"MAS Financial Services Limited Q3 FY2022 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the MAS Financial Services Limited Q3 FY2022 Earnings Conference Call hosted by DAM Capital Advisors Limited. 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 "*"then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Pritesh Bumb. Thank you and over to you, Sir!

Pritesh Bumb: Good afternoon everyone. We on behalf of DAM Capital would like to welcome the management of MAS Financial Services Limited represented by Mr. Kamlesh Gandhi, Chairman and Managing Director and other senior management from the team. We will have opening remarks from the management and then move on to the Q&A. Thank you and over to Sir!

Kamlesh Gandhi: Thank you Pritesh and good evening to all of you. I trust all of you are fine and fortunately the third wave has not hit us hard and I hope it has plateaued now and that is a good sign for the economy and all of us to come back to track on normalization and enhance the economic growth. The way we will do it is that I will take you through the strategic intent of the company, how we managed this quarter and how we have managed throughout this tough time and how we have been managing since last more than two decades, will be followed by my colleagues Darshana ben and Ankit will give you the detailing in numbers.

Now as shared with all of you through our press release I am very happy to share that we have crossed the Rs. 6,000 Crore mark on our consolidated AUM and AUM at the parent company MFSL grew by close to 14% on YoY basis fueled by the rise in disbursement to Rs. 1,598 Crores as compared to Rs. 1,031 Crores, the corresponding quarter and Rs.1,476 Crores just the previous quarter. Our profits for the quarter-on-quarter basis and corresponding quarter basis increased by 11%. As you are aware that since last 2.5 decades we have always been focused on calibrated growth which brings about a win-win situation for all its stakeholders and for a lender maintaining the quality and profitability is the prime importance along with AUM.

Coming to the quality of the assets if you have seen that even after implementing the 12th November circular, we have seen a very robust quality with net stage 3 asset of around 1.76% and had we been doing the way we were doing earlier, it would have been around 1.63%. So only marginal rise is a function that at MAS we have never followed a rollback once account slipped into 90 and the impact what we are seeing right now is the function of the real time recognition of NPA usually what is done at the end of month by majority of the lenders.

If I take you through another vital fact on capitalization that we remain very strongly capitalized at 27.41% aggregate capital adequacy with around 24% in tier 1 and 3.57% in tier 2 capital.

As you can see that from this quarter we are coming back to our normal growth trajectory of almost a 20% to 25% which we had demonstrated throughout all this decade.

I would like to draw attention to our slide on growth where we have shared our motto and dictum on growth that consistency and steadiness is the fastest way to reach where we want to be and while we have always shared a 30 years or 25 years journey this time we also endeavored to share the journey right from our first capital raise that is a long period from 2007 to 2021 and I think all of us are aware that this has been the toughest time this 14 years is a very long time and there were lot of headwinds during that time right from global crisis to NBFC liquidity crisis to demonetization and then few of the other institutions failing and then the COVID.

Despite of all those headwinds we could register a growth close to 25% be it on AUM, be it on PAT and corresponding growth in net worth also. This is where we gain our confidence, and this is where we are confident that if you have strong balance sheet the way we have right now with a capital adequacy which is very enabling factor for the growth accompanied by quality which is maintained throughout the period of crisis you can grow once you get the right opportunity and I must say that has come now. So we are very confident going forward to come back to a trajectory of around 20% to 25% of growth which translates into doubling our AUMs every three to four years.

Few of the things what we have done to achieve this growth is to strengthen our distribution network we have increased our centers reach from 3,500 centers to 4,100 and it is likely to touch 5,000 by March which has been managed through our 114 branches which is likely to be anywhere around close to 125 branches plus as we approach 31st March. This will be a great enabler for us along with our NBFC partnerships and our partnerships with Fintech to achieve the growth what we are targeting at, with keeping quality and profitability intact.

In terms of technology, we have always seen that technology is to serve the purpose of number one is not compromising with the dictum of extending credit where it is due at the same time, it should improve efficiency and it should result in customer delight. This is what we aim at adoption of technology and this is what we mean by Fintech at MAS, that nothing should be done at the cost of assessment on credit. Nothing should be done at the cost of extending credit where it is due but at the same time using the latest technology available we should see to it that how have we improve on our efficiencies and that, results into better experience for the customer and we are in that process resulting into more efficiency and we see that improving further, be it on boarding of customer, be it decision making or be it operations or be it collections once the disbursement is done.

In terms of our tie-up with Fintech we are cautious in how we tie up and we are cautious on how we extend credit at the marketplace and see to that we really create an all-round value for all our stakeholders. On the product configuration, we continue to focus on our prime product that is microenterprise, small and medium enterprises, accompanied by our wheels portfolio of two wheelers and commercial vehicles.

In microenterprise loans, which we do directly along and along the NBFC MFI in the country, we are happy to share that there is lot of improvement in terms of collections and the NBFC MFI has started attracting more capital and more debt, their collections have also improved, but at the same time the microenterprise will still take some more time to reach to the full scale whereas we have seen a good growth in our SME portfolio.

If you see our SME portfolio has registered a very robust growth of around 47% this quarter-on-quarter basis whereas our microenterprise loans has been stable or slightly depressed by around 4 or 5% being a very cautious approach at part of the company to wait and watch once the real economy really picks up. We are working hard to improve on wheels portfolio also and there also we have registering a decent growth in two-wheeler as well as commercial vehicle portfolio. Two-wheeler we all know that it is facing a lot of headwinds but even though we could grow it by around 13% and commercial vehicle portfolio on a lower base we could register growth of around 47% in that, so overall growth was close to 14% on AUM.

Coming to the housing subsidiary, there also we have always maintained that housing is going to play a very important role going forward and we have started getting encouraging results there also where AUM has grown by around 11% and there is a very strong capital adequacy and very high quality of asset. We see no reason why it cannot come back to the growth of anywhere between 25% to 30% on a lower base and that should meaningfully contribute to the parent company.

So during this time of intense severity in terms of headwinds because of COVID and that too on a prolonged basis for more than two years what we have focused was to strengthen the balance sheet, see to that the quality of assets maintained intact and at the same time we have taken this opportunity to improve on our distribution strength also already to capitalize on opportunity that we will be getting now onwards once again to come back to our normal growth trajectory as we have demonstrated over decade. With this I will hand over to

Darshana ben to take you through the numbers in detail which will help you to understand the performance better. Over to you!

Darshana Pandya: Good afternoon everybody. I will quickly take you through the numbers. If we look at our AUM as shared by sir the growth in AUM is around 14% and regarding the configuration of the AUM microenterprise loans are contributing around 50%, SME 40% and rest 10% is coming from our wheels portfolio and regarding the growth percentage SME book has grown by 47.53%, two-wheeler is up by 12.24% so earlier the portfolio was around Rs. 323 Crores, now the two-wheeler portfolio is Rs. 363 Crores, commercial vehicle portfolio has increased by 47.16% from Rs. 156 Crores to Rs. 230 Crores and microenterprise loan there was a degrowth as shared earlier, there we have followed a cautious approach so there is a degrowth of around 5.23% from Rs. 3,033 Crores to Rs. 2,874 Crores. SME book stands at Rs. 2,274 Crores and it has grown from Rs. 1,541 Crores.

Now coming to the total income on quarterly basis there is a rise in income at around 21% from Rs. 142 Crores to Rs. 171 Crores. PBT has increased by 11.37% from Rs. 48.38 Crores to Rs. 53.88 Crores and profit after tax has increased by 11% that is Rs. 40.10 Crores from Rs. 36.18 Crores. On nine-month basis, total income has increased by 4.9% from Rs. 454.74 Crores to Rs. 477 Crores. PBT was increased by 8.4% from Rs. 143 Crores to Rs. 155 Crores. Profit after tax has increased by 7.74% from Rs. 107 Crores to Rs. 115 Crores.

As far as quality of the portfolio is concerned, gross stage 3 after considering revised guidelines it is 2.35% and net stage 3 asset is 1.76% as compared to 2.3% and 1.8% respectively the last year and if we would have considered it normally then gross stage 3 would have been 2.18% and net stage-3 would have been 1.63%.

Now coming to our housing numbers, here also we could register a growth of around 11% in AUM. Now the AUM is around Rs. 307 Crores, it was Rs. 277 Crores last year. Total income has increased by 3.02%. Profit before tax has increased by 121% and this is mainly because of lower impairment cost, last year we had to provide more because of the COVID. Profit after tax has increased by 126% from Rs. 46 lakhs to Rs. 1.04 Crores. On nine-month basis, PBT has increased by 22% from Rs. 3.51 Crores to Rs. 4.28 Crores and profit after tax has increased by 24.65% from Rs. 2.68 Crores to Rs. 3.34 Crores.

Regarding the quality of the assets, our gross stage 3 is 0.69% and net stage 3 is 0.49% and it was last year 0.65% and 0.46% respectively. Here I would like to mention that in our housing finance we were following the practice of not upgrading the accounts unless it comes under zero DPD so this is the normal DPD. This was all about the performance of both the companies. Now I will request Ankit to take you through capital and liability management.

Ankit Jain: Good afternoon all. In the current quarter because of the efficient liability management, we were able to maintain liquidity buffer of around Rs. 1,000 Crores on the book and unutilized cash credit facility of around Rs.700 Crores. Recently the company had sanction on hand of around Rs. 900 Crores in the form of term loan, direct assignment, co-lending. In the last quarter, company did around Rs. 300 Crores direct assignment transactions with various PSU banks. The company further has more than Rs. 350 Crores sanctions on hand which will be utilized during the current year as well as the next quarter. The company aims to maintain around 20% to 25% of AUM as off book in direct assignment transactions and another off book transactions.

Also we tied with a few of the PSU banks for co-lending to MSME sectors and we executed the transaction during the quarter of more than Rs. 50 Crores. Company has available cash credit facility of more than Rs. 1900 Crores out of which company maintains utilization level of around 65% to 70% and rest portion was kept as liquidity buffer.

Company raised around Rs. 450 Crores term loan during the quarter from various PSUs and private banks. This helped us to further strengthen the asset liability maturity pattern. The company further has more than Rs. 500 Crores sanction on hand which we will utilize during the current quarter as well as the next year. The company raised around Rs. 100 Crores through market linked debentures during the quarter. Also we raised the subordinate debt which qualifies a tier 2 capital to the tune of Rs. 100 Crores from private placement during the quarter.

We have assessed our structural liquidity for the period and based on the assessment there is no negative impact on liquidity and the cash flow in all the community brackets remain positive. We remain adequately capitalized whereby our total capital liquidity is around 27.41% with tier 1 of 23.84% and adding the subordinate debt our tier 2 capital during the quarter is around 4%. Our debt equity ratio is around 3.41 times and we were able to maintain cost of borrowings during the quarter which was stable at around 8.80% on the entire book.

This is about the capital and liability management, I request Sir for the closing remarks and then we will open question and answers round.

Kamlesh Gandhi: Before we start the question answer round I missed out on one point that the board in its meeting yesterday have approved the dividend of Rs.1.25 per share as an interim dividend.

So that is what I wanted to add to my opening remarks, which I missed out. So now with this background we are open for any query or any question answers if anybody wants to ask.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Hitesh Gulati from Haitong. Please go ahead.

Hitesh Gulati: Thank you for the opportunity. Sir, I have a couple of questions. Firstly, Sir what is your view of credit cost? Credit cost has obviously come of this year but how should we think about it going forward over the next couple of years? Secondly I observe that our on-book AUM has kind of increased to 80% which is kind of highest in the last few quarters so what is the thought process there?

Kamlesh Gandhi: I think credit cost has been around 0.8% and we see that as a normal credit cost and we already have a buffer over and above that of around 0.95% of our on-book asset and we continue to maintain that buffer so we feel that things are normalized and we do not see the credit costs going higher on the contrary because we follow Ind-AS and ECL we might have to claw back from our buffer which we do it gradually and slowly. On terms of our assignment, we would like to share that we will keep it range-bound between 20% and 25% and the very reason for lower assignment was not lack of sanctions, but our conscious effort to reduce the liquidity of the balance sheet. If you see that over last two quarters have been maintained very highly liquidity and that cost the company. We sell the portfolio despite of having sufficient other lines of credit that we have to draw at a time when you sell the portfolio. It is a conscious decision to limit that around 18% we are further in a process of reducing the liquidity because things are normalized. We did not carry very high liquidity on the balance sheet which affects the profitability, so I think this year will be in a position to maintain anywhere between 18% and 20% but as a policy it will range anywhere between 20% and 25%.

Hitesh Gulati: Thank you Sir. That is it from my side.

Moderator: Thank you. The next question is from the line of Gurjot Ahluwalia from AG Capital. Please go ahead.

Gurjot Ahluwalia: Thank you for the opportunity. If you can explain two, three P&L line items so one is on the finance cost that is up 11% year-on-year but the cost of funds have actually come down 3-4 BPS. So if you can explain why finance cost has gone up higher than the AUM growth and secondly on the fees and commissions basically we have applied substantial year-on-year and quarter-on-quarter so where do we expect the fees or commission to stabilize like last

Rs. 8.5 Crores versus Rs. 4 Crores Q2 and then Rs. 0.7 Crores last year where do we expect to stabilize as percentage of revenue or the apparent figure?

Ankit Jain: On finance cost it is also related to our off book or direct assignment transactions, so if you compare with the last year our direct assignment transaction was around 33% and when we do direct assessment transaction the net income is booked which means than the gross income is netted of by the financial cost pertaining to the direct assignment transaction. So, what all cost we incur on finance cost will not be shown in financial, but it will be a netted off from the gross income. This year because of direct assignment book is 20%, has led to increase in total on book borrowing which in turn has lead to increase in finance cost during the quarter.

Kamlesh Gandhi: On the fees and commissions there are two to three things which will lead to increase along with the increase in the business and along with our change in the policy of doing the business with the partners whereby first we used to share the revenue and each one will take the revenue now for better control we book the complete revenue in our book and then we would give them the commission what we need to give to them. So for better control this is being practiced so as and when we have more and more of such arrangements with the partners whereby the complete income has to come first come in our book and then we will share from that which is reflected in fees and commission.

Gurjot Ahluwalia: Thank you. Second question this again based on what we have given in the presentation sir, you mentioned the leverage ratio on the balance sheet 3.41 the debt to equity then you going forward will maintain this leverage at optimum level so again can you just quantify this optimum level of debt equity in the next two to three years also growth trajectory of 20% to 25% is just AUM growth, PAT growth again if you can just define both these things?

Kamlesh Gandhi: Starting over last query when we talked about 25% it implies both the AUM growth corresponded by the PAT growth if you see as I shared in my opening remarks if you even see the last 14 years of working, the AUM growth and PAT growth in fact corresponds each other so that may mean AUM and PAT growth both and in terms of leverage I think it is anywhere between 3.4 to 4.25 should be an ideal leverage as we think currently.

Gurjot Ahluwalia: Thanks a lot for clarifying. All the best.

Moderator: Thank you. The next question is from the line of Madhuchanda Dey from Mc Pro. Please go ahead.

Madhuchanda Dey: I have two questions. One on the asset side as you mentioned that SME growth was heavy and you also had certain partnerships with banks for co-lending so what was the percentage of origination in the quarter that came from this partnership and related question is we have seen in this quarter banks have gone very aggressive in the SME and SME space so what is your reading on the same? I have a question on liability which I will ask later.

Kamlesh Gandhi: As Ankit shared the partnership is newly started, it would not be in percentage of the disbursements and in this quarter, we have done close to Rs. 50 Crores of partnership business which we scaled up going forward as we synchronize our systems and operations with both the banks which we have tied up, as such there are ample of opportunity for partnerships but we are talking one by one as we present one partnership will move to the other partnership so there is no dearth of getting into partnerships with the various banks but we will gradually move up once we scale up with the particular bank so that was Rs. 50 Crores and our current partnership is with Bank of India and Bank of Maharashtra. In terms of banks becoming very aggressive in SME funding, I think while optically it looks like that banks are very aggressive but there is lot of market differentiation at the market place where the customer whom we serve and typically which bank will like to serve and the USP what we bring to the table along with now adoption of technology at our end with lot of API integration and lot of software updates, I think we once again are better in customization of credit as compared to banks and we see lot of traction in giving credit to the SME sector the way we have been doing so while banks have expressed the desire to be very aggressive but all said and done with the best of their efforts when it comes to customization it is where people look up to NBFCs and as I said along with technology has helped us to scale up this business and we see this traction going forward.

Madhuchanda Dey: My question on the liability is very simple there seems to be a sequential increase in the cost of funds any particular reason is it because the assignments have fallen so much can that be one of the reason or what is it?

Ankit Jain: It really depends on the mix of borrowing because in the last quarter we raised subordinate debt which is a tier 2 capital and because it is unsecured subordinated debt it will be costing higher than the normal cost of borrowings to the company and also gradually and other stuff is when we borrow long-term loan it will be always higher costing than the short-term loan so there is a mix changes there can be slight increase in the cost and it can reduce also but it will remain in our bucket of 8.75% to 9% going forward also.

Madhuchanda Dey: Okay, thank you and all the best.

Moderator: Thank you. The next question is from the line of Rahul Maheshwary from Ambit Asset Management. Please go ahead.

Rahul Maheshwary: Thank you to the entire team and congratulations on the good set of numbers. I have three questions. Can you give little bit more color on the co-lending partnership that what kind of products you are doing, what is the kind of arrangements and how much ROA accretive is there as compared to the traditional business in your own books which you were doing earlier and you talked about many such more partnership is there if not given the names at least you can give some kind of color or insights on what type of products or what the kind terms of number of partnerships we are planning such?

Kamlesh Gandhi: In terms of partnership if I start from the latter part of your question, we will be introducing a few more products such as housing loans and we will have different products with different banks because when we talk about MSME funding we have various type of credit screens and the screen which suits the banks there we enter into a partnership maybe a secured loan, somebody will be happy with the secured SMEs and some will be comfortable with unsecured SME whereas we have the complete array of products to offer to the banks so the partnership with the banks will depend upon the convergence of our product line with the bank' product line and there we initiate a process to partner and then we will try to converge as much as we can and that convergence had happened with Bank of Maharashtra and Bank of India both for secured and unsecured MSME. It is 80:20 and in some places you also prepare to go up to 70:30 also depending upon what are the terms we get from the bank so it can be 80:20 is the minimum but in some places we can also be doing 70:30 where the risk and reward shared pari passu. In terms of ROA, we look at partnership as one more model of liability raise, so we see to that the ROAs are maintained as if we have raised the liability on our own balance sheet while we get the advantage of sharing the risk with the bank because what happens that for us partnerships is not because we are not in a position to raise liabilities but partnership is because we can have a better diversified relationship with the bank where you already have other sort of relations like normal assignment, normal term loans, or normal CC and how it operates is that there are two models there can be an online disbursement or there can be a reimbursement model but for the operational convenience RBI recently amended maybe two quarters back that it can be reimbursed by model also. So first we will book the business as per the mutually agreed credit screen and then the bank will reimburse after they are convinced that it is as per the agreed credit screen.

Rahul Maheshwary: So in this co-lending model apart from the 80:20 in terms of the disbursement and sharing what kind of fee generation is also being taken by you?

Kamlesh Gandhi: See what happens the particular IRR is decided at the customer level and from that the bank will charge their part and then we will charge our part which will include the fees and the services amount that we have to do for the complete 100% so for us it is as good as the liability rates that is around 8% to 9% and then the lending done at anywhere around in the range at an average IRR of say 14% so we have 6% spread, so to say.

Rahul Maheshwary: That is very helpful. The second question I want ask that very phenomenal asset quality I would say looking at how the peers have given, how come 𝔐𝔄𝔖 looking at what you are lending to the partner NBFC. Can you give some color on it that how it has remained so benign and where others have actually faced many issues irrespective of the products whether it was CV loans or SME or etc., and also can you give a color how the end customer or NBFC partner's asset quality has behaved?

Kamlesh Gandhi: Coming to the overall strategy of extending credit where it is due that over the years we have been very patient organization nevertheless sleepy because when you double your AUM every three to four years, it is phenomenal growth by any standards but we have taken a lot of time to reach to this size of humble beginning of Rs. 2 Crores in 1995 has stick to a niche expertise, if you say that in 2000 we were recognized as a MSME Financier and in 2021 we are recognized as a MSME Financier along with a small portfolio of wheels. So what all these years we have focused on gaining the niche expertise, grown in a calibrated manner but in such a manner that a very healthy growth is registered and at the same time always been cautious at the opportunity that the market offers. Say for example during COVID in one of the years we could dare to decreased our AUM also by 11% to 12% because we thought that it is not an opportune time to increase your AUM so the policy of not growing at any cost putting quality and profitability or prioritizing them along with the growth I think these are few simple things what we have followed over all these years and that is what has helped us to maintain our quality. In terms of our NBFC partners, we are very selective with whom we work. The risk sharing arrangement is such that it is with complete recourse with the partners we work so their capital and their spread works as a buffer for us in case of any eventualities and that has worked nicely for us for more than a decade so this has been our business model. The simple formula is that we stick to a particular product, develop niche expertise, had been patient and had grown at an opportune time.

Moderator: Thank you. The next question is from the line of Bharat Shah from ASK Investment Managers. Please go ahead.

Bharat Shah: Two questions, given lot of whatever has happened in the last two years and in unprecedented situation the whole country has faced and broader consensus appears to be the things are headed more to normalcy rather than disruption and it can be occasional some trouble but broadly I think things are moving towards normalcy so if that assumption is right, are we back to the game of long term growth of typically 20% to 25% and more like 25% to 30% that was done in lean period, are we back to that kind a compounding growth rate in the business?

Kamlesh Gandhi: Given the opportunity and once the things are back to normal our customized style of under promised over delivered, our endeavors will be to be anywhere between 25% and 30% but once again prioritizing as shared with all of you that it will be quality, profitability and growth but you are absolutely right that we would be trying to see to that how we can recoup the lost grounds once the things stabilizes and we still have a scale whereby few percentage growth more can be taken and the full-fledged endeavors on that count and internally we are geared up that way but when it comes to commitment you always try to give the commitment in such a manner that we do not overpromise. So on a commitment basis the endeavor it is on a 20% to 25% on endeavor basis it will be definitely anywhere between 25% to 30% and I hope that we might exceed that expectation 25%.

Bharat Shah: Kamlesh bhai, secondly how do we see our once again if had to revisit our return on asset tree once again so from a conceptual point of view what kind of spread between our cost of borrowing and lending rate effective net interest margin, other income including assignment income, then the expenses, then the likely credit cost and profit after tax margin and leverage if we draw up the schematic kind of a ROA tree again, just to revisit can you help me the point as to how to conceptualize the way our business should be modeled?

Kamlesh Gandhi: See broadly on an AUM basis we target NIMs on a range bound basis at around 6.75% to 7.5% and historically we have credit cost from 0.8% to 1.2% and then the operational cost of say around 2% should leave us at around 4% of NPM and post tax ROAs of close to 3%. This is what we always targeted and our experience is that 3% ROA on a 7% NIM renders us more competitive also in the market to choose and pick our assets also because if we target higher ROAs it will at cost of quality and you can never control that once that deteriorates. So on ROA tree we would like to stick to around 3% ROAs and 7% NIM and then between the credit cost and operational cost at around 4%.

Bharat Shah: What kind of leverage structurally?

Kamlesh Gandhi: Structurally, our on balance sheet leverage will be around 4 times but if we take the assigned portfolio of 25% the leverage will be anywhere between 5 and 5.5 times that will take us close to around 16% to 17% ROA.

Bharat Shah: On book about four times and total basis about 5 to 5.5 times.

Kamlesh Gandhi: That is correct.

Bharat Shah: That is the leverage ratio so networth will be separate right? Meaning Rs.1 of net worth and Rs.5.5 on book and off book leverage or totality of 5.5?

Kamlesh Gandhi: It will be 1:4 can be debt equity ratio. So the 1 is coming from equity, 4 is coming from debt this gives us our on-book balance sheet and another 1 to 1.5 will come from assignment. So it is 1:5 to 5.5 and 3% to 3.25% of ROA so take us and goes to around anywhere between 16% and 17% of ROA.

Bharat Shah: No that should then take us to 18% to 20% ROA because on book Re.1 and Rs. 5 to 5.5 on book and off book?

Kamlesh Gandhi: I am sorry that will be 18% to 20% ROA.

Bharat Shah: Systematically this is the picture you can imagine on a generally more rugged and sustainable basis?

Kamlesh Gandhi: If you take last 2 to 2.5 years away that is what we have usually done that created ROEs in the range of around 18% and maintains NIMs of around 7% and ROAs anywhere between 3 and 3.25%

Bharat Shah: One last question, given that now things are looking stable, we have gone through difficult challenging experience of pandemic and managing situation and if things are opening up and hunger is coming back into system, the probability is that instead of 20% to 25% we may grow 25% to 30% because India still remains materially credit deficient society in the capex cycle, export performance, commercial credit, consumer credit, all seem to be opening up in a nice way including the corporate credit therefore supposing we are able to grow based on our model at 25% to 30% keeping the hygiene quality of the asset in calibrated measured growth that we typically follow, with 18% to 20% of ROE that will be some amount of gap in the capital, will it mean that we may leverage more or we will have to raise some capital?

Kamlesh Gandhi: As far as capital is concerned I think we will have to leverage if we take a 30% view or we will have to raise the capital so it all depends upon the extent possibilities on the availability of the liability of liquidity at that point of time but as a policy we would like to stick to this and see to that if we really want to grow at 30% then we will have to raise capital. So when we talk about the self propelling model one of the ideas of keeping the growth at 20% to

25% was also that this is self propelling model but having said that we will not loose on opportunities we have won only because we have to raise capital. It will definitely balance between the opportunities available without comprising in the quality of the asset and if we can grow at 30% maybe with slight capital raise so be it, but we might increase the leverage marginally but not very high.

Bharat Shah: But if 18% to 20% we worked on the growth rate we think sustain within in a self-sustaining way?

Kamlesh Gandhi: As you know, currently we are at an excessive capital of around 24% tier 1 so we have some room to draw from that capital so if I talk about the next journey say from around Rs. 6,000 Crores to Rs. 10,000 Crores through our internal accruals we will be in a position to maintain our tier 1 capital anywhere close to around 18% to 19% and add another 2 to 3% of our tier 2 capital. I am talking about AUM. I am talking about the total AUM and that will result into see if I am maintaining 18% tier 1 capital and it is around 20% on assignment that will be a statutory capital adequacy of close to 23% and leverage of close to 4.25 times. On a Rs.10,000 Crores balance sheet with around 18% tier 1 capital on AUM and then de-risking 20% to 25%, I think will be a self propelling model and it can move on accordingly going further also.

Bharat Shah: About 18% to 20% ROE and about 23% to 25% asset growth can be sustained in self propelling model? Beyond this capital may need to be raised?

Kamlesh Gandhi: Yes and you may need to raise the capital.

Bharat Shah: Okay, thank you Kamlesh bhai.

Kamlesh Gandhi: Thank you Bharat bhai.

Moderator: Thank you. The next question is from the line of Harshvardhan Agrawal from IDFC AMC. Please go ahead.

Harshvardhan Agrawal: Thanks for the opportunity. Just wanted to understand a bit on this Fintech tie ups that you have mentioned in the PPT so what was the quantum of disbursements that you have done during this quarter through these tie-ups that is one thing that I wanted to understand, another is what is the target disbursement this business that we expect from this Fintech over the next 12 months and largely how the collection work in this tie up. These are three questions around the Fintech tie ups?

Kamlesh Gandhi: See the Fintech tie ups primarily we will aim is around catering to the MSME customers this is with the preferred Fintech ones and then this quarter we on a trial basis had undertaken a disbursement of around Rs. 200 Crores and going forward we see that if we get the Fintech who are converging with our idea of extending credit where it is due and if we are satisfied with their systems and operations so that we can on board the customers based on their technology. We see that business around 25% to 30% coming through such Fintech tie ups. In terms of collection it is directly being credited to our account and Fintech will get their share of origination and servicing and it is through an escrow mechanism and they get an agreed spread for origination and servicing and to an extent taking the first clause guarantee.

Harshvardhan Agrawal: Sir when you say currently it is an escrow mechanism wherein the money comes into your account, so my assumption is just in case if a borrower is not able to pay or delayed his EMI, so is it like in that case will MAS do the collection work or the Fintech will do the collection on behalf of MAS?

Kamlesh Gandhi: What we do whenever we tie up with the Fintech there is a common credit screen device, area of operation unlike the Fintech works throughout the country. Our area of operation is limited only to the pincode where we have the reach because we would not be doing across the country. The preliminary responsibility will be of the Fintechs to collect but we have a fallback arrangement that failing which we can step in the shoes very easily because it is only within the area where we operate by and large, and it is as per our agreed credit scheme and there is a back to back credit appraisal done. No disbursements is done continuously without our credit appraisal, so it is just using the platforms whereby due diligence and everything is done through us.

Harshvardhan Agrawal: Sir one last thing around this is on the disbursement number that you shared it is Rs. 200 Crores disbursement you have done through Fintech during this quarter and maybe the target is somewhere around 25% to 30% through this platform so if I were to assume this Rs. 1,500 Crores of disbursement in a quarter so maybe somewhere around Rs. 400 Crores of disbursement is expected to come from these platforms is that understanding correct?

Kamlesh Gandhi: Going forward if we converge on the operation, systems and experience is good.

Harshvardhan Agrawal: Thanks a lot Sir.

Moderator: Thank you. The next question is from the line of Rahul Jain from Credence Wealth. Please go ahead.

Rahul Jain: Thanks for the opportunity. A special mention for the management team for a decent balance sheet and also decent asset quality in extremely tough times. Coming to my question, we are coming back from the near to the normalcy that is what we understand from company concalls rural has faced problems, rural economy has slowed down and also given the scenario in last few years what we get to hear is given that the urban level somewhere the larger had become more larger or more stronger and some headwinds have been faced by the smaller guys so given set of customers to whom we lend or the segments to whom we lend what is your view on the same in terms of normalcy being there to what extent and which segments where do you feel there are still stress pockets there it will take some time for normalcy. Accordingly your growth targets of around 20% to 25% over a period of the next three to four years compounded do we see that this will be more back ended rather than seeing that kind of numbers in the next 12 months?

Kamlesh Gandhi: Coming to your first question, if see your aspect configuration is more not exactly rural but tier 2, tier 3 cities they do not fall under classical definition of rural thereby they have more agri and animal husbandry or some petty occupation oriented income so whereas we work with the ones which if you notice above the rural it is not typically that rural economy we serve. Secondly on the stress pockets as you see that in last two years there were hardly any pockets where there were no stress so it was all pervasive and that is only up to lenders to see that how you chosen and pick your borrowers in terms of how you select the segment, how you select the demography and over and above that what are your credit assessment techniques and that is once again the function of your growth plan. So if you have a balanced approach there that is way we have navigated and I think that is good way to navigate through any of the stress not only COVID stress but as I shared in my opening remarks that in all these years we have navigated through various stresses in this way. In terms of the growth of 20% to 25% by and large should be on an equal trajectory give or take away few points here or there, once we are grown at 22% and next we grew at around 27% might be practically possible but the idea is to growth steadily anywhere between 20% and 25% over these peers and we have done that ways in the past also that we grow steadily not so much of a lopsided if we could take three to five years time period it is not that it is lopsided in the last two years on a five years' time horizon. It is more or less steady. With normalization our endeavor as I replied to Bharat Bhai's query that our endeavors will be to have a steady growth.

Rahul Jain: Can I assume that within the segment which you are lending to normalcy more or less done is that what you are trying to hint at?

Kamlesh Gandhi: As we talk today, yes. The way we are seeing the traction and since last almost 1.5 quarters we have reasons to believe that we are almost normal.

Rahul Jain: My second question is currently what percentage of your AUM is by partner NBFC and given that you are aggressively putting up more centers, you mentioned already we are at around 3,500 and aiming to be 5,000 by March, does that proportion change in the next one or two years or one to three years is that what you are targeting or trying to do?

Kamlesh Gandhi: In fact it has started changing. If you see last quarter the configuration was 58:42, now it is 58 is reduced to 52 in terms of NBFC distribution and 48 through our direct distribution and by March we might see that being 50:50 and as I have always shared since many quarters that over a period of time, while we have no issues through NBFC distribution but only fact that our distribution strength will increase at faster pace than our NBFC partnership the ratio will be skewed in favor of our retail distribution which can be going forward 60:40 or maybe going ahead 70:30 in favor of our direct distribution.

Rahul Jain: Okay. Sure. Thank you so much and wish you all the best.

Kamlesh Gandhi: Thank you.

Moderator: Thank you. The next question is from the line of Sarvesh Gupta from Maximal Capital. Please go ahead.

Sarvesh Gupta: Good evening Sir and thanks for taking up my question. So you now in terms of product wise breakup of your AUM you know we are almost like 50% plus into microenterprise loans and that is where we are still not able to grow and even the commentary has been cautious only. So we are not sure how things will unfold and given that how do we see this 20% to 25% sort of a growth trajectory because if one largest segment is not growing at rapid pace then how do we compensate for that? Do we see enough buoyancy in the SME loan market to be able to pull the overall growth to that level and if that be so then would we not end up making any mistakes given that segment also are facing some challenges of late and it has been like that for a few years?

Kamlesh Gandhi: While we give bifurcation on microenterprise loans and small and medium enterprise loans but when we take this as an MSME segment it is SME and microenterprise both and when we talk about microenterprise loan the cautious commentary maybe was and maybe for a quarter or two but it is not so that it is going to remain there forever it is a very huge market to be served and we are have a very strong presence there but having said that let me take you through the fundamentals that once you grow your balance sheet size and as a practitioner over all these decades we personally feel that you have to commensurate your ticket size also with the same in order to get the growth. So if you see as mentioned in our press release that we are focusing more on SME loans and last quarter we could grow SME loans to the tune of 47% and we are not new to SME loans. The only thing is that we are increasing our SME loans in consensus to our balance sheet size so as we grow our balance sheet size we will increasing the portion of SME loans so SME loans at a particular stage or quarter 2 or back was not a function of lack of origination or lack of our capability to originate that but a cautious decision to limit the looking to our balance sheet size. So as we grow our balance sheet size we will be more focused on SME loans while focus on microenterprise will continue. So when we talk about a 25% growth coming from these MSME sectors accompanied by wheels the formula will be to focus on SME, micro and wheels in priority.

Sarvesh Gupta: Understood Sir, other way to grow probably is to have more of a geographic expansion now while you are increasing your distribution points are you also planning to sort of putting more new geographies in the coming this 12 months or so?

Kamlesh Gandhi: We have operation in the six states and we are trying to explore north also especially for SME business and few more geographies in south so that will be a continuous exercise depending upon our requirement for the business. But for the next quarter as I shared that our 4,100 reach will be 4,500 reach mainly within our six states of operation and we will be simultaneously exploring more centers in south and exploring north also.

Sarvesh Gupta: Understood Sir. Thank you and all the best for the coming quarter.

Moderator: Thank you. Ladies and gentleman, due to time limit this was the last question for today. I would now like to hand the conference over to the management for closing comments.

Kamlesh Gandhi: Thank you so much everyone. We were happy share the performance of the company for this quarter and we are confident the way we shared with you it will be a good growth journey going forward, looking at normalization of situation and accompanied by very strong enablers that we have in terms of capital adequacy, niche expertise, capability to raise liability and to manage asset quality, we feel that that coming back to the normal growth of around 20% to 25% is given which gives us a very strong compounding growth of doubling the AUM and the profitability every three to four years. So as a team MAS we continue to focus on our mission of excellence to endeavor which can create value for all the stakeholders and we will in touch and please feel free to connect for any further queries. Thank you so much.

Moderator: Thank you. On behalf of DAM Capital Advisors Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.