

Transcript

Capri Global 3QFY20 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 Limited 3QFY20 Earnings Conference Call. 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 star and one on your telephone keypad. Please note this conference is recorded. I would now like to handover the floor to Mr Rajat Gupta of Go India Advisors. Thank you and over to you sir.

Rajat Gupta: Yeah, thank you Pavitra. Good afternoon everyone and welcome to Capri Global Capital Limited Earnings Call to discuss Q3 and 9M FY20 results. We have on the call Mr Rajesh Sharma (Managing Director), Mr Ashish Gupta, (Chief Financial Officer) and Mr Hardik Shah (Vice President Corporate Strategy) with us. We must remind you that the discussion on this call may include certain forward looking statement and must be therefore viewed in conjunction with the risk that the company faces. May I now request Mr Rajesh Sharma to take us through the company's business outlook and financial outlook subsequent to which we will open the floor for Q&A. Thank you and over to you Sir.

Rajesh Sharma: Thank you, Rajat. Ladies and gentlemen, a warm welcome and thank you for joining us on the today's earnings call. I hope you have seen the earnings presentation, which has been uploaded on the Exchange and on the company's website. The overall operating environment remained bleak as the economy continued to struggle. While the government and the Reserve Bank of India has taken multiple measures to boost economic growth, the sentiments are still weak and recovery is expected to be long and little slow. The NBFC sector which started the stress in the Indian economy continue to struggle with the liquidity and asset quality concern. Consequently, we have taken a cautious approach for our business in the last six months and we focused on profitability and improving our margins and maintaining the quality of our books. We have rationalized our branch network and substantially reduced our cost to income ratio to 39% as compared to 49% last year. We are primarily funded by leading Indian banks and that constitute to over 90% of borrowing mix. During the last nine months we have built and maintained a strong liquidity position and have undrawn credit lines of almost INR 450 crores, the highest ever in the history of Capri Global. We have also got one of the highest capital adequacy at 38.4%. It is result of our stringent cost control and strong risk management framework that we have reported the highest ever profit after tax at INR 49.6 crore in Q3FY20, a growth of about 41% year on year. Our net interest margin has also improved to almost 10% and our net interest income in Q3 was 16% higher as compared to last year. During the nine-month period we disbursed ~ INR 800 crore taking our AUM to INR 3945 crore. MSME lending continues to be the key focus area and constitute over 50% of the book. Our gross NPA

is about 2.8% and net NPA is about 1.52% at the end of Q3 FY20. We maintain a strong portfolio yield across all our business verticals. We have maintained the credit rating of A+ CARE Ratings and AA- of Brickworks amid peer downgrades especially for construction finance lenders. I will now briefly touch upon the sector outlook and how we are positioned in the current scenario. We have strengthened our system and process in the challenging environment and have worked towards creating a leaner and agile organization. At the same time, we are well positioned to immediately benefit from a rebound. We will however be on the side of the caution, we will be stringent in our disbursements. Accordingly, we have rationalized our long-term guidance for FY25 and we would like to build a book of INR 20,000 crore with MSME and affordable housing being our key focus area. With this I would now like to open the floor for questions.

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. We have first question from Parthiv Jhonsa from NVS Brokerage. Please go ahead.

Parthiv Jhonsa: Hi Sir, my first question is can you just give the cost of funds from bank borrowings and for NCDs?

Rajesh Sharma: You know, average cost of fund of entire borrowing mix is in the range of about 10.5%. NCD is also in the same range of about 10.25% and We have no borrowing of short term and NCDs is also for 10 years. Bank borrowings is in the range of 5 to 8 years. So, looking at the tenure of the bank borrowing this price is very attractive.

Parthiv Jhonsa: Okay, my second question is the gross and the net NPA for the quarter have increased majorly, especially do you know due to certain segments, so just can you throw some light on it? Especially because of the housing finance sector, just can you throw some light or can you just elaborate the same?

Rajesh Sharma: So, while the NPA has gone up, but still it remained in the overall range of less than 3% at a company level and in the housing finance at less than 2%.

Parthiv Jhonsa: So, are you confident of closing, are you confident closing the year around this level or it will improve sir from here?

Rajesh Sharma: Our target is to not let this go beyond this level. I would like to point out that in the segment we operate MSME average yield is about 16% and home loan we have average yield is about 13.5%. In this range of customer, this kind of NPA levels are expected where new NPAs keep coming and old NPAs keep resolving. So we don't see recovery will be a problem as all the loans are collateralized, well secured, it may be good margin where LTVs are lower. So NPA while it is a classification of accounting, but it does not indicate significant high credit losses.

Parthiv Jhonsa: Okay. And regarding the entire NBFC sector as a whole, how do you perceive it for the fourth quarter and for FY21 going forward?

Rajesh Sharma: I think with their continuous various measures taken by the Government as well as Reserve Bank of India, the credit flow has come back to NBFC and housing finance company. I feel the trouble is behind and well managed housing finance company will come back to the growth path and have great opportunity to grow and corner the business.

Parthiv Jhonsa: So basically, the dip which you had in disbursement for Q3 you believe that it will come back on track to its previous level?

Rajesh Sharma: Yes.

Parthiv Jhonsa: Okay. Thank you so much sir. Thank you and best of luck.

Pavitra: Thank you sir. We have a next question from Ravikant Bhat from India Nivesh. Please go ahead.

Ravikant Bhat: Sir, hi. Congratulations on a good set of numbers. Just couple of questions, one is you referred to the cost rationalization that have happened, now I mean your 9M cost has been flattish marginally lower YOY, can you just explain whether this whole, what the rationalization initiative was and whether it's over and we might see cost rising hereon?

Rajesh Sharma: So, cost rationalization was when we expanded, there were certain branches which were not producing adequate productivity and adequate business levels, so we have consolidated those branches to the nearest level and some of the manpower we have realigned and the productivity has improved. So, the cost has come down and the numbers have improved. Our collections also we have focused upon, so basically any resources which were not contributing towards business growth, we have asked them to go and replaced them with better profile and better people. Based on that our cost have come down. Some of the branches we have merged with the nearest branches also. So, all the non-productive branches have been merged with the existing branches.

Ravikant Bhat: Okay and what was the number of such branches, can you share that?

Rajesh Sharma: So there are about 10-12 branches, though of course we opened the new branches also but overall the number of branches have not gone down.

Ravikant Bhat: Right, understood. And these branches were what vintage? I mean opened in the last two-three-four years or more recent?

Rajesh Sharma: They were about last one year.

Ravikant Bhat: Last one year okay. Sure sir, that's it from my side.

Pavitra: Thank you sir. Ladies and gentlemen, if you have a question please press star and one on your telephone keypad. We have next question from Raghav Kabra from Excel Investments. Please go ahead.

Raghav Kabra: Thank you. Sir, I have a couple of questions. The first one is regarding our bank borrowings, currently our bank borrowings are majority of borrowings, but now you have an approval for securitization and you are going to do co-origination as well. So how would your borrowing mix going to look like in near future and what impact would these have on your cost incrementally?

Rajesh Sharma: Securitization happens at a lower rate about 75 to 100 bps lower than the existing bank borrowing. So however, securitization has an impact that you get all the money at one go, while in the term loan you can draw in tranches, so both has their own plus and minuses. I think borrowing cost otherwise also is going to come down by about 50 basis or so. Securitization money will keep drawing as and when we require, but all that money will come in one go so there you have to carry some negative carry for couple of months. I feel going forward the securitization will be about 20% of total borrowing and 80% borrowing will continue to be led by bank borrowing in the tenure of 5-8 years.

Raghav Kabra: Okay, sir. So, my second question, given a slowing macro environment and your MSME book not growing incrementally at fast rate, we are facing a lot of stress in your MSME book. What sort of risk mitigation process are we adopting to control this? How soon do you expect this to normalize back?

Rajesh Sharma: So, the kind of in the yield segment we operate in, we expect these kinds of delinquency to remain. We don't expect the delinquency will go up in the Q4 it always happens the collection performance always becomes better so we feel some account should come back to the normal this quarter and going forward we feel that our overall NPA will remain in the current level, it will not go beyond this level. And that is what is projected also.

Raghav Kabra: Okay. And sir, one last question is that there has been news floating around Capri's interest in Lakshmi Vilas Bank, can you give us an update in regards to the same, what is this?

Rajesh Sharma: We have clarified that we have taken in our family office book as an equity investment. So that is not done from NBFC or housing finance company.

Raghav Kabra: Okay, Sir. That's all from my side. Thank you.

Pavitra: Thank you sir. Ladies and gentlemen, if you have a question please press star and one on your telephone keypad. We have next question from Anadi Kaistha from Vivrithi Capital. Please go ahead.

Anadi Kaistha: Thank you for giving me this opportunity. My first question is on standalone financials of the company. I think that quarter on quarter interest income has been reduced where my AUM is increasing, so what is the reason for that? That is first question. Second question is that on quarter on quarter basis employee expenses are decreasing, you know, even decline in trend so what is the reason for that?

Rajesh Sharma: So, our construction finance portfolio we have shrunk. And it is happening quarter on quarter. So, when construction finance portfolio is shrinking then because their interest income is a little on higher side, interest income is coming

down, number 1. Number 2 since some of the branches we have merged and some of the non-performing employees we have asked to go and we have rationalized the cost multilayers, wherever the multilayer was there we have realigned the entire structure. So, our employee cost has come down and that is why our operating cost has substantially reduced.

Anadi Kaistha: So, what would be the attrition rate for this quarter?

Rajesh Sharma: I think, everything is stabilized so this quarter is going to be remaining the same.

Anadi Kaistha: Okay.

Rajesh Sharma: Of course, this quarter we expect being the last quarter with every NBFC and lending industry, your disbursement happens the highest, so we also see that. Our income level should be better in this quarter.

Anadi Kaistha: Okay, and sir last question is regarding the gross NPA. So, in MSME segment the gross NPA is increasing, right, if I will see that trend so it has increased by 65 bps on quarter on quarter basis, whether the construction finance is it below this level, we have a good, you know track record and very little NPA. So what is the action you are taking for MSME and what are the preventive actions you have already taken for the construction finance?

Rajesh Sharma: So, construction finance to we are funding to the small size of developer where average ticket size is about INR 8 crore rupees. MSME, I think there will be more emphasis on the collection, and we expect the vertical wise MSME NPA should come back to less than 4%. For a quarter we have few accounts that has slipped, but we are quite confident that by the March end it will come below 4%.

Anadi Kaistha: Sure sir. Thank you, sir.

Pavitra: Thank you, sir. We have next question from Preeti Singh from Value investments. Please go ahead.

Preeti Singh: Thank you for the opportunity. We are seeing that most of the other NBFCs and banks are now shifting to granular and retail loans, especially in housing finance, So just want to know how do you see the competition from the other players for Capri in the geographies that you are operating?

Rajesh Sharma: So, while we are operating in the segment where borrowers do not have income proof or borrower's income is not completely reflective in the bank statement. And this is the segment where we have developed our own niche, not that every bank or every NBFC is competing in that space. However, there are few players like HDB, AU and DCB and few regional players who operate in that segment, at the same time the segment offers so much credit gap that we believe that even few more players comes in still this gap requires to be addressed. So, competition is not that great in the segment as compared to opportunity available.

Preeti Singh: Okay. So, my next question would be what your stance on the developer finance portfolio, you are lending to small ticket developers and now that you have stopped sanction to these new developers

Rajesh Sharma: No, ...this year I think we have sanctioned and disbursed about INR 280 crore and we are continue sanctioning the new cases. We are more cautious that we should do only those cases, where location is good, developer has development experience, all approval is in place, marketability in micro market, we check about that segment and then we do it. So, we do a thorough study plus we are doing this since last few years. So, we have built a niche and expertise in our team, we know what to do and what not to do. So whole construction finance segment cannot be painted with a same brush.

The difference between the large project risk and the smaller project risk is different, whereas a smaller unit in the range of 30 lakhs to 60 lakhs rupees underlying apartment, finished Goods of that registered projects are still moving at reasonable pace and the developers are able to realize based on the construction. Thus, we ensure that project is completed because we provide the entire funding to complete the project.

Preeti Singh: Okay. Just a last question sir. It's a data specific question. So what percentage of your home loans customers would be salaried versus non-salaried customers?

Rajesh Sharma: So salaried customer is less than 30% and rest are self-employed people.

Preeti Singh: Okay. That's good. That's all from my side. Thank you so much, Sir.

Pavitra: Thank you, ma'am. Ladies and gentlemen, if you have a question please press star and one on your telephone keypad. We have next question from Siddharth Mehta, an Individual investor. Please go ahead.

Siddhart Mehta: Yeah. Alright. And can you kindly talk about some of the future prospects, how do you see the company moving in one year, two years or three years' time. Some broad parameters

Rajesh Sharma: So broad parameters, we are chasing the target to reach INR 20,000 crore a book by 2025 and the same have also been reflected in our investor presentation which is uploaded on the company website and Exchange. So next five years we want to move in that direction and I think we are well positioned to do that.

Siddharth Mehta: Alright. I am glad to hear this. Thank you.

Pavitra: Thank you, Sir. Ladies and gentlemen, if you have a question please press star and one on your telephone keypad. Next, we have a follow up question from Raghav Kabra from Excel Investments. Please go ahead.

Raghav Kabra: Thank you, Sir for taking my question again. I want to ask why we shall reduce our guidance on loan book target for next five years? I can understand for this year, but why slower growth over next five years?

Rajesh Sharma: So, for this year base have come down, so that is the base on which you build every year.

Raghav Kabra: Yeah.

Rajesh Sharma: For example, you are growing at the pace of 40%. So the cumulative effect will definitely will be reflected after five years in that kind of figure.

Raghav Kabra: Okay. That's from my side.

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. Since there are no further questions now I handover the floor to management team for closing comments. Over to you sir.

Rajesh Sharma: So, thank you all. I think looking at the sector in which we are operating in, looking at the niche we are building in MSME and affordable housing too, lend to those customers who are underbanked and underserved where the customers don't have income proof. India as a country has such a huge quantum of borrowers who do not get access to credit from the formal banking channel. We are glad that we are serving to that segment and we see there is lot to be achieved in that segment. We will continue to lend in that segment and we see it is a great growth opportunity in next five-ten years. Thank you so much.

Pavitra: Thank you, Sir. 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.

Rajesh Sharma: Thank you.

Note:

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