Transcript

Capri Global Q2FY20 Earnings Conference Call

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Presentation Session

Pavitra: Good evening ladies and gentlemen. I am Pavitra, moderator for the conference call. Welcome to Capri Global Capital Ltd. Q2FY20 Earnings Conference Call. We have with us today Mr Rajesh Sharma, MD of the company. At this moment, all participants are in listen only mode. Later we will conduct a question and answer session. At that time, if you have a question please press * and 1 on your telephone keypad. Please note this conference is recorded. I would now like to handover the floor to Ms Tanya Khosla. Thank you and over to you ma'am.

Tanya Khosla: Thank you. Good afternoon everybody and welcome to Capri Global Capital Ltd. Conference Call to discuss the Q2 and H1 FY20 result. We have on the call Mr Rajesh Sharma, MD of the company, Mr Ashish Gupta, CFO and Mr Rahul Ojha, Head of Strategy and Planning. We must remind you that the discussion in today's call may include forward looking statements and must be therefore viewed in convention with the risk that the company faces. May I now request to Mr. Rajesh Sharma to take us through the company's business outlook and financial highlights subsequent to which we can open the floor for Q & A. Thank you and over to you, Sir.

Mr Rajesh Sharma: Yeah. Thank you. Good afternoon everyone and thank you for attending our Q2FY20 conference call. I trust all of you have had a look at the earnings presentation uploaded to the Exchange or company's website. I am happy to announce that Capri Global Capital has reported a strong and sustainable earning growth in the second quarter of FY20 amidst the current turmoil in the NBFC industry. During these trying times, the company maintained its cautious stance on disbursements and focused instead on strengthening its business processes, in preparation for a stronger second half. The total assets under management at the end of Q2FY20 stand at Rupees 39,570 million with a strong focus on MSME and housing finance vertical. With an average ticket size of Rs 15 Lakh in MSME space, Q2FY20 MSME AUM, stands at about 19,830 million contributing to about 50% of the total AUM. Our housing finance vertical continues to achieve new heights. Q2FY20 AUM for housing finance stood at Rs 8,440 million, an over 65% growth year on year with an average ticket size of Rs 11 lakh. Given our strategic focus in women entrepreneurship and stringent customer screening, we are building a strong and loyal customer base. Across all our verticals, CGCL services over 20,000 customers. Our well-established and in-depth knowledge of micro markets have helped us to maintain good asset quality, the stage 3 gross assets to adjust 2.26 % of the consolidated portfolio. Some brief highlights of the quarter gone by, net interest income for Q2FY20 stands at Rupees 1,012 million up 33.7% year on year. Operational efficiencies and optimization of branch network have led to 40% year on year growth in operating profit. Profit after tax for the quarter stands at INR 389 million adjusting a growth of 59% year on year. In preparation of a strong second half, CGCL focused on investing in liquidity enhancement by establishing new credit lines worth Rs 5,750 million. With this share of bank borrowings have gone up to over 95% of the total borrowings and our liquidity bucket is very well balanced. The company has also received in principle approval of a leading bank for securitization to the tune of Rs 5,000 million. We recently signed an MOU with a top PSB bank for co-origination of loan, expect to see sanctions happening in Q4FY20. Additionally, the company has optimized its branch networks and subsequently its sales force. We aim to open 160 new branches over the next three to five years to support our strong growth outlook. I am happy to announce that amid a state of rating downgrades, CGCL has maintained its rating of A+ from CARE ratings. Now looking for the future we are confident of achieving the 40% plus AUM growth over a period of three to five years while maintaining our prudent lending strategy and a tight risk mitigation framework. We aim to have diversified branch network of 240 plus branches by FY2024 from the current 85 branches. The company is constantly making efforts towards improving its return ratio as evident from its ROE track record. ROE at the end of H1FY20 stands at 10.8% having risen from 10.3% in FY19, 6.1% in FY18. CGCL is focused on cost optimization, the cost to income ratio has reduced to 42% in H1FY20 from 48% in FY19 and 52% in FY18. We have emerged as a compelling NBFC with an optimized branch network, capable leaders & a tight, strict risk mitigation system. Going forward, we are confident to deliver on superior growth and to reach our strategic vision goals.Thank you. I would now like to open the floor for question and answers.

Pavitra: Thank you sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press star and one on your telephone keypad and wait for your turn to ask the question. If you would like to withdraw your request, you may do so by pressing star and one again. I repeat, ladies and gentlemen, if you have a question, please press star and one on your telephone keypad. First question comes from Mr. Parthiv Jhonsa from NVS Wealth Managers. Please go ahead.

Mr Parthiv Jhonsa: Yeah, hi. Hello, Sir.

Mr Rajesh Sharma: Yeah.

Mr Parthiv Jhonsa: Yeah, I just wanted to understand this half yearly our advances have reduced, so how are we planning to support our guidance going up to FY2024 that we will, you know, increase our book size and everything.

Mr Rajesh Sharma: Normally, in all the lending businesses Q1 and Q2 are on a lesser growth plus our construction finance portfolio has not lended in a same pace, additionally a lot of foreclosure has happened and our book has shrunken by about 157 crore rupees. We believe that second half would be good for business, where our focus will be more towards disbursement.

Mr Parthiv Jhonsa: Okay.

Mr Rajesh Sharma: We have continued our conservative count in Q1 and Q2 looking at the micro economical and other factors. Now we are quite comfortable in liquidity as well, so now in the second half we should be able to achieve our target numbers for both the quarters and basically, we should be able to achieve our book size, which should give a growth of about 25% year on year.

Mr. Parthiv Jhonsa: 25% year on year.

Mr Rajesh Sharma: Yeah.

Mr Parthiv Jhonsa: Okay. Yeah.

Mr Rajesh Sharma: This year we should grow about 25%

Mr Parthiv Jhonsa: Okay. So, the margins would be constant considering the 25% growth rate?

Mr Rajesh Sharma: I think because of the lesser competition in the market our margins have improved, and we feel if this is to continue, we should be able to maintain our margins and spread which is about 6%.

Mr Parthiv Jhonsa: Okay. Okay. Sir, so I was just going through your dividend policy, last year you had like this, FY19 you had paid about like 36 paisa as dividend. So, considering your profitability, it comes to, you know, small portion so any plans to, you know, award the shareholders going forward?

Mr Rajesh Sharma: I think we are in the growth phase and we believe that cash with the company will deliver a better book than the cash in hand of anybody and being largest shareholder myself and my family, we have maintained this conservative dividend policy. I think next couple of years we will continue to do the same way we are doing.

Mr Parthiv Jhonsa: The same level of dividends.

Mr Rajesh Sharma: Yeah. Same level of policy I would say.

Mr Parthiv Jhonsa: Okay, okay. And MSME would still be considered one of your key products in your portfolio, right? Going forward also?

Mr Rajesh Sharma: Yeah. MSME will continue to remain 50% and housing finance will be in the range of 20-25%.

Mr Parthiv Jhonsa: Okay.

Mr Rajesh Sharma: This is what we are targeting.

Mr Parthiv Jhonsa: Just, it's not a materialistic thing, but your net NPA for MSME, except housing finance, and even actually housing finance it has just slightly moved up, what was the reason? Any one of or anything?

Mr Rajesh Sharma: No, I think the reason is couple of account in MSME and couple of account in housing finance have been reported as NPA and also at the same time, in MSME the book has not grown so the combined effect is showing like this, but we feel at the year end our NPA at the complete level should not be more than what it is today.

Mr Parthiv Jhonsa: Okay, okay, okay. Thank you. Thank you so much, sir. Yeah.

Mr Rajesh Sharma: Thank you.

Pavitra: Thank you sir. Ladies and gentlemen, if you have a question please press star and one on your telephone keypad. Next question comes from Vineet Jain from Aastha Investments. Please go ahead.

Mr Vineet Jain: Good afternoon, Sir.

Mr Rajesh Sharma: Yes, good afternoon.

Mr Vineet Jain: Hello. Yeah. I have couple of questions. The first one is just wanted to understand this hub and spoke model, which you have mentioned on Slide 6 of your presentation. Like how are you going to use this model to grow and what benefits it will provide to you?

Mr Rajesh Sharma: Okay.

Mr Vineet Jain: Just after that I will ask another question.

Mr Rajesh Sharma: The hub and spoke model is a branch between three to four branches reporting to hub and at the hub the area sales, area plus operational, technical and legal resources also take care of the business and support the business. So, hub takes care of all the things which are not at the branch. The three to four branches are made a hub. One branch is comprised with branch manager plus four sales manager, one branch credit manager and one credit associate.

Mr Vineet Jain: Thank you.

Mr Rajesh Sharma: Three to four branches are managed by the hub.

Mr Vineet Jain: Okay.

Mr Rajesh Sharma: So here the scale of efficiency come because we need not to keep every branch, an operational guy or legal guy or a technical guy and they can handle three to four branches of volume, that is how the model is.

Mr Vineet Jain: Okay. So, my second question is related to the employees. I have seen in this quarter we have reduced our employees. Like, now if I see our current employee stands around 1500 and earlier if I am not wrong it was around 1800. So, can you tell me what is that we are doing?

Mr Rajesh Sharma: So some of the branches where we have seen the productivity were not so good we have consolidated those branches and wherever we have seen the redundancy we have removed that and those employees who were not performing or the branches and who were not productive enough. We have consolidated those branches and that is the reason some of the employees have been reduced.

Mr Vineet Jain: Okay, sir. That's all from my side. Thank you, sir.

Mr Rajesh Sharma: Thank you.

Pavitra: Thank you sir. Ladies and gentlemen, if you have a question please press star and one on your telephone keypad. Next question comes from Preethi Singh from Valueb Investments. Please go ahead.

Preethi Singh: Hello. Hi, sir. Hello.

Mr Rajesh Sharma: Yeah, I can hear you now.

Preethi Singh: Yeah. On Slide 8 of your presentation, you have mentioned that addition of new accounts in your construction finance business. So, what type of accounts are you still funding and how do you see your construction finance business going forward as many other peers are considerably lowering with the construction finance exposure.

Mr Rajesh Sharma: So in totality our construction finance portfolio also shrunk by 167 crore in a cautious approach, not that we have any major issue in our construction finance portfolio because our underwriting model in our sourcing is that] we are funding the small developer, we are investing a site or construction somewhere about 8 crore rupees. And we are funding in tier 3, tier 4 cities where underlying apartment prices are less than Rs. 50-60 lakh depending on the town and that is how it mitigates the risk. So, we believe that our construction finance portfolio which is done in a very unique and retail way, we will continue to do well, the buildings in most of the cases are less than 10 floors and the land is acquired, self funded by the developer. All the approvals are in place and money is lent for the progress of the construction, not for anything else and depending on progress the funds are disbursed in various tranches. So, considering all these facts I think our portfolio should be right and we have seen that during the worst of the time our portfolio is doing well because they are small developers and they are able to sale their low-cost apartments.

Preethi Singh: Okay, that’s great. Sir, I have another question. If we were to see your AUM ending Q2FY20 it is below, than what is was at the end of Q4FY19. So, do you still believe that you will be able to achieve your full year guidance of reaching an AUM of 5000 crores? And if yes, then what are your plans to do so?

Mr Rajesh Sharma: So AUM we should be able to achieve about 5000, there can be a slight lower than that may be 4800, 4700 type.

Preethi Singh: Okay.

Mr. Rajesh Sharma: So, there we are targeting. So, there will not be much slippage from that than what we have stated, and I think Q3 number when it comes this should be reflected into it that guidance that we are on that path.

Preethi Singh: Okay. Okay. Thank you, Sir.

Mr Rajesh Sharma: Thank you.

Pavitra: Thank you ma'am. Ladies and gentlemen, if you have a question please press star and one on your telephone keypad. Next question comes from Rohan Mandora from Equiris Securities. Please go ahead.

Rohan Mandora: Yeah so thanks for the opportunity. Sir, I wanted to understand like in terms of underwriting the various products that we have, have you thought about any changes in the last one and one and half years and what are the key changes that would help us ensure that the increment in the asset holding remains in a good shape?

Mr. Rajesh Sharma: So, changing underwriting policy key thankfully based on the way our delinquency, the way various economic factors which are affecting the local business keep happening. So, what we have done is that we have gone more conservative on the underlying property which we accept as a collateral. As you know, our entire portfolio is collateralized whether the MSME, be it the housing finance or be it the construction finance everywhere there is some collateral of at least two. So, we have become more conservative in the valuation. Some of the agricultural areas or low occupied area we are not funding so while there is a higher rate of introspect despite the cautious approach we are not funding in those areas. And this is a constant process we are depending on the economic factors and depending on our portfolio performance we keep tightening or relaxing our policies.

Rohan Mandora: Okay. Thank you, Sir. So incrementally like if you were to look at portfolio like MSME, at the margin like if the situation improving at a ground level, how do you read the situation for the MSME? Because what the understanding is that the liquidity still continues to remain tight and the refunds, all the various measures that the government has announced none of them have resulted in a material improvement. So, your views on this.

Mr Rajesh Sharma: Whiile adjusting there may be little slow in the demand, but if there is a much more slowness and much more tightness in NBFC disbursing. So, demand versus supply in the MSME is tight also. The demands have slowed down to say X, then the supply of the loans have slowed down to 2X, so I think that in fact on the contrary we are able to choose our borrowers and we are able to command our pricing because there is a lesser competition. So, if you see in totality, it is not impacting.

Rohan Mandora: Okay. So, sir what you are indicating that for Capri in terms of the yields, we are able to get good yields from the MSME states and there is no competitive pressure in that.

Mr Rajesh Sharma: I don't say there are no competitive pressures I am saying there is a lesser competition, because if you have seen our margins, then our spreads have improved.

Rohan Mandora: Sure. But I think that for the MSME borrower, how is the overall business performance planning out because what the understanding is that then the margins were under pressure across years, across industries, across geographies and the turnover growth was not happening. And due to liquidity problem, the working capital cycle was getting stretched. So, is there any improvement happening in the last one or two months in that? What is your reading about it?

Mr Rajesh Sharma: See it is the last quarter we have got almost about 575 crore rupees of credit line including NCD placed in 10 years long period of maturity. So today we are maintaining between 400 to 425 crore rupee liquidity as of now between un-drawn line and drawn line which is invested in mutual fund, so we have adequate liquidity and there is 500 crore rupees of additional sanction in principle for buying out our pool, so we feel that we are one of few NBFCs which are getting timely adequate money because 1) Our delinquency and control 2) our lending in very small ticket size, 3) our entire portfolio is well collateralized, we have loaned the values almost two time.

Rohan Mandora: Got it.

Mr. Rajesh Sharma: So, bankers are quite comfortable with us hence that is the reason that we will continue to grow and deliver the superior return.

Rohan Mandora: Sure. Thanks a lot.

Mr Rajesh Sharma: Thank you.

Pavitra: Thank you, Sir. Ladies and gentlemen, if you have a question please press star and one on your telephone keypad. Next question comes from Mr. Parthiv Jhonsa from NVS Wealth Managers. Please go ahead.

Mr Parthiv Jhonsa: Sir, just to carry my very first question forward on dividend and the AUM and the loan book, I was calculating based on your guidance, it turns out so it just a request from our end please do look into, you know, increasing the dividend portion for the investors because if you calculate the valuations look to be little bit on a higher end. Sir, so I wanted to know in fact will you look into calculating, you know, giving a better reward to the investors and you know, just look at this so I can understand that you will be around 4700 kind of AUM, but will we be on the target going forward?

Mr Rajesh Sharma: So, as far as our dividend policy is concerned we will continue with what our existing policy is of conservative dividend payout and as far as our AUM growth is concerned as you said that we can be, in the range of 4700 to between 5,000 crore rupees this financial year.

Mr Parthiv Jhonsa: But will you be keeping that, you know, what the guidance you have given from FY21 to 24, will that be maintained, if not for this current year?

Mr Rajesh Sharma: I am not able to comment on dividend at the moment because we have not thought about it and it is ultimately decided by the board jointly, so I think that I am not in the ability to answer this question on how much dividend will pay next year. However, on the growth side, I think we should be able to achieve our AUM between 4,700 to between 5,000 which we have stated and next year onwards we believe that overall situation will also improve, the sentiments will improve and we will return from 25% to 40 % from next year onwards.

Mr Parthiv Jhonsa: Okay. Okay. Thank you so much.

Pavitra: Thank you, Sir. Ladies and gentlemen, if you have a question please press star and one on your telephone keypad. Ladies and gentlemen, if you have a question please press star and one on your telephone keypad. There are no further questions so I will handover the floor to Mr. Rajesh Sharma for closing comments. Please go-ahead sir.

Mr Rajesh Sharma: Yes, thank you so much for joining the conference call and thank you Tanya.

Tanya Khosla: I think we can sign off from the call.

Pavitra: Thank you, ma'am. Ladies and gentlemen, this concludes your conference for today. Thank you for your participation and for using Door Sabha Conference Call Service. You may disconnect your lines now. Thank you and have a pleasant evening.

Note: 1. This document has been edited to improve readability.
2. Blanks in this transcript represent inaudible or incomprehensible words.