

Transcript

Conference Call of Capri Global Capital Limited

Event Date / Time : 4th February 2019, 02:00 PM IST
Event Duration : 25 min 13 sec

Presentation Session

Moderator: Good afternoon ladies and gentlemen. Welcome to the Capri Global Capital Limited conference call organized by Go India Advisors. At this moment, all participants are in the listen-only mode. Later we will conduct a question and answer session. At that time if you have a question, please press * and 1 on your telephone keypad. Please note this conference is recorded. I would now like to hand over the conference to Ms. Tanya Khosla from Go India Advisors. Thank you and over to you ma'am.

Tanya Khosla: Thank you Honeyla. Good afternoon everybody and welcome to the Capri Global Capital Limited earnings call to discuss the third quarter FY19 earnings. On this call we will be referring to the presentation that is available on the company's website as well as the exchanges. To discuss the results, we have on the call Mr. Rajesh Sharma, Managing Director and CEO, Mr. Ashok Agarwal, the Head of Finance – Accounting, taxation and compliance as well as Mr. Rahul Ojha, the Vice President of Corporate Strategy. Some of the information in today's call maybe forward looking in nature and will be covered by the safe harbor language on page number two of the presentation. May I now request Mr. Rajesh Sharma to take us through the company's business outlook and financial highlights, subsequent to which we can open the floor for Q&A. Thank you and over to you sir.

Rajesh Sharma: Thank you everyone for taking time out and attending our maiden call. I trust that everyone had a look at our presentation and hence have a brief overview about our results for Q3 FY19. Before moving on to the numbers for Q3, let me give you some context about our operating environment and industry dynamics and how we are strategically positioned in the sector.

Let us start with our key segment MSME, which is our key growth driver, which contributes to almost over 50% of the total AUM. Our MSME book which stands at INR 1822 crores, has grown almost by seven times in the past four years. And we take a lot of pride in our contribution to financial inclusion in India. Majority of our customers are first time to credit and a large part of them are women. We expect the MSME lending market to continue its strong growth as more and more small businesses move from informal to formal financing.

Let me give you some numbers to support this context. The total formal credit exposure in India stood at about 105 lakh crores, of which MSME accounted for nearly one-fourth of about 24.7 lakh crores as on September 30, 2018. Besides this there are lots of, about 45 million MSME units are there, out of which only 10% MSME units get the financing from the formal channel. And there is a huge under penetration in this

segment. The number within the MSME space itself has been growing at the rate of 18% per annum. As NBFCs capture higher market share from the public sector bank, because of their ability to deliver, sanction, disbursement, run the entire process in a timely and cost efficient manner, CGCL expects to cement this position and grow its MSME AUM by another seven times over the next five years. Despite the 40% to 50% AUM growth per year, our strictest mitigation framework has ensured that the asset quality remains strong. The gross NPA in the MSME segment remains in the range of about 3½%. We will continue to channel all our energy to maintain this high quality book for the future as well.

Now, moving into the affordable housing finance segment, while there is lot of upheaval and uncertainty in very recent times, however what differentiates CGCL housing finance business from its peers, one, the segment has only, while we started in 2016, after we had got all the know-how and set up our processes and teams across the branches, what remains the common for us is that we cater to the same geography and same customer segments, where we cater to MSME. So, those geographies and those customer segments, the way we underwrite, the way we understand the customer remains uniform and consistent. Hence, there is a synergy in our MSME business as well as the affordable housing segment. Both segments, we cater to those customers, who do not have income proof, who have not moved through any formal borrowing pattern, at the same time, their cash flow, earnings are assessable and based on that we are able to arrive at the eligibility and arrive at their sanctions.

We have focused our entire branch network on the tier-II and tier-III cities, where ticket size in housing loans is about 11 lakhs. This is further supported by the Central Government thrust on housing for all by 2022 and interest subsidies for the MIG and LIG segment. We expect our housing finance book, which stands currently at 615 crores to reach about 7000 crores by 2023.

I will also now briefly touch upon the third key segment of our business is the construction finance. Historically in the NBFC industry, construction finance while being a profitable business has been fraught by asset quality concerns. In order to mitigate the risk of rising gross NPA, Capri Global has decided to undertake the construction finance business in a retail finance way. We are doing this business in a very unique strategy, where average ticket size has dropped down to Rs.8 crores per customer. In tier-II, tier-III cities, where there are lots of developers who do not get the fund, they are building small buildings of four to seven floors, their underlying apartment ticket sizes other than metros is less than 60 lakhs and in metros they are less than Rs.1 crore, these are the developers we are focusing on. We have, our live account in construction finance is almost 100 plus and every single size is about below 10 crores. So, this focusing on construction finance, where the money is given only after the approval to small developer is proving to be right where our NPA, gross NPA is less than 0.15%. It is much easier to monitor and control the small developer than the large developer and that is proving right for us.

Now, before I open the floor for questions, I would like to discuss our future growth plans. CGCL's five year vision constitutes reaching an AUM of about 25000 crores, with a portfolio yield of 15% plus in each lending segment, except the housing finance, where the yields will be in the range of about 13%. In order to achieve this goal, we aim to reach a target of 235 branches over the next five years as well as diversify into couple of more lending products, which include the digital loans to the shopkeepers and the small

traders. We currently have a capital adequacy of about 37%, which should support our strong growth at least for the next two years. In terms of ALM, CGCL will continue to maintain the strong liability position and the borrowing mix will continue to be tilted in favor of the banks.

Before I open the floor for questions and answers, let me reiterate that CGCL Q3 FY19 performance has continued its strong growth path like the previous quarters. NII has grown by 39% at about Rs.90 crores, while profit after tax stands at about Rs.35 crores, which is up by 27%. Consolidated total AUM stands at about Rs.3682 crores at the end of Q3 FY19, while the gross NPA is about 2%. Granular details about our performance as well as detailed information about our lending lines can be found in our presentation as well.

I now open the floor for any questions that you may have. Thank you.

Question and Answer Session

Moderator: Thank you sir. Ladies and gentlemen, we will now begin the question and answer session. If you have any questions, please press * and 1 on your telephone keypad and wait for your turn to ask the questions. If you would like to withdraw your request, you may do so by pressing * and 1 again.

We have the first question from Mr. Amit Goyal, an Individual Investor. Please go ahead with your question.

Amit Goyal: Good afternoon sir.

Rajesh Sharma: Yeah, good afternoon.

Amit Goyal: Sir, I just wanted to ask one very small question. You are targeting for a very good growth in the coming five years. So, you are targeting almost 7x increase in the AUMs, right? So, I just wanted to ask you one small thing. Is your growth going to be a profitable growth? Means, will the earning per share or the diluted earnings per share also increase by 4 or 5 times in the coming five years? What do you envision on the profitability front? Thank you.

Rajesh Sharma: Over the period of next five years, we expect that our profitability will also grow in a similar trend at least five to six times.

Amit Goyal: Okay, means the diluted profitability, that is even if you issue capital or shares for raising the funding, even then the profitability will grow simultaneously with the growth in AUM?

Rajesh Sharma: Because, profitability is the more we grow the AUM, the scale of operations and cost efficiency will arise, which will further increase our margins as well as the profitability.

Amit Goyal: Yes, right. And for that I think you will have to maintain your yield, NIMs for increasing your profitability, you will have to minimize your cost structure.....

Rajesh Sharma: In this segment of MSME, where large numbers of customers are there, who are looking for financing to grow their businesses, small businesses, I think getting a customer funding them is not the challenge. If we have a right distribution network, we have a right risk framework and we can manage our costs. In this business the biggest challenge is how can you manage your cost efficiency? And while we have set up our framework with the increase in the scale of operation in the coming years, the cost efficiency will kick in and our profitability is going to improve and increase.

Amit Goyal: Okay. And sir a follow up question and then a very small question. Nowadays many financial firms are using technology to optimize their cost structure and to lower their cost of operations. So, what are your plans going forward to use technology in a different way to maximize your efficiencies?

Rajesh Sharma: So, the kinds of customers we are dealing with, these are those customers who have no income proof and are unorganized. So, while when we are doing all the lending, which is secured by some sort of collateral of either self occupied residential property or self occupied business premises, so in that case when we deal with the cities in tier-III, tier-IV cities, we have to do lot of interaction, while assessing their credibility and credit worthiness. Also, doing due diligence on the property and its valuation, these work cannot go completely digital. However, the processing the credit score, the underwriting part, internal moving the paper from one desk to another in operations, those are completely automated and on the technology. Frontend, the entire interaction and all, discussing and meeting customers, I think this in this informal segment curtailed in the way we are doing and that is the reason that this piece of MSME lending, while it is difficult, but it is profitable and at the same time scalable.

Amit Goyal: Okay. Thank you very much sir and all the very best for your future. Thank you.

Rajesh Sharma: Thank you.

Moderator: Thank you sir. The next question comes from Ms. Pooja Shah, an Individual Investor. Please go ahead with your question.

Pooja Shah: Sir, I wanted to ask regarding the construction finance industry. We understand that this is facing issues in the market currently. And I wanted to understand that in the long run, by how much do you plan to reduce the share of the same?

Rajesh Sharma: So, the overall.....by 2023, construction finance, this is presently in the range of about 30%-32% and will be coming in the range of about 18% to 20%.

Pooja Shah: Okay. And how do we plan to do that?

Rajesh Sharma: Since our growth will come from MSME and housing finance and the indirect retail and other segments, much higher than the construction finance. So, in overall book context, the construction finance, when we reach our book size of

25000 crores, we are targeting construction finance in the range of about 4500 crores. So, overall it will come down about 18%.

Pooja Shah: Okay. Thank you. I have one more question after this that was with regards to the cost of income. I wanted to understand what is the cost of income as of end of Q3 and what is the sustainable cost to income ratio that we are aiming to look at in the long run?

Rajesh Sharma: I think presently our cost of income is in the range of about 45%. But, as we grow and increase our operations and the scale, where we add the balance sheet and the businesses grow, we are targeting our cost to income coming down to about 31% by 2023.

Pooja Shah: Okay. And sir, any path for the same?

Rajesh Sharma: Hello?

Pooja Shah: Sir, in what phases do we intend to achieve 23%?

Rajesh Sharma: No, no we have not said 23. We said by 2023, by 2019 presently it is about 45%. We will bring it down to 31% by 2023.

Pooja Shah: Got it. Got it. Thank you so much sir and wish you all the best.

Rajesh Sharma: Thank you.

Moderator: Thank you ma'am. Ladies and gentlemen, if you have any questions, please press * and 1 on your telephone keypad. I repeat, if you have any questions, please press * and 1 on your telephone keypad.

We have the next question from Mr. Raghav Sharma from Protiviti. Please go ahead.

Raghav Sharma: Good afternoon sir.

Rajesh Sharma: Good afternoon.

Raghav Sharma: And congratulations for a good set of numbers. And I would like to ask couple of questions. The first one is regarding the return on equity, which you are guiding in coming one to two years, what could be our sustainable ROE that will be moving forward from what you have given in the guidance?

Rajesh Sharma: So, currently the company is in the growth stage where the operating costs are slightly on the higher side. Also, we are not optimally leveraged. Presently our leverage is less than two times. However, as we scale up our operations, the book size will also increase versus the profits which will ultimately result in better ROE. We plan to improve our profitability as well as optimizing our cost, increasing productivity and expanding our book size. Currently our ROE is in the range of about 10.6% for the Q3 and we are planning to achieve the ROE of 16% by 2021 and 19% by 2023.

Raghav Sharma: Okay. And another question which I have is, any indication of what the new lending lines you might be diversifying into in the coming few years?

Rajesh Sharma: So, our common trend, among all the products which we are currently doing and in the future we will be doing the same thing. The customers who do not get the money from formal financing or from the banks, those are the customers we intend to target. So, presently we have MSME, construction finance, all the same kind of developers who do not get the money from the banking system. Then we are funding to small MFI and we are funding to affordable housing finance customer. In this we will add funding to the shopkeepers who have a credit card receivable, against their POS machine. We are evaluating a suitable time. We will launch that product.

Raghav Sharma: Okay. Are we going to change our borrowing mix moving forward? How our borrowing mix would be moving forward from now?

Rajesh Sharma: So, presently we have about twenty lenders, majority of them are banks. We have a borrowing plan which presently also more than 95% of our borrowings are from the banking systems, where the average tenure of the loan is more than four years and sometimes up to eight years. So, we will continue to do that, focusing more borrowing from the banking side. And presently also while many NBFC and HFC are facing the problem and after September we got sanction from three banks of close to Rs.400 crores and we have more pipeline to get more sanctions. So, on this front we are quite comfortable.

Raghav Sharma: Okay. That is all from my side. Best of luck for your future.

Moderator: Thank you sir. The next question comes from Mr. Darpin Shah from HDFC Securities. Please go ahead sir.

Darpin Shah: Sir, if you can throw some more light on the construction finance business, in terms of geographic presence, what kind of developers are these? Have they faced any stress during the last couple of months and post the liquidity issues?

Rajesh Sharma: So, geographically we are spread for this business. Since we are doing a small ticket developer financing, so we are doing it from Bangalore, Chennai, Ahmadabad, Vadodara, Jaipur, NCR we do only Gurgaon and Ghaziabad area and then Mumbai and Pune. These are the areas where our teams are placed. And since when you do small ticket size, you do a lot of effort to build the book Rs.1000 crores, buy 100 crores ticket size you need only three-four people team. But, when we are doing the same kind of book of 1000 crores, with average ticket size of about 8 crores, we have about thirty people team comprising of business credit and monitoring, because issuing NOC on easy sale of flats require a lot of team to monitor the cash flow in the banking system and then release the NOC. So, we have an adequate team for this, while we are doing this granular. And the small ticket size lending, these kind developers are building four storeys to seven storeys building, where underlying prices of the apartment other than metros is less than 60 lakhs. In metro they are less than 1 crore. They are fast moving apartments. These are the developers who are basically family run construction business, where the father, son is doing two projects. They are delivering fast in the last ten, fifteen years many buildings. We have a criteria, anybody who wanted to borrow from us should have delivered at least 300,000 square feet. And

that does not include the plotted development and that should be from doing construction. So, keeping that, so those kind of small developers approach us. These kinds of developers come to us after the land is fully bid, approvals are in place. And the new trend is that unless they finish the construction, they are not able to sell much of the inventory. So, we help them to achieve finishing the project. And they are fast moving items. The moment the structure has come up, they start selling the units. We keep a very tight monitoring on every flat. The money is released on progress of the project and linked to the sale of the flats as well. So, we are tightly monitoring every project and for them we are the only lender. They have exclusive charge with us. We have the entire plot is mortgaged. Sometimes we also get the personal residence of the developer also mortgaged to us and the cash flow is charged on every sale they require over; we tightly monitor and control the entire project's cash flow. We have not seen any our NOC. So, we tightly monitor and control the entire project's cash flow. We have not seen any delinquency over the last two months and the last one year. We have seen these projects are fast selling. While this business takes lot of time and effort, but in terms of delinquency, this is quite feasible business.

Darpin Shah: Sir, definitely there has not been anything in the two months, but have they seen increase of stress there?

Rajesh Sharma: Not really, I think last two months what has changed in the market is not about the demand side of the construction flats, what has changed in the last two months is some of the NBFCs are not disbursing the money to the developer. As far as Capri is concerned, not a single month has happened where we have not done our disbursement and any committed disbursement, we have any slowdown. We have adequate bank line. Even till March, to carry out our budgeted business plan, we have all the funds in place. We have zero exposure to commercial paper and NCD. In December 2018 Reliance Mutual Fund has asked us to increase the rate. We decided to prepay them 100 crores of NCD, which speaks about our liquidity position. Had not been that case we would have preferred to pay higher rate of interest and continued with that.

Darpin Shah: Correct. And sir, just one last thing, you mentioned you wanted to have 25000 crores of AUM in the next five years, so this all will be organic or have you planned something for inorganic as well?

Rajesh Sharma: All will be organic, because today we have about 82 branches. We intend to increase our branch network year after year. In 2020, we will open up in South also, in Karnataka, Tamil Nadu, that belt. So, that will also support the growth. So, we will increase our branch network and with that we easily, with the same growth of 40% in AUM we can reach the 25000 crores book.

Darpin Shah: Great sir. Thanks and all the best.

Rajesh Sharma: Thank you.

Moderator: Thank you sir. Participants, if you have any questions, please press * and 1 on your telephone keypad.

Thank you. There are no further questions. I now would like to hand over the conference to Ms. Tanya Khosla for closing comments. Over to you ma'am.

Tanya Khosla: Thank you. Thank you so much everyone for being a part of this conference call. For any further questions or any further follow-ups that you may have, you may feel free to contact myself and my colleague Sheetal. Our details are available on the last slide of the presentation for Capri Global Capital. Thank you so much for your presence and we look forward to interacting with you in the future.

Rajesh Sharma: Thank you. Thank you so much.

Moderator: Thank you. Ladies and gentlemen, this concludes your conference call for today. Thank you for your participation and for using Door Sabha's conference call service. You may all disconnect your lines now. Thank you and have a wonderful day everyone.

Note:

1.This document has been edited to improve readability.
s2. Blanks in this transcript represent inaudible or incomprehensible words.

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