November 06, 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: Intimation pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements), Regulations, 2015, regarding Q2 FY24 Earnings Call - Transcript

Dear Sir /Madam,

Further to our letter dated October 28, 2023, intimating schedule of the Earnings Conference Call on November 02, 2023 to discuss the Company's Q2 FY24 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: 2023.11.06 12:07:52 +05'30'

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

Encl.: As above

"Capri Global Capital Limited

Q2 FY '24 Earnings Conference Call"

November 02, 2023

MANAGEMENT: **MR. RAJESH SHARMA – MANAGING DIRECTOR – CAPRI GLOBAL CAPITAL LIMITED**
MR. RAVIKANT BHAT – SENIOR VICE PRESIDENT, INVESTOR RELATIONS – CAPRI GLOBAL CAPITAL LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to Capri Global Capital Limited Q2 FY'24 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 observe due caution while interpreting the results.

The full disclaimer is available on Slide 43 of Q2 FY'24 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 FY'24 on Tuesday, 31st October 2023. I hope you had a chance to go through the investor deck.

In our discussions post Q1 FY'24 earnings, we stated we had made a sound start to FY'24 with a healthy business and earnings momentum. I shall revisit some of the discussion of the business in Q1 FY'24 and also provide a perspective on our Q2 FY'24 earnings.

Please refer to Slides four, five and six. After a lean Q1 FY'24, our disbursal momentum picked up in a strong manner in Q2 FY'24. Disbursals increased 130% year-on-year and 31% on quarter-on-quarter to INR35.3 billion. Disbursal momentum was dominated by Gold and Housing business, which contributed 66% of incremental disbursals. MSME picked up pace, increasing 12% quarter-on-quarter to INR3.7 billion.

Excluding Gold Loans, our disbursals increased 35% year-on-year. Construction Finance maintained pace, although the disbursals were unchanged year-on-year at INR4.1 billion. The AUM momentum continued to be robust, increasing 59% year-on-year to INR123.6 billion in Q2 FY'24. AUM, excluding Gold Loans, increased 35% year-on-year and 7% quarter-on-quarter.

Share of Gold Loans continued to increase, rising to 16% at AUM compared to 14% in Q1 FY'24 and 2% in Q2 FY'23. We expect our Gold Loan AUM to touch or cross INR30 million by the end of this year, which could be 20% of AUM assuming we sustain a 50% momentum in overall AUM growth. Our AUM includes the co-lending AUM of INR9.7 billion, which is up 4x year-on-year and 40% quarter-on-quarter and constitute 8% of AUM. We started co-lending under Gold Loans during Q2 FY'24 and currently have tie-ups with two commercial banks. On Slide five, 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% year-on-year and 3% quarter-on-quarter increase in our net profit to INR652 million. To fully understand the earnings, let me first start with core earnings. Our net interest income increased 63% year-on-year and 5% quarter-on-quarter to INR2,493 million. The quarter-on-quarter growth momentum of net interest income was softer owing to spreads movement.

Our weighted average yield on advances declined 13 basis quarter-on-quarter to 15.58% in Q2 FY'24 from 15.7% in Q1 FY'24, while the cost of an increased 21 basis quarter-on-quarter 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 borrowing. This led to a spread compression, as highlighted in Slide 17.

While our consolidated cost of borrowing is competitive, given the overall pass-through 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 FY'24. Some of the cost increases are expected to be compensated by an improving mix of higher-yielding loans.

The share of our noninterest income in net income declined to 24.3% from 25% marginally. Q1 FY -- primarily on account of some changing dynamics in the car loan business. However, the non-car fee income and gold lending income picked up in line with the growth in lending business, increasing 22% quarter-on-quarter and 86% year-on-year.

Although car loan originations are up on the path to cross INR10,000 crores total originations during FY'24, net fee income is expected to be soft due to costs, intense competition. We will continue to gain market share in the origination market. The cost-to-income ratio slightly increased to 66.9% from 66% from Q1 to Q2. The cost-to-income ratio, excluding Gold Loan business, was 51%, broadly stable quarter-on-quarter.

The adjusted cost-to-income ratio is marginally higher than 48% we reported in FY'24. 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 FY'24.

Our gold loan network touched 742 branches in September 30, 2023. We had positioned 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 FY'24. We shall be poaching the branch addition in Gold Loan business in H2 FY'24. As I stated earlier, we expect this to add to improving our cost/income ratio to H2 FY'24.

Our GNPA ratio stood at 1.93%, 4 bps higher than Q1 FY'24, but substantially lower than 2.36% ratio we reported in Q2 FY'23. The PCR on Stage three assets improved to 32.3%, primarily on account of productive provisioning. We are inclined to improve the PCR further. Our credit cost stood at INR239 million, which was higher than INR112 million in Q4 FY'23, but marginally lower than INR246 million we reported in Q1 FY'23. As highlighted on Slide 13, the average credit cost in trailing-five quarters is INR176 million.

During Q1 FY'24, we made some accelerated provisioning on three construction client exposure to a single entity amounting to INR160 million. This was restructured and classified as NPA, attracting a provision of INR50 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 yield ratio was 78 bps annualized in Q2 FY'24 compared to 89 bps in Q1 FY'24. This is in line with our pre-COVID long-term trend. We have reported 2.1% ROA and 7.1% ROE in Q2 FY'24. 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 breakeven in Gold Loan business, our profitability should substantially increase, especially in H2 FY'24. There shall also be additional drivers like the absence of one-off adjustment that shall contribute to the profit momentum. To conclude, I would say we remain on a path of strong growth and profitability in -- as to FY'24.

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 comment, you said, sir, there has been a pressure on the spreads or on the yields due to the competitive pressure. So can you elaborate which segment we are seeing more pressure? Is it MSME? Is it Gold? Or is it Housing? And so going forward, what will be the sustainable yields for these segments going forward? And what will be the cost of funds similarly?

Rajesh Sharma: So if we see overall basis, our yield on advances was 15.7% in Q1 FY'24, which has come down to 15.6% and thereby resulting in a spread compression of 40 basis from 7% to 6.6%, primarily because of Construction Finance portfolio has been -- a lot of Construction Finance portfolio has been prepaid and the new loans are happening at the lower rate of interest. So there, we have seen that because of the faster sale of the inventory on those accounts, there's a faster prepayment and repayment and, thereby, the new portfolio, because of the competition, is happening at a lower rate of interest.

And there, we have seen that our spreads have come down. But in coming H2'24, 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 have gone up by 21 basis, we should be able to pass on the incremental lending better. So that should improve our overall spreads.

Bunty Chawla: Yes, can -- sorry, 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%, definitely sustainable. We still expect this to slightly better because our current AUM of INR2,000 crores Gold Loan has become to INR3,000 crores. Gold Loan AUM should give us -- increase the change in the mix because that is the highest-yield product in our overall portfolio. And the Gold Loan improved, it increased to INR3,000 crores. That mix will also improve the overall yield on the advance.

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

Rajesh Sharma: Suppose we remove the gold -- Construction Finance portfolio from this calculation, then our yield would have become better by three basis.

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

Rajesh Sharma: So cost of fund, I think cost of fund largely is market driven. So 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 MCLR on the old loans are going to reset. So there, we'll see some basis to -- cost of fund to go up, but that will not be more than 10 basis. And however, we are able to pass on this increased cost of fund to our all-incremental lending.

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

Rajesh Sharma: So we will -- gradual manner, we will increase this PCR 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 because our portfolio is completely collateralized either by the gold or by the self-occupied house or by the self-occupied business premises. However, with the conservative approach, if you see the PCR last quarter, it was 27.8%, now it has gone to 32.23%, already 448 basis, PCR has been increased and gradually will increase. We don't want to give a level at the moment, but we will keep increasing its quarter-on-quarter and stabilize somewhere about 37% to 40%.

Bunty Chawla: Okay, sir. Sir, lastly, on the Gold Loan, as you have shared that almost 750 branches we have touched. 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 and now, the branch increase was supporting higher Gold Loan growth. So how we should see the Gold Loan growth going forward?

Rajesh Sharma: So Gold Loan business, as I said, from current AUM of about INR2,000 crores in March, we expect it to close about INR3,000 crores. And by then, our all branches, which are contributing the losses because they were in the investment phase, and so now I think all -- most of the branches will achieve the breakeven. And they will start contributing to profitability also 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, okay, how many branches and where it will be opening. So we'll deliberate that somewhat in the next quarter and then we'll implement in the first quarter of the new financial year.

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

Rajesh Sharma: Ballpark number, you can imagine from INR3,000 crores, we should be able to reach almost 30%, 35% growth for next two years, even though we don't open the branch, but we are going to add the 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: HSBC, Research Division Sir, we are noticing that the -- there is a steady increase in the co-lending share. I have some questions regarding that. I want to understand like is the customer profile under co-lending -- like 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: So under the co-lending, we are doing MSME, home loan and the gold loan. When we do the loan, we do the loan basis if we are going to keep in our book. Thereafter, we run the -- our data times, settings made program where we say, which bank qualify 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 that is what the same is adopted by the bank also. So there is no specific origination or underwriting is done targeting that this should go in co-lending. In rupee, of course, our portfolio, whatever gets qualified, we place under the co-lending.

Priyesh Jain: Fair enough, sir. 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. So it is like this, we -- our -- when we sign the co-lending partnership, our product is aligned first. And within that, they keep a criterion. Suppose sometimes, say, I will take the 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%, so these are the variations every bank have like that. And within that, but we have our own policy.

So our portfolio meet their criteria. Whatever the pool and the specific loan account meet the criteria, those are placed under co-lending. But when we onboard the customer, we own what the customer is, we have to underwrite and we have to collect it back. So that underwriting --

underwriter and branch doesn't know whom to originate, whether for co-lending or not. It is happening after the customer is onboarded and then we put the filter and, accordingly, we'll show it to the -- 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: Yes. Our co-lending contribution has increased over the past few quarters. And so 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: So co-lending partnership, we have across MSME, home loan and gold loan. 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 INR3,000 crores, 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 INR40 crores to INR50 crores 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 in 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: So good -- congratulations for a good set of numbers. Sir, I just wanted to ask, like you have highlighted in your opening remarks that H2 will be better in terms of disbursement and all this. 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. So how do you see the demand trend ending up in the H2? And how it will affect our disbursement going forward?

Rajesh Sharma: So I think the way we are saying there is no lack or slowing down on the 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 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? Hello?

Rajesh Sharma: Since that business is now getting to a size where we are going to already done about INR4,500 crores number and I think this year, we will do about INR10,000 crores number, it looks like and our target is. So INR10,000 crores, we will be doing about 80,000-plus cars financed through our network. And this business requires a separate trust on the technology side. And we have a couple of other plants in that business. So we believe that the distribution piece of the car should be separate.

On back of the car loan distribution, we have also now started selling the insurance to those customers. So to bring that separate, first, supervisory and a separate profitability, we have taken that, formed the new company, where the -- all the impanelment and the partnerships with the 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 the acquisition, network and technology got separate business, CTO, and data science team. There will be -- so I think to bring more focus on that business and to build the distribution around that, the separate SPE had been carved out. And you will see that next year, there'll be enhanced effort on building that brand separately.

Satyaprakash: Okay. Sir, one more question, if I may ask. So that is that 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: So 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, our technology piece should be, by and large, up, and running in their full force with the revised mortgage tech and property tech and everything. 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 also cost will come down. So that should bring our cost-to-income ratio down. Now cost-to-income ratio will come down to 45% or 40%. I think that I'm not 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. We have already now 870 branches are up and running. And we have also focused on distributing insurance product and car loan distribution, which will enhance our fee income, which will support our ROE.

Our gold loan branches will start contributing 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 original system and Oracle FLEXCUBE being an element system fully operational by March 2024, all these initially put together a low 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 -- and then very 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.