August 17, 2022

The Secretary
BSE Limited
Pheeroze Jeejeebhoy Towers
Dalal Street, Fort
Mumbai - 400 001
Scrip Code: 531595

The Secretary
National Stock Exchange of India Limited
Exchange Plaza, 5th Floor
Plot No- 'C' Block, G Block
Bandra-Kurla Complex, Bandra (East)
Mumbai – 400 051
Scrip Code: CGCL

Sub: Intimation pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements), Regulations, 2015, regarding Q1FY23 Earnings Call - Transcript.

Dear Sir /Madam,

Further to our letter dated August 04, 2022, intimating schedule of the Earnings Conference Call on August 10, 2022 to discuss the Company's Q1 FY23 Earnings, we are attaching herewith the transcript of the said Conference Call.

The above is for your information and dissemination to all the stakeholders.

Thanking you,

Yours faithfully,
for Capri Global Capital Limited
YASHESH PANKAJ BHATT Digitally signed by YASHESH PANKAJ BHATT Date: 2022.08.17 17:38:11 +05'30'

Yashesh Bhatt
Company Secretary & Compliance Officer
Membership No.: ACS 20491

Encl.: As above

Q1 FY23 Earnings Conference Call

August 10, 2022

Management

Mr. Rajesh Sharma
Founder & Managing Director, Capri Global Capital Ltd.

Mr. Ravikant Bhat
Sr. VP - Investor Relations, Capri Global Capital Ltd.

Indian Numbering System Legend

INR 10 Lakhs	= INR 1Mn
INR 1 Crore	= INR 10Mn
INR Rs100 Crores	= INR 1Bn
INR 1 Lakh Crore	= INR 1Tn

Moderator: Ladies and gentlemen, good day and welcome to the Capri Global Capital Limited Q1 FY23 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. Thank you and over to you Sir!

Ravikant Bhat: Thank you Seema. Good afternoon everyone. Welcome to Capri Global's Q1 FY23 earnings conference call. I will quickly read out a disclaimer before we start with the opening remarks by our Managing Director. This conference call and the discussion herein is for information purposes only and does not constitute any offer or invitation, directly or indirectly in any manner or investment to sell or issue or any solicitation of any offer to purchase or subscribe for any securities of the company or any jurisdiction and no part of it shall form the basis of or be relied upon in connection with any contract or commitment whatsoever. No offering of securities of the company will be made except by means of statutory offering document containing detailed information about the company. This earnings call should not be considered as a recommendation that any investor should subscribe or purchase any securities of the company or its subsidiary, connecting with the group and should not be used as a basis for any investment decision. None of the group or any of its affiliates, advisors or representatives is accept any liabilities whatsoever for any loss howsoever arising from any information presented or discussed on this call. The detailed updated disclaimer is available on Slide #2 and #3 of our Q1 FY23 investor presentation. With this, I will now hand over the call to our Managing Director, Mr. Rajesh Sharma to present his opening remarks. Over to you, Sir.

Rajesh Sharma: Thank you, Ravi. Good afternoon, friends and a hearty welcome to Capri Global's Q1 FY23 earnings call. We announced the reviewed consolidated results for Q1 FY23 yesterday evening. I hope you had an opportunity to go through our investor deck. Our results discussion this time happens in the backdrop of filing for our rights issue. You may recall our Board had approved Rs1,200 Crores rights issue when it met to approve the FY22 audited results. We took the first step towards the same by filing a draft letter of offer with SEBI on July 28, 2022. The same had been placed by SEBI in public domain on its website. Given this backdrop, there are certain restrictions on forward looking statements and guidance that we can make.

I am aware we had set out certain goals for FY23 in the medium term in this earnings call. I would like to state that we are fully committed to a sustainable and profitable growth. As a rule, we shall refrain from giving any guidance on medium term strategy and shall restrict this discussion to analyzing our results. Please note we have made changes to how we report certain performance ratios. This has been done to align with the requirement of rights issue related disclosures in our offer letter filed with SEBI. Such changes have been highlighted at the relevant place in the investor presentation with a footnote.

I shall now discuss our earnings performance during Q1 FY23. We reported a consolidated net profit after tax of Rs461 million, which is flat year-on-year and higher 10% over Q4 FY22 net profit. Although our net income declined 12% quarter-on-quarter, a softer increase in operating expenses and a sharp 57% fall in credit cost helped us post a sequentially slightly better profit.

Adjusted for Rs77.5 million one-off income in Q4 FY22, our NI is flat Q-on-Q. The one-off gain in Q4 FY22 was relating to upfront recognition of unamortized fees on foreclosed accounts. Secondly, we have begun incurring cost to gold loan business while the business is yet to commence operation. We have already on boarded the entire team of about 1,000 people there. We incurred about Rs69 million overall operating costs to gold loan business in Q1 FY23. Adjusting for same, our opex would have actually declined 3% quarter-on-quarter. Both these items negatively impacted operating profit by Rs147 million in Q1 FY23.

Our net interest income was also impacted by negative carry as we drew down all new sanction facility in April 2022 to the first week of July 2022. This is seen in the bank balances, in balance sheet, which was heavier by 40% by Rs1.4 billion in Q1 FY23 over Q4 FY22. Since we have drawn our new sanctions our MCLR is locked for six months to one year. Our net interest margin computed as a ratio of average net advances was 8.4%, lowest in five quarters reflected the weaker net interest income. We have begun resetting yields on new as well existing loans and it could have a positive rub-off on earnings going ahead. Approximately 55% of our loan book comprises floating rate advances and remaining comprises semi fixed loans that convert to floating rates after initial period of fixed rates.

Our cost-to-income ratio was 51.1% in Q1 FY23. Adjusting for the operating costs of gold loan, which is yet to contribute to AUM, the cost-to-income ratio compresses 400 basis points to 47.1%. With NIMs already at recent quarter lows and gold loan AUM yet to become meaningful, we believe there is a higher probability of the cost-to-income ratio improving than worsening from current levels. It may also be noted that our earlier cost-to-income ratio target of 40% was set prior to the launch of our gold loan business. As of now, we do not have a specific target in cost-to-income ratio. To reiterate, we firmly believe a strong branch network is essential to our business, therefore we shall continue to rollout branches in the traditional as well as gold loan businesses.

We have continued with the write-offs in Q1 FY23. While we had expected the write-offs to taper off post Q4 FY22, we felt it necessary to continue proactive provisioning and writing off in Q1 FY23 as well. However, the credit cost per se has declined by 57% Q-on-Q to Rs246 million and is amongst the lowest in the trailing five quarters We are looking at the credit cost in aggregate irrespective whether it is a write-off or sale provision. Currently our stance is to ensure we provide more than adequately. This could be in the form of ECL provisions or if necessary, write-offs. We expect write-offs to recur in the remainder of FY23.

Our asset quality declined after showing steady improvement between Q2 FY22 and Q4 FY22. The Stage-3 assets in absolute as well as the percentage terms have increased primarily driven by the retail segment. The wholesale segment continues to perform well and GNPAs remain close to nil. The consolidated Stage-3 assets were 2.71% up 31 basis points quarter-on-quarter. In absolute terms GNPAs increased 18% quarter-on-quarter. Detailed trend and discussion on the NPA ratios is given in the Slide #23 and #24.

Our standard restructured assets at Rs1,776 million were 2.6% of the AUM. We have maintained we expect 20% to 25% restructured assets to slip. Out of the outstanding restructured assets, around 50% shall be out of moratorium period of Q3 FY23 and the rest equally in Q4 FY23 and Q1 FY2024. Currently standard restructured assets are classified under Stage-2.

The November 20, 2022 RBI circular on asset quality becomes effective Q2 FY23 onwards. However, if we were to adopt the circular in Q1 FY23, our GNPAs would have been higher by Rs145 million and would have added another 21 basis points to our Stage-3 ratio.

Coming to the business, although it was a slower quarter, we did maintain a healthy momentum. The year-on-year comparison may not be accurate due to the near standstill we had in the business during the Covid19 second wave. However, on a sequential basis we expanded our overall business by 5%. Although we are yet to launch our dedicated IT set-up for co-lending, the arrangement has already picked up pace with the outstanding co-lending portfolio growing 72% quarter-on-quarter to Rs2 billion. Housing finance too showed a healthy trend increasing 7.8% quarter-on-quarter. MSME including co-lending was up by 2.6% quarter-on-quarter. We remain convinced of the strong growth afforded by MSME segments given its substantial 30% plus contribution to GDP. Similarly, affordable housing, as we have said in the past, will remain a key driver of our consolidated AUM. An occasional weak quarter only reinforces our ability to focus on the growth and win the segment.

We are gearing up for formally launching our gold loan business. Currently, we have done a soft launch and are testing the systems and processes. We have already leased 52 premises as exclusive gold loan branches. We have budgeted Rs560 million as capex for the vertical for FY23.

Our car loan distribution business continues to grow from strength to strength surpassing previous quarter originating milestone. The vertical achieved Rs11 billion in new car loan originations and contributed Rs186 million in net fees. To offer you a perspective the vertical contributed Rs276 million net fees in the entire FY22. This is an entirely new income stream that has come up in a year in the form of pure fees and is therefore not subject to any regulatory capital requirements. This has diversified and strengthened our earnings profile.

I am also happy to share that both CARE Ratings and Brickwork have reaffirmed our long term issuer rating. CARE has reaffirmed our A+ rating and Brickwork has reaffirmed our AA- rating. Further both have upgraded the outlook from 'Negative' to 'Stable'. This is an affirmation of our strong balance sheet, our consistent and conservative ALM management practices, and robust capital ratios.

We reported a capital adequacy ratio of 29.9% for CGCL and 39.5% for CGHFL. Since we have already filed offer letter to raise Rs12 billion through a rights issue, we had mentioned in the offer letter that the object of the capital is to augment the long-term core equity capital of the company. Our fast-paced growth in the last one year had led to a consumption of about 758 basis in the capital usage in CGCL. However, the rights issue has been timed to support our growth. I would also like to clarify that we are open to exploring inorganic opportunities, but that is something we do not talk about openly and only internally evaluate.

Last but not the least, I cannot conclude without highlighting our work towards digital initiatives, some of which we continue to share in our corporate presentation. We have an in-house coding team of 20 and additional support staff of 39. Our business is evolving very well in the retail segment and our IT initiative shall further strengthen our business. With that, I conclude my opening remarks. We shall now take questions.

Moderator: Thank you very much. We will now begin with the question and answer session. We take the first question from the line of Prashanth Kumar from Sunidhi Securities. Please go ahead, Sir.

Prashanth Kumar: Thanks for the opportunity. My question is on operating expense side, as it continued to remain elevated and is it because of the branch expansion and just like you were entering into the new segment gold loans so specific branch maybe required, so could you give some colour on this?

Rajesh Sharma: So, one is that our gold loan vertical where we have already on boarded about 1,000 people and about roughly Rs7 Crores expenses we incurred in the Q1. That is the one reason that this is not contributing to any earnings but the expenses have been booked. So rather than capitalizing we are booking these expenses in the profit and loss account. Second is that there are 26 new branches we opened in MSME also. The branches take some time to get to break even and start becoming profitable. So that is another reason that our cost-to-income ratio is slightly higher. But AUM growth is returning in the rest of quarter. We believe that this should remain now at these levels hopefully.

Prashanth Kumar: Sir, if I think like this is like one-off type of operating expenses so when it will normalize especially on the fixed expenses front, I mean on yearly basis when it is going to be normalized?

Rajesh Sharma: So, I think the entire year our gold loan branches we will keep opening. We intend to open about 200 branches in this year as we have told earlier in the last earnings call. So, these expenses will remain elevated during this year because of the gold loan…gold loan vertical will not contribute because of expansion. As we had told earlier, we intend to open 1,500 branches in three years' time, so first year we have estimated about Rs53 Crores of cost on gold vertical in the capex, so there will be a little contribution on the income side, so cost-to-income ratio will remain elevated during the entire year. It will not increase from this level, but it will remain around this level.

Prashanth Kumar: I mean the cost will be increased and the realization on the income will be later?

Rajesh Sharma: Yes.

Prashanth Kumar: On the asset quality side it is also increasing sequentially, but the other like financial segment most of the, I mean especially on the bank side the asset quality improved at least sequentially and MSME also getting traction so recovery is also improving so what is the colour if you can give some on this?

Rajesh Sharma: So, if you see, our NPAs in fact were declining until Q4 FY22 in both absolute and percentage terms. This is the first quarter of increase after three straight quarters of decline. While I will not comment about whether peers who earlier have done the huge write-offs and all, I would like to reiterate we run a fully secured business, our business is not anything unsecured whether it is MSME, whether it is home loans that is having a collateral security by way of property. And recovery procedure through SARFAESI takes about 18 months to 24 months' time. As recovery process gets underway, it will also a positive effect on the overall NPA as well as P&L. We shall also for us to look at problem accounts for either provide higher recovery process. Around 3/4th of our standard restructured book of Rs1,776 million to come out on the moratorium this year and the remaining in FY24. Currently, the provision coverage on restructured assets is about 21% reflecting our loss expectation from the book. If needed, we shall provide higher if required. Our collection efficiency has been improved to about 98% plus since last three quarters also adds to some comfort. So even though we write-off, that is not a credit loss, the reason being there are collateral and there is a process to recovery. So anywhere in 18 months whatever write-off are happening, we will start showing the recovery and start showing the positive impact in the P&L as well.

Prashanth Kumar: Thank you so much, Sir. That is from my side.

Moderator: Thank you. We take the next question from the line of Shweta from Elara. Please go ahead, Madam.

Shweta: Thank you, Sir for the opportunity. Sir, I have a couple of questions, if I look at your CF as a percentage of overall AUM composition, has so it has definitely increased over the past one year sizably, so is it by design or is it by demand that is question number one, question number two is, you had a recent ratings I mean outlook ungraded from negative to stable rate, so does it give any benefit on the cost of funds previous by how many bps and third is, I was looking at your segmental disbursal momentum, so definitely quarter-on-quarter basis that has slipped, is it because of the seasonality element or how is it like and what is your guidance on overall growth outlook, these are my three questions?

Rajesh Sharma: So, last year we grew about 37% and that is the result of, of course increase in the demand and there is enough demand in MSME and affordable housing segment, there is a large opportunity for everyone and that is the reason on the back of the demand we are expanding the branch network also. So, to cater this demand I think we are seeing our expansion and resultant AUM growth. With regards to your question on the rating upgrade to a positive whether it is showing some decrease in the cost of funds, it is a basic step for the next rating upgrade because we have seen the positive trend in the company's performance and stability and everything else. However, cost of funds has not come down because at the moment, we are seeing rising interest trend and so cost of funds has not come down. And the disbursement guidance, as we have stated earlier, it will continue to grow between 22% to 27%. We will maintain the same and that growth momentum we hope to achieve.

Shweta: Sir, on the CF front, the composition as a percentage of overall AUM has actually gone up sizably?

Rajesh Sharma: So, overall CF composition in one quarter might have gone up slightly, but overall basis it will remain in the overall range of 20% on a conservative basis.

Shweta: Sure, thank you, Sir.

Moderator: Thank you, Madam. We take the next question from the line of Jay from Dolat Capital. Please go ahead, Sir.

Jay: Thank you for the opportunity. I have two questions, first is how do you see the impact of banks aggressively lending to retail and MSME segments, would it impact margins and pricing for the NBFCs. And second question is, do you see Fintechs challenging you in the housing and gold loans segments?

Rajesh Sharma: So, the very reason banks have entered into co-lending arrangements with NBFCs including Capri is NBFCs and Capri cater to the segments which banks do not cater. That is the reason co-lending partnerships are being getting promoted by RBI and by the banks. So, this is an entirely different segment to which banks cater to and to which NBFCs cater to. So, if banks are increasing their retail will not going to impact in a larger way to NBFCs because we cater to entirely different segments where customers are smaller unorganized and do not possess adequate income through paperwork. Your second question was can you repeat it, please?

Jay: Yes, Sir. My second question was do you see Fintechs challenging you in the housing and gold loan segment?

Rajesh Sharma: So, I think Fintechs are going to become originators. They still do not have that balance sheet. Fintechs may become origination partners in some point of time, but in no way Fintechs are going to become a large vendor in this segment. So far in gold loan, we have seen that the Fintechs are only originating. We are not sure whether they can generate large volumes or not. We are going in a brick-and-mortar model. We are going to open the branch network exclusive to the gold loan branch network this year 200 and overall, in three years, we intend to do about 1,500 as we have stated earlier. And this should give us enough business. Fintechs do not have the balance sheet, so they are not going to compete as well with Capri. They may become a collaborator with us, but not a competitor.

Jay: That helps. Thank you so much.

Moderator: Thank you. We take the next question from the line of Gautam Gosar from Perpetuity Ventures. Please go ahead, Sir.

Gautam Gosar: Thank you for taking my question. so, I have two questions, firstly in terms of disbursements for this quarter, we have disbursed majorly towards the construction finance and indirect lending. So, while we were focused more on MSME and housing finance, why the shift, is my first question. And secondly on the product mix, so would you focus more of the gold loans going forward and would it be a significant part of the overall product mix given that it is higher ROA business with better margins and how you would be competing with the existing players both banks and NBFCs?

Rajesh Sharma: So, whether we have reduced our focus on the home loans or MSME, the answer is no. Our home loan has seen a growth of about 7.5% to 8% and our MSME has been relatively has seen no growth because there were a lot of foreclosure we have seen whereby it means that account underwritten by us have been taken over by some other lender at a much lower rate of interest, which speaks about our good underwriting standards. However, this MSME it should come back to the growth from the next quarter. In any case the first quarter is always slightly muted kind of a quarter. And construction finance has grown about 11%, but overall if you see construction finance portfolio is about Rs6,900 Crores is about Rs1,400 Crores. So it has remained in the 20% overall range and that is what it is. Our key growth driver going forward is going to remain in MSME and home loan.

If we talk about gold loan in the next five years, it may have about 25% of AUM on overall basis and that is what our target is.

Gautam Gosar: Thank you.

Moderator: Thank you, Sir. We take the next question from the line of Ritu Khanna from Growth Capital. Please go ahead.

Ritu Khanna: So, with the growth in our incremental yields and with more rate hikes, this will go up as well. So how much rate hike do you think the industry and the customers can take without impacting the growth?

Rajesh Sharma: So, as far as our customers are concerned which are MSME, affordable housing side which are basically small, average ticket size between ticket size is Rs17 lakhs in MSME and about Rs12 lakhs in home loan. These are the customers who are more interested to get the timely funds than 1% or 0.5% here and there. So I do not think that increase in the rate of interest is going to impact the demand in any case. In any case, the small business model of MSME and this home loan borrower run on return on the efforts than on return on equity. So this availability of funds is more critical to them and whatever interest rate hike we have seen in the past I think more or less interest rates have stabilized at the most may be 25 basis another hike may happen, I am not very sure about it, but we shall be able to pass on at least all the floating rate customers the entire rate hike. Going forward, already our interest rate card has changed. New loans are being booked maintaining our same net interest margin. It is going to impact us in some way for the only cases where loan have been given on a semi fixed basis. But that is the sight we see when the interest rate going down, those loans did not get any reduction in rate, when interest rates are going up, those loans will not face any hike. So that is a very balancing factor long term.

Ritu Khanna: Got it and [audio cut 29:30] on co-lending both in MSME and housing finance and any plans of tying up with private banks as well?

Rajesh Sharma: So, we are seeing that rate of interest advantage lies with the PSU banks. They are able to offer attractive rates of interest. And we have tied up with the largest banks in the country which is SBI and Union Bank. Both banks have given attractive terms and in the first quarter we have disbursed about Rs2 billion under co-lending and as we have told earlier, we will continue to do this about Rs6 billion in the entire year that is our target. So, co-lending will give us a good

ROE of about 25% in this arrangement on this account because we have provided very less capital to it.

Ritu Khanna: Got it and what will be the total amount of top up loan disbursed during this quarter and what amount of the loan disbursed to the existing customers, versus the new customers in this quarter?

Rajesh Sharma: This detail may not be available at the moment, you can write an e-mail to us, we can give it to you.

Ritu Khanna: Thank you so much for taking my questions. That is all from my end.

Moderator: Thank you, Madam. Ladies and gentlemen, that was the last question for the day. I now hand the conference over to Mr. Rajesh Sharma for closing comments. Thank you and over to you, Sir!

Rajesh Sharma: Thank you. So, as we have said, we will continue to remain in the retail lending side. Our 80% portfolio is going to remain secured retail lending and on that path we will continue to grow. And we see MSME, affordable housing, and gold loan, all the segments where we are in, are a huge opportunity…a huge gap exists. The next five years is a big runway for us and we are quite confident of good times ahead. Our car loan origination is generating very good fee income for us and that will be ROE accretive. Overall, we are quite confident that we are on a growth path and that is the reason we have decided to bring rights issue where promotors have 75% stake. And we will be committing this kind of a capital. The rights issue size is about Rs1,200 Crores and that will take care of our future next five years growth requirements. Thank you so much.

Moderator: Thank you. On behalf of Go India Advisors, that concludes this conference call. Thank you for joining us. You may now disconnect your lines.