Muthoot Finance Q3 2013 Earnings Call 21 Jan'13

Operator

Ladies and gentlemen, good day and welcome to the Q3 FY13 earnings conference call of Muthoot Finance hosted by Kotak Institutional Equities. As a reminder, for the duration of this conference, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Nischint Chawathe of Kotak Institutional Equities. Thank you. And over to you, sir.

Nischint Chawathe, Analyst

Yeah, thank you. Hi, and a very good evening to you all. On behalf of Kotak Institutional Equities we welcome you all to this conference to discuss 3Q FY13 earnings of Muthoot Finance. We are pleased to welcome Mr. George Alexander Muthoot, Managing Director, and Oommen K. Mammen, CFO of Muthoot Finance. I would now request Mr. Muthoot to provide a brief on the quarterly performance, after which we shall open the floor for a Q&A session. Over to you, sir.

Alexander George Muthoot, Director, Operations

Okay. Good afternoon. This is George Alexander Muthoot here, Managing Director. I have along with me Mr. Oommen K. Mammen, the CFO. I feel, I am sure that the -- all the results of the Q3 is available with all the listeners. You would have gone through it also. For record sake, I would like to say that this quarter had been good in the sense that our retail assets under management has grown by INR1,969 crores, and today it is at 25,712 crores, showing around 8% increase.

And the total income of Q3, for this Q3, has grown by 11% year-on-year and it is at INR1,365 crores. The profit after tax for Q3 FY13 was at about INR270 crores as against INR251 crores last year, showing a year-on-year increase of 7%. The branch network is today at 3,914 spread across 21 states and four Union Territories.

So, I have given also the -- but there are some more figures, which I would like to cull out here. The gold loan outstanding has been from INR25,388 crores, which is today, and it is at INR22,695 crores. The credit losses for this year has -- this quarter, this nine months has been INR5.47 crores as against INR4.57 crores of last year same quarter. The percentage of credit losses on gross retail AUM is 0.021%. The average gold loan per branch is at 6.48 compared to 6.52 last year.

The number of loan accounts has increased from 57 lakhs to 62 lakhs this quarter. And the total rates of gold jewelry pledged in tonnes is the same 132 tonnes and 132 tonnes now also. The average loan ticket size, which was in last year this time 39,900, is today 41,100 and the number of employees has increased from 23,200 to 24,800.

Here, we are -- the company has obtained approval of the shareholders through postal ballot to raise the public holding of its shares to 25% from the current 19.88% so as to satisfy the SEBI's stipulation of a minimum public holding of 25%. So this dilution may be through any of the modes approved by SEBI from time to time in one or more tranches. The company has not decided on the timing of the dilution.

There is another development also in this quarter, which was the much awaited K.U.B. Rao Committee Report on Gold Loan and Gold Loan NBFCs is now in the public domain. We are happy in one sense that the negative perception about gold loan business and also about gold loan companies in particular has been dispelled in the K.U.B. Rao Committee Report. The report has clarified that there is no systemic risk to the financial system due to gold loan losses as a result of gold price volatility. And there are significant margins and the fact that the loans are of small amounts and only on household used ornaments strengthens the safety of the gold portfolio.

The report also confirms that gold loan business has a socially useful function and helps the public to monetize idle gold in the country. We are glad that the K.U.B. Rao's Committee has come out and placed this point also in the public domain. It has also clarified that there is no systemic risk to the banking sector on account of the loans granted to gold loan NBFCs by the banks. The total exposure of banks to gold loan NBFCs is only a miniscule, less than 1% of the total banks credit. We feel that this will help to clear a lot of misconceptions in the minds of public, media, who hitherto had no full knowledge about the working of gold loan companies and this is a big relief to gold loan NBFCs and also to your company.

The company -- the Committee has also recommended certain hygiene measures that need to be practiced by all NBFCs. See, when the Committee gave this report, they have taken feedback from not only the big NBFCs, not only the listed, but also from all walks of small NBFCs also, and they have recommended certain hygiene measures.

The AGLOC, which is the Association of Gold Loan companies would help all big and small companies to implement the fair practice code and will over a period of time streamline and standardize the processes and procedure, and thereby raise the stature of gold loan NBFCs to probably almost like a scheduled bank. It may take time, two years, three years, four years, but the whole system will be working to that goal.

I think on that note the K.U.B. Rao Committee's report has been useful to the company, to the gold loan sector, and we are happy that it has come out finally. Whatever points or whatever actions the regulator -- the operations department of the regulator will take on the recommendation of K.U.B. Rao's Committee, we will have to wait and see. Probably, I'm sure they will be taking decisions, which should finally help the gold loan companies also or the gold loan NBFCs also to survive in the market because they have clearly said that gold loan NBFCs are doing a socially useful and great help to the public at large. So, on this note, I would like to end my initial comments and hereafter -- and hereon take on the

Questions And Answers

Operator

Thank you very much sir. We will now begin the question-and-answer session. (Operator Instructions). The first question is from the line of Suruchi Chaudhary from Edelweiss. Please go ahead.

Kunal Shah, Analyst

Yes, sir. Kunal over here from Edelweiss. Sir three questions. Firstly, in terms of growth guidance, okay, initially we were saying about 10% kind of growth. Year-to-date we have already done almost 4% and this quarter we have seen the run rate of 8%. So, are we inching up the growth guidance post some of the regulatory issues also settling down, and how do we see it, say, going forward in FY14?

Alexander George Muthoot, Director, Operations

You said three questions.

Kunal Shah, Analyst

Yes, sir. So first is with respect to growth. Secondly, it's with respect to GNPLs, okay. So it may be technical in nature, so if you can share some data points with respect to how much has been the auctions, and when do we actually see the GNPL numbers coming off, definitely in credit loss we are not saying it, but when do we see the recoveries in GNPLs overall at the lower levels?

And third question is with respect to the borrowings, okay. The K.U.B. Rao Committee Report has also highlighted in terms of NCDs via, I would say, how to use those, now via branches. So, if you can just clarify us to what would be our steps, whether it would be any hindrance in terms of growth or in terms of borrowings?

Alexander George Muthoot, Director, Operations

About the growth, you are sure we have grown by about 4% in the last quarter, up to last quarter. Probably we should be ending the quarter, I think, between 5% and 10%, probably something more, but I wouldn't like to give more guidance on that. So, probably around 10% is the year-on-year growth which we expect for this year-end.

Regarding the gross NPA, yes, we as a company, because unlike the other NBFCs who give personal loans or vehicle loans et cetera where if the installments are not being paid for 12 months, 13 months, it is a big risk that it will definitely go -- it can go into the bad loan category or loss category, whereas for a gold loan company, the asset is always with us and it is valuable and as through our audit et cetera, we are sure of the quantity and quality of the asset. Why these have gone up is, has also been because we went little slow on the recovery, on the auctions, et cetera in the last two, three quarters. Probably in the next quarter and the quarter after that we should be able to -- that's what you asked about maybe streamlining and regularizing and bringing it down et cetera.

So -- but that is one side of it, but as a policy also we are not very much concerned with that, we are more concerned with the credit losses, which was about 5 crores last year and about 6 crores this year. That is actually where it can hit our balance sheet. The other -- as far as the NPA is concerned it's only -- it has implication is that it will have a little more provisioning. Second, about the borrowings -Sir, any auction numbers or what has been the auction in Q3?

Alexander George Muthoot, Director, Operations

No, I think the auctions had been about 100 crores almost [ph], I'll give you the numbers later. Regarding the borrowings, yes, the Committee has touched upon so many things, where it has touched on all the aspects of the working of this and it has one side it has said that the banks lending to NBFCs should be kept under watch and review et cetera.

On the other side, when they say that the NCDs, which they should have a restriction on this NCDs. As of now, there are no restrictions on raising NCDs under private placement. If any restriction comes in future we may continue to raise NCDs under the public issue mode. The issue of NCDs under public issue mode is a well-accepted mode of raising funds. We have so far done four tranches and raised about 1,700 crores so far. Now we are quite experienced and comfortable under this mode of raising also. So we'll cross the bridge when we come to it.

Kunal Shah, Analyst

Okay. And sir, on the growth side, as you mentioned like five to 10, so this is just being conservative or this is just looking at maybe the trends in the disbursements (inaudible)?

Alexander George Muthoot, Director, Operations

I wouldn't like to give much more guidance on that. Probably, we should expect about 10. I don't want to say 15 or 11 or 13.

Kunal Shah, Analyst

Okay, okay, okay.

Alexander George Muthoot, Director, Operations

Thank you.

Kunal Shah, Analyst

Okay, sir. Yeah, thanks a lot.

Operator

Thank you. The next question is from the line of Ashish Sharma from ENAM Asset Management. Please go ahead.

Ashish Sharma, Analyst

Yeah. Just on the same point on the borrowing, I think the K.U.B. Rao report clearly mentions about, I think, it was earlier mentioned in the Financial Stability Report of RBI. I think RBI clearly mentioned that this whole route of NCD through branches, I mean because if in the report they have mentioned that, I mean, gold loan NBFCs mostly are non-deposit taking and this route actually is sort of not in the spirit of the rule. So I mean, do you think that this source of funding can be entirely taken away and you can shift this whole source of borrowing to banks. I mean, just your views on that sir?

Alexander George Muthoot, Director, Operations

Yeah that is what I said. If the RBI comes up -- RBI is a regulator. They can always come up with any sort of regulation, any sort of restrictions, we're pleased to do, and they have not done it as yet. So if they come to that, we will go to the other route, that's all,

simple as that.

Ashish Sharma, Analyst

Do you think that in that case your cost of funding may go up, I mean, any --?

Alexander George Muthoot, Director, Operations

I don't think our cost of funding will go up, because our NCDs listed in private will always have with 0.5% lesser is our public-listed NCDs. But almost the same thing we expect -- we spend on the brokerage, et cetera, if you put it on a year-to-year basis, because we have been collecting these NCDs, listed NCDs three years, four years and five years. So on a per-year basis, the cost comes to 0.5%, 0.6% totally. So net-net, it is almost the same.

Ashish Sharma, Analyst

Okay. And in terms of your capital raising plan, you mentioned in the previous call that you might sort of go for a small equity insurance to bring down the promoter holding below 75%. Any updates on that, sir?

Alexander George Muthoot, Director, Operations

Yeah. We have actually got the shareholder approval. We have got shareholder approval for bringing down the equities of the shareholder -- of the promoters. We will be doing it shortly.

Ashish Sharma, Analyst

Shortly before, I mean, in Q4 FY13 or maybe in FY14 sir?

Alexander George Muthoot, Director, Operations

I don't want to give a date on that, because I think it is not right to give such a date.

Ashish Sharma, Analyst

Okay. And sir, just one more question on the growth guidance for FY14. You mentioned that FY13, we would end up sort of in between 5% to 10% more likely closer to 10%. Any number for '14 sir?
Right. If all this dust settles, and the -- as I said earlier, the misconceptions about the gold loan companies et cetera are clarified that the people are generally comfortable with this, I think we should be able to grow 20%, 25% after 2014 every year.

Ashish Sharma, Analyst

After 2014?

Alexander George Muthoot, Director, Operations

Yeah, 2014 and beyond.

Ashish Sharma, Analyst

'14 including, okay. And sir, just one last question. Any change in yields for quarter three? I mean what was the yield on our gold book?

Alexander George Muthoot, Director, Operations

I think the yield has always been around 21.5%, 22% and the yield is almost the same, I think so.

Ashish Sharma, Analyst

And --

Alexander George Muthoot, Director, Operations

I can give you the correct numbers, if you want. The yield -- yeah, 21.9% and 22.16%, I think it is almost the same.

Ashish Sharma, Analyst

Okay. And your NIM sir?

Alexander George Muthoot, Director, Operations

Net interest margin has been 9.4% or 9.6%, in the range of 9.5%, 9.6%.

Ashish Sharma, Analyst

Okay, sir. Perfect. Thank you, and all the best for the next quarter.

Alexander George Muthoot, Director, Operations Operator

Thank you. (Operator Instructions). The next question is from the line of Kashyap Jhaveri from Emkay. Please go ahead.

Kashyap Jhaveri, Analyst

Actually my question was also on this, you know, on auction. If you could, give us numbers for this quarter, for Q2 and for Q3 last year?

Alexander George Muthoot, Director, Operations

Okay, okay, okay. I will give it (inaudible).

Oommen Mammen, Chief Financial Officer

Q2 it was INR88 crores, Q3 it was INR133 crores.

Kashyap Jhaveri, Analyst

Sorry, 88?

Alexander George Muthoot, Director, Operations

Q2 it was INR88 crores.

Kashyap Jhaveri, Analyst

Right.

Alexander George Muthoot, Director, Operations

Q3 it was INR133 crores.

Kashyap Jhaveri, Analyst

INR133 crores?

Alexander George Muthoot, Director, Operations

Yeah.
And Q3 last year?

Alexander George Muthoot, Director, Operations

Q3 last year it was around INR28 crores.

Kashyap Jhaveri, Analyst

Sorry?

Alexander George Muthoot, Director, Operations

INR28 crores.

Kashyap Jhaveri, Analyst

28 crores. So Q3 last year was 28 crores, Q2 this year was 88 crores and Q3 was 133 crores?

Alexander George Muthoot, Director, Operations

Correct.

Kashyap Jhaveri, Analyst

Sure. Yeah, that's it from my side. Thank you.

Operator

Thank you. (Operator Instructions). The next question is from the line of Abhishek Murarka from IIFL. Please go ahead.

Abhishek Murarka, Analyst

Hello, sir.

Alexander George Muthoot, Director, Operations

Hi, Abhishek with IIFL. Good afternoon.

Abhishek Murarka, Analyst

Yeah, yeah good afternoon, sir. Sir, my question is basically, can you tell me something about your plans for branch expansion next

year. And also, if you have changed any of the staffing modalities, the way you used to staff your

Alexander George Muthoot, Director, Operations

Okay. I think, currently we have 4,000 branches.

Abhishek Murarka, Analyst

Yeah.

Alexander George Muthoot, Director, Operations

Touching 4,000 branches. Our branch expansion process is whenever there is a need for a branch in the particular area, when our regional office reports that there is a potential branch, we go and open that branch.

Abhishek Murarka, Analyst

True, yeah.

Alexander George Muthoot, Director, Operations

So this year because of all this uncertainty and all this negative perception, we had gone slow on the branch expansion. Probably this year we may end up with about 250 to 300 branches only. Going forward I think, wherever there is need, we will open the branch.

Abhishek Murarka, Analyst

So --

Alexander George Muthoot, Director, Operations

And employment potential, employment is the same staffing, there has not been anything different happening in the branch because of the processes et cetera. So there is no -- there has not been change in the staffing pattern et cetera at branch. The staffing pattern still remains the same.

Abhishek Murarka, Analyst

Okay. And so in FY14, do you have number of branches budgeted that you would be looking to open maybe 300 or 200 or 400, some number that you would have in mind for FY14?

Alexander George Muthoot, Director, Operations

I told you for FY14, and every branch expansion is not based on a particular number that next year we should open 500, x branches or 600 branches or 400 branches or 200 branches.
Okay.

Alexander George Muthoot, Director, Operations

It is mainly based on the requirements. If there is a requirement, we will go and open that much of branches.

Abhishek Murarka, Analyst

Okay, okay. Okay. thank you. That was my question.

Operator

Thank you. The next question is from the line of Subhankar Ojha from SKS Capital & Research. Please go ahead.

Subhankar Ojha, Analyst

Hi, sir. I missed out on the growth guidance part for FY13 and FY14, sir. Can you reiterate that?

Alexander George Muthoot, Director, Operations

Beg your pardon. Beg your pardon.

Subhankar Ojha, Analyst

The growth guidance that you talked about, which I has I missed out sir.

Alexander George Muthoot, Director, Operations

Yeah, yeah. The year ended 31/3/13 we should end by about 10% AUM growth. And probably after that, as I said, if all these uncertainties et cetera are not there and people are getting little more comfort on this, we should grow about 20% to 25% in the coming years.

Subhankar Ojha, Analyst

'14 onwards you mean?

Alexander George Muthoot, Director, Operations

'14 and '14 onwards.

Subhankar Ojha, Analyst

Okay. Thank you so much.
Thank you. The next question is from the line of Mihir Ajmera from ENAM Holdings. Please go ahead.

Mihir Ajmera, Analyst

Hello?

Alexander George Muthoot, Director, Operations

Yes, yes, please go ahead.

Mihir Ajmera, Analyst

Yes. Sir, could you let us know your cost of borrowings?

Alexander George Muthoot, Director, Operations

Oommen?

Oommen Mammen, Chief Financial Officer

Our cost of borrowing will be 12.56%.

Mihir Ajmera, Analyst

12.56% and your net interest margin?

Oommen Mammen, Chief Financial Officer

Net interest margin will be 10.51%.

Mihir Ajmera, Analyst

All right. Thank you, sir.

Operator

Thank you. (Operator Instructions) The next question is from the line of Kashyap Jhaveri from Emkay Global. Please go ahead.

Kashyap Jhaveri, Analyst

Yeah. You know out of your -- the total branch network, how many branches would have sort of full infrastructure like safe deposit vaults and how many probably would be like satellite branches?
I can answer?

Kashyap Jhaveri, Analyst

Sorry.

Alexander George Muthoot, Director, Operations

As a policy, Muthoot Finance does not have any satellite branches. We have all branches full-fledged branches with strong room and the gold is stored -- 100% the gold is stored in the branch only unlike maybe somebody -- some others who may do the satellite branches. Muthoot Finance has no satellite branches. Whatever branches you see in our records are full-fledged branches.

Kashyap Jhaveri, Analyst

Sure. Thank you so much, sir. Thank you.

Operator

Thank you. The next question is from the line of an individual investor, Mr. Sumit Saga [ph]. Please go ahead.

Unidentified Participant

Hello. Good afternoon, sir.

Alexander George Muthoot, Director, Operations

Yeah, yeah. Please go ahead.

Unidentified Participant

Yeah, my question was regarding the new business ventures that I read about Muthoot entering, white label ATMs and distribution of NPS. I would want to know your intent behind it and its financial impact in terms of non-interest revenues in FY14 or FY15?

Alexander George Muthoot, Director, Operations

Yeah, one is the white label ATMs. White label ATMs business actually gels with our business model because that's also giving up cash to customers and many of our branches we can accommodate a white label ATM also. Probably, the numbers may not be sufficient, we may have to open independent places also for white label ATMs.

As a policy, as the accounts and calculations we have, probably after two years or three years, this should become viable and start yielding small profits. But we don't expect a big profit from ATM business because it is more of an addition to the present business which we are doing.
About the distribution of Pension Scheme, yes we have been authorized by the NPS to become as a point of presence in this and we are starting to distribute that, but unfortunately there are lot of clarifications, which are required from the NPS system itself about the pension scheme et cetera. Once that is also in place, I think we should be able to roll it out much better. We don't expect a big income from this also. Here also, this is more of a customer footfall, which we expect in our branches because the commissions are -- which we expect to receive from the NPS is very, very meager, marginal.

Unidentified Participant

Okay. Thanks a lot, that's all.

Operator

Thank you. The next question is from the line of Jiten Doshi from ENAM Asset Management. Please go ahead.

Jiten Doshi, Analyst

Good afternoon, Mr. Muthoot. First of all, congratulations on a good set of numbers in a very difficult environment. Now my question pertains to the size of the dilution that you're planning in the near future and what will be your capital adequacy roughly by March 2013 assuming that you do your dilution by March and I mean capitalize the company by March through your QIP. What will be your Tier 1 capital adequacy?

Alexander George Muthoot, Director, Operations

Okay. The dilution would be 5% to bring it down from 80% to 75%. All this is going to be coming as new shares and coming to the company, promoters are not selling out. Our capital adequacy in Tier 1 plus Tier 2 is 19.5% as of now and Tier 1 alone is 13.8%.

Jiten Doshi, Analyst

So where can this go after you finish diluting 5% in the --

Alexander George Muthoot, Director, Operations

This is on the business growth also. So, if in March the business is growing then the capital adequacy also will change.

Jiten Doshi, Analyst

So, roughly ballpark, you will be raising what?

Alexander George Muthoot, Director, Operations

I think that we can calculate ourselves.

Jiten Doshi, Analyst Alexander George Muthoot, Director, Operations

We've talked to it also, whenever we -- whenever our capital adequacy is touching the 13% et cetera on Tier 1, we will near the dilution. So it depends on the business growth also at that time. As you said, we don't see anything in the near future.

Jiten Doshi, Analyst

So, given the estimates, you are quite hopeful that next one or two years you will not dilute after that, so let's say '14 or '15?

Alexander George Muthoot, Director, Operations

There cannot be a guarantee to that, but --

Jiten Doshi, Analyst

No, no, I know that. But I'm saying given that you will be able to sustain 20%, 25% growth without any dilution?

Alexander George Muthoot, Director, Operations

Yeah, I think -- because you and I, both of us know the calculation. So which is around 13%, then yeah, that's it.

Jiten Doshi, Analyst

Okay. And so what is the sustainable ROE post this dilution, sustainable ROE post this dilution?

Oommen Mammen, Chief Financial Officer

See currently the return on equity is around 30%.

Jiten Doshi, Analyst

Correct.

Oommen Mammen, Chief Financial Officer

And we are generating a return of asset around 4%. Going by this calculation I think we should be able to -- our return on equity between 25% to 30% going forward, even after equity -- the dilution.

Jiten Doshi, Analyst Oommen Mammen, Chief Financial Officer

See why I am giving a range of 5% because --

Jiten Doshi, Analyst

Sure. Let's take the lower end of the range, do you believe 25% is sustainable over the next two, three years?

Oommen Mammen, Chief Financial Officer

Yeah, certainly.

Jiten Doshi, Analyst

Given what you have sort of got clarification on KUB Rao Committee and given where the environment is et cetera, do you believe 25% is a sustainable ROE one can expect from your business?

Oommen Mammen, Chief Financial Officer

Yes.

Jiten Doshi, Analyst

Okay. And you don't see fund raising after this one at least hopefully for other one or two years?

Oommen Mammen, Chief Financial Officer

See, if we are looking at a growth of around 25% year-on-year after this fund raising call, we may not require capital raising for the next two years.

Jiten Doshi, Analyst

Okay, okay.

Oommen Mammen, Chief Financial Officer

And if we have higher growth then probably we may have to review that situation.

Jiten Doshi, Analyst

Okay. And what is the bottom of the band ROA one can expect in your business?
See, I think currently it is slightly above 4%. I think it is around 4.3%. So I think we should be able to maintain at somewhere around 4 plus or minus maybe few basis points.

Jiten Doshi, Analyst

So 3.5% to 4% is like a rock bottom for your business?

Alexander George Muthoot, Director, Operations

2.8 [ph].

Oommen Mammen, Chief Financial Officer

I think in current environment we should be able to maintain 4%.

Jiten Doshi, Analyst

Okay.

Oommen Mammen, Chief Financial Officer

Maybe if you want to take a very conservative, 3.5% also is fine.

Jiten Doshi, Analyst

All right. And Mr. Muthoot, given an opportunity that there is a banking license available, would you go in for a banking license for Muthoot Finance?

Alexander George Muthoot, Director, Operations

I don't know. I don't want to deliberate or give any views on the banking license today. So it is all in a very fluid state. We will see when the --

Jiten Doshi, Analyst

No, but it may not been, but as a Group, are there aspirations to take a banking license. That's the only simple question I'm asking you.

Alexander George Muthoot, Director, Operations

Everybody has an aspiration for a banking license, I think so.

Jiten Doshi, Analyst Alexander George Muthoot, Director, Operations

Yeah, yeah. We are not exception to the general.

Jiten Doshi, Analyst

Okay. And obviously if it's -- if you have an aspiration for a banking license and probably this is the company where it will fit the most, you can't be --

Alexander George Muthoot, Director, Operations

Don't put words into my mouth. We will have to look at it from all sides and then decide.

Jiten Doshi, Analyst

Okay. But if you have an opportunity, you will definitely jump into a banking license?

Alexander George Muthoot, Director, Operations

Yeah, yeah. I'm like -- just like everybody else.

Jiten Doshi, Analyst

Fine. So you're not an exception to the rule.

Alexander George Muthoot, Director, Operations

No, not at all.

Jiten Doshi, Analyst

Wonderful, wonderful.

Alexander George Muthoot, Director, Operations

500 people who are thinking of a banking license.

Jiten Doshi, Analyst

Wonderful. And sir, last question is that given that the KUB Rao Committee Report is out and you know all of you are pretty satisfied with what you have heard on the KUB Rao Committee report, what are the issues that still worry you and that have not got addressed that you still find challenging within the industry or which can erupt anytime later or whatever, you know?
For example, I think there is some sort of -- there was a sort of a question on how are you valuing the ornaments, et cetera, which I think somewhere KUB Rao Committee is coming out with their own assessment of that. So like that what are the things that you still find there is no clarity and what are you finding as a worry to you going forward?

Alexander George Muthoot, Director, Operations

There were not many very serious things there. Whatever was there, we have actually given our views to the KUB Rao Committee also, wherever we needed some little more clarification. About the valuation et cetera, he has suggested that instead of 60, it should go to 75.

Jiten Doshi, Analyst

Sure. But the basis of valuation are changing, right?

Alexander George Muthoot, Director, Operations

That doesn't matter anymore, doesn't matter.

Jiten Doshi, Analyst

Okay. So, overall you think the worst is you've already gone through all the worst in the last 12 to 15 months?

Alexander George Muthoot, Director, Operations

We have seen much easier things and difficult things in our life. So I don't think these are things which we cannot overcome.

Jiten Doshi, Analyst

Sure, sure. So you've seen all the worst that you had to in life in the last 12 to 15 months for your gold loan business. You're not expecting anything worst to happen from now onwards?

Alexander George Muthoot, Director, Operations

No sir. We have seen worst and worser things in the last 72 years when we have started finance business.

Jiten Doshi, Analyst

Sure. Sure.

Alexander George Muthoot, Director, Operations

Good part and the bad part also.

Jiten Doshi, Analyst Alexander George Muthoot, Director, Operations

It gets better, it can get worse. That is our strength. We have to survive these things. That is why we are there. Why many

others are not there, we are there because we are able to survive these ups and downs and upheavals.

Jiten Doshi, Analyst

Sure.

Alexander George Muthoot, Director, Operations

Thank you.

Jiten Doshi, Analyst

Fantastic. Wish you all the best and hope to see much better results in the quarters ahead. Wish you all the best for your QIP too.

Operator

Thank you. The next question is from the line of Chetan Thacker from HSBC InvestDirect. Please go ahead.

Chetan Thacker, Analyst

Sure. Good afternoon sir. Just two questions. First, sir, on the RBI, when do you expect them to take up the K.U.B. Rao Committee recommendations and to notify them?

Alexander George Muthoot, Director, Operations

Second question?

Chetan Thacker, Analyst

And the second question would essentially pertain to reports on you starting the home loan business as well as in Kerala. So what is the update on that front and what is the pilot testing that you would be doing for that?

Alexander George Muthoot, Director, Operations

Okay. Perfect, thank you. For the operations department in RBI to take a decision on implementing one or two or more of the recommendations that K.U.B. Rao Committee report are squarely with them. If you take the previous case of the Usha Thorat Committee report, actually the committee report came out two and a half years back -- that's like today.

The suggestions there are just started to being implemented only, like raising of the Tier 1 capital issues et cetera. So two and a half years for them to implement some of that and some of them has not been even touched upon. So going What we are happy is that at least somebody from the RBI has seen that the negative perceptions about gold loan et cetera is not there. That is number one. Number two was about your housing -- on the housing finance companies, they're not -- actually if you have read about the housing finance company et cetera, I think it is about the other companies, which you saw, Muthoot Pappachan Group who have gone into this housing finance company, it is about them, I think you are mistaken there.

Chetan Thacker, Analyst

Okay. And sir, just a thing in the interim till they notify these things are taken up for review, the LTV and all stays at 60% as recommended by RBI?

Alexander George Muthoot, Director, Operations

I don't know, because we go by the instructions of the RBI and whatever the instructions presently stands, we are following it strictly.

Chetan Thacker, Analyst

Okay, sure. Thanks a lot, sir.

Operator

Thank you. The next question is from the line of from Pankaj Chopra from Shanti Asset Management. Pease go ahead.

Pankaj Chopra, Analyst

Yeah. Good afternoon, Mr. Muthoot. Good afternoon, Mr. Mammen. Just a couple of questions again on K.U.B. Rao Committee. What's not clear was there were some regulations with regards to branch expansion. Sir, can we have you views on that please? I mean, there were some restrictions and I did not get the essence of putting in such restrictions. Could you kindly enlighten us on that?

Alexander George Muthoot, Director, Operations

Thank you, thank you. So we have also not got the essence of what he had in mind, because somebody read that and said anybody cannot open more than 1,000 branches a year.

Anyway, I think they are suggesting, it's only a recommendation. They're recommending that the branch expansion should be looked into probably to see whether there is any unnecessary or what should I say, very -- too much of branch expansion. But given the fact that the business of smaller NBFCs hits the overall inclusion and that many of our branches are in the rural and semi-urban areas, I doubt whether putting a restriction on opening of branches by gold loan NBFCs, specifically those who are not accepting deposits also, so there is no risk there because there's only delivery of credit, but I don't think the RBI would like to put any cap on that. Of course, it's a suggestion that the unbridled growth of branches should be looked in, probably they'll look into it and only branches which are useful to the community or institute for the banking sector, financial inclusion maybe permitted. I don't know, they haven't taken a decision on that. That's a suggestion by the K.U.B. Rao Committee.
Sir, if I may speculate on the reason, I mean, from our side, the guess we can make is that possibly the worry which RBI had over the last couple of years was this strong growth that the gold loan companies displayed. Now, is this one way of in some sense saying that no, you cannot, you should not grow so strongly. Could that be deciphered in such a manner?

Alexander George Muthoot, Director, Operations

I wouldn't know, because if the growth was the concern, then they should have actually said we should not be too much bigger than this and should not grow bigger than a particular size, et cetera. I don't think it is fair, because nobody -- no government will at any time say that the financial inclusion should not be done, and that is what actually gold loan NBFCs are doing. So, I don't think if there is any think more harsher to be done, the RBI has always the power with them. They don't need any K.U.B. Rao also to take any decision. They can do it -- take the decisions suo moto also.

Pankaj Chopra, Analyst

May I extend the question in a different way? Can you, can Muthoot grow as you said, 20%, 25% growth without the addition of very large number of branches? I mean, you adding branches at maybe 5%, 10% of your existing number of branches and still grow 20%, 25% on the topline. Do you think it's possible?

Alexander George Muthoot, Director, Operations

Branch expansion is certainly an integral part of the growth. But many of our branches which opened in the last two years -- it takes about of four or five years for a branch to mature. So we still have lot of elbow room to grow in the existing branches itself. But as I said earlier, the need for branch also is important because of the reach it will give especially to the rural areas, et cetera.

Pankaj Chopra, Analyst

Sure. Sir, the second question is another linked to the KUB Committee note, which apparently had some tone saying that banks

should de-link from gold loans. I mean, of course I don't know the real -- the exact words or maybe but essentially there were connotations saying that dependency on banks should reduce. I mean, could you enlighten us on what your thoughts are, or whether we understood it wrong?

Alexander George Muthoot, Director, Operations

No, no, the point there was about interconnectedness of banks and NBFC. In fact we are also not clear what was actually meant by that. We can't be connected to manufacturing company, we can be connected only to any bank only, but -- what they are meaning by saying that there should not be any connection between banks, et cetera, I'm also not clear.

But overall, they've touched on so many things, if they are saying that bank lending is not good for NBFC and the another paragraph is saying that there is no specific risk, et cetera and the total lending by banks to gold loan NBFCs is less than 1% of the total lending -- one side, I don't know what he meant. We will have asked him what is this interconnectedness -- is it for -- we should go and open accounts with somebody else, not banks, I don't know what he meant by that. Anyway we'll leave it there itself. I don't think anything significant is there in that.
Okay. So, and the final thing is about the Gold Loan Association or managing or limiting the yields or in some sense, was indicated. Could you give us what you think about they said that there should be some sort of discipline in yields?

Alexander George Muthoot, Director, Operations

Yeah. I think that's a good point, which he has also raised. In fact, it is something which the Association of Gold Loan Companies has been exalting to its members to have a little bit of string on the maximum interest that is being charged. I think it squarely applies more to the smaller NBFCs where our yield is only 22%, there may be companies which are charging much more also.

So bringing in a restraint on the upper band is definitely called for, probably looking at the cost of funds and cost of operations, et cetera, I think the AGLOC, that's our association, can certainly suggest to the RBI that this is the rate on which it will benefit the customer, it will benefit the NBFCs also to make a reasonable profit in this.

Pankaj Chopra, Analyst

It seems that if the association is unable to bring in some kind of restraint, there can be a regulatory cap, I mean, that's the risk which I foresee. Now, how would you react to a statement like that?

Alexander George Muthoot, Director, Operations

See, the question is whether the regulator can -- the regulator can do anything.

Pankaj Chopra, Analyst

Yes, sure.

Alexander George Muthoot, Director, Operations

So that is, can. The second question is, will the regulator. Will the regulator means, we have seen historically that regulator has never been, maybe very much interfering with the rates charged by whether it is a credit card company who charges 30%, 36% plus charges or whereas -- or the other NBFCs where (inaudible) charge higher rates. They've not been interfering with that. They've always only said that be transparent with your customer. So tell them upfront this is your rate, this is the period of charge et cetera. In that, we have never been interfering with that. That's the point we see. But of course as an association, as somebody who is having some social conscience also, the association would request or like its members to turn down it, if there is any. I think that many of the members have already reduced the lending rates to my knowledge.

Pankaj Chopra, Analyst

But did you think that the association has the strength to -- or the persuasive capability to manage its members to do what it says?

Alexander George Muthoot, Director, Operations

I think we can because some of them would not still become members of the association of gold loan companies. So when more of them come then I think we should be able to do that and then only when -- as you also know, only when many of the members abide by what the association says then only the association becomes respectable in the eyes of the regulator also. So it will take a little time. So give it a little time.

Pankaj Chopra, Analyst

Okay. Sir, my last question is essentially we see a lot of the banks becoming a lot more aggressive in this space. Would you say that that piece in some sense is competitive to you and it may could lead to lower growth for yourself?

Alexander George Muthoot, Director, Operations

I think, yes, banks have always been doing it, especially the Southern based banks have been doing it for 30 years, especially South Indian Bank, the Federal Bank, the Indian Overseas Bank, Indian Bank et cetera have been doing it for 30, 40 years. Now the other banks also are trying to up it, the new generation banks are also trying to do it, fine, probably since I think there is a room for everybody to grow.

When the banks, the new generation, the private sector, the PSUs, et cetera are aggressively advertising and doing gold loan business which actually gives much more respectability to this business. Previously people used to feel ashamed if you take a loan, but now all these banks also do this business I think that stigma is to a great extent moved and more and more people who earlier thought gold loan was desperate loan are coming to.

So the pie is increasing. See the total gold loan or the total quantity of gold with the NBFCs and the banks that is organized sector, is less than 1,000 ton. But the total gold estimated in India mostly in jewelry is about 18,000 ton. So there is room for everybody and probably more and more customers will only start coming into this starting using this good, convenient mode of getting loans.

So banks are there, competition yes, and I'm not wishing away competition, but because banks are there, I don't see a big hit on this but it -- certainly it makes us more competitive, it makes us more work better to see that we retain our business and also win more business.

Operator

Thank you. The next question is from the line of Aadesh Mehta from Ambit Capital. Please go ahead.

Aadesh Mehta, Analyst

Good evening, sir. Most of my questions have been answered. I just require one data point. Sir, what percentage of our outstanding loan book would be yielding above 22%?

Oommen Mammen, Chief Financial Officer

I think -- I don't know, may be right now we don't have that information. Probably you can check with us at a later date.

Aadesh Mehta, Analyst

Okay. That's fine.
Thank you, Mr. Mehta. Do you wish to ask any further questions?

Aadesh Mehta, Analyst

No, thanks. I'm done.

Operator

Thank you. The next question is from the line of the Vikrant Arya [ph] from ICICI Securities. Please go ahead.

Aadesh Mehta, Analyst

Yeah. Hello, sir. Congratulations on the great set of numbers. Sir, I have two data questions. Sir, what would be the strength of our IT team? And secondly, how many internal auditors do we have for the network of 4,000 branches?

Oommen Mammen, Chief Financial Officer

We have about 1,100 members under the audit team. And under IT, we have about 200 members.

Aadesh Mehta, Analyst

Okay, okay, fine. Fine, sir. Okay. Thanks.

Operator

Thank you. The next question is from like of Geetha Nair [ph] from Fidelity. Please go ahead.

Unidentified Participant

Hi, sir. Just wanted to check what is the size of retail NCDs that are on listed, that are sourced directly from branches as of the end of last quarter?

Alexander George Muthoot, Director, Operations

NCDs will be about the size about 8,000 crores.

Unidentified Participant

And what is the strategy to bring this down, because this is quite a sizable amount. So if and when the committee's recommendations are implemented, can you just talk through what your strategy is to do this?

Alexander George Muthoot, Director, Operations Unidentified Participant

Yeah, I'm saying 8,000 crores, I was just looking to understand what the quantum is if you read the KUB Rao Committee report. They feel that retail NCDs that are sourced directly from branches, they would likely to cut down on that size of the book, right, in terms of where you're using those liabilities from. So --

Alexander George Muthoot, Director, Operations

See, Rao Committee has not mentioned that the size would be reduced. So they have mentioned something that it is almost like a deposit. The fact is these two are two different instruments. It's secured NCD can never be treated as a deposit. And deposit can never be treated as secured as NCD. So these two are independent -- totally different instruments. Now, tomorrow if any regulation comes against the secured NCDs placed to our branches, we can always look at moving to publicly issued NCDs. Publicly issued NCDs is a well-accepted form of fund raising. We have done four tranches under this mode and we have raised close to 1,700 crores. So we have gained the experience in terms of issuance under this process. So we can always look to do issuance under public issue mode.

Unidentified Participant

Would we see over the next two quarters you start to doing -- you'll start doing this or --

Oommen Mammen, Chief Financial Officer

We have already -- we have already done four tranches. So depending upon how the regulations are going turn out, we will be moving to the secured -- I mean publicly issued. As of now, we are continuing the privately placed NCDs because as of now there are no restrictions. What we are doing currently is within the four walls of the regulations of the country and we are doing a perfectly legal activity. So tomorrow if there is any change, we will --

Alexander George Muthoot, Director, Operations

Will take a call at that time.

Oommen Mammen, Chief Financial Officer

We will take a decision at that time.

Unidentified Participant

I guess my only point is just to close is you should not cite the RBI. I know the distinction between retail NCD and deposits but if they have written the report the way they have written it, it may make sense if you have to replace 8,000 crores over night with 25% balance sheet growth. At that time, it will be difficult. But if you have few months before to do it, it may help, but I appreciate the point you've taken. Good luck.

Alexander George Muthoot, Director, Operations Oommen Mammen, Chief Financial Officer

Thank you.

Operator

Thank you. (Operator Instructions) The next question is from the line of Sneha Kothari from Subhkam Ventures. Please go ahead.

Sneha Kothari, Analyst

Sir, how much securitization we have done during the quarter?

Oommen Mammen, Chief Financial Officer

Since post March 2010, we have not done any bilateral assignments because of the regulatory changes have happened.

Sneha Kothari, Analyst

Okay. So none of the amount is outstanding of the book items?

Oommen Mammen, Chief Financial Officer

As of December, 350 crores is outstanding.

Sneha Kothari, Analyst

360 crores?

Oommen Mammen, Chief Financial Officer

Yeah.

Sneha Kothari, Analyst

And regarding the royalty agreement for the promoters, anything Board has decided on that thing?

Oommen Mammen, Chief Financial Officer

So far we have not made any payment. It's an -- only an enabling portion.

Sneha Kothari, Analyst Operator

Thank you. The next question is from the line of Abhishek Soni from Robeco Asset Management. Please go ahead.

Abhishek Soni, Analyst

Good afternoon, sir. Couple of questions from my side. Firstly, again, touching base to K.U.B. Rao Committee recommendations and just wanted to understand first what proportion of our book would be 2 lakh plus ticket size, if you would give the percentage of the loan book which falls into that category.

And as for the Committee, they talked about standardization in the documentation process and something of that sort. So is there any kind of existing practices, which we need to realign based on that recommendations, if there's anything?

And secondly, again, might be -- it's a repetition, but on the auction side, the activities slowed down as you just mentioned in one of the questions earlier. So is there any particular operational reason for a reduction in the activity after the fair practice code has been announced in the April or May 2012? Is there something to do with that?

Alexander George Muthoot, Director, Operations

So, about the auctions, yes, we went slow because of the all regulatory concerns, et cetera, which is not about auctions, about gold loan companies in particular. So we wanted to go on all these recovery methods. So we had gone slow on that. Now that it is things have -- clouds have moved, now we are doing it back to -- almost bringing it back to normal, even with the (inaudible) auction.

Second, about the standardization practice, yes, they have gone through not only Muthoot, they have gone through all series, all sorts of companies, small, very small NBFCs doing gold loan business. Certainly he has also felt that some amount of standardizations in documentation is required. As I said earlier, the Association of Gold Loan Companies will try to bring all these branches, all the companies also to follow certainly. But all those are very minor issues to my knowledge. And your first question was about --

Oommen Mammen, Chief Financial Officer

Yes. 60% of the loans are less than 1 lakh -- and totally 88% of the loans are less than 3 lakh.

Abhishek Soni, Analyst

Okay, sir. It should be somewhere between say 12 to 40, it would be about -- roughly 20% would be at the max would be 2 lakh plus kind of loans?

Oommen Mammen, Chief Financial Officer

So, currently what I'm having is less than 3 lakhs. So less than 3 lakhs will be 88% of the loan.

Unidentified Participant

And less than 1 lakh you said is 60% of the total?
Yes, yes.

Unidentified Participant

But in auction, again, touching -- probably the last time the auction. In the Fair Practice Code, does it require to hold the auction in the same district and now in the K.U.B. Rao Committee says in the same taluka from where the loan belongs, is that restrictive reason for going slow on that?

Alexander George Muthoot, Director, Operations

No, no, no. The auctions are having the -- as a Fair Practice Code earlier which we have written the Fair Practice Code which they have said is almost the same thing what we are doing. We copied from there only. So what we are doing is what we are -- what is there in the Fair Practice Code is what we have been doing. Or you put in the other way, what we have been doing is actually the Fair Practice Code. So K.U.B. Rao's suggestion is to have in taluks also. I don't think there is any difficulty there, but nobody has asked us to do like that. It's more based on the convenience also.

Abhishek Soni, Analyst

Okay. Okay, because we all realize that it's 100% where the current value of the assets held, but nonetheless the proportion or the percentages can increase in last three quarters in a row, so that was just a bit on that side. So I think next couple of quarters, as you mentioned, it would be showing the other side, right? Is that fair to assume?

Alexander George Muthoot, Director, Operations

Yeah.

Abhishek Soni, Analyst

All right, sir. Thanks a lot.

Alexander George Muthoot, Director, Operations

Okay.

Operator

Thank you. The next question is from the line of Mihir Ajmera from ENAM Holdings. Please go ahead.

Aditya Singhania, Analyst

Thank you. This is Aditya here. I just had a follow-up question on this retail NCD issue, sorry to repeat it again. But what would be the average tenure of the NCDs that you expect about two to three years?
Yeah, so it will be about close to two years.

Aditya Singhania, Analyst

Okay. So, just sort of a hypothetical thing. In case this recommendation gets implemented and RBI does sort of force you to not accept retail NCDs, it would take about eight quarters or so for this to run-off the current rates?

Alexander George Muthoot, Director, Operations

Yeah. So, that is another point. All the maturities doesn't fall on a single day. So even in a regulations camp, we have ample time to move to other modes of funding.

Aditya Singhania, Analyst

Right. And would it be fair to sort of spread it like say assume eight quarters and 1,000 crores a quarter roughly or --?

Alexander George Muthoot, Director, Operations

See, let's not get into this --

Aditya Singhania, Analyst

No, just a hypothetical thing, I understand.

Oommen Mammen, Chief Financial Officer

It's not hypothetical.

Alexander George Muthoot, Director, Operations

Since it's a hypothetical question, let's not go too much into it.

Aditya Singhania, Analyst

Okay.

Alexander George Muthoot, Director, Operations

This is only a Committee study report, let's not go beyond. There are so many recommendations in that. Let's -- what should be the key takeaway from the report? The committee has clearly said that it is a socially useful function. There's no systemic risk. We should be taking all those points. The rest of are all --

Oommen Mammen, Chief Financial Officer Aditya Singhania, Analyst

Absolutely. I just wanted to clarify the earlier question just to clarify that it is not going to be a single day.

Alexander George Muthoot, Director, Operations

Yeah, that's a fair point. Yes, that's fair. Thanks for making it clear.

Aditya Singhania, Analyst

Yeah. And in terms of conversion to a deposit taking entity, is it -- how is your thought process in the event again that is --

Alexander George Muthoot, Director, Operations

See we have not thought about any things or any of such kind of change because current -- there's no current requirement to think about such a move.

Aditya Singhania, Analyst

I understand. Thank you.

Operator

Thank you. Ladies and gentlemen, due to time constrains, no further questions can be taken. I would now like to hand over the

floor back to Mr. Nischint Chawathe for closing comments.

Nischint Chawathe, Analyst

Yeah, thank you. I would like to thank all the participants who have logged in today for the conference call. And also I would like to thank Mr. Muthoot and Mr. Oommen for answering all the queries. Thank you very much, sir, and all the best. Thank you.

Alexander George Muthoot, Director, Operations

Thank you, Nischint.

Oommen Mammen, Chief Financial Officer

Thank you. Thank you, Nischint.