CAPRI GLOBAL
CAPITAL LIMITED

Q3 FY2022 Earnings Conference Call
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Management

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Moderator: Ladies and gentlemen, good day and welcome to the Capri Global Capital Limited Q3 FY2022 Earnings Conference Call, hosted by Go India Advisors. 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 '*'then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ravikant Bhat from Capri Global Capital Limited. Thank you and over to you, Sir.

Ravikant Bhat: Thank you, Inba. Good morning. This is Ravikant Bhat from Investor Relations. Thank you for dialing in to the call. We shall start with an overview on Q3 FY2022 business and earnings performance by our MD, Mr. Rajesh Sharma thereafter we shall have the Q&A. I will now request Mr. Sharma to share the opening remarks.

Rajesh Sharma: Good morning. Hearty welcome to everyone on the call. For much of the last two years discussions on earning calls have revolved on and around the affect of COVID pandemic and the ongoing or waning COVID waves. We experienced the Delta wave in the opening two months of the financial year and then hoped a third wave if it occurred would be milder than the second wave. I am sure you are relieved just as we are on the third wave turning out to be shorter and less impactful compared to the earlier two waves.

In the ten states and Union Territories where we operate our Urban Retail and Construction Finance business, active COVID cases have continued to register a steep drop and fresh infections have also declined sharply. State governments have also announced an end to the restrictions put in place at the start of the third wave. With this, daily activities have fast returned to normalcy.

At Capri, we tackled the third wave in the six-week period between the last week of December 2021 and first week of February 2022 through a flexible work plan with a mandated work-from-home and need-based work-from-office. Our field sales operations were barely disrupted and business in the month of January and February 2022 indicates we are continuing to maintain the momentum and are on track to deliver over 22% year-on-year growth in the AUM in FY2022.

As you are aware the Board of Capri Global approved the Q3 FY2022 results on Saturday, February 12, 2022. I hope you had an opportunity to go through the investor presentation. Let me now present a quick overview of business during the Q3 FY2022.

MSME: The growth in MSME was robust with nearly 30% of incremental disbursals happening in the segment. The robust 9% sequential AUM growth is indicative of the growth potential for the portfolio in H2 FY2022. Although the segment currently contributes the highest to the restructured portfolio in NPA, we remain optimistic about new business while we are watchful of legacy assets.

Affordable Housing: The housing finance segment has also delivered a robust growth momentum during the quarter. Although some customer segments overlap between MSME and housing finance, it is pertinent to note that the salaried segment has contributed to a relatively better bounce back and recovery in this segment. As a result, the net NPAs considering aggregate ECL provisions are once again negative in this segment.

Construction Finance: The Construction Finance segment continued to show robust momentum. It achieved highest disbursal in 12 quarters. We therefore expect the vertical to continue in a healthy growth trajectory going forward. Asset quality remains robust with GNPAs at 17 basis points and net NPAs negative though overall contribution of Construction Finance in AUM business will not cross 20%.

New Car Loan Distribution Business: During Q3 FY2022 we expanded to 213 locations across 19 states and Union Territories compared to 186 locations across 15 states and Union Territories in Q2 FY2022. Two new relationships, HDFC Bank and Bank of Baroda were added during Q3 FY2022 taking total tie up to five banks. We generated Rs. 550 Crores new car loan disbursals for these banks during the quarter. This was 60% higher quarter-on-quarter. The total disbursal originated in 9M FY2022 stood at Rs. 950 Crores. I am happy to share this business broken even in October 2021.

Co-Lending Model: In December 2021, we entered into Co-lending arrangements with the State Bank of India, the Nation's largest commercial bank and Union Bank of India, the fifth largest public sector bank for the co-origination of MSME loans. Under the arrangement, State Bank of India and Union Bank have initially sanctioned an aggregate amount of Rs. 850 Crores for lending of which CGCL shall retain 20% on its balance sheet.

We have kick started this channel and made a small start. We expect it to gain strong momentum in the next six months. As of now our primary growth target for co-lending is to fully utilize the initially sanctioned amounts.

New products: We are gearing up for the launch of our new secured loan product, that is, gold loan. The business Head has already been on-boarded and people and physical infrastructure is being shaping up. We are targeting a network of 1,500 branches in the loan book of Rs. 8,000 Crores over the next five years.

New branch addition: We have regularly highlighted that our business has people and touch intensity and therefore requires a brick-and-mortar setup for sales and loan origination. Keeping this in mind and our medium-term gold loan of 225 branch network, we added 11 branches during Q3 FY2022. This takes the total branch addition to 25 in 9M FY2022, higher than the 21 branches we added in FY2020, the last pre-COVID normal year. We are focusing on growing our presence and business in Gujarat, Rajasthan, and Madhya Pradesh.

Technology: The tech intensity takes over once a potential customer is identified for which we use both off-the-shelf and in-house software. We have also been in the process of rolling out our analytical dashboards for aiding decision making and credit appraisal and reducing turnaround time. Our technology team has made a good progress on developing an in-house tech suite and we are looking forward to a beta rollout in the next few quarters.

I shall now briefly comment on our earnings and asset quality performance during Q3 FY2022.

We reported consolidated net profit after tax of Rs. 649 million in Q3 FY2022 higher by 22% quarter-on-quarter and 32% year-on-year. The profit growth was supported by a strong core profitability and continued resilience of our P&L to accommodate higher opex and credit cost.

Core earnings: Although our spreads dropped 20 basis quarter-on-quarter to 6.7%, our net interest margin has been robust at 10.3% driven in part by some one-off items and part by including mix of higher yielding portfolio. There is a widespread expectation of imminent monitory policy tightening with benchmark G-sec yields already pointing in that direction. We are well positioned to face a tighter policy scenario; we can suitably adjust our asset yield to respond to such a change.

Operating expenses: The cost to income ratio in Q3 FY2022 at 38.4% is again within our target range of 36% to 40%. Adjusted for one-off earnings, the cost income ratio would be about 41%, marginally lower quarter-on-quarter.

As we have stated some of the pent-up expenditure branch rollout, associated hiring and technology related spends shall keep this ratio elevated for some time. However, we have sufficient flexibility to control incremental expenses in case we believe business scenario could get adverse.

Asset Quality: Asset quality ratios, have improved with GNPA ratio declining 27-basis quarter-on-quarter to 2.99%, stage III asset in absolute terms were stable, in fact marginally lower over Q2 FY2022. Provisions coverage ratio has been further improved to 84.6%.

If we talk about our collection efficiency, it has improved in MSME from 93.1% last quarter to 96.2% in this quarter. In Home Loan it has improved from 93.8% to 98.4%.

In conclusion, I would like to reiterate that our growth focused on secured, Urban Retail lending is on a sound footing. It shall soon be complimented by revenue streams from recently launched and soon to be launched products. We remain committed to expanding leverage through organic route and deliver mid teen RoE to our shareholders over the medium term.

With that I conclude my opening remarks. We shall now take questions.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin the question-and-answer session. Our first question is from the line of Mayank from InCred. Please go ahead.

Mayank: Good morning, Sir. Thanks for the detailed discussion. Firstly, my question is on the rising interest rates. Basically, I have two questions on it. Number one is that currently we have seen a very good interest rate offering by banks to MSME. So, are we seeing any kind of pressure on that front and if the interest rates rise, are we expecting the growth from banks to slow down in the MSME segment? This is my first question. Second question on the interest rate side is how would our rates increase going forward and how much more upside on yields can we see on that if the interest rates rise?

Rajesh Sharma: I think your first question is banks are offering the customers at lower rate of interest on MSME loan, how will we compete with them. Is that so?

Mayank: Yes right.

Rajesh Sharma: I think the customer what banks serve in MSME and what we serve are entirely different. We serve those customers who do not have adequate income proof or documentation to avail the loan from banking system. These could be small in Tier III and Tier IV towns, maybe small mom & pop stores, may be a small restaurant on the roadside, maybe a fruit vendor, may be a small garment store, who do not record all their transactions in their books and thus they are not able to show adequate sales and profitability; these are our customer segment. So, this is absolutely different than what banks serve and what we serve. Your second question is what kind of interest rates hike we can see. I think it is difficult to predict, but even if interest rates rise by 25 basis points or 50 basis points the most, we will be able to pass on the same kind of interest rates hikes to our customers. So if any hike comes, that will be really neutral to us. As far as our customer is concerned, they are smaller loans in the range of about 10 lakhs to 20 lakhs and these businesses run or return on efforts rather than return on equity. So, half a percent of marginal hike to them is not changing their profitability at all. So, I think that is not going to impact us. In the past also we have seen the cycle when post IL&FS and the DHFL defaults the banks slowed down and increased interest rates, we were able to pass-on and maintain the growth momentum.

Mayank: So, as per the new RBI circular / norms for the GNPA recognition, have we complied with that and is there any additional provisioning we have made for this quarter for that?

Rajesh Sharma: If we talk about the RBI circular, yes, we have complied with that. RBI circular was talking on the two points; number one, you cannot rollback the NP accounts unless all the overdue EMIs are collected, number one. Number two, the NP will be recognized on the very same 90th day evening rather than accounting in the month end. These were the two main effects of the RBI circular. Because of the RBI circular, about six accounts have slipped in the NPA with about Rs. 74 lakhs (outstanding). Had not the RBI circular come, our effort on rollback would have been seen visible in lowering the NPAs much lower. But because of the RBI circular, this amount has gone up. So, to that extent we have been affected.

Mayank: Lastly, on our restructured book, how is that performing?

Rajesh Sharma: Restructured book is almost about 4% and we have done adequate provisioning in that. As far as collection efficiencies on those accounts is also concerned, whosoever is becoming due, there is a positive trend. And in case we see some slippage, I think there is an adequate provisioning we have done and on top of it, our entire portfolio is collateralized, secured by some real estate either by self-occupied house or self-occupied business premises. So, in that sense we can always use the SARFAESI provision and recover. So, we are comfortable on that front as well.

Mayank: Thanks Sir. They were really useful. Thanks a lot.

Moderator: Thank you. The next question is from the line of Akash Gosar from Equirus Securities. Please go ahead.

Akash Gosar Good morning, Sir. Thank you for giving me this opportunity. I wanted to understand the reason why there has been increase in the disbursements during the quarter. Would there be any link in respect of change in underwriting policy of ours or has that remained same across the quarters?

Rajesh Sharma: Underwriting policy has remained the same. As we have said earlier that we are going to aim for a growth between 20% and 27% and in that direction, we have added more physical branches, more people on the ground, and that is the result of taking all the steps that we are able to be on the stated path of the growth and that is absolutely as per the strategy and the budget. So, it is not because off the change or relaxed underwriting policy, but it is because of the addition of more branches and people in the direction that it was decides.

Akash Gosar Thank you. One last question, with respect to our restructured pool, what percentage of our pool would now be out of restructuring in terms of billing?

Rajesh Sharma: Restructuring we have given some amount of moratorium and some relaxed way of repayment. So, POS is about Rs. 228 Crores and I think their repayment will fall between now and in the next six months to one year. So, we will know that but so far, as we have said, our restructured assets are also collateralized and if any slippage happens, we are quite capable to recover as we do for other cases also.

Akash Gosar Thank you.

Moderator: Thank you. The next question is from the line of Srishti from Wellwin Consulting. Please go ahead.

Srishti: Thanks for giving me this opportunity. My first question would be on your home loan side. So, in this business we are seeing a great traction in the housing demand, would this mean that significant growth would come from this business vertical. Second is, your annualized ROEs are over 14%. Given that we have recently started this co-lending arrangement, what sort of ROAs are we expecting in the next couple of years and are we planning to add more branches under co-lending and what sort of monthly disbursements are we targeting under this model?

Rajesh Sharma: First whether the housing finance will continue to be the same kind of growth? The answer is yes. The home loan is a very big market and with the increase in the number of branches, I think we will continue to achieve a growth in the range of +25% in the home loan segment. If you talk about co-lending, I think the largest bank State Bank and Union Bank – two are adequate banks. While we are getting discussions and invites from other banks, it would be difficult to manage more co-lending arrangements. So, I think we will primarily stick with these two banks, State Bank and Union Bank unless we believe that we can get better commercials from the other banks in competition segment, yes then. Now what kind of ROA accretion will the co-lending lead to? It will depend on the volume we can achieve, so I think next year, next full financial year we will be able to see that based on the technology integration with the banking partners, we will be able to see how much volume we can do. If we can go full-fledged, it can be a complete game changer. But we are waiting how this volume and technology integration happen, so it can happen very smoothly. So, we have to wait to see the actual result in the next year.

Srishti: That is for now. I will come back in the queue. Thank you.

Moderator: Thank you. The next question is from the line of Seema Bajaj from RK Consultants. Please go ahead.

Seema Bajaj: Good morning, Sir. Thank you for giving me this opportunity. Sir I wanted to ask specifically on our MSME business which is at 51% of our overall AUM versus 56% YoY. So are we taking a cautious approach here? Also, Construction Finance AUM composition has increased 200 bps in the last couple of quarters. I wanted to know whether we are planning to go slow here? Would you please give a trend…whether this trend continue or not?

Rajesh Sharma: The key growth driver is going to continue to remain in MSME segment and Affordable Housing. They will contribute 50% and Affordable Housing +25%. If you talk about Construction Finance, we will continue to grow and keep till the overall book basis about 20%. And even though in some quarter, it can show little bit growth but overall, on a year-on-year basis, it will remain well within 20% range and that is we will not let it go (higher). Our 80% book will continue to remain focused on the retail side.

Seema Bajaj: Also, like with reference to digital and technology enabling, within our company, what are we doing and how many people are working under technological front? Also, how to plan to enhance these resources, how are you planning on that?

Rajesh Sharma: We have already hired the CTO who is taking care of all the new technology initiatives as well as the implementation of all the planning and futuristic discussions. So, about 20 people are already there in technology team besides the normal (tech team) …they are separate (team) which take care of the day to day (requirements)…they take care of the hardware and other requirements. But (as far as) the hardcore technology team is concerned, there are about 20 people which includes engineers, programmers, and coders. Plus, we have about six people team in data science and analytics which is helping us in pinpointed decision making in terms of aligning and navigating our underwriting and other collection decisioning. We also hired one collection data analytics guy who will be focusing on improving the collection efficiency and taking various measures. So overall, there is a very sharp focus on enhancing the tech and data science piece and for which adequate team is already on-boarded.

Seema Bajaj: Sir, one last question is that in view of so many areas that we are targeting to grow, why is our guidance of AUM growth still maintained at 20% to 25%? Are we sacrificing our normal growth, or have we peaked? What are your feelings on that?

Rajesh Sharma: I think with the current product of MSME and affordable housing, we can achieve this 22% to 27% growth. Once the gold loan product stabilizes in the next 12 months, we will see whether we need to revise any guidance. But this much minimum we are definitely going to achieve. Last year we achieved 20% and this year we have already achieved 19%. So, we are on the path to achieve that growth.

Seema Bajaj: Thank you for that. It was very helpful. That is all from my side. Thank you.

Moderator: Thank you. The next question is from the line of Priti Singh from Value Investments. Please go ahead.

Priti Singh: Good morning. Sir, I just wanted to ask about venturing into gold finance business and that we are targeting Rs. 80 bn over the next five years. What all geographies are we targeting when we open 1,500 branches for this business and what would our AUM product mix look like in the next few years?

Rajesh Sharma: If you talk about the gold loan, the majority competition, Muthoot and Manappuram are South-based companies although they have their presence in North and West as well. But if we see, a lot of scope exists in the North and West of Indian markets. Also, our MSME and Affordable Housing business is also in these geographies. So, our gold loan branches presence is going to be in Delhi, Rajasthan, Madhya Pradesh, Gujarat, and Maharashtra. That is the area where our 1,500 branches will be positioned. We feel adequate opportunity exists to create that kind of book in this region as well as in this space.

Priti Singh: What about the AUM for that mix in the next few years?

Rajesh Sharma: Are you talking of overall or are you talking about gold loans?

Priti Singh: Overall?

Rajesh Sharma: So, overall if we achieve by 2025-2026, we are trying to achieve a book of about Rs. 25,000 Crores and in that about Rs. 8,000 Crores is going to be the gold loan, about Rs. 4,000 Crores to Rs. 5,000 Crores is going to be Construction Finance and about Rs. 9,000 Crores is going to be MSME, about Rs. 4,000 Crores is going to be home loans. This is what we are targeting.

Priti Singh: Thank you so much. My next question is on the car loan distribution. What are our plans for growing this business - like who are we looking to tie up with and any more banks for growth?

Rajesh Sharma: We have already tied up with five banks which includes Union Bank, Bank of Baroda, Indian Overseas Bank, HDFC Bank and Yes Bank. This is a product where we are not lending. This is purely using our own infrastructure presence to generate a fee income and you will be happy to know that we already achieved a volume of Rs. 200 Crores car loan origination in the month of December. So, I think this way we intend to later also add the mortgage loan co-origination as well- home loan - where the interest rates is in the range of 7.5% to 8%, targeting salaried customers. So, this is going to be a purely fee income business leveraging our branch network, leveraging our understanding, leveraging our existing association / relationship with banks.

Priti Singh: Got it. Sir, out of the Rs. 15 Crores fee that we have made in this quarter, what is the cost and how will the cost increase if it scales up and how much can we scale up?

Rajesh Sharma: So, this business at this level, October we have broken even. I think next year onwards we will be targeting about Rs. 12 Crores to Rs. 15 Crores of profit contribution from the new car loan distribution business.

Priti Singh: Thank you. That is it from my side for now. Thank you.

Moderator: Thank you. The next question is from the line of Srishti from Wellwin Consulting. Please go ahead.

Srishti: Thanks for taking my question again. My question is what are the economics of co-lending and what needs to be done to ramp it up? And secondly, how confident are we on gold loans given that even existing lenders are struggling for growth and a huge spending by PSUs?

Rajesh Sharma: If you talk about the advantage of co-lending, it will be that without capital, we can increase our book, because we will continue doing what we are doing. The only change will be that 80% book will be taken over by banks on an ongoing basis. Plus, there are some customer segments we are not able to do it today because of lower rate of interest. Now with the State Bank and Union Bank, being our partners, we can further go down in interest rates in those co-origination loans and that can improve our productivity and offerings. So, if the co-lending takes up on a full-fledged basis, then in future we will not require any capital and it will be highly ROE accretive. It will be easier to reach a ROE of 24% to 25% if the co-lending takes off in full-fledged way. But we are watching in the next year and we are very confident with the focus of banking system and government, NBFCs should be able to do more lending through co-lending mechanism so that everything is catered and it is partnership between the bank of low-cost fund versus a low-cost operation and good collection efficiency of NBFCs. So, it is a good combination, and we are quite excited about it. This year, we are hoping that we should do about Rs. 75 Crores to Rs. 100 Crores and next year, once the technology integration happens, the volume can be much higher.

Srishti: Okay. And what happens to the NPAs in co-lending? Do we have to bear proportionately?

Rajesh Sharma: Yes. So, it will be true participation from the banks. It is a 20:80 arrangement. When NPA happen, 20% credit cost will come to us, 80% will go to them in the same proportion. Your second question regarding gold loan, you said, there is adequate competition and even existing players are not able to grow, but I believe in Northern and Western segments, this is our niche as far as our presence is concerned. And secondly, we understand the customers who do not have adequate income proof. So, I think with the help of technology and our presence, building a book of Rs. 8,000 Crores should not be a problem in the scheme of things…the opportunity gap we see today.

Srishti: Sir, what happens to the manpower planning and branch planning? How easy is it to do this given the place of so many people during COVID?

Rajesh Sharma: I think COVID is behind us, that is what we believe. And as far as gold loan is concerned - manpower, branch planning - while a few branches will overlap with MSME, most of the branches will be standalone gold loan branches because this is an entirely different business and a different kind of customers that we will cater to.

Srishti: Sir, one last question if I may ask. How would the opex move over the next couple of years given that we have plans to open so many branches?

Rajesh Sharma: We plan to open so many?

Srishti: Branches.

Rajesh Sharma: I think if we talk about the capital investment, if we talk about gold loan, the first-year capital investment will be in the range of about Rs. 25 Crores and FY2024 will be of the range of Rs. 60 Crores.

Srishti: I think that is all from my side. Thank you so much for your time, Sir.

Moderator: Thank you. As there are no further questions from the participants, I would now like to hand the floor back to Mr. Sharma for closing comments. Over to you Sir.

Rajesh Sharma: Thank you all for joining this call. As we said, we continue to grow in the path of secured lending, growing our MSME book, home loan book and in continuation of that, we are going to add another secured product of gold loans. And we are quite confident as we see year-after-year our ROE is improving, our cost to income ratio is coming down, our NPAs in the worst time of COVID have been remained in control, despite the courts having passed order to not take any SARFAESI action, which has now been relaxed. Hoping that this year, coming year, not only will we see a sharp rollback in the NPAs, but our growth momentum will also be maintained. We have adequate capital adequacy, good banking relationships, and a strong track record of repayment. I think collectively with this we are on the path to achieve our stated growth of 22% to 27% and we hope to achieve +14% ROE in the coming year along with all these developments. Thank you so much. All of you please stay safe. Stay healthy. Thank you.

Moderator: Thank you. Ladies and gentlemen, on behalf of Go India Advisors that concludes this conference. Thank you all for joining us. You may now disconnect your lines.