



“Muthoot Finance Limited
Q2 FY '24 Earnings Conference Call”
November 09, 2023



MANAGEMENT: **MR. GEORGE ALEXANDER MUTHOOT – MANAGING DIRECTOR – MUTHOOT FINANCE LIMITED**
MR. ALEXANDER GEORGE – WHOLE-TIME DIRECTOR – MUTHOOT FINANCE LIMITED
MR. GEORGE M. ALEXANDER – WHOLE-TIME DIRECTOR – MUTHOOT FINANCE LIMITED
MR. GEORGE M. GEORGE – WHOLE-TIME DIRECTOR – MUTHOOT FINANCE LIMITED
MR. GEORGE M. JACOB – WHOLE-TIME DIRECTOR – MUTHOOT FINANCE LIMITED
MR. EAPEN ALEXANDER – EXECUTIVE DIRECTOR – MUTHOOT FINANCE LIMITED
MR. K.R. BIJIMON – EXECUTIVE DIRECTOR – MUTHOOT FINANCE LIMITED
MR. OOMMEN K. MAMMEN – CHIEF FINANCIAL OFFICER – MUTHOOT FINANCE LIMITED

MODERATOR: **MS. SHWETA DAPTARDAR – ELARA SECURITIES PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to the Muthoot Finance Q2 FY '24 Earnings Conference Call hosted by Elara Securities Private Limited. 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Shweta Daptardar from Elara Securities Private Limited. Thank you, and over to you, ma'am.

Shweta Daptardar: Thank you, Lizann. Good evening, everyone. On behalf of Elara Capital, we welcome you all to the Earnings Conference Call of Muthoot Finance to discuss the Q2 FY '24 performance.

From the esteemed management team today, we have with us Mr. George Alexander Muthoot, Managing Director; Mr. Alexander George, Whole-Time Director; Mr. George M. Alexander, Whole-Time Director; Mr. George M. George, Whole-Time Director; Mr. George M. Jacob, Whole-Time Director; Mr. Eapen Alexander, Executive Director; Mr. K.R. Bijimon, Executive Director; Mr. Oommen K. Mammen, Chief Financial Officer.

Without much further ado, I now hand over the call to Mr. George Alexander Muthoot for his opening comments, post which we can open the floor for Q&A. Thank you, and over to you, sir.

Oommen K. Mammen: Thank you, Shweta. And this is Oommen, CFO of Muthoot Finance. Welcome, everyone, for the analyst call. I -- first of all, let me apologize for the 30 minutes delay. So there was some delay in terms of filing and conclusion of the Board meeting. So because of which we could start with a delay of 30 minutes, I apologize for the same. And anyway, we have a good attendance in spite of that. Thank you for the support. I now request MD, sir, to start the call.

George A. Muthoot: Thank you. Good evening once again. Once again, apology for the delay. So we just had concluded our Board meeting, and Muthoot Finance Board meeting. The performance ended -- for this half year ended September 30, I would like to present before you. Our consolidated loan portfolio has shown an increase of 24% year-on-year and now stands at INR79,493 crores. We have also very -- we have highest ever gross gold loan advance in any first year -- first half of the year of INR84,742 crores gold loan advances in the first half of this year.

Also, gold loan advances to new customers is also on a record high of INR8,109 crores for this half year. This half year, our gold loan portfolio has grown by INR5,642 crores, and the increase in gold loan portfolio year-on-year stands at INR11,016 crores. The consolidated profit after tax year-on-year stands at -- for the half year stands at INR2,140 crores. And the standalone stands at INR1,966 crores. Our interest collection has been all-time high in any half year at INR5,447 crores.

Coming to the subsidiaries. Belstar Microfinance has an increase in portfolio of 53% year-on-year and now stands at INR7,874 crores. And the increase in loan disbursement is 76% year-on-year, stands at INR4,294 crores, and the increase in profit after tax 284% year-on-year at INR135 crores. Muthoot Home Finance, the increase in loan portfolio is 14% and stands at INR1,616

crores, and the increase in the loan disbursement 164% at INR278 crores. There is an increase in profit after tax at INR9 crores.

The insurance brokers have shown an increase in total revenue and stands at 47% -- INR47 crores, and the increase in profit after tax now stands at INR25 crores for the half year. Asia Asset Finance, which is a Sri Lankan subsidiary, there's an increase in profit after tax, 31% quarter-on-quarter at LKR7.2 crores, increasing branch network, the branch network now stands at 80 branches. We opened 331 new branches by the group in the half year, raised INR700 crores through the 32nd public issue of secured nonconvertible debentures, which was oversubscribed on the first day of the issue.

Muthoot Finance Limited, in terms of gold loan portfolio registered a profit after tax of INR1,966 crores for the half year as against INR1,669 crores in the previous half year, which is an increase of 18% year-on-year. The profit after tax for this quarter stood at INR991 crores as against INR867 crores in Q2 of the last financial year, shows an increase of 14% year-on-year. Loan assets stood at INR69,000 crores in the half year as compared to INR57,230 crores in the last half year, registering a growth of 21% year-on-year. During this half year, gold loan assets increased by INR5,642 crores, showing a growth of 9%. And during this quarter, the gold loan increased by INR1,478 crores.

The Belstar and Home Finance and Muthoot Insurance Brokers and the Asia Asset Finance, I've just discussed with you, I don't think there is anything more in that to discuss at least we will wait for your clarification and questions.

Oommen K. Mammen: This is Oommen again. You can download the investor presentation on the BSE site. I think it's already I can see that it is there. And NSE also it is already uploaded.

George A. Muthoot: I think that concludes my initial opening remarks. I now leave the floor open for questions and clarifications.

Moderator: Thank you. The first question is from the line of Mahrukh Adajania from Nuvama. Please go ahead.

Mahrukh Adajania: Sir, so this time on a sequential basis, the AUM growth is only 2% Q-o-Q. So any comments on outlook for the next few quarters? And why it looks a bit subdued compared to banks who have grown their gold loans aggressively?

George A. Muthoot: Yes. This quarter, the growth in gold loan is 2%, which is INR1,478 crores. That's not a bad growth. And for the first half year, the total growth in the first half year is 9%, so the half year, 2 quarters together, it is 9%. And we had given a guidance of 15% to 20% for the full year. I think we stand by it, and we should be able to achieve the 15% to 20% by the year ending.

Mahrukh Adajania: Okay, sir. But did you in the second quarter or so far in the third quarter, how do you see competitive intensity from banks? Is it remain more or less similar to the last 2 quarters? Or has it increased?

George A. Muthoot: No, I don't think there is any increase in for competitive intensity. In fact, as I said last time also, some of the competitive intensity or the -- what should I say, the bank's appetite and enthusiasm for gold is not as much as there as we have seen last year.

Mahrukh Adajania: Okay, sir. And my last question is on margins. So what would the outlook be because margins have declined sequentially in the second quarter. So where do you see the cost of funds and yield both settle? And what explains the kind of pressure on yields this quarter?

George A. Muthoot: See, our yield last year same quarter was -- or our interest spread was 9.4%. In the quarter 4, it was 10% -- 10.4%; in quarter 1, it is 9.67% and now it is 9.19%. So we expect to maintain the yield around this level, 9% level is what we should be able to maintain. That's the interest spread. So there is no pressure on yields, et cetera. But then as the book grows, definitely, the yields cannot -- the spread cannot go up substantially, but we will be able to maintain this 9% to 10% yield -- spread going forward also.

Oommen K. Mammen: And to -- adding to what MD sir has mentioned, you might be knowing that our policy is to derecognize the interest accrual once an account becomes an NPA. So there has been an increase in the NPA. Of course, we had sold a certain portion of the portfolio to ARCs. But whatever new NPAs have happened, and to that extent, the interest reversals have happened. So this has also - - this is also a reason why the yield is slightly lower, otherwise probably could have been more closer to the numbers which we have seen in first quarter.

Moderator: The next question is from the line of Nischint Chawathe from Kotak Institutional Equities.

Nischint Chawathe: Just serious on the ARC sale, how much would you have sold? And what would be the financial implication of this?

George A. Muthoot: Yes, the amount of loans sold to the ARCs, INR700 crores. The main reason for this is Muthoot has always maintained a customer-friendly policy with regard to its gold loan customers. So when technically a loan becomes an NPA, maybe 90 days after the due date, it has -- it becomes an NPA in our books. And we have to maintain the NPA rate also. So we have to either auction the gold or the customer is not coming and he's requesting for more time, we are unable to give him that time because we've given the time, the NPA will go out.

So in order to reduce the NPA to manageable for a reasonable level, we sold the portfolios to the ARC. But in this case also, the customer's gold is not auctioned. He gets definitely better time to release -- some more time to release the gold. Otherwise, the option would have been to auction the gold.

So as I said earlier, our stated policy is that we will be a more customer-friendly company and try to retain the gold as far as [inaudible 0:13:29] to retain this in the ARC's book. Now although we have given to the ARC INR700 crores, as of date, of this INR700 crores, more than INR250 crores have already been...

Oommen K. Mammen: [INR400 crores]...

George A. Muthoot: Is released, about INR250 crores to INR300 crores is already released, as we speak, in the last 1 month, 1.5 months this much has already borrowed. So we were able to support so many customers. That's definitely, we would -- we see that it is a bit support we did to the customer. And all the transactions were done within the regulations, and we are well within the regulations on that.

So -- finally, when we look at it, we have been able to help our customers. We have been able to help our customers by not auctioning their gold. I'm sure in the next few months, most of the -- 90% or 95% or 100% of these loans, the customers will take back. And then when we look at what we have benefited from it, we have benefited from 80,000 customers whose gold we have not able to -- we did not have to auction. That is the reason for that. And then that has been very well appreciated by our customers themselves.

Oommen K. Mammen: So the transaction was securitized perfectly in line with the RBI regulations. So this policy is in the boundaries of the RBI regulations. And for us, it was an innovative structure and probably for the first time we have done this transaction. So for us also it was a learning experience. Certainly, the most important thing is supporting the customers and the 88,000 customers benefit is we could manage the NPAs at the same level. Of course, our NPL doesn't translate to a loss. But sometimes we have to provide comfort to some of the people who raises too many questions on NPA numbers. So that is the reason why we have done this transaction.

George A. Muthoot: But finally, we were able to get 88,000 customers.

Management: People are already benefited. They have released the gold and redeemed the gold.

George A. Muthoot: Okay. And I hope the question is clear.

Nischint Chawathe: This, I think, helps actually to understand why you did it. But just a very simple point, I think I'm asking is what is the financial implication, is it kind of leading to some x crores of interest reversal because you mentioned that somewhere you got was subdued. Out of the INR700 crores, how much capacity do you have? Are they included in the loans under management? I think just basic accounting, which sort of helps us understand the financial implication of the transaction.

Oommen K. Mammen: Okay. So the interest reversal has happened not because we have done an ARC transaction. Interest reversal happened the moment the loan account becomes an NPA, that is we give the loan for a period of 12 months, 3 months from 12 months, that is after 15 months, anyway, the account gets classified as an NPA. So ARC transaction is done for transfer of NP assets, not the good accounts. So since it's already reversed, that reversal in any case would have happened.

Then the transaction value has happened at part because it's the first time we were also not -- everybody -- all parties have to be comfortable with the transaction. And there are certain returns which go to the ARC, but that is only expense we incur because it was 85%-15% transaction, 15% is contributed by ARC. So to that extent, the ARC gets the benefit, and that is only extra cost. But of course, for us, it's a very negligible amount. We will get our yield as it was there in our books.

- Nischint Chawathe:** So for the INR600-odd crores, and I think INR100 crores would be, I guess, the ARC, and I guess you have here. So you would have -- it sounds like around INR600-odd crores. So that is something which is sitting in the loans and -- I mean, sitting in the gold loan book or is it outside of the gold loan book?
- Oommen K. Mammen:** So it is under the investment because as far as we have shown as an investment.
- Management:** Not under the loan.
- Oommen K. Mammen:** Not under the loan book.
- Nischint Chawathe:** Very, very technically, if I add that back, maybe your loan growth would have been slightly higher?
- Management:** You are right. You are right.
- Oommen K. Mammen:** Yes. So the INR1,428 crores of gold loan growth is after excluding the ARC sales. So if we must gross it up, then probably it is INR2,100-odd crores.
- Management:** Yes. You're right.
- Oommen K. Mammen:** But I'm not sure whether it is...
- Management:** IWe are not doing it in the court.
- Nischint Chawathe:** Sure. So this helps. Just one final question is, Oommen, if you could give some outlook in terms of where the borrowing cost in gold loan settled?
- Oommen K. Mammen:** Sorry?
- George A. Muthoot:** Borrowing cost...
- Oommen K. Mammen:** So borrowing costs, I think we are having around -- the cost is around 8.46%. Most of the banks, the NPA are around 8.55, 8.6 percentage level. I think now we will move towards 8.6%. After that, I don't think there will not be much increase unless the banks also revises the interest rates.
- Moderator:** The next question is from the line of Piran Engineer from CLSA.
- Piran Engineer:** Congrats on the quarter. Just a clarification on the previous question, this ARC sale happened in October, right?
- Oommen K. Mammen:** No, September end.
- George A. Muthoot:** September last.
- Oommen K. Mammen:** September 27, I think.

Piran Engineer: Okay, okay. And so -- but our NPLs are still not gone down by INR700 crores, it's down by only about INR100-odd crores. So it basically means that there is a further slippage of INR600 crores during the quarter.

Oommen K. Mammen: Yes, correct.

George A. Muthoot: I think none of these are loan loss assets. Everywhere -- actually, we are in the money.

Piran Engineer: No, no, which is fair, which is fair. And I just wanted to understand, sir, that INR250 crores, INR300 crores, which has been recovered, how has that been recovered finally?

George A. Muthoot: The customers come and release the gold...

Oommen K. Mammen: See, that is the entire purpose of doing the ARC sale, right? So if you wanted to reduce the NPA, you should have done the auctions before September 30. Then there has been a disruptive process for the customer. Because of the gold price, we are always in the money. And if you sell the jewellery, customer is going to lose ornament and of course, he is on the surplus. But for him, it is a loss of his personal ornament. So of course, he made the request also to not to auction it because of the collateral value.

All these customers INR250 crores customers or about 20,000 customers have come and taken back the gold and they are so happy that they got back the gold.

Piran Engineer: No, I just...

George A. Muthoot: I just give you the principal and interest.

Piran Engineer: So the gold stays with you in your vaults?

George A. Muthoot: We are -- yes, we keep it in the safe custody with us.

Oommen K. Mammen: Collection arrangement.

George A. Muthoot: Collection arrangement...

Piran Engineer: So it does not go to the -- okay, so you're acting as a servicing agent for the ARC in such a case?

Oommen K. Mammen: That's correct...

George A. Muthoot: That's the correct way of thinking of that.

Piran Engineer: Okay. So then just going back to the fundamental question, the customer when he was -- an NPA was not paying you back. And then what changed that he suddenly started coming to pay you back? Just that you've told him that now we've sold your loan to an ARC. So he comes and pays you back?

George A. Muthoot: No, sir. In the last -- after 12 months, every month, so many customers come and pay. For these customers also would have paid in 16 or 17 months, he would otherwise without doing anything.

So he would have come and paid in 16 months. If it is a not an NPA, he would have paid in the 16 or 17 months, only that has happened now. Nothing else has happened.

Oommen K. Mammen: In this case, and in one case, I suppose the customer is expecting the cash inflow to come in the 16th month. And had we auctioned -- at the end of 15th month, he would have lost the ornament. So we gave him some extra 1 month time, he could come and take back the ornament after repaying the dues. So that is a benefit which we have passed on to the customers.

George A. Muthoot: It's not that we are trying to do things that you have gold loan to ARC, et cetera, no. So otherwise, the normal course, he would take 16th and 17th month.

Management: That is what has happened. One of the USPs at Muthoot is always that we talk to customers, it will not be -- the gold will not be -- we will not get easy auction. That's the...

Oommen K. Mammen: This is the maximum rate. That is...

Management: We use the maximum guidance...

Oommen K. Mammen: That is why we for the customer perception of what Muthoot is that we are a very customer-friendly company as regards retaining this gold with us without auctioning it very fast.

George A. Muthoot: Compared to other players, the complaints are very low because the auctions are less or -- that is the one complaint normally in the gold loan company. My gold is auctioned early without asking me or I've asked you some time, you didn't give, that is a major reason for complaint, and these customers -- example, 80% of customers, already 24,000 customers have taken back their gold. We have auctioned off, they would have all ended up with the complaint or they would have had hurt feeling.

Piran Engineer: Okay. No, sir, that I totally agree but it's a customer-friendly organization, and this is slightly digressing, but now how does the ARC then make profit if it is paying you the full value, the book value of the loan?

Oommen K. Mammen: So they put 15%. On 15%, they get a higher yield, which is actually the cost for us.

Moderator: The next question is from the line of Kunal Shah from Citigroup.

Kunal Shah: Yes. So sorry, again to touch upon in terms of the write-off, given that Stage 3 is still more than 4-odd percent. Was this more kind of a one-off or we will continue to resort to write-off in the coming quarter -- maybe sorry, sale to ARC in the coming quarters as well?

George A. Muthoot: We can do auctions also, we can maybe persuade customers to come and take it back also. If it is required, we'll do whatever is necessary in that.

Kunal Shah: Okay. So if there is a demand, maybe given 4% Stage 3, we may continue with sales to ARCs?

George A. Muthoot: No, it's something a decision which we need to take later. As we go forward, we will take that decisions as well.

- Kunal Shah:** Okay. And the entire Stage 2 movement which is there, maybe almost from INR1,400 crores to INR700-odd crores, is what -- was there a forward flow into Stage 3 because there was an increase of INR600-odd crores in Stage 3. So were there hardly any upgrades coming through in this Stage 2 accounts?
- Oommen K. Mammen:** This quarter, et cetera.
- George A. Muthoot:** Upgrade and downgrade, sir, what is that?
- Kunal Shah:** No, no, I'm saying last quarter, Stage 2 was INR1,400 crores. Now it is down to INR700 crores but it seems larger part of it has flown into Stage 3, okay? Because even after selling to ARC, Stage 3 is down only by INR100-odd crores. So INR600-odd crores would have moved from Stage 2. So then this Stage 2 is not actually getting upgraded to Stage 1, but it is more slipping into Stage 3. Would that be a fair assumption?
- Oommen K. Mammen:** Okay. Kunal, two things I just want to know. See, because there are so many questions around this Stage 3. Even after repeatedly we are saying that, no, our Stage 3 doesn't translate loss. Too many questions, everybody raises concern. Sometimes we are also worried why the analyst community is asking too much questions on gold loan NPAs. Even though we don't incur a loss. So that is also one of the reasons why we have done this ARC transaction. Now specifically, you are asking why is there is no upgrade because our loans are all bullet repayment loans. There is no question of upgrade. It's not an EMI product, right? So we need the loans for 12 months. After 12 months, he is required to repay the loan. Even if he's...
- Kunal Shah:** Yes. So you said he had to repay, okay. So either get repaid or you may sell or maybe it will get recognized. Yes.
- Oommen K. Mammen:** So the only option is for him is to repay the principal and interest. There's no option of upgrade because it's not an EMI product.
- Kunal Shah:** Okay. Okay. And one last question in terms of loans, this gold pledged, okay, so that will still exclude the sale to ARC amount? Because you said like it still continues with you. So gold pledge number will not help this sale to ARC? Or it will still continue to have that sale to ARC? In tonnes, what we reflect as a gold pledge number that will not have the sale to ARC number?
- Oommen K. Mammen:** That's correct. So the loan outstanding, which we have shown in our presentation and the balance sheet, it doesn't include the ARC amount of [INR100 crores]. It also doesn't -- the tonnage also does not include this...
- Kunal Shah:** Okay. Perfect. Yes. Okay. So 183 tons doesn't include this ARC thing?
- Oommen K. Mammen:** Correct.
- Moderator:** The next question is from the line of Abhijit Tibrewal from Motilal Oswal.
- Abhijit Tibrewal:** Sir, I mean I think you've asked -- answered this question a couple of times that, I mean, this ARC sale was done to kind of manage the NPAs, and the fact that, I mean, you are not at a loss,

even if there are NPAs. Just wanted to understand, sir, why are these slippages happening? Why is it that customers -- and so many customers not kind of able to repay their gold loan at the end of 12 months, not able to pay them at the end of 15 months and subsequent to that, they become an NPA. I mean what is the underlying stress out there, which is not allowing customers to kind of repay their principal and interest and take their gold jewelry back?

George A. Muthoot: This is actually -- gold loans are actually a bullet repayment loan. They take a loan thinking that they can get some money in 1 month, 2 months, 3 months. The money -- 95%, 96% of the customers take back their gold before 12 months. Only 2% to 3% of them go beyond 1 year. This is nothing new. This has been happening for decades. This is what happens in decades. Now the question is whether we need to be harsh on these customers and auction the gold. Why stress is happening? It is because they are in financial difficulties that they have taken a gold loan, and they've taken this not an EMI loan. So he's waiting for a full repayment together, bullet loan. As and when they get the money back, they are repaid. So there is nothing new that today there is some stress is happening. So market practice.

So finally, he's not able to take it at all, then it will get auctioned. That's all. So there is nothing new, this time or any time. They have always a cash flow issue. So when the cash flow issue is better, they will take it back. When the cash flow issues being extended, extended, et cetera, different customers they may not be able to take back in the time of 7 months or 10 months or 12 months. It will go to 13, 14, 15, 16, 17 months. That's what happens. There's nothing new here. No new...

Abhijit Tibrewal: So essentially, the cash flow issue that the customers have is much more pronounced today vis-a-vis what they used to be past because if you just look at the NPA numbers, I mean they are alleviated versus what they used to be in the past.

George A. Muthoot: So many different customers, so many small, small, 50,000 loan, 20,000 for customers. So nobody...

Oommen K. Mammen: We have around 84 lakh loan accounts, 55 lakh customers. We don't assess the cash flows of the borrower at the time of giving a loan. So probably a customer is coming and taking the loan for 3 months, another customer will be coming and expecting cash flow to come in 6 months. Another customer is expecting the cash flow to come in 11th month. Another customer might be expecting somewhere around 15 months, 16 months. We are offering a standard product of 12 months because we don't know the cash inflows.

The customer is expecting that because this collateral is good, he'll be able to repay when the cash inflow comes. Now at different points of time, we can be flexible to these customers by offering extra time. It is not a reflection of the stress of the borrower. No, it is more because -- no, we are not aware about when these cash flows are going to happen for repayment.

Abhijit Tibrewal: And my final question is again on your yields and spreads. So first is a data-keeping question. If you can just quantify the interest income reversal for this quarter and last quarter so that we can calculate the yields excluding the interest income reversal? And sir, secondly, the second question again on spreads, sir, somewhere we kind of acknowledge that banks enthusiasm for

gold loans is not as high yield as last year and maybe an inference of this is maybe the competitive intensity also not high -- not as high as last year. But at the same time, somewhere -- our yields or our spreads are moderating. I mean, this quarter, I mean, spreads of almost 9.2% and where we earlier used to be spreads of 10%. Somewhere, I think there's an acknowledgment that I'm seeing that spread could now further decline to 9% as well.

Oommen K. Mammen: So of course, we generally don't give a guidance on the yield. Mostly, we talk about return assets. Our -- we always give a guidance of around 4% return assets in the medium term. Because we are able to generate a higher return assets in the short term. And we continue to focus on that, because it's a short-term loan -- because it's a large volume, small ticket size loans, we had to offer various schemes in different markets at a different rates. So the yield sometimes can vary. I don't -- customers are also becoming more knowledgeable about the interest rates. So they also expect a better deal from us.

We being the largest player, we always try to offer a better deal with the customers. So we focus more on retaining the customers because of this deals are supposed to come gradually over a period of time. Though in the short term, we have continued to generate a higher return assets. I think this quarter, it's around 5.8% -- 5 point something return asset. So in the current quarter also, I think it is more or less in line with the first quarter, except for the reversal would happen.

You're asking also on the interest reversal, I think it should somewhere around INR100-odd crores, so I don't have the exact number. It should be around INR100-odd crores the reversal should have happened. So -- that is the I think we'll be able to maintain the same levels of fee for some more time. So that's why we give a medium-term ROA target of around 4 percentage in terms could be -- I think maybe about 5 years, I think there is a minimum level we try to maintain, of course. Currently, we have a higher ROA level.

Abhijit Tibrewal: Sir, what's the INR100 crores this quarter? What was the interest rate income reversal in the last quarter?

Oommen K. Mammen: I don't have exact numbers, but no, it's around those levels.

Moderator: The next question is from the line of Raghav Garg from AMBIT Capital.

Raghav Garg: Just wanted to harp on the same question again with respect to the decline in yields. So one of our larger peers this quarter had seen able to increasing yields on a quarter-on-quarter basis. We are given to understand that this is a product where one can exercise pricing power since it's an emergency loan. So in that context, I wanted to understand whatever you are doing to retain customers, probably offering him a lower rate, is this more an outcome of the competitive intensity that we are seeing? Is that what it is? And then my follow-up question would be, where do you see yields going from here on at least for the next couple of quarters?

Oommen K. Mammen: So if you look at the first 6 months, the disbursements to new customers having the highest in any -- in first half of Muthoot Finance history. So we are getting a good number of new customers. Our focus is always on increasing the AUM to new customer acquisition as well as win back of existing customer base, personally do not have a -- currently don't have a loan

account. So that is our primary objective. Of course, yield comes secondary because we are currently generating a good return to our stakeholders. So the focus certainly is on increasing the yield.

George A. Muthoot: So anyway, to answer your question, our yield will not decline or change substantially. It would remain almost the same, maybe 10, 15 basis points here and there, that's all, nothing more than that.

Raghav Garg: Would you say there is some geographic color to the competitive intensity probably out is one where you're witnessing a much higher level of competition say, from regional banks or some of the other players which are smaller than you? Is that the case?

Oommen K. Mammen: No. No. No.

Raghav Garg: Okay. And just last question for your gross loans under management, 675 million that you reported on Page 32 of the presentation, that does not include the portfolio sale, right, of INR700 crores.

Oommen K. Mammen: Yes, it does not include, yes.

Moderator: The next question is from the line Shubhranshu Mishra from PhillipCapital.

Shubhranshu Mishra: The first one is around what is the quantum of interest reversal? The second is, what prompted us to do this ARC sale? This is the first of its own kind. And any which way we have -- you're negotiating with the customers to come and get their gold loans -- gold collateral back which we used to do any which ways using auctions. So why don't we choose this path of ARC sale and not doing auctions? What was the thought behind that? And what is the quantum of interest reversal?

George A. Muthoot: I think you were not there earlier. We have explained all this in the earlier discussion -- earlier questions. We have actually fully answered why we give this, et cetera. It's available there anyway. Very quickly, during the ARC transaction, we are able to retain the gold of the customer who has requested not to auction, so that we were not able to auction it. We don't need to auction it. Auctioning means the customer loses the gold. His precious ornaments is lost. We're actually giving a very good customer -- or should the customer friendly approach for which -- so many customers are appreciating.

Shubhranshu Mishra: What is the quantum of interest reversal?

Oommen K. Mammen: Earlier, I had given this to play. I think it should be around INR100-odd crores. I don't have the exact numbers.

Moderator: The next question is from the line of Mona Khetan from Dolat Capital.

Mona Khetan: So I have this question on the yields. So essentially, at a previous call, you had indicated that with rise in cost of funds, you will eventually have high yields as well? Or rather you will pass

on some of the interest rate hikes to customers. So have you seen anything? And could you give some color to the extent of lending rate hike, if anything?

George A. Muthoot: So there was no substantial hike in the cost. So only when there is a substantial hike, we need to pass it on to customers. It is only a few basis points hike, which we thought we could absorb.

Mona Khetan: Okay. So there is nothing in the pipeline in terms of rising because H1, we have seen about 45 bps rise in lending rates -- sorry, cost of funds.

George A. Muthoot: No. I think our CFO earlier explained also we don't see a big spike in the lending rate going -- in the borrowing costs going forward. It will be almost the same, maybe small 10, 15 basis points. That's all.

Mona Khetan: Okay. Okay. So just in one of the previous questions you mentioned that the interest -- the decline in the lending yields that you had this quarter, it's not probably because of the interest reversals because the NPA -- the hike did not happen this quarter. So what is resulting in this still yield decline for us? Is it the lower rates offered to customers to retain them?

George A. Muthoot: These are all short-term loans we give for -- the loan period is usually 3 months, people take back the loan in 3 months, etcetera. New loans are given. Small interest variations happen. It's not that we are giving it 20-year loan, et cetera, to the customers. It's a very short-term loan and the loan period, which actually loan exists in our books, sometimes it's only 1 month, 2 months, because it is so short, small variations in the interest will definitely affect on the overall yield. It's all small, very, very minor change.

Mona Khetan: Sure. So your rate guidance now comes down to 9% to 10%. Is -- did I hear that right?

George A. Muthoot: 90?

Mona Khetan: The guidance on spread, does that come down to in the range of 9% to 10% versus over 10% earlier?

George A. Muthoot: Yes, yes. It is always between 9% to 10% only. It is now on the lower side of 9% to 10%. Sometimes it is on the higher side of 9% to 10%.

Moderator: The next question is from the line of Dhruv Saraf from Manyavar Family Office.

Dhruv Saraf: Just wanted some color on the run rate of disbursements. So for the last 3 quarters, what you've seen is in Q4 of FY '23 and in Q1 of '24, the average disbursement for the quarter was around INR50,000 crores plus the gold loan portfolio. And if I were to look back this quarter, we had around INR30,000 crores, INR32,000 crores. So can you just shed some light as to what's happened and why is the run rate come down despite gold prices kind of not being stable than where they were?

Oommen K. Mammen: So if you look at last year, we had a lower growth because of various reasons in the first quarter, we were focusing on migrating the teaser rate customers. We also had a little bit of auctions during the first quarter. Second quarter, we had some salary because we sold a lot of unhealthy

practices by banks, which are affecting our business opportunity. We don't want to elaborate on what banks were doing and currently doing. And in the third quarter, we again started seeing growth. Because we lost almost 3 quarters, we went all out to the market in the fourth quarter. And we did an aggressive scaling up of our book. We did a lot of top-ups.

In the first quarter also, we continued that momentum. This quarter also, we did and we can do about INR1,000 -- close to INR1,500 crores of growth, which is not a bad growth. And that is - - the growth path we have followed in probably last 12 to 18 months. So if you do a top-up, what happens is it has like a rollover of the existing loans. So because of this, the advances sometimes, it will be higher.

Moderator: Ladies and gentlemen, that is the last question. I now hand the conference over to Ms. Shweta Daptardar for closing comments.

Shweta Daptardar: Thank you, Olizan. On behalf of Elara Securities Limited, we thank the management of Muthoot Finance to provide us the opportunity to host the earnings call. Thank you, team. Thank you, all.

Oommen K. Mammen: So thank you, Shweta. Thank you, everyone.

George A. Muthoot: Thank you, Shweta. Thank you, all.

Moderator: Thank you, members of the management team. Ladies and gentlemen, on behalf of Elara Securities Private Limited, that concludes this conference call. We thank you for joining us, and you may now disconnect your lines. Thank you.