November 12, 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 Q2FY23 Earnings Call - Transcript.

Dear Sir /Madam,

Further to our letter dated November 02, 2022, intimating schedule of the Earnings Conference Call on November 7, 2022 to discuss the Company's Q2 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: 2022.11.12 12:17:13 +05'30'

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

Encl.: As above

Q2 FY23 Earnings Conference Call

November 7, 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 100 Crores	= INR 1Bn
INR 1 Lakh Crore	= INR 1Tn

NOTE:

1) This transcript has been edited for lucid reading. To that extent, this is not a verbatim transcription of the audio transcript. There are no changes to factual datapoints.
2) Certain recurring phrases like 'year-on-year' and 'quarter-on-quarter' in audio transcript have been shrunk to 'YoY' and 'QoQ' respectively.

Moderator: Good day ladies and gentlemen and welcome to the Q2 FY23 Earnings Conference Call of Capri Global Capital Limited hosted by Go India Advisors. As a reminder all participants line 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 star then zero 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: Thanks Michele. Good morning, everyone. This is Ravikant. I shall read out a brief disclaimer for today's call. The discussion on today's call regarding CGCL's earnings performance will be based on judgments derived from the declared results and information regarding business opportunity available to the company at this time. The company's performance is subject to risks, uncertainties and assumptions that could cause actual results to differ materially in future.

Given these uncertainties and other factors, participants on today's call may observe due caution, while interpreting the results. A separate disclaimer is available on Slide 2 and Slide 3 of the Q2 FY23 investor deck. Participants may please note the same. I now request our MD, Mr. Rajesh Sharma to present the opening remarks. Over to you, Sir.

Rajesh Sharma: Yes. Thank you, Ravikant. Good afternoon and season greetings to all of you. I once again take the pleasure in welcoming you all to Capri Global's post earnings conference call. We declared our reviewed consolidated results for Q2 and H1 FY23 on Friday, which is 4th of November 2022. I hope you had a chance to go through the investor deck. With our rights issue process yet to be concluded, we will have to restrain ourselves once again from giving a specific forward guidance.

I hope our discussions today around CGCL's performance during Q2 and H1 FY23, we'll provide you all with sufficient clarity and cues to understand the direction of Company’s progress. In this commentary, references to P&L and balance sheet aggregate as well as ratios shall refer to consolidated values. Let me first start with our business performance. Please refer Slides 6 and 7.

Assets Under Management increased 47.4% YoY and 11.4% QoQ to touch Rs74,692mn. The share of retail loans was 74.3%, slightly lower than 76.2% noted in Q4 FY22. After the seasonally soft Q1 FY23, we have seen a pickup in the momentum in the retail loans. Secondly, the growth in wholesale specifically construction finance segment has been front-ended due to a strong sanctions pipeline. Having already achieved the targeted AUM for FY23 in H1 FY23 itself, the CF segment shall try to sustain AUM at current levels. The share of retail loans, therefore, could improve in H2 FY23.

In August '22, we achieved an important product milestone. We launched our gold loan business through 108 exclusive branches, expanding to 182 branch locations in 7 states and UTs by the end of Q2 FY23. Gold Loan AUM constituted 1.8% of AUM in Q2 FY23. It took a more meaningful 10% share in the disbursals during the quarter. To reiterate what we have said here and in other fora, the launch of gold loan business and ongoing scale up shows our commitment as well as execution capability for new products.

Disbursals touched Rs14,860 million, growing 57.2% YoY and 35.9% QoQ. Businesses in H1 FY23 stood at Rs25,793 billion and were up to 70% YoY. This results both in MSME and housing picked up sharply, including gold loan, the share of retail businesses was 48% compared to 35% in Q1 FY23. Lagged data from industry data books like MSME, pulse and NHB housing report show that, firm trade credit over past earlier in the segments we operate in. Our strong business momentum also reflects that.

As part of our growth strategy, we have begun expanding in Uttar Pradesh, taking our branch network to 13 from 5 in Q1 FY23. We have added new footprint in Uttarakhand with the addition of three new branches. We've also gone deeper in Rajasthan and Madhya Pradesh adding new branches in these states. Our non-gold loan branch network stood at 145, up from 117 in Q4 FY23 and 123 in Q1 FY23. Details on our network expansion are given on Slide 29 and 30.

The car loan distribution business continued with the strong momentum. As shown in Slide 12, the loan originations touched Rs13,634 million, up 4x YoY and 44.7% QoQ. Total originations in H1 FY23 stood at Rs23,055 million. To place this in perspective, originations for entire FY22 stood at Rs17,022 million. I shall discuss the fee contribution from the vertical while commenting on our earnings performance.

As of Q2 FY23, the car loan distribution business had a presence in 322 locations in 29 states and UTs compared to 279 locations in 25 states and UTs in Q1 FY23. The vertical has 6 exclusive branches and in all other locations, it operates through a feet-on-street sales force.

I shall now turn to earnings performance. I shall be referring to Slides 14 to 17. The net interest income or NII increased 29.5% YoY and 14.1% QoQ to Rs1,528 million. This was reflected in the net interest margin, which improved 49 basis QoQ to 8.87%. The NII for H1 FY23 was up 25.6% YoY to Rs2,868 million.

We began increasing lending base in both the retail and wholesale segment. These rate hikes were undertaken during August 2022. As the semi-fixed portfolios become eligible for reset, we shall consider re-pricing yields on these loans. The past through on the wholesale side is faster and across the book with an average hike of 25 to 30 bps.

Let me now turn to non-interest income. In this regard, I would like to offer some historical perspective. Between FY18 to FY22, the share of non-interest income in the net income averaged 14.5% with FY22 being the highest at 19.5%. This contribution increased and stood at 29% and 26% in Q2 FY23 and H1 FY23 respectively. The non-interest income has become increasingly prominent over last one year as we built two key product lines, the income from which is considered under this head: i) the net fee income from car loan distribution business, and ii) the income on assigned portfolio under the co-lending mechanism.

Until FY21, both these income streams did not exist. In FY22, these income streams contributed 7.1% to CGCL's net income. In Q2 FY23 and HI FY23, both these income streams have contributed 16.1% and 16.8% respectively to the net income. Given these strengthening drivers, the non-interest income during Q2 FY23 increased 180.4% YoY and 49% QoQ to Rs610 million. Recurring fee income tied to business operations constituted 86.7% and 90.8% of non-interest income in Q2 FY23 and H1 FY23 respectively.

I shall now turn to the operating expenses. We have been highlighting the upfront costs we would incur on the manpower and operational costs for the Gold Loan business. Expectantly, the cost income ratio got pushed further to 60.4% in Q2 FY23. As highlighted on Slide 16, adjusted for the expenses incurred on Gold Loan vertical, the cost-to-income ratio would have been 49% in

Q2 FY23. Similarly, the Cost-to-Average AUM ratio compresses to 5.7% from 7% we have reported.

The best way of looking at our Cost-to-Average AUM ratio is to include the average car loan origination AUM in the Average AUM. The Cost-to-Average AUM then declines to 6.1% and 4.9% in the above two scenarios.

As mentioned at the outset, we are refraining from giving a formal guidance on where we expect the cost-to-income ratio to settle. However, I would just highlight the fact that the gold loan business is now operational and should contribute to the spread and free revenue in H2 FY23. This is a high yield business and as highlighted on Slide 9, the disbursal yields in this business during Q2 FY 23 was 15.1%. I hope this offers you a perspective on the cost-to-income ratio.

Secondly, despite the sharp increase in our operating expenses, we have reported an increase in our operating profit by 4.3% YoY and 6.4% YoY in Q2 FY23 and H2 FY23 respectively. This is important as it shows our ability to improve our incremental profitability at a consolidated level even when we are at an operating leverage disadvantage.

Coming to the credit cost and asset quality, we reported a net credit cost of Rs40 million in Q2 FY23. This includes Rs50 million net write-off and a release of Rs10 million in ECL provisions. This is a sharp deceleration from Rs246 million we reported in Q1 FY23. The H1 FY23 credit costs Rs286 million is only marginally lower than H1 FY22 credit costs, which was Rs289 million.

During Q2 FY23, we recovered Rs145 million from previously written-off cases. This includes a major recovery of Rs138 million including interest (~Rs15mn) from a write-off we took in Q3 FY22. Cumulatively in H1 FY23, we have recovered Rs154 million from written-off cases. To reiterate, our stance in this regard, our approach to write-offs is one of prudence. We have firm and adequate collaterals that should help us recover our dues.

The Stage-3 assets stood at Rs1,781 million, lower than Rs1,840 million in Q1 FY23 and marginally higher than Rs1,750 million we reported Q2 FY22. The Stage-3 ratio stood at 2.36%, lower 35bps QoQ and 89bps YoY. Our provisions on Stage-3 assets were 28.6%.

The standard restructured assets constituted 2.3% of AUM. Around 50% or Rs900 million of restructured assets have exited moratorium. As we speak, 75% of the pool has begun servicing regularly EMIs. We expect the remaining pool to exit moratorium by Q1 FY24.

Turning to bottomline, our consolidated net profit after tax increased 22.1% QoQ and 7.3% YoY to Rs56.3 million. The H1 FY23 net profit is up 4% to Rs1,023 million. Here, I would like to draw everyone's attention that despite the gold loan losses in Q2, which is almost about Rs24 crore, we have achieved an increase in the overall profit. Had not gold loan losses happened, the profit would have been about Rs75 crore.

We reported a capital adequacy ratio of 26% for CGCL and 39.1% for CGHFL. The capital adequacy ratio of CGCL declined 978bps during the year as we set ourselves on a growth path over past one year. The proposed capital infusion to Rs12 billion through rights issue would be timely and augment our growth equity. We hope to communicate the timeline of the capital raise in near future.

Before concluding, a word on our digital and tech initiatives. We have recently hired senior leadership positions in data analytics and digital partnerships. While the brick-and-mortar nature of our business is unlikely to change, technology shall increasingly play a crucial role in how to efficiently deliver on these initiatives. All our tech initiatives shall remain focused towards that end. With that I conclude my commentary. We shall now take questions.

Moderator: [Operator Instructions] We have the first question from the line of Akshay Doshi from InCred Capital. Please go ahead.

Akshay Doshi: Sir, my first question is that the MSME share of overall AUM has been declining in this quarter and you have guided previously that to remain in the range of 45% to 50%. So, Sir now along with our gold loan ambitions growing high, how will this share shape up going ahead? So that's my first question. And, also Sir, on the disbursement under the MSME sector, that has been also declining in this sector. Any specific reasons on that part?

Rajesh Sharma: So, cost income ratio while it is coming down, overall is looking higher. But gold loan also start contributing the way the AUM is growing. Every branch breaks even and starts contributing after 18 months of time. So, this is an investment phase. However, our growth in MSME shall continue…MSME and affordable housing remain good growth drivers. So, I don't see that MSME disbursement growth has gone down. If you look at our MSME disbursement during the current quarter, it has been about Rs312 crores compared to previous quarter (disbursals) of Rs182 crores, which is about 71% growth. If we talk YoY basis, the last year same quarter was Rs247 crores and this year it is about Rs312 crores. So, it's again 30% YoY. So MSME is going to remain our key growth driver.

Akshay Doshi: Sir, my second question is that how much of the co-lending we would have done till now? And any new tie-ups here? Also, Sir with the co-lending, gold loan, and car loan businesses, what sort of return on equity and return on assets do you think to come in the next few quarters?

Rajesh Sharma: So, in co-lending, we have various partners. A new partner was added in Punjab and Sind Bank. So far co-lending is still not happening through an entirely technological interface with the bank, which is under development with the bankers. Once that happens, the pace will pick up. However, we have already done about Rs350 crores plus amount in co-lending and that is growing month-after-month. It is not possible to give a target on that because that has so many factors. But steadily, we are growing about Rs30-35 crores plus. This is still likely to increase with the addition of the new partner in the previous month, which has been activated.

With regards ROE and ROTA at the moment, it is not possible for us to give any guidance. But overall basis, we need not to put any much capital, only 20% of capital allocation happened of the overall profitability. For every Rs100, while the spread comes on is Rs80 on which the bank partner lends and 20% of what we land only that much capital is required. So typically, for every lending of Rs100, capital is required only on our share of 20%, whereas the spread comes from the entire Rs100. So, it will be very-very ROE accretive.

Moderator: Thank you. Reminder to all the participants, anyone who wishes to ask a question, may please press star and one. On their touchtone phone. We have the next question from the line of Anuj Narula from JM Financial. Please go ahead.

Anuj Narula: So, I have a couple of questions. One is on gold loan business and another one is on car loan distribution business. So, the spike on opex front is mainly attributed towards your expansion plans in gold loan business verticals. Now you have plans of getting over 1,500 branches in the next 4-5 years. So how much more opex do we expect here? And how would our cost-income ratio look like in the next couple of years? Also, how many branches are we planning to open in FY23 itself? And what sort of gold loan AUM are we targeting by the end of this fiscal year?

Rajesh Sharma: Your voice is broken. Can you repeat it again please?

Anuj Narula: Yes. So, the spike on opex front is mainly attributed towards your expansion plans in gold loan business verticals. Now you have plans of getting over 1,500 branches in the next 4-5 years. So how much more opex do we expect here? And how would our cost to income ratio look like in the next couple of years? Also, how many branches are we planning to open in FY23 itself and the gold loan AUM we are targeting by end of this fiscal year? And another one on the car loan distribution as well. So, in this, like I just wanted to understand like on this with car loan distribution business, what's our strategy for growth here? And how are we different to other peers working in this space? Will we expand our bank networks to more banks for distribution of this product? Thanks Sir. These are my couple of questions.

Rajesh Sharma: So, if you talk about our cost-income ratio excluding gold loans, it has come down from 59% to 49%. However, our target is to open about 550 gold loan branches this year. Next year, we want to activate a similar number of branches. So, till the end of FY24, the expansion will continue. And then the expansion will slow down. The pace will not be that sharp because by that time we would have achieved our 1,500 branches. Our gold loan branches start contributing after a year to 18 months. So, until then, we have to keep investing. However, we see clearly that margins from a car loan as well as the MSME and affordable housing will keep growing with the increase in AUM growth because that is also growing at the rate of 35-38% YoY. So, with that, we don't see much pressure. Plus, we intend to infuse capital by way of rights issue also. So, in combination of everything…and gold loans are a high-yield product. It is a product where we will make maximum money in terms of spread. With more branches, I think we will be able to build sizable AUM. As far as the car loan origination partners are concerned, at the moment, we are strict. We might add one or two more. But more focus is with the PSU banks where their pricing is lower. And in terms of service quality, collection efficiency, and other aspects, we are able to pitch in for them. So, it’s a win-win situation for customers, for bankers, and for us. So, while private sector is already growing in a good way, the PSU banks are also growing their presence and their rate of interest is also attractive. So, we're helping with collaboration with our existing distribution network and it is purely fee based income. So, as I said, this year, we should be able to do Rs100 crores gross fee income from this and Rs30 crores should be the contribution from this vertical alone to the bottom line.

Moderator: Thank you. We have the next question from the line of Shreepal Doshi from Equirus Capital. Please go ahead.

Shreepal Doshi: Sir, my question was with regards to the gold loan business. As it is mentioned in the presentation, the disbursement yields are close to 15%. And if I look at our overall business yield for our company, it is close to 14-15%. The second part or the second observation that I would want to add here is that in the gold financing space, we are already seeing such high level of competition from banks and better cost of fund players. Then what is it that pushes us to enter a landscape which has already seen moderation in yields? As your yields are also close to 15%, it doesn't give you abnormal profits from what you're already making. And then because these branches are exclusive branches that we have added and we aspire to further move that up significantly in the coming second half, what is it that sort of motivates us to extensively do this business?

Rajesh Sharma: What you are saying is very correct - that gold loan business has a strong competition coming in. And there might be a margin compression. But if you look at the theme that Capri Global operates on – it is servicing the customers who are not catered to by the banks - whether it be MSME, affordable housing, or be it our gold loan - the product and philosophy remains the same. By borrowing money from bank, we don't want to target customers which can be catered to by a bank.

We are targeting a particular type of customers who do not have adequate income proof. Now if we are able to operate in North and West, where the gold loan business is growing much faster than the gold loan business growing in South India, I think an opportunity exists. Plus, as you know, we have already passed earlier (an enabling resolution to apply for a) small finance bank license. It helps us to acquire more customers, to know their behavior, whether we can cross-sell - home loan or MSME loan or any other product in the future. So, keeping an eye at some point of time for applying for a small finance bank and also acquiring more customers, we want to add this (gold loan business). I still believe that many players who were doing (gold loan business) earlier, if you find some new ways to reduce costs with the help of technology, with the help of other measures, there still is a large business (potential). To build a book of Rs10,000 crores in a Rs4-5 lakh crores market, which is still growing at the rate of 10%, (or in other words) building a book (with an overall market share) of 2-2.5%

in the next five years…we can do it profitably, I believe that. And this is going to contribute towards our profitability, our customer acquisition, overall strategy to serve the customers who are not satisfied by the bank.

Shreepal Doshi: Sir, my second question was with respect to our approach in the gold financing. So, are we more urban focused, semi-urban or rural? And what is -- like how are we -- what is our hiring strategy with respect to employees? So, if you could just throw some color on the approach in that business model.

Rajesh Sharma: Our business model about gold loan or overall?

Shreepal Doshi: Gold loan, Sir, gold loan.

Rajesh Sharma: Gold loan business is a model where our model is going to be where a customer walks into our branches. This is not a model that you can target the customer by reaching out to them. In MSME and affordable housing there can be a specific area or specific cases where houses are being built or being sold. But in case of gold loans, we have to make people aware about the branch where we do this. And in the geographiy, we have to be deeper. From an operating expense perspective, we have to be deeper in the geography we are operating in so that our costs can be lower. And these are typically ground floor branches. We have a team of people, and we know how to deliver a better service, turn around quickly in the next 10-15mins and give the loan. We want the customers who would be walking in the branch to get the loan in the same time. You appraise their gold, find the value, and offer them the loan. And periodically, you see that in the bad accounts, we are able to auction the gold and recover these loans. So, what we see here, I think this model is not something about great idea. It is going to be about efficient execution.

Moderator: Thank you. [Operator Instructions]. We have the next question from the line of Ashish Kumar from Infinity Alternatives.

Ashish Kumar: I know there have been some discussions around gold loan and I missed that. I think the question which I have is that we've seen these repeated rounds of competitive intensity in the gold loan business. And a number of new entrants do not kind of end up making it because the operating costs do not justify the throughput per branch. So why do we believe that we do have a right to win in that business?

And this question is especially in the context of the fact that the whole gold loan financing business has been seeing tremendous competition from the banks. I have seen, let's say, the ROEs for the market leader dropped from 28%, 29% to 16%, 17% and some of the well-established names are now looking at low double-digit ROEs.

Rajesh Sharma: I think North and West as I said will continue to grow. It does not have the deep coverage and concentration what South India has. So, there an opportunity exists. Our entire MSME - 145 branches are in the Gujarat, MP, Rajasthan, Maharashtra, and NCR. And I believe, as I said gold loan overall market size is close to Rs4 lakh crores which is inching up at 10% annually. Can we have a 2% share of the opportunity – the answer is yes. And even though it makes an ROE of 16-17%, that is perfectly alright. That's why we are targeting higher. But on a conservative side, even if we take that, I think in a secure portfolio where we now press the accelerator, we grow the AUM, we are very very confident that the credit loss is not going to be surprising. I think in that kind of business with even a 16-17% ROE, we are absolutely happy about it.

Moderator: We have the next question from the line of Amresh Kumar from Geosphere Capital. Please go ahead.

Amresh Kumar: Since there is so much discussion on gold loan and just one more question on that. So, is this gold loan business totally separate from your other lending businesses or is there any commonality between the customers so far? And if that is the case, how much? So, for example, your existing MSME customers, they are also borrowing against the gold collateral or what is happening there?

Rajesh Sharma: So, your voice is somehow breaking – so maybe at my end, can you repeat your question, please?

Amresh Kumar: Sir, my question was, if this gold loan business of yours, is it totally separate new business or is there any commonality between your existing customers and this gold loan business? For example, are your MSME customers also availing any new loans against gold collateral or not?

Rajesh Sharma: So, if we ask how many of our MSME customers will come for a gold loan, how many customers who have come for loan, will come for MSME, it is very difficult to comment. Some percentage may be common in future. But we have just started. At the moment, our target is to build the AUM and then see what cross-selling can be done. But yes, there are many MSME customers, who for the season…for example, (consider) a shopkeeper who can get a good discount, say in the peak season of Diwali and wants to avail a quick Rs2 lakh loan for 60 days without going to the bank. It is a gold loan product, which can give them the money in 1 hour for 60 days. And then again, he can repay. So, there are many MSME customers we see across all other players. Some take the money, utilize that cash discount, which is much more attractive than the interest cost, and that helps them in their profitability. So, there could be some segment which we have seen happening in other gold loan companies. But are we targeting that way? We are not targeting that way. That could be an additional upside. However, the gold loan vertical on a standalone basis has to deliver its target. That is the way we are going to track it and that is the way we are going to operate.

Amresh Kumar: So, second question is not related to gold loan, it is related to MSME loan. So, what has been the top-up loans disbursed in the last quarter or so to these MSME customers?

Rajesh Sharma: Can you repeat it, please?

Amresh Kumar: Top-up loans to MSME customers, just trying to understand the top up demand?

Rajesh Sharma: So, top-up loans unless the customer property value has a cushion, unless customer's track record is more than 36 months, we on an overall basis don't encourage a top-up. Top-up is only given to our existing customers with an excellent track record. Or suppose some customer has a property value of Rs50 lakhs and has only taken Rs10 lakhs loan because he didn't need at that point of time. But if he comes again and we see a cushion in property value plus his performance, then we can consider. How many customers take a the top of loan, I think it is less than 10% at the moment.

Moderator: As there are no further questions from the participants, I would now like to hand the conference over to Mr. Rajesh Sharma for closing comments.

Rajesh Sharma: As I said during my initial remarks, we will continue to remain focused on serving the customers which are not catered by the bank. Our key growth driver is going to remain MSME and affordable housing. Gold Loan is a new addition. There will be a good fee income contribution from the car loan distribution business. This is a pure fee play and is going to contribute to almost 1-1.5% to the ROE.

We clearly see that in next 5 years, we intend to build a very high-quality, secured book and continue to grow on our strategy, which we decided few years back –

portfolio which is good in quality and focus on a growth of 25% plus. Barring the COVID year, I think in all the years, we have continued doing that. Our growth rate in five years excluding the Covid year will still be 25% plus. We continue to remain on that path. And our capital adequacy ratio has remained high, which clears the way for our growth.

Our liability side has been very, very strong with the competitive cost in housing finance. We get money from NHB at less than 4% and that helps us to get better margins. In MSME and NBFCs, we have more than 25* lenders which keep lending us repeatedly with lending cost of some being better than our peer companies. So, liability side has been very, very strong for us. So overall, we are quite confident in achieving our growth and maintaining our asset quality. Thank you so much.

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

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*21 lenders in Q2 FY23