November 09, 2023

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: <u>Intimation pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements), Regulations, 2015, regarding Q2 FY24 Earnings Call - Revised Transcript</u>

Dear Sir /Madam,

We wish to inform you that the company has vide its letter dated October 28, 2023, informed the exchange about intimating schedule of the Earnings Conference Call on November 02, 2023 to discuss the Company's Q2 FY24 Earnings, we are attaching herewith the revised 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
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serialNumber=6cf397ef478005ac82073195cebc3c26bc
9eaf314477eccca9d035912ec460db, o=Personal,
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Date: 2023.11.09 12:36:20 +05'30'

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

Encl.: As above

Q2 FY24 Earnings Conference Call

November 2, 2023

Management

Mr. Rajesh Sharma, Founder & Managing Director
Mr. Partha Chakraborti, CFO
Mr. Sanjeev Srivastava, CRO
Mr. Ravikant Bhat, Sr. VP (Investor Relations)

Indian Numbering System Legend

₹ 10 Lakhs	= ₹ 1Mn
₹ 1 Crore	= ₹ 10Mn
₹ 100 Crores	= ₹ 1Bn
₹ 1 Lakh Crore	= ₹ 1Tn

NOTE:

1) This transcript has been edited for lucid reading. To that extent, this is not a verbatim transcription of the audio transcript.
2) Factual correction/s are superscripted at relevant places in the transcript and are explained in footnote/s.
3) Recurring terms like 'Year-on-Year', 'Quarter-on-Quarter', basis (referring to basis points) in the audio transcript have been shrunk to 'YoY', 'QoQ', and 'bps' respectively.
4) Wherever needed, emphasis is added in brackets *(in italics)* for better clarity.
5) For uniformity with reporting format, values referred to in crores in the audio transcript have been converted to billions or millions in this text transcript.

Moderator: Ladies and gentlemen, good day, and welcome to Capri Global Capital Limited Q2 FY24 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 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: 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 the 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 the future. Given these uncertainties and other factors, participants on today's call may observe due caution while interpreting the results.

The full disclaimer is available on Slide 43 of Q2 FY24 investor deck. Participants are requested to note the same.

I now request our MD, Mr. Rajesh Sharma, to present the opening remarks.

Rajesh Sharma: Good afternoon, friends, and season's greetings to all on the call. We declared our reviewed consolidated results for Q2 FY24 on Tuesday, 31st October 2023. I hope you had a chance to go through the investor deck.

In our discussions post Q1 FY24 earnings, we stated we had made a sound start to FY24 with a healthy business and earnings momentum. I shall revisit some of the discussion of the business in Q1 FY24 and also provide a perspective on our Q2 FY24 earnings.

Please refer to Slides 4, 5, and 6. After a lean Q1 FY24, our disbursal momentum picked up in a strong manner in Q2 FY24. Disbursals increased 130% YoY and 31% on QoQ to ₹35.3 billion. Disbursal momentum was dominated by Gold and Housing business, which contributed 66% of incremental disbursals. MSME picked up pace, increasing 12% QoQ to ₹3.7 billion.

Excluding Gold Loans, our disbursals increased 35% YoY. Construction Finance maintained pace, although the disbursals were unchanged YoY at ₹4.1 billion. The AUM momentum continued to be robust, increasing 59% YoY to ₹123.6 billion in Q2 FY24. AUM, excluding Gold Loans, increased 35% YoY and 7% QoQ.

Share of Gold Loans continued to increase, rising to 16% at AUM compared to 14% in Q1 FY24 and 2% in Q2 FY23. We expect our Gold Loan AUM to touch or cross ₹30 billion by the end of this year, which could be 20% of AUM assuming we sustain a 50% momentum in the overall AUM growth. Our AUM includes the co-lending AUM of ₹9.7 billion, which is up 4x YoY and 40% QoQ and constitutes 8% of AUM. We started co-lending under Gold Loans during Q2 FY24 and currently have tie-ups with two commercial banks. On Slide 5, we have introduced new charts to show the journey of our co-lending business across MSME, Housing, and Gold Loan segments.

We have reported a 16% YoY and 3% QoQ increase in our net profit to ₹652 million. To fully understand the earnings, let me first start with core earnings. Our net interest income increased 63% YoY and 5% QoQ to ₹2,493 million. The QoQ growth momentum of net interest income was softer owing to spreads movement.

Our weighted average yield on advances declined 13 basis QoQ to 15.58% in Q2 FY24 from 15.7% in Q1 FY24, while the cost of funds an increased 21 basis QoQ to 8.93%. The increase in cost of funds was in line with the increase in MCLR-linked commercial bank borrowings that constitute 87% of our borrowings. This led to a spread compression, as highlighted in Slide 17.

While our consolidated cost of borrowings is competitive, given the overall passthroughs that are happening in the cost of money across the banking system, we expect our cost of borrowing to also go up some more during H2 FY24. Some of the cost increases are expected to be compensated by an improving mix of higher-yielding loans.

The share of our non-interest income in net income declined marginally to 24.3% from 25% In Q1 FY24 primarily on account of some changing dynamics in the car loan business. However, the non-car fee income and co-lending income picked up in-line with the growth in lending business, increasing 22% QoQ and 86% YoY.

Although car loan originations are up on the path to cross ₹100 billion total originations during FY24, net fee income is expected to be soft due to competitive intensity. We will continue to gain market share in the origination market.

The cost-to-income ratio slightly increased to 66.9% in Q2 FY24 from 66.0% in Q1 FY24. The cost-to-income ratio, excluding Gold Loan business, was 51.0%, broadly stable QoQ.

The adjusted cost-to-income ratio is marginally higher than 48% we reported in FY24. As we have been stating, the cost-to-income ratio should improve as we expect earnings to pick up faster relative to operating expenses during H2 FY24.

Our gold loan network touched 742 branches in September 30, 2023. We had possession of a few more branches, which were yet to go live. With that, we have reached the initial target of 750 gold loan branches for H1 FY24. We shall be pausing the branch addition in Gold Loan business in H2 FY24. As I stated earlier, we expect this to aid in improving our cost/income ratio in H2 FY24.

Our GNPA ratio stood at 1.93%, 4 bps higher than Q1 FY24, but substantially lower than 2.36% we reported in Q2 FY23. The PCR on Stage-3 assets improved to 32.3%, primarily on account of proactive provisioning. We are inclined to improve the PCR further. Our credit cost stood at ₹239 million, which was higher than ₹112 million in Q4 FY23, but marginally lower than ₹246 million we reported in Q1 FY23. As highlighted on Slide 13, the average credit cost in trailing-five quarters is ₹176 million.

During Q1 FY24, we made some accelerated provisioning on three construction finance exposures to a single entity amounting to ₹160 million. This was restructured and classified as NPA, attracting a provision of ₹50 million or 31% of exposure. We have further increased the provisioning on the same, taking the provision coverage ratio to 87% on Construction Finance and Indirect Lending portfolio. Recovery efforts are underway and like past instances, we are confident of fully recovering the outstanding amounts.

Our credit cost to Average AUM ratio was 78 bps annualized in Q2 FY24 compared to 89 bps in Q1 FY24. This is in-line with our pre-COVID long-term trend. We have reported 2.1% ROA and 7.1% ROE in Q2 FY24. Excluding the losses in the Gold Loan business, our ROA and ROE would have been 2.8% and 9.5% respectively.

As we move towards the break-even in Gold Loan business, our profitability should substantially increase, especially in H2 FY24. There shall also be additional drivers like the absence of one-off adjustments that shall contribute to the profit momentum. To conclude, I would say we remain on a path of strong growth and profitability in FY24.

With that, I conclude my remarks. We shall now take questions.

Moderator: The first question is from the line of Mr. Bunty Chawla from IDBI Capital. Please go ahead, Sir.

Bunty Chawla: In the opening comments, you said there has been a pressure on the spreads or on the yields due to the competition. Can you elaborate which segment we are seeing more pressure? Is it MSME? Is it Gold? Or is it Housing? And going forward what will be the sustainable yields for these segments? And similarly, what will be the cost of funds?

Rajesh Sharma: If we see on an overall basis, our yield on advances was 15.7% in Q1 FY24, which has come down to 15.6% and thereby resulting in a spread compression of 40bps from 7.0% to 6.6%, primarily because a lot of Construction Finance portfolio has been pre-paid and the new loans are happening at lower rate of interest. We have seen because of faster sale of inventory in those accounts, there's a faster pre-payment and repayment and thereby, the new portfolio, because of competition, is happening at a lower rate of interest.

And there, we have seen that our spreads come down. But in H2 FY24, we believe that Gold Loan share will go up in overall portfolio. That will improve the overall yield on advances. And we also feel that our cost of funds, which is another factor which has gone up by 21bps, we should be able to pass on in incremental lending better. So that should improve our overall spreads.

Bunty Chawla: So can we say the 6.6% spread, which you have reported in Q2, should be sustainable for second half of the year?

Rajesh Sharma: 6.6% is definitely sustainable. We still expect this to slightly better because our current AUM of ₹20 bn Gold Loan will increase to ₹30 bn. Gold Loan AUM should increase the yield in the mix because that is the highest-yielding product in our overall portfolio. That will also improve the overall yield on advances.

Bunty Chawla: So it's purely on the Construction Finance we have got the impact on the yields and no more in Gold Loan or Housing, we don't have any competitive pressure, right?

Rajesh Sharma: Suppose we remove the Construction Finance portfolio from this calculation, then our yield would have become better by 3bps[1].

Bunty Chawla: Okay. So similarly, can you share your thoughts on the cost of funds going forward?

Rajesh Sharma: I think cost of fund is largely market driven. Unless there is a change in the credit rating of the company, we will continue to be in the same bracket of the cost of fund. But certain MCLRs on old loans are going to reset. So there we will see cost of funds go up but that will not be more than 10bps. However, we will be able to pass on this increased cost of funds to our incremental lending.

Bunty Chawla: Secondly, Sir, there has been a higher credit cost. You rightly said that was because we have taken a proactive step in increasing the provisioning. But if you see the provisioning, still it's kind of a 32%. How much are we targeting to increase this PCR level? Because what we have observed in other medium or large-sized NBFCs, they have a PCR on Stage-3 of 40%+. Some have 45%, some have 40%, some are at 50%. So where are we targeting to reach our PCR and how will this impact the credit cost going forward for us?

Rajesh Sharma: We will increase this PCR in a gradual manner, in-line with what I think the market expects and in-line with the best practices. But if you look at it, our portfolio is a little differentiated from many others who have a higher PCR because our portfolio is completely collateralized either by gold or by self-occupied house or by self-occupied business premises. However, with a conservative approach, if you see the PCR last quarter, it was 27.8%, now it has gone to 32.2%, already 448bps, PCR has been increased and gradually will increase. We don't want to give a level at the moment, but we will keep increasing it QoQ and stabilize somewhere around 37% to 40%.

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1. This should be read as follows: 'Had the yield on our Construction Finance portfolio stayed unchanged, our weighted average yield on advances would have Increased 3bps QoQ'

Bunty Chawla: Okay, Sir. And lastly on Gold Loans, as you have shared that we have touched almost 750 branches. So no more increase in your branches in a shorter period of time. So how one should see the Gold Loan growth going forward? Because until now, the branch increase was supporting higher Gold Loan growth. So how we should see the Gold Loan growth going forward?

Rajesh Sharma: Gold Loan business, as I said, from current AUM of about ₹20 bn in Sep'23, we expect it to close about ₹30 bn by Mar'24. And by then, all our branches, which were contributing losses because they were in the investment phase, will achieve break-even. They will start contributing to profitability in the last quarter. So next year, again, we will draw a plan to add some more branches. That plan is not yet firmed up - how many branches, where they will be opening etc. We will deliberate that somewhat in the next quarter and then we will implement in the first quarter of the new financial year.

Bunty Chawla: Can you share the ballpark Gold Loan AUM growth for next two to three years, how it should shape out? Ballpark number, roughly.

Rajesh Sharma: Ballpark number, you can imagine from ₹30 bn, we should be able to reach almost 30%, 35% growth for the next two years, even if we don't open new branches. But we are going to add branches. I said we are not -- but definitely 30% to 35% growth we are going to achieve.

Moderator: Next question is from the line of Mr. Priyesh Jain from HSBC. Please go ahead, Sir.

Priyesh Jain: Sir, we are noticing that there is a steady increase in the co-lending share. I have some questions regarding that. I want to understand how different is the customer profile under the co-lending book versus the on-book loans? If you could throw some light on that.

Rajesh Sharma: Under co-lending, we are doing MSME, home loan, and gold loans. When we do the loan, we do the loan as if we are going to keep it in our book. Thereafter, we run the data - our data teams have made a program where we say *(check)*, which bank qualifies for which pool. And accordingly, we give those pools to those banks. But there's no specific program we carry out under co-lending. It is our product policy and the same is adopted by the bank also. So, there is no specific origination or underwriting done targeting that this should go in co-lending. In routine course, our portfolio, whatever gets qualified, we place under the co-lending.

Priyesh Jain: Fair enough, Sir. I'm just trying to understand, like I'm trying to get a flavor of the co-lending book versus the regular book. So maybe if you could like -- what I understand is there are not any specific products being made or co-created specifically for such co-lending partners. But there might be some filters and, ultimately, the book that they get is different. Like what is the differences between that book and our book? Maybe there could be any differences in the loan characteristic or something in terms of interest rates or ticket size or tenure or things like that.

Rajesh Sharma: No, no, no. It is like this -- when we sign the co-lending partnership, our product is aligned first. And within that, they keep a criterion. Suppose sometimes, say, I *(i.e. the bank)* will take *(accept)* a CIBIL score of 750, somebody will say 700, somebody will say loan to value, I will give 75%, somebody will say I will give 80%. These are the variations every bank has. But we have our own policy.

Our portfolio meets their criteria. Whatever the pool and the specific loan account meets the criteria, those are placed under co-lending. But when we onboard the customer, we onboard the customer as if we have to underwrite and we have to collect it back. So the underwriter and branch doesn't know whom to originate, whether for co-lending or not. It happens after the customer is onboarded and then we put the filter and, accordingly, we show it to our partner banks.

Moderator: Thank you. The next question is from the line of Mr. Jai from IIFL Securities. Please go ahead, Sir.

Jai: Our co-lending contribution has increased consistently over the past few quarters. And Sir, what could be the sustainable level here in each business segment of SME, housing finance and gold finance? And what is their incremental focus in this -- amongst these business segments for co-lending?

Moderator: Sir, could you speak a little bit louder and request you to please repeat your question?

Jai: Our co-lending contribution has increased over the past few quarters. What could be a sustainable level here? And incrementally, on which segment you could be focusing more? Will it be MSME or housing finance?

Rajesh Sharma: We have co-lending partnerships across MSME, home loans, and gold loans. And we feel that co-lending under the gold loan will increase as compared to the two other products. The growth is happening in the gold loan. So there, substantial co-lending is expected to happen. We expect that out of ₹30bn, at least 20% book will go under the co-lending. That is the target we are chasing.

Of course, it depends also on the banks to grant the facilities and all, but we are hopeful to achieve that. MSME and the home loan put together are happening month-on-month on a regular basis. And I think that is happening at the pace of ₹400mn to ₹500mn a month. And with that pace, that will continue. However, sometimes even we also -- these are based on our pricing, our overall contribution basis. So sometimes you slow it down, sometimes we increase it based on what pricing criteria we are getting from the partner banks.

Moderator: Thank you. The next question is from the line of Mr. Anuj Mohata from Equirus Securities Private Limited. Please go ahead, Sir.

Anuj Mohata: Congratulations for a good set of numbers. I just wanted to ask like you have highlighted in your opening remarks that H2 will be better in terms of disbursement. But given that our share -- that our portfolio mix is more focused towards rural and semi-urban area, and there, we are seeing some challenges due to rising inflation, how do you see the demand trend ending up in the H2? And how will it affect our disbursement going forward?

Rajesh Sharma: I think the way we are seeing, there is no lack or slowing down of demand in Tier 2, Tier 3 towns where our MSME, home loan, and gold loans are happening. We clearly see that there's adequate demand at a particular level. And we hope to see that Q2 will be -- is traditionally happening for all lending businesses. We say this year also, we expect our H2 to be much higher in terms of volume, in terms of better contribution because there's adequate demand on the ground. So we have not seen any slowing down of the demand of the loan.

Moderator: Thank you. The next question is from the line of Mr. Satyaprakash from Haitong Securities Private Limited. Please go ahead, Sir.

Satyaprakash: Sir, congratulations for the good set of numbers. My question is on the new subsidiary that we have incorporated, Capri Loans Car Platform. Would all the car loan business going to be carried from this? And are you planning to list this business separately? Any specific reason for that?

Rajesh Sharma: Since that business is now getting to a size where we have already done about ₹45bn originations and I think this year, we will do about ₹100 bn number. We will be financing about 80,000-plus cars through our network. And this business requires a separate thrust on technology side. And we have a couple of other plans in that business. So we believe that the distribution piece of car should be separate.

On back of the car loan distribution, we have now also started selling insurance to those customers. So to bring that separate, first, supervisory and a separate profitability, we have taken that, formed the new company, where all the empanelments and partnerships with banks will be shifted.

While economic interest is consolidated to the level that comes to the company, but there will be a separate Business Head, separate Head of Acquisition, Network, for technology there will be a separate CTO and data science team. So I think to bring more focus on that business and to build the distribution around that, a separate SPV has been carved out. And you will see that next year, there will be enhanced effort on building that brand separately.

Satyaprakash: Okay. Sir, one more question, if I may ask. Even if we adjust for the gold loan business, our cost to income is almost at 50%, as mentioned in the presentation. Also, it is majorly attributed to the increased digital spending. Any other reason when can we expect this to normalize? Would we see it going in range of 35% to 40% in the near future?

Rajesh Sharma: There's a lot of spending happening on the technology team. We are about 125-people team in the technology and data science. So that result will also once our new technology platform is launched in the target date in April 2024. And there will be some more addition to that, which we'll complete in the next three to six months. So by September *(2024)*, our technology piece should be, by and large, up, and running in its full force with the revised mortgage tech and property tech. And with that, there will be two impacts.

One is the productivity of the team will improve. So the same amount of people will be able to disburse higher, thereby increasing the overall contribution. And two, there will be lesser spending going forward after September 2024 on the technology side. So overall, efficiency will improve and cost will also come down. So that should bring our cost-to-income ratio down. Now whether cost-to-income ratio will come down to 45% or 40%, I won’t able to comment yet. But definitely, next year, you will see a remarkable difference in the cost/income ratio.

Moderator: As there are no further questions, I would now like to hand over the conference to the management for closing comments.

Rajesh Sharma: Yes, thank you. So as stated during the call and the Q&A session, we'll continue to build our distribution through branches. Already 917 branches are up and running. And we have also focused on distributing insurance product and car loan distribution, which will enhance our fee income and support our ROE.

Our gold loan branches will start contributing (profit) from the last quarter onwards. And there will be substantial profitability coming in the next year onwards. So, we are quite hopeful that with the launch of our new technology initiative, new loan origination system and Oracle FLEXCUBE core banking system becoming fully operational by March 2024, all these shall contribute to lowering cost/income ratio and a very high growth.

As you have seen, we are growing at the pace of about 50% on AUM basis. That growth, coupled with the lower cost/income ratio and better tech initiative, company is on the path to achieve a better profitability. And our asset quality on an overall basis is still very much under control. We are in a collateralized lending portfolio.

We clearly see that when economy is growing, there's a clear demand that's happening on the ground, and we should reap the benefit of our branch network to build a quality, profitable portfolio along the way. Thank you so much.

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

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