August 14, 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 Q1 FY24 Earnings Call - Transcript**

Dear Sir /Madam,

Further to our letter dated August 02, 2023, intimating schedule of the Earnings Conference Call on August 08, 2023 to discuss the Company's Q1 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
DN: c=IN, st=Maharashtra, 2.5.4.20=b3e7ea901c9a729b6569714909dc863465c42a6ccee67d63a046221ffe69079d, postalCode=400101, street=601 Gurukrupa Nathjidwar Co op scty ltd Ashok nagar cross road 3 Kandivali East, pseudonym=1849f84eabdeea8eb673f7cf6edfd821, serialNumber=6cf397ef478005ac82073195cebc3c26bc9eaf314477eccca9d035912ec460db, o=Personal, cn=YASHESH PANKAJ BHATT
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Q1 FY24 Earnings Conference Call

August 8, 2023

Management

Mr. Rajesh Sharma
Founder & Managing Director, Capri Global Capital Ltd.

Mr. Ravikant Bhat
Sr. VP - Investor Relations, Capri Global Capital Ltd.

Indian Numbering System Legend

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

NOTE:

1) This transcript has been edited for lucid reading. To that extent, this is not a verbatim transcription of the audio transcript.
2) Factual corrections are marked at relevant places in the transcript and are referenced to footnote/s.
3) Recurring terms like 'YoY', 'QoQ', basis (referring to basis points) in the audio transcript have been shrunk to 'YoY', 'QoQ', and 'bps' respectively.

Moderator: Ladies and gentlemen, good day, and welcome to Capri Global Capital Limited Q1 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. 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: Thank you. Good morning, everyone. This is Ravikant. I shall read out a brief disclaimer for today's call. The discussion on today's call regarding CGCL's earnings performance will be based on judgments derived from the declared results and information regarding business opportunity available to the company at this time.

The company's performance is subject to risks, uncertainties, and assumptions that could cause actual results to differ materially in future. Given these uncertainties and other factors, participants on today's call may observe due caution while interpreting the results. The full disclaimer is available on Slide 42 of Q1 FY24 Investor Deck. Participants are requested to note the same.

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

Rajesh Sharma: Good afternoon, friends. It is a pleasure to welcome you all to the Capri Global's first earnings call of the financial year. We declared our reviewed consolidated results for Q1 FY24 on Saturday, 5th August 2023. I hope you had a chance to go through the Investor Deck.

FY24 shall be unique in some aspects. It will be the first full year of operation for the Gold Loan vertical. We aim to turn Gold Loan vertical profitable by end of this financial year. The equity we raised in March 2023 is fully deployed. It will aid our core earnings and overall profitability. Keeping this in view, we will analyze our Q1 FY24 performance.

Our disbursals increased 128% YoY to INR26.9 billion. Our disbursal momentum is usually soft in Q1 every year, due to which the disbursals have shown a 5%

QoQ decline. However, because of the strong momentum maintained in the Gold Loan business, the decline has been muted compared to our performance in Q1 FY23.

Excluding gold loans, our disbursals increased 65% YoY, but were lower 31% QoQ. This sequential decline is in-line with the Q1 FY23 performance and the seasonality of Q1 in lending business. Share of gold loans was 51% of Q1 FY24 disbursals, while MSME and Housing was 12% and 11% respectively. The balance was contributed by Construction Finance and Indirect Lending.

The AUM momentum was marginally stronger than Q4 FY23, increasing 61% YoY to INR112.3 billion. AUM excluding Gold Loan increased 38% YoY and 5% QoQ. Share of Gold Loan continued to increase, rising to 14% of AUM compared to 11% in Q4 FY23. We expect our Gold Loans AUM to touch or cross INR30 billion by end of this financial year. This could be 20% of AUM, assuming we sustain a 50% momentum in overall AUM growth.

As you may have noticed in the AUM exhibit on Slide 4, the momentum in MSME as well as the housing portfolio sustained a healthy momentum despite a sequentially weaker disbursal quarter. In housing, we concluded a maiden direct assignment transaction with a leading housing finance company amounting to INR569 million at a competitive yield. Our on-book housing AUM is lower to that extent.

The share of Construction Finance AUM was 17.5%. While growth in Construction Finance has been strong, please note that we are also guided by the share of this vertical in consolidated AUM of 20%. We are comfortable growing Construction Finance as long as our underwriting parameters are satisfied and the share of this book is at or below 20% of AUM.

We have reported a 38% YoY increase in our net profit to INR636 million. The profit is lower by a marginal 2% QoQ. To fully understand the earnings, let me first start the core earnings.

Our net interest income increased 77% YoY and 26% QoQ to INR2,370 million. As explained on Slide 16, this improvement was aided by both the strong equity funding of Q1 FY24 balance sheet as well as our improved spreads.

Our weighted average yield on advances increased 55bps QoQ to 15.7%, while the weighted average cost of borrowing was up 20bps QoQ to 8.7%. You may recall our cost of borrowing had been steadily increasing throughout FY23, while the yield on advances was improving with a lag. This difference is visible in the segmental yield graphs on Slide 15. As a result of these improvements, our spreads stood at 7%, an improvement of 66bps YoY and 35bps QoQ.

Our net interest margin was unsurprisingly at a robust 9.6%, a level we last reported in Q4 FY22. This was aided, as mentioned earlier, by strong equity funding of Q1 FY24 balance sheet. As leverage improves, NIM shall mathematically decline. While we will enjoy the benefit of higher NIMs in the FY24, we would like to assess the earnings efficiency of our lending business by the spreads we generate.

The share of our non-interest income in the net income was 25.4%, lower than 33% in Q1 FY23 and 30% in FY23. The dip was caused by lower car loan fee income owing to certain one-off adjustments. Secondly, the fee income tied to balance sheet, specifically MSME and housing finance was also lower owing to softer disbursals during Q1 FY24. We expect this softness to reverse from Q2 FY24. The car loan fees shall also pick up momentum from Q2 FY24.

The cost-income ratio declined marginally to 66.0% in Q1 FY24 from 68.2% in Q4 FY23. The cost-income ratio excluding Gold Loan business was at 50%. This is marginally higher than 48% we reported for FY23. However, this too should reverse as the earnings pick up during the year. In Gold Loan business, although our active branch network was 680, we have on-boarded staff in another 60 locations as of June 2023, with branch work at various stages of progress. Hence, the operating expenses of Q1 FY24 also include partial opex of additional 60 Gold Loan branches.

We had stated we shall pause branch expansion in Gold Loan business after touching a network of 750 branches by Q2 FY24. We have almost reached that level as we speak, and the incremental cost intensity shall steadily decline beginning September-October 2023.

Our GNPA ratio stood at 1.89%, 15bps points higher than Q4 FY23, but is substantially lower than the 2.7% ratio we reported in Q1 FY23. The PCR of the Stage-3 assets was 27.8%. Our credit cost stood at INR239 million, which was higher than INR112 million in Q4 FY23, but marginally lower than INR246 million we reported in Q1 FY23. As highlighted on Slide 13, the average credit cost is trailing 5 quarters is INR176 million.

During the quarter, we made some accelerated provisioning on three Construction Finance exposures to a single entity amounting INR160 million. This was restructured and classified as NPA, attracting a provision of INR50 million or 31% of exposure. We have initiated recovery proceedings in 2 exposures and in due course, expect a recovery of INR30 million. For the remaining INR130 million exposure, we are exploring various options to aid recovery.

Despite the higher credit costs including the one-off change, our credit cost to average Assets Under Management ratio was 89bps in Q1 FY24, in-line with our pre-COVID long-term trend. Apart from the INR30 million recoveries mentioned earlier, we expect additional recoveries to happen in Construction Finance vertical in Q2 or Q3 FY24.

There has also been a marginal increase in MSME NPA and a slightly sharper increase in the housing finance NPAs. Our recovery efforts are continuous and we expect to improve asset quality going ahead. I would also like to additionally highlight that we do not see any structural issues here. We are aware of the rising pessimism on asset quality of NBFCs in general and retail loans in particular, given the lending boom of past 2 years. Nevertheless, let me reiterate that we are not present in unsecured lending. Our lending is secured with very comfortable loan-to-value across all segments, whether retail or wholesale. This gives us comfort on managing our asset quality.

We have reported 2.2% ROA and 7.1% ROE in Q1 FY24. Excluding the loss in Gold Loan business, our ROA and ROE would have been 3.0% and 9.6% 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 absence of one-off adjustments there that shall contribute to the profit momentum.

To conclude, I would say we have begun FY24 on a sound note. We shall deliver yet another year of sound business growth, but it will also be coupled with a very strong profit growth. With that, I conclude my remarks. We shall now take questions.

Moderator: The first question is from the line of Dev from Haitong Securities.

Dev: My question is related to the overall composition of AUM. The MSME segment has come down from around 40% or around 35%. And earlier, I think you had guided that it would remain north of 40% and in the range of 40% to 50%. So given the strong traction and the focus in the Gold Loan segment, how would the overall product mix look like going forward? Is there any kind of targeted mix that is there in mind? That was my first question.

And second, I see that there is an increasing focus on co-lending in case of MSME as well as housing finance. Could you give us any colour on that as well?

Rajesh Sharma: Yes. So, I think before Gold Loans, our key growth drivers used to be MSME. When we launched the Gold Loans and that also across about 750 branches, so while retail proportion in overall AUM have grown significantly. But if we talk about MSME, MSME, the disbursement plan and expansion remain the same. But since Gold Loans have aided the overall AUM growth, MSME has gone a little bit down.

If we look down the line, two-year scenario, the Gold Loan composition will be about 20% to 25% of overall AUM and MSME will be about 25% to 30%. And if you talk about Housing Finance, which is done through a standalone subsidiary company, it is growing at a faster pace…about 50%+. And on back of branch expansion, on a standalone basis will continue to grow at that pace…40% to 50% for the next 2 years.

Moderator: The next question is from the line of Nikhil Nyati from Equirus Securities.

Nikhil Nyati: My question is regarding the MSME yield. Sir, I wanted to know what percent of our book is repriced, knowing that our yield has gone up this quarter and how we can see the yield panning up in the future?

Rajesh Sharma: We have increased our long-term reference rate by 50bps in the first week of April. Our yield has been passed on to almost 60% of customers in MSME, 40% still remain on the semi-fixed. So for those customers, hike will not happen. But 60% customers of the past have already been increased by LTRR of 50bps. As far as the incremental lending is concerned, that is happening, maintaining the targeted spread. In MSME, we are lending about close to 15.5% yield in the incremental lending.

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

Raghav Garg: Yes. Just a few questions. Firstly, on the gold loans business. We've seen last couple of years, there's been a lot of competition. Just a very high-level question.

What is your sense in terms of competitive intensity in this business? That'll be my first question.

Rajesh Sharma: Gold Loans, we have seen in the last 2 years a lot of competition, especially coming in the lower rate segment form public sector banks. So, they are the new entrants where they are offering at a much lower rate. But their ticket size remains high. So basically, they are focusing more on a higher ticket size. And typically, theoretically, while they welcome all the customers, they don't like to entertain the customer which comes for a INR30,000 or INR50,000 of loan.

So, there is a clear demarcation in the customer segment. Among the gold loan finance company and NBFCs also, the Gold Loan is not like a product of unsecured lending, which can be done without proper investment in the branch expansion. So, there is some sort of entry barrier. So, we have seen that among the NBFCs, while we see in other products, more than 30, 40, 50 players and a lot of regional players, in gold loans, the major competition comes through the NBFCs with pawn brokers who lend at very unreasonable and high rates. I think that is where the opportunity also lies.

So, this business will continue to grow looking at the overall AUM growth. The growth is also coming because of the gold loan prices increasing and lot of people are open to borrow against the gold with a formal player. So, as far as Capri is concerned, with 750 branches and then branch will continue to grow, to build a AUM of INR10,000 crores to INR12,000 crores in next 5 years to 7 years in an overall AUM opportunity of INR3 lakh crores plus of gold loans still remains a very small and very much possible and profitable.

Raghav Garg: Sir, that's very well understood. What I meant to ask is in this quarter, how do you assess the overall industry competitive intensity to be? Whether it's still as high as what you highlighted a couple of quarters ago or last year, whether it's still as high as that?

Rajesh Sharma: Are you talking about competition or are you asking about our growth?

Raghav Garg: Sir, I mean, both in terms of your growth and what is your assessment of competition and the impact on our growth?

Rajesh Sharma: We are expanding our branch network after a detailed analysis of the potential from credit bureau, AUM competition, we very well are on our target. Our branches are able to achieve the average growth of about INR22 lakhs MoM, which has remained in our target. And our branches will achieve the desired profitability in the targeted time. And, we are not going to stop even at 750 branches. So, we clearly see the potential.

Number two, at some point of time, city-wise, we are going to convert our Gold Loan branches where they will also be sourcing business and leads for MSME and home loan also. So overall, if we talk about growth side, we are quite bullish and confident about achieving our growth target in the Gold Loan segment. And this vertical is going to be profitable by the year end - all the branches will turn profitable except which have been opened recently.

Raghav Garg: Understood. Sir, what would be the break-even level for you per gold loan branch? What would be that level where you would be regulable? I think right now it's around INR2.5 crores per branch, right?

Rajesh Sharma: Once it achieves a base of INR3.25 crores, branch achieves the break-even. Anything above shall start contributing directly to the profitability.

Raghav Garg: Understood, Sir. And Sir, I mean, although I can calculate, but I just wanted to ask, what is the per branch expense that we would be incurring typically for a Gold Loan branch, including the employee expense?

Rajesh Sharma: So we have branches, which are manned by 4 staff, by 5, by 6. So, it is not a straight answer. If our competition has AUM of INR30 crores high potential segment, is a low potential segment, depending on the size of the branch, the opex on the branch and the manpower of the branch. It ranges right from an operating cost of INR1 lakh per month to INR225,000 depending on the location and its potential.

Raghav Garg: Understood. Sir, this operating cost is apart from the employee cost, correct? These would be the other expenses.

Rajesh Sharma: This is all the operating cost, entire operating cost including salary and all.

Raghav Garg: Understood. Sir, just one last question. I understand that you have a branch in Vasai and Virar. So just today, there has been an article in Hindustan Times that the police have bust a major fake document racket in the construction sector. The number of flats involved here are about or rather the number of families involved are about 3,500 who have basically been sold these flats. Now, they would have taken loans from some of the financiers, which are in that area.

Would we have any kind of exposure to this project in Vasai and Virar, if you are aware of that? That is it.

Rajesh Sharma: I don't think that we are doing any under construction project financing in housing finance vertical at all. So, we don't finance any project at all unless it is ready. That is the policy we follow in the affordable housing segment.

Raghav Garg: Understood. Even at the retail level, right?

Rajesh Sharma: We don't fund any under construction.

Moderator: The next question is from the line of Bunty Chawla from IDBI.

Bunty Chawla: Sir, continuing with the Gold Loan branches. As we have seen earlier, we were competing at a lower interest rate like around 15% yield. Now, we have moved to the competition level around 19.5% to 20%, which is visible in the yield per se. So how do you now see the growth for you, after being at an equivalent rate with your competition?

And secondly, on the branch expansion, you had said that up to 1,000 branches you don't require any approval from the RBI, right? After 1,000 branches, have we applied for any approval and all? And how we should see the branch expansion along with the AUM growth for the Gold Loan?

Rajesh Sharma: Your first part of the question was related to the yield. When we initially opened the branches, when we first entered August 2022, that time we had launched some low rate of interest gold loans to create a buzz, to create awareness, which we have already achieved. From the January quarter onwards, we started going for the high-yield and the lower value loans like where every ticket size was less than INR1 lakh and yields were better.

So gradually now, our average onboarding of the customer is coming at about 16.5%, 17%, and plus the default rate of interest is also being earned. So, effective yield is now upwards of 19%. And we continue to follow that philosophy in-line with the market. If you talk about the RBI regulation of 1,000 branches, that is per company. So we still have a scope of about 200 branches because these 849 branches also include the housing finance branches, which are housed in the Capri's subsidiary company. And after 1,000 branches, we will apply to RBI and we don't see any issue in getting the approval per se.

Bunty Chawla: Okay. Sir, secondly, on the Construction Finance, we are seeing that there is a boom and real estate has been quite strong currently. But as we have historically seen, we have felt across the industry some NPA issues on the Construction Finance side. Now, we are very much aggressively growing Construction Finance. So, my query is, what steps or what different we are doing so that if the real estate cycle goes down, there should not be any negative surprises from this Construction Finance segment?

Rajesh Sharma: First of all I want to say that we are not aggressively growing. We are growing what we have strategically planned. So, we have always said that we will do overall AUM basis 20% Construction Finance and 80% is going to be secured retail loans. And that is the same philosophy and principle we are following. Within a quarter sometimes, it happens that our Construction Finance share crosses 22%, 23%. Some quarter, it comes to 19%. But you see year after year, it has always remained within the 20% range.

Second thing, we follow a very unique strategy of funding to developers which are smaller. So, we are not going with the ticket size of INR200 crores or INR400 crores type. Our average ticket size still remains less than INR20 crores even today. So, you can imagine the kind of small developers we are funding. And then we take in a clear mortgage of the property. The smaller projects are completed faster than the -- we don't fund the 40-storey projects, which take 5 - 6 years to complete. So, this turnaround time is faster. There is no income -- interest cost accumulated when the projects get delayed.

Keeping in mind these core lending principles, we see all our Construction Finance projects get completed within 3 years' time. And 1/3 of our projects get balance transferred within 12 months, which speaks about our underwriting standards. Also, repayments also happen before time because of BT. In our other projects too, we have seen that 50% of the balance projects get prepayment than the repayment.

So, they get (prepaid) because of the faster sales. The strong cycle of their construction is helping the inventory to move faster. Even if the cycle turns slightly sluggish, our safeguard mechanism of having a control on the cash flow and the security cover will always protect our principal and interest. And historically, we have seen that since last 4 - 5 years, we have not seen any major -- write-off or any unpredictable risk. While it happens, but that remains within the tolerant range of 1%.

Bunty Chawla: That was very helpful, Sir. Lastly, on the Stage 3 assets, we have observed the provision coverage ratio has come down from 30% to 27-28% kind of range. What is the outlook on Stage-3 assets provision coverage ratio? Because what we have observed is large NBFCs generally try to maintain around 45% PCR so that if there are any hiccups going forward, that would be safeguarded by this high PCR.

Rajesh Sharma: So we are keeping -- the RBI regulates that it should be based on the PGD and LGD, and they should be a minimum 25%. So, we are following that. And if you look at our overall Gross NPA, you can clearly see that there is a downward trend. From the last year of 2.7%, it has declined to 1.9%, and net NPA has come down from 2% to 1.4%.

Bunty Chawla: So on a normal basis -- long-term basis, can we say 28-30% is the PCR we are comfortable with?

Rajesh Sharma: Yes. Keeping in mind our asset quality, which is all secured and where the hard collateral is there, either the self-occupied house or business or gold. So, that also gives us comfort for maintaining this kind of PCR. In the past 10 years, even in the worst cycle of COVID, IL&FS, DHFL, when there was a different kind of a crisis, our NPAs at any given point in time never climbed more than 4%.

Moderator: The next question is from the line of Mayur Liman from Profitmart Securities.

Mayur Liman: Congratulations for a good set of numbers. Sir, my first question is, how you are seeing the incremental demand in MSME segment? Any specific segment or geographies we are seeing a strong demand? Are we confident that we would be able to deliver 30% kind of growth in this segment?

Rajesh Sharma: You are asking any particular segment?

Mayur Liman: Yes. MSME segment or any segment where we can see the strong demand.

Rajesh Sharma: MSME and second one.

Mayur Liman: Sir, can I repeat my question?

Rajesh Sharma: Yes.

Mayur Liman: Okay. How are you seeing the incremental demand in MSME segment? Any specific segment or geographies we are seeing a strong demand?

Rajesh Sharma: So, I'll answer this question. Wherever we see there's strong demand, we put more branches. So likewise, we have more branches of MSME in Rajasthan and then followed by Madhya Pradesh and then Gujarat, and then Maharashtra and then NCR. So, basis that, we clearly see we expand in those geographies where we see the demand and also good collection efficiency. And so we clearly see the demand is very good in Rajasthan, Madhya Pradesh, and Gujarat. And that is how our branches are.

Mayur Liman: Okay, Sir. And in which segment are we seeing strong demand?

Rajesh Sharma: So overall basis, our MSME demand is very good. It is a segment, which is largely under-penetrated. If we talk about India, have more than 70 million MSMEs, of which, only 20% of the credit demand is met by the formal lenders. So there exists a strong demand and many companies are focusing. We are few of them. We are one of those who are focused on MSMEs and it will continue to grow 30%+ for the next 3 - 4 years.

Mayur Liman: Okay, Sir. And my second question is Construction Finance and Housing finance vertical. Asset quality has deteriorated much this quarter, specifically Construction Finance. What would be the reason for the same and your future outlook on asset quality across these verticals?

Rajesh Sharma: So, asset quality has not deteriorated. If you see overall basis, GNPA is lower than the even preceding quarter and the net NPA is also lower. As far as one of the accounts (in Construction Finance) is concerned where we have restructured and on account of restructuring, we have made the provision. And this is one of the accounts of the overall portfolio. It is not that there are many accounts that have slipped away.

And in this lending business, we'll always see, when we're operating 180, 190 Construction Finance accounts, 1, 2, 3 account can always -- will face some challenges, which we have to either recover and/or use other measures to get out of it. So, this is one of that account where we have provided, and we are confident we'll find some other developer to take over that project at a price and we should be out from it.

Mayur Liman: Okay, Sir. And my last question. Any new bank tie-up we have done for expanding our co-lending book?

Rajesh Sharma: Co-lending book, we have already tied up with Union Bank, Punjab & Sind Bank, Bank of India and UCO Bank. In Gold Loan also those tie-ups are happening. And co-lending in real sense will pick up for the entire NBFC segment once this tech tie-up -- technology integration happens with the public sector banking system. But in any case, we are achieving INR40 crores to INR50 crores a month. And once the Gold Loan takes off, which should happen sometime soon, then this co-lending arrangement, the volume will further go up.

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

Rajesh Sharma: Yes. Thank you all. We will continue to grow in the segments we operate in, which is MSME, Housing Finance, and Gold Loans. And our core philosophy will remain that we should serve the customer who are not catered by the banking system. So, we complement the banking rather than competing with them. We clearly see that our Gold Loan business will break-even and will start delivering profit.

With the approach of growing in MSME where the margins are good, Gold Loan is going to become profitable. Adequate capital is now available. We clearly see this year is going to be one of all-time high profitability and our margins will also improve. Our core banking solution is getting implemented by the year-end. So, we clearly see an edge. Our (lower) operating cost should start showing in our results from the next year onwards. We already have about 100-plus people, technology team in our Gurgaon office. And those results will be seen in next year. So, we are quite optimistic and quite confident of delivering superior returns. Thank you.

Moderator: Thank you. Ladies and gentlemen, on behalf of Go India Advisors, that concludes this conference call. We thank you for joining us, and you may now disconnect your lines. Thank you.

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