries a negative, but then that is -- you should consider it as part of the NBFC or part of the type of business we are doing. So we are an NBFC, always remember that. That is what -- have to find our own way for...

Gaurav Kochar

But if I look at -- sorry, but if I look at the pre-COVID run rate, the liquidity used to be 7%, 8% of borrowings or even lower than that, even FY'18-'19. During COVID, one would understand that there could be some liquidity crisis, and the growth was also strong during COVID, at least for FY'21. So to that extent, I mean liquidity -- excess liquidity on the balance sheet was maybe the right way to go.

But now given that there is multiple headwinds, as you pointed out on growth as well as challenges on pricing, would it not be fair to let some of the spreads compression getting absorbed by pruning down excess liquidity? What harm...

George Alexander Muthoot

It is not only the COVID, even before COVID problem with liquidity, et cetera, was always the ALFOs and DHFL, all those things actually unsettled all the lenders -- see, all the lenders to us, they become unsettled when such a thing happens. And I don't rule out any such things.

I can't guarantee that such things won't happen in future. So keeping liquidity is I know it is a cost -- it is, what should we say -- so we have been suggesting that the Board is also comfortable saying that keep a little liquidity if this is -- because if some of these things happen, all these -- all the lenders will get panic. And at that time, we would be left to ourselves. That is what I said in such a

situation. There is no reserve bank or regulator coming forward and saying, "We will support you." I don't think so.

Management

However, there is a liquidity NCR requirement, liquidity coverage ratio requirement for NBFCs. So that is about 60%. For that, we have to keep some amount. And always rating agencies also prefer different agencies have got different thumb rules, especially the foreign agencies.

So they also are more comfort -- probably that is also the reason why some of the rating agencies did not downgrade us, I'm talking about international agencies, during the COVID period, even though they have done for some of the NBFCs. So all these plays -- factors plays a role in terms of maintaining a high liquidity.

Even with all these limitations, we are trying to do some rationalization in terms of liquidity, so that negative carry comes down to the minimum. So we are trying to do that. And if you look at last quarter also, our borrowing cost has come down. So within all these restrictions, we are trying to do that, probably we will fine-tune this in the next couple of quarters.

Gaurav Kochar

Sure, sure. Perfect. Just last question from my side. How do you see the MFI environment for fiscal year '23 and any sort of growth targets for your microfinance subsidiary?

George Alexander Muthoot

I think MFI is a sector which will grow -- continue to grow. It is a sector which everybody -- all governments wants to grow. And that is the only way government can put money in the hands of people. So there will be support from the government and support from banks, everybody will support it. And I think going forward also, MFI will continue to grow. Of course, when we look at comparisons NBFC -- gold loan with an MFI, it is quite different, but then MFI is a separate business altogether. I don't see -- I think there is a potential for MFI going forward also.

Management

New regulation is also...

George Alexander Muthoot

New regulation is also supporting MFI. New regulations, which have come about interest rates, et cetera, are supporting MFI, only with a calibrated growth, but then there is potential there.

Gaurav Kochar

Sure. Any number that you'd like to give?

George Alexander Muthoot

No, I think they have a target -- what was our MFI target? No, there is -- I think they have a reasonable growth potential. And MFI -- the last quarter, I don't know, three, four months back, we got only a 32%. So it has got INR1,000 crore of growth.

Moderator

The next question is from the line of Shubhranshu Mishra from UBS.

Shubhranshu Mishra

A couple of questions, sir. One is on the growth versus the -- so will it be a fair assumption to understand the...

George Alexander Muthoot

Your voice is not clear. Your voice is not very clear, sir.

Shubhranshu Mishra

One second. Hello?

George Alexander Muthoot

Yes. Okay.

Shubhranshu Mishra

Sure, sir. So would it be a fair assumption to understand that the rates for the customers, the customers have got attuned to lower rates because of the competition in the last two-odd years post COVID and -- because there was

some amount of regulatory arbitrage in the banks. And going forward also, we would see lower rates and lower yields? That's the first question, sir.

The second question is on the promotion and -- is there a ways the businesses can be split among the families? Has that been decided? Has that been written down somewhere that if there is a split among the promoters some amount of business would go here and some can go here? That's the second question, sir.

And the third question would be on the liquidity, sir. You just answered it, but we are carrying a huge amount of liquidity despite having a very strong collateral, sir. Gold is absolutely liquid. And I'm really perplexed as to why a rating agency would look at -- would not look at us differently despite us being the NBFC because on one side of the balance sheet we've got an absolute liquid collateral.

And today, there are multiple agencies we can lend to us. It's not just banks or mutual funds, we can go to some other source of funding as well. So the liquidity is also fairly perplexing despite the LCR norms and despite all the -- If you can answer these questions.

George Alexander Muthoot

Thank you. Yes, you are right, probably in the last two years, et cetera, banks have been giving -- supporting people with the lower rates during the COVID, et cetera. But that is one set of people. Probably one set of people would have enjoyed and maybe they may be expecting lower rates. But the potential or the base for gold loan is so large that there will be so many others who will not -- who will still be willing to pay a higher rate for a quick loan from an NBFC. So we don't see any issues and -- issues there with having some customers who have now got attuned to a lower rate, some customers probably. They will also - - they may be like that, but the others, the large number who are not so interest sensitive will still continue to use gold loan as a comfort gold loan and a quick gold loan.

Second question is about split in the family with regard to this -- there is nothing like that here. And I think the promoter family continues to hold all the 75% -- whatever we had at the time of IPO, we still continue to hold. We've not sold even one share till now. And I think we've not thought about such things.

The second -- the third point, again, you said about the gold loan being absolutely liquid collateral. But the fortunate fact is everyone knows -- nobody needs to -- nobody is willing to acknowledge it. I think I'll take you to one of the meetings with the Reserve Bank or one of the...

Management

You asked the question in this forum, good, probably some of the representatives of the agencies are also participating. So they are also listening to it, good that you ask this question.

George Alexander Muthoot

Yes. We would like you to accompany us to some of the regulators maybe when we talk to them or to the rating agencies, et cetera. We -- sir, we would also allow to keep very -- because before all this IL&FS crisis, et cetera, we have -- we were working with very little we were saying that our gold loans is so liquid that if there is any issue in the company, the first people to run to the branch will be the gold loan customers to take back their gold.

But that didn't cut a lot of ice with many of the agencies whom I said. That may be so, but we would like to see some liquidity in your balance sheet. Anyway, that's a big question here and there, sir. But finally, we have to look at our side - - our side, we have to look at it and for that, we are keeping this liquidity, sir.

Shubhranshu Mishra

Right, sir. If I can just squeeze in one last question, sir, data-keeping question. What proportion of the AUM is below INR1 lakh and what proportion is between INR1 lakh to INR2 lakh and what is above 2 lakh, sir?

Management So I'll just update this number. Maybe we can take the next question.

George Alexander Muthoot When we're answering the next question, we'll update this also.

Shubhranshu Mishra Okay.

Moderator The next question is from the line of Nischint C. from Kotak Securities.

Nischint Chawathe This is Nischint here from Kotak. Just two questions. One is on the spread side; we are running ahead of what spreads you would want to maintain. So why do you really want to stop teaser rate scheme? You should probably continue or maybe you can offer better rates to the customer.

George Alexander Muthoot Yes, sir, we always wanted to do a lower, whether it is the growth rate or the spread rate we wanted to give a lower one will be achieved better. Isn't that better, than saying a higher rate and achieving lower considering in that sense only.

Nischint Chawathe Sure. Or is it something that you are expecting the cost of funding to increase in a significant manner?

George Alexander Muthoot No. There are so many issues and things coming up every time. So we just didn't want to -- we were too optimistic number. That's all. It's really that way.

Nischint Chawathe Sure. The second question is really on branch openings. And I believe one of your competitors mentioned that RBI is not very sort of forthcoming with branch openings or there are constraints or there are a lot of delays in getting approval from RBI for permission of opening new branches. Are you facing similar sort of a problem?

George Alexander Muthoot Yes, we are also facing delays from the regulator for branch openings. Anyway, during -- at that time, we will -- we are now trying to do business in the existing branches, which itself is good, but a few branches extra would have been better, that's all.

Nischint Chawathe And just trying to understand the branch opening application goes to the central office or does it go to the respective state offices so far?

George Alexander Muthoot Yes. It is -- all our correspondences are with the local office. But then, of course, they consult the central office and make 99% of the decisions.

Nischint Chawathe And in your discussions with the regulator, I mean, what could really be a concern that the regulator has? I mean if anything, during COVID monetization of gold is something which has actually helped people a lot at the bottom of the pyramid. So what is it that is concerning the regulators? And why is it that they are sort of a little more cautious?

George Alexander Muthoot I think some of it may be a local issue. Anyway, even if we ask, they will not come out with the real reason...

Management So probably earlier banks were facing this challenge in terms of the branch licensing probably. Now we are facing delays. So there could -- no particular reasons could be activated. At least we have not heard any particular reason for delays in terms of branch approvals. So we give the applications, it's for them to process it and send it back to us.

Nischint Chawathe But then no red flags -- no red flags raised in any audits for any of the gold loan companies. Is that a fair point to say?

George Alexander Muthoot Yes, sir. If there is red flag, we will stop the business.

Nischint Chawathe I mean I'm not saying for you. I'm saying that for anybody else in the industry.

George Alexander Muthoot No, sir. Every stage, there will be some aches and pains, that's all. Otherwise, nothing, no red flags.

Management Yes. There was an earlier question in terms of loans above INR1 lakh. So loans above INR1 lakh will be 58% and loans below INR1 lakh will be 42%.

Shubhranshu Mishra Between -- above INR2 lakh?

Management I don't have above INR2 lakh. Above INR3 lakh will be 22%.

Shubhranshu Mishra Sure. In terms of AUMs, right?

Management In terms of AUM. Yes.

Moderator The next question is from the line of Nikhil Agarwal from VT Capital.

Nikhil Agarwal I just have one question with regard to the auction that you did. The number that you mentioned was INR2,100 crore. What proportion of that would be coming from Quarter 2 '21 because huge amount of INR52,000 crore...

George Alexander Muthoot Sir, sir, sir, it's not very clear. You're little fast also.

Nikhil Agarwal With regard to the auction amount of INR2,100 crore that you mentioned, would it be possible to quantify what proportion of that is coming from the Quarter 2 financial year '21 versus the INR50,000 crore?

Management Quarter 2, Quarter 2 I'll just -- Quarter 2, it will be INR2,800 crore.

Nikhil Agarwal Sir, it was mentioned that there were some loans that were not auctioned off and they were still in VSP last quarter. So is there any number from this INR2,100 crore that is referenced from that quarter?

George Alexander Muthoot It will be always there, it is a continuing process. Whatever is left there, if it needs to be auctioned in the succeeding quarter, it will be auctioned. There is nothing that we keep a particular account, et cetera. Some customers would ask for some time, we'd have given them some time. If they are not coming within that time, then next auction, we will just auction it off.

Management The number we gave is the auction done in that quarter, not pertaining to any loans became due in that quarter.

George Alexander Muthoot The auction actually...

Management From any quarter. The loans could have become due in any of the previous quarters.

Nikhil Agarwal Okay, sir. Sir, with regard to the non-gold loan business, business right now. Is there any plan to increase this proportion in the coming season?

George Alexander Muthoot Increased proportion of what?

Nikhil Agarwal The non-gold loan business.

George Alexander Muthoot Yes, if there is a requirement, if that subsidiary is doing well and it needs more AUM, we'll do it. But as of date, we would love to do more of gold loads. But having said that, we would not hesitate from going into any of the subsidiaries also in the appropriate time.

But probably in the next three, four quarters, we don't see a big at need for growing those other subsidiaries.

Management Microfinance raised some funds in the last quarter.

George Alexander Muthoot Are you asking about the capital allocation?

Nikhil Agarwal Right, sir, that would be another question with regard to the capital allocation for equity infusion as was mentioned in MFI. So that is another question, but I was asking about the proportion of non-gold loan business coming -- going forward?

George Alexander Muthoot Non-gold loan today is about 10%, probably 1%, 2%, depending on the comfort we get in that sector.

Nikhil Agarwal And sir, with regard to the equity infusion in MFI?

George Alexander Muthoot MFI equity infusion is done actually. It has come, it has come. INR275 crore have come.

Nikhil Agarwal All right, sir. Sir, just one last question. So the 17% reduction in GST, how exactly should we look at it, sir? Where does it come from?

George Alexander Muthoot 17% reduction in?

Nikhil Agarwal The GST numbers in Quarter 3.

Management So no NPA was INR2,100 crore. And right now, as of March, it is INR1,700 crore. Is that what you're asking?

Nikhil Agarwal Yes, sir. How...

George Alexander Muthoot It just means that during the quarter, some of the customers loan script got closed and the new customers coming into NPA are lesser, that's all. It is at -- what should we say, it's a moving number.

Nikhil Agarwal So it is not a very old NPA account lying there. It is very dynamic. All the NPAs which are there are not more than three to four months NPAs. That's not. We don't have any very long outstanding NPAs and all. It's just very, very moving. What you see this quarter will not be there in the next quarter. It will be a new set of numbers in the next quarter. So it just happened that in the next quarter, many people would have taken it off and that is why the NPA is lesser.

Moderator The next question is from the line of Digant Haria from GreenEdge Wealth.

Digant Haria Yes, sir, see, we are the largest player, so we don't have the option of not participating in, say, the large ticket gold loan. And maybe what -- from whatever I know, large ticket gold loans, about INR2 lakh have a lot of competition. So that segment, we will continue to face yield pressure because nobody is just backing off.

But as Muthoot, as we have 4,000, 4,500 branches, are we doing anything special to ensure that even the less than INR1 lakh ticket sale where pricing is still intact, that grows faster than the higher ticket loans? So is that possible that as a company, what is our strategy here or any thoughts on that?

George Alexander Muthoot Yes, I think what you said is right. Theoretically, it is right that we should be concentrating more on the lower INR1 lakh ticket size, lesser than INR1 lakh ticket size. Yes, that's a good strategy. And we always continue to do that for customers also.

We are always -- we don't differentiate between customers with a big customer or low customer, et cetera. But yes, the numbers which you said INR1 lakh and INR2 lakh will be too low. Probably it is the INR5 lakh and INR10 lakh, et cetera, which should be seen as a big ticket customer today.

The money value is so low now that the INR1 lakh and all everybody can get INR1 lakh, et cetera. So -- but the strategy which you said is very apt and correct and always we are conscious of that, and we try to support the smaller customers always because we know that it's a better set of customers who are just -- don't go here and there just because of some interest rate differential, et cetera. So we know that and we are aware of that, and we have strategies to see that there customers don't go away from us.

Digant Haria

Right. So sir, because as these small ticket customers, everything will probably happen as a branch level. It's not easy to pull them in. It will be your branch guys will have to do very hard work. So...

George Alexander Muthoot

Yes, yes, yes. You're absolutely right. You're absolutely right, sir.

Digant Haria

Right, sir. Okay, sir. And sir, just your thoughts on [Indecipherable] push back, even the competition has increased, the yields have been under -- like there are a lot of random players offering random So do you see this settling anytime soon or it is still maybe 6, 12 months more before we reach the new equilibrium level? Because we were doing 8% ROI using gold loan business, we are probably at 7% now. Where is our equilibrium and the sector equilibrium? Any thoughts on this? I'm not looking for a specific answer, but just your observation.

George Alexander Muthoot

I think there are -- as you said correctly, the correct over is a random players, many random players have now started coming into this, that's a good terminology. I'm sure, those people will lose interest and go away, sir. We saw this happening in 2011 also. '11-'12, so many players came in, they were not serious payers, I wouldn't call them random players, non-serious players. .

Of course, your terminology random looks quite nice now. Okay, but these non-serious players will lose into quickly, sir, because gold loan is not a very easy. The processes, et cetera, and things are not easy. And non-serious players would just back off after a while. Give them some time, probably one or two quarters.

Digant Haria

And sir, I get it, the random players will go, but just some players like, say, an SBI or a Federal or they have somewhat built-up book, at least. And I think maybe we'll the next few years will still have -- those will still remain. So just any aggression from those players? The random players will go, but at least the middle tier players who are...

George Alexander Muthoot

Yes. I think banks being serious players in this can work wonders in the sense that it will attract more and more customers to the gold loan sector, sir. That is the advantage we see. When banks also start doing gold loan, most of the to gold loan, et cetera, will vanish. And more and more people will start maybe using the gold loan model. And that is what I see.

The banks there is -- only I should see the positive side of it only. The negative side is probably a little bit of competition. But then the positive side is that more and more customers will get attracted or will think of gold loan as an good option, and that itself is good. State Bank and all these banks have been doing gold loan for the past decade. There -- all the banks, which you said have been doing this for last decade.

Moderator

The next question is from the line of Jitark Shah from SBI Pension Funds. Please go ahead.

Jitark Shah Hi, sir. Thanks for the opportunity, sir. Just one question. Could you please elaborate on the other expenses, which has gone up like almost 15%, 18% this quarter?

George Alexander Muthoot Gives us a minute.

Jitark Shah Sure.

George Alexander Muthoot We can take some other questions meanwhile, if there is anybody.

Moderator We'll move to the next question from the line of Nirmal Bari from Sameeksha Capital. Please go ahead.

Nirmal Bari Yes. Thanks for the opportunity.

George Alexander Muthoot Okay. Anyway, I will answer the earlier question that we said the expense of 2021 was INR723 crore. And in this year, it is -- for the full year, it is INR742 crore. I think there is hardly any increase. If it is quarter-on-quarter, it may be a seasonal thing only, but for the full year...

Management Quarter-on-quarter, Q4, it is INR206 crore; Q3, it is INR183 crore. So the increase is about INR23 crore.

George Alexander Muthoot No, but take it as a whole, sir. For whole year it is -- last year, it was INR723 crore, this year it is INR742 crore.

Management I don't think it is any material increase. Can we go to the next question?

Moderator Yes, we'll move to the next question from the line of Prakhar Agarwal from Edelweiss.

Prakhar Agarwal Yes, hi, sir. Just a couple of questions. I wanted to understand the logic behind introducing a teaser rate loan when we are saying that we are not seeing demand -- gold loan demand, which has gone down. So what was the logic behind, first, starting with the teaser loan and if that is because of the competition that we were seeing then why have we stopped it essentially when, obviously, our target spreads is lower than what we are running on the book as we speak?

George Alexander Muthoot Yes. So teaser rates were for a specific period, it is for a specific purpose, to get a new set of customers. We have achieved that and then we've discontinued it.

Prakhar Agarwal No, Sir, what is the logic? So if we were seeing that gold demand has not come down, gold loan demand has not come down, and we were seeing a fair share of demand. What was the logic of introducing this teaser scheme? Is it because of the competition that we were seeing that we introduced or what was the logic behind introducing this?

Management See, one, the rate of interest has come down in the market when home loans, everybody advertise at 6%. And suddenly, some of the gold loan player starts at a very low rate, acceptability as a product, being a market leader, we need to ensure that product is accepted by the staff as well as the public.

So when we do large-scale spending on advertisements, we need to do something which is acceptable to the customers. So that's why MD sir mentioned that it was for a period. There was a specific objective, now that objective is met, we are moving on.

Prakhar Agarwal Okay. Sir, just in continuation with that as well. So when I -- when we looked at this fact that probably other guys were offering lower rates and all those stuff. So why our business promotion expense for the quarter is -- first, there is a

write-back of INR14-odd crore and even for a full year, when I look at the promotion expense, that has gone down significantly. What explains that?

George Alexander Muthoot

Yes, see, promotion expense should have been probably the advertisement and the things -- advertisement is definitely required. Probably in the last year, advertisements, I don't know the exact number of advertisements, I mean, less because of this COVID, et cetera, we would have done less advertisements. Now that the things have opened up, we would have started more advertisements. I'm not exactly sure about the number. Those numbers are just a small proportion to the total business only.

Prakhar Agarwal

And sir, just to give a number for this quarter, we have reported a write-back of promotion -- our business promotion expense of INR14-odd crore. So what explains that write-back?

Management

So see, probably there will be some provisions which we have made in the past, we would have reversed.

George Alexander Muthoot

Some provisions which we made would have been reversed. Yes.

Prakhar Agarwal

Okay. And just a couple of more questions. In terms of rate when you offered what was the sort of rates that you guys were offering? And what are the AUM that you garnered from that loan -- that rate?

George Alexander Muthoot

Actually, we went up to 6.9% was the lowest teaser rate which we which we did. We've got sufficient business there also. I don't have the exact number here with me.

Prakhar Agarwal

Okay. Just one last data -- just one last question. When you talk about FY'23 growth of around 12% to 15%, any indication of what is the AUM per gram growth that you're looking at and what is volume growth that you're looking within that 12% to 15% growth range?

George Alexander Muthoot

I didn't understand your question. Volume growth and gram rate, what is that?

Prakhar Agarwal

So value versus volume, when you talk about 12% to 15% of overall growth, what is coming from volume and what is coming from value under your assumptions?

George Alexander Muthoot

We don't look at value at all. We look at only the AUM, AUM is rupees, money. Only that is what we look at. If you are thinking about gold per se, that is not our gold, it is somebody else's gold. But there is no need of any numbers for the gold, it depends on the gold price only. So what we are talking about is the loan -- the value of the AUM.

Prakhar Agarwal

And so value of the AUM will grow by account of two things, one is number of customers addition and second will be AUM per gram addition because of that particular customer. So I'm just asking between these two, have we sort of any - - seen any bifurcation as to what is the sort of number of customer additions that we foresee for the full year, next year?

George Alexander Muthoot

Number of customers, we don't have a list on the number of customers. On the value of the gold, the value of the gold will depend on the gold price at the time of lending. If the gold price goes up, the rate per gram will be higher. If the gold price is down, we will have to reduce the lending. So it is dependent on the gold price only.

Moderator

The next question is from the line of Nirmal Bari from Sameeksha Capital.

Nirmal Bari

Yes. So my first question is actually on the yields part only. This quarter, the yields came down primarily because of the teaser rates and all. But given the

competitive intensity and -- have we also reduced the top end of the rates which was earlier, I believe at 20%, 22%. Have we reduced that now?

George Alexander Muthoot

No, no. The top end rate still continues there. .

Nirmal Bari

Okay. That is despite the interest rates that had come down last year, we didn't change that, right?

George Alexander Muthoot

See, very few people reach the top rate. Top rate is only when the loan gets in the books by maybe 11, 12 months only. 95% of the customers will release the gold before that.

Nirmal Bari

Yes. Okay. And the second part is on the accrued interest. You said the accrued interest is about INR2,071 crore. So what was the normal figure for this? If you could give the data for FY'20, March end FY'20, that would be helpful?

George Alexander Muthoot

Yes. Give us -- give a minute, please. Any other questions?

Management

So there was a question on business promotion. I know there is a reversal of INR14 crore. So that is on account of a reversal of some of the earlier promotions, which was in excess, it's got reversed in Q4. That's why for the quarter, it is coming as INR14 crore as a reversal. And in terms of the promotions as of March 2020...

Nirmal Bari

Sir, not provisions as of March 2020, the interest [Technical Issues]

Management

Okay. So March 2020, the accrued interest was INR1,557 crore.

Nirmal Bari

Okay. And sir, the final question on our vehicle finance and home finance segment. So how are we looking at this two now in the current year? And would we be looking to start growing that book or we would still continue to be cautious and...

George Alexander Muthoot

We continue to be cautious, but we have started growing the book in vehicle finance as well as the home finance. We've started growing the book, it will be but a calibrated cautious growth.

Nirmal Bari

And do we have some targets for that in the current year?

George Alexander Muthoot

Yes, we have given some small targets for them also, probably not a big number to write home about, but then they have started them.

Moderator

Next question is from the line of Ajit Chaudhary from Total Securities.

Ajit Chaudhary

My first question is on the average ticket sizes. While I understand that it has increased. But on the branches side, when you're deciding on the branch manager or branch productivity, are you doing the branches? Any specific ranges that you need to have some portion of their loans generated to x percentage of ticket size or some portion of loan to have a ticket size higher than this? Is there any kind of division or rationale that you have done to the branches?

George Alexander Muthoot

No, no, no. It depends on the type of customers coming there. If it is a high-value customer, they take on a higher, Low value customers -- it depends on the geography also. In that particular area, if it is -- sometimes low ticket customers maybe more. We have not made any differentiation.

Moderator

That was the last question in the interest of time. I now hand the conference over to Management for closing comments.



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May 26, 2022

George Alexander Muthoot

Thank you all. Thank you all participants for participating with us. Your questions and your suggestions are always valuable to us. We definitely value it. That is why most of our senior management is also attending this. So please continue to guide us. Please continue to give us your good valued opinions.

And finally, rest assured that we, from the management, which will work hard and see that the company and stakeholders, all the stakeholders, whether it is a borrower, lender or the equity investor get benefited by associating with Muthoot. So thank you all.

Moderator

Thank you very much. On behalf of B&K Securities, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.