"MAS Financial Services Limited Q1 FY-23 Post-Results Conference Call"

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MODERATOR: **MR. JIGAR JANI - EDELWEISS WEALTH RESEARCH**

Moderator: Good afternoon, ladies and gentlemen, and a very warm welcome to the MAS Financial Services Limited Q1 FY '23 Post-Results Conference Call, hosted by Edelweiss Broking 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 telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Jigar Jani from Edelweiss Wealth Research. Thank you, and over to you, sir.

Jigar Jani: Thank you, Rochelle, and good evening, everyone. On behalf of Edelweiss, I welcome you all to the Q1 FY '23 Earnings Conference Call of MAS Financial Services Limited.

To discuss the Results, we have with us from the management team, Mr. Kamlesh Gandhi – Chairman and MD, Mrs. Darshana Pandya – Director and CEO, Mr. Ankit Jain – CFO and other members of the senior management team.

Without further delay, I would now hand over the call to the management for their opening comments, post which we can open the floor for Q&A session. Thank you very much, and over to you, sir.

Kamlesh Gandhi: Thank you, Jigar. And good evening to all of you. Happy to connect to all of you once again. As you know that we published our results yesterday, and I think all of you must have gone through the results.

At the outset, I would like to express satisfaction over what we have done in this last quarter which is well in line of our conviction as shared with all of you from time to time that we have very strong enablers to come back to a growth of anywhere between 20% to 25% . Having said that, the growth this quarter has been in excess of around 25% i.e. 29% in AUM, corresponded by close to 26% in profitability.

So, this confirms our understanding and that makes us more confident going to that we have sufficient enablers and very strong enablers to continue with a growth of around 20% to 25%, what we have been doing since decades.

I will give you the strategic heads up, and it will be followed by Darshana in taking you through the numbers in brief, followed by Ankit talking to you on capital and liabilities. So, just to give a heads up, as I told you that we have well back on the track of very decent growth what we have been doing all these decades which doubles our AUM every three to four years.

And secondly, starting from capital and liabilities, we are very highly capitalized at around 25%. And liability management has been very strong, that has been our forte over all these years. We have sufficient liquidity, and we could reduced the liquidity because of the strong pipeline and the confidence in the economy coming back to normal. So, on capital and liabilities, we remain very strong with a very strong capital adequacy.

In terms of the product distribution, we continue to focus on MSME where 90% of our business comes from micro, small and medium enterprises. And across the category, we have registered good Y-on-Y growth, followed by contribution of two-wheelers and commercial vehicles. As I have always said that once we have a very normal continuous economic growth, we will see that also contributing more going forward.

In terms of distribution, we are, as I talked to you and close to 6,000 potentially, we can fund at close to 6,000 locations in the country spread across over 6 states. And accompanied by the strong partnership with more than 150 NBFCs. As shared with you from time to time, our direct distribution is increasing. So, the share of that in our AUM is also increasing.

If you see that share currently is close to 55% as compared to 45% last year. And this will gradually increase. While we hold nothing against our NBFC distribution that has performed exceedingly well and just to translate into numbers of Rs. 17,000 crores of cumulative disbursement over a decade. And the loss driven default of less than 1% speaks of quality intermediation of all the partners we work with.

But however, we have begun to increase and penetrate more in the states we work and that will increase our direct distribution. In terms of asset quality, if you see, the asset quality has been maintained. And as you know, how we work we always prioritize asset, profitability and the priority is asset, profitability and growth. Having said that, we have demonstrated our capabilities to grow continuously despite of prioritizing profitability and as such our growth. Our profitably and quality of asset growth, the growth has been very robust overall this 2.5 decades.

So, asset quality remains strong with net NPAs at close to 1.63% or the stage 3 assets at 1.63% of our total AUM. So, that speaks about our understanding of the sector and our niche expertise over all these years navigating through all this crisis. While the asset quality is strong, as a conservative approach, we still continue to carry close to 0.62% of provisioning buffer currently. And that can be used over a period of time gradually.

So, that is on the asset quality.

Coming to our housing finance that has also started showing very positive signs of growth at around 16% to 17% of AUM growth this year. And we are very confident that on a low base, we will be in a position to register at 25% to 30% on a year-to-year basis. So, overall, it has been a very strong quarter. Customer is back fundamentals of the way we are working over all these years.

We had expressed this conviction and confidence during all our interactions with various lenders and investors. And we are very happy to demonstrate our capabilities now. And we see no reason why we will not be in a position to continue going forward.

So, going forward, the things look very positive for us. We are a very strong enablers, strong capital adequacy. And once again, I would like to share this capital adequacy mainly through internal accruals. It will be close to 5 years since we raised our capital in IPO. So, it has been a non-dilutive growth and mainly through internal accruals, which requires very high level of operational excellence, asset quality and profitability. That is what we have demonstrated over all these years.

So, with this background, and with this confidence, I would like to hand it over to Darshana to take you through the basic numbers, which should be helpful for you to understand the working pattern.

Darshana Pandya: Thank you, sir. Good afternoon, everyone. I am happy to connect once again with all of you. So, I think just to briefly take you through the numbers. First, we will take the MFSL, the parent company. So, we started this year at Rs. 6,246 crores. And as on June, our AUM stands at Rs. 6,684 crores and June '21 was at Rs. 5,162 crores, which is 29.49% growth in AUM. And the configuration of this AUM is around 89% is coming from micro enterprise loan and SME loans and 2-wheels is around 11%.

Now coming to the income numbers. Total income grew by around 33.56% from Rs. 148.5 crores to like Rs. 198.33 crores. Profit before tax grew by 25.69% from Rs. 49 crores to Rs. 62 crores. Profit after tax in accordance to the PBT grew by 26.33%. That is from Rs. 36.83 crores in Q1 '22 to Rs. 46.52 crores in Q1 '23.

Regarding the quality of the asset, as Kamlesh sir mentioned, we maintained the quality as on June our gross stage 3 asset is 2.28% and net stage 3 asset is 1.63% as compared to 2.28% and 1.7% as of March '22. And we continue to carry the provision by management overlay of around Rs. 34 crores, which is 0.62% of our total loan book asset.

Now coming to our housing numbers. Asset under management of our housing portfolio is now Rs. 343 crores as compared to Rs. 294.70 crores like in June '21, which is 16.46% growth in AUM. Total PBT grew by 32.53% from Rs. 1.06 crores to Rs. 1.41 crores. Profit after tax has increased by 29.86% from Rs. 82 lakhs to Rs. 1.07 crores. Here also the quality of the asset is we could maintain that, that is gross stage 3 asset is 0.54% and net stage 3 asset is 0.38%.

It was almost same in March '22. Here, also, we continue to carry a management overlay of around Rs. 3 crores, which is 1.06% of our total on book asset. So, this was regarding the performance of both the companies. Now I will request Ankit Jain to take you through the capital and liability management during the quarter.

Ankit Jain: Thank you, ma'am. Good afternoon to all. To further allocate on capital liability management, we were able to maintain a liquidity buffer of around Rs. 600 crores as an ongoing basis and unutilized cash credit facility of around Rs. 400 crores. In addition, the company has sanction on hand to the tune of Rs. 1,500 crores in the form of various instruments like term loan, DA, and co-lending.

In the last quarter, company did around Rs. 300 crores direct assignment transaction. The company has further more than Rs. 1,000 crores sanction on hand, which we utilized during the current year. The company aims to maintain around 20%- 25% of the AUM off book to direct assignment transactions. In the last quarter, we did around Rs. 40 crores of co-lending transaction with banks. And we are in process of tying up with various banks for co-lending there by it will be a win-win proposition for both entities.

Company has available cash facility of Rs. 1,825 crores, out of which utilization level is around 60% to 70% and rest portion is kept as liquidity buffer. We raised Rs. 616 crores as term loan during the quarter. This has a average tenure of 3 to 5 years and help us to maintain the asset liability maturity pattern in a better way. Further, we have around Rs. 400 crores sanction on hand, which was utilized during the year.

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 cumulative buckets remain positive.

As told, the capital adequacy remains strong at 25.28%, with Tier-1 capital of 22.49% and a great scope to increase the Tier-2 capital going forward in order to have a healthy capital structure. The debt equity remains at 3.74x. The cost of borrowing for the quarter has been stable at 8.64%. In the current given increasing interest rates scenario, we envisage that cost of borrowing to remain stable at with the increasing trend remaining between 25 bps to 40 bps. Thank you.

Kamlesh Gandhi: So, thank you, Ankit. And before we open for Q&A, I would just like to add on the digitization drive that we have taken at the company level. So, what we are doing is that we are trying to digitize all our internal processes, which can accord more efficiency, especially in origination and also in to credit decisioning. So, we have a strong team of 30 plus people in the department, who are constantly working with digital processes across products besides our tie-ups with various Fin-techs.

And we are tying up with fintechs in a way whereby the dictum of extending credit where it is due is not diluted and across our products, which gives us a better origination reach to the places where we might be missing in case despite of our best efforts. So, I think we all know that we have to be more focused and absolutely aware of the technological advancement happening in the financial services space, and we are much aware of it and the company is constantly in the loop and we will endeavor to see to it that how we can use the technology in the most optimum manner so as to increase efficiencies. That was on the digitization drive of the company and the tie-up with fintech.

So, with this, I would like to open the session for Q&A. We will be happy to answer your queries. So, that session may be open.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question-and-answer session. Our first question is from the line of Jehan Bhadha from Nirmal Bang. Please go ahead.

Jehan Bhadha: Sir, I have one question on fee and commission expenses, which is at Rs. 13 crores for the quarter. If I look at previous quarters, this number actually before COVID used to be negligible at around Rs. 1 crores or so. So, can you explain what this is?

Kamlesh Gandhi: So, fee and commission expenditure is a part of the operational expenditure as we increase our distribution strength. If you see Pre-COVID we were at around 3,000, 3,500 of our distribution in terms of centers' reach, which has increased to now close to 6,000. And secondly, as I said last quarter also that with the partner NBFCs for better control, we have changed our working model from receiving the complete receipt from the customer and then sharing the IRR post receiving the complete amount.

So, that has been parted as fees and commission to them. So, these are a function of 2 things. The change in business model for better control with our NBFC partners and also the increase in the operational expenditure because of the increased reach and increased retail business.

Moderator: Thank you. Our next question is from the line of Amarnath Bhakat from Ministry of Finance, Oman. Please go ahead.

Amarnath Bhakat: Thanks for giving this comfort to investors that you will continue to maintain your same path of consistent growth and maintaining the capital adequacy. Sir, my first question is relating to this maintaining the higher capital adequacy is much more than what the regulatory requirement is, how much is your negative cost of carry?

Kamlesh Gandhi: Let me take you through how this capital adequacy fundamentally evolved over a period of time. While statutory requirement is 10% tier 1 and over 15% tier 1, that is the bare minimum capital you need. As you know, this sector has passed through a lot of crisis and a very continued crisis since 2018. So, it is prudent to control the leverage and have more capital buffers.

And with a view to setback the overall working of the company to make it more fundamentally strong, we have internal plans to maintain it anywhere around 20%. This 25% is a function of a slow growth for 2 years during COVID time, whereby we continue to make profit during that period. So, there are internal accruals not backed up by sufficient growth for at least 2 years and that increased our capital base.

And if you see it in a perspective, this capital base will give us a sufficient room to internal accruals only over a period of time. So, this capital adequacy is a conscious decision. Secondly,before this crisis, usually, the leverage for NBFC around 5x or 5.5x was well acceptable by the lenders, which has changed years to 3.5x to 4x. So, taking all these things into account, I think we have our capital adequacy, which is sufficient to fuel our growth through internal accruals.

And that is evidenced of the fact that even our return on capital employed is a healthy 15% plus. So, it is not at the cost of the return on capital employed, but it is a conscious decision by the company to be well capitalized. And overall, as we come back to the normal trajectory of growth, we see it hovering around 20%.

Amarnath Bhakat: Sir, well understood this point. And that is the history of your company as well as to maintain a higher level of debt to the capital adequacy. The purpose I am asking this question is if our growth rate of AUM is 20%, 25%. The leverage is around 3.5x, 3.7x.

The return on assets is supposed to grow a little higher. One side, our expenditure profile, all expenditure profile is keep on increasing. But the income rate on the expenditure rate is not going line on line. Generally, it is supposed to be if it is 25%, 25% of the AUM. Around 20%, 25% should be on the bottom line as well. But if you see this bottom line increase because of whatever expenditure are there, is not in line with the growth profile of this company.

And also the return on assets and return on equity both are more or less stagnant. Now we are almost 15 years to 20, 25 years old company, you already have a growth base here. So, I am just trying to understand why we are not being a little aggressive based on your experience and the depth you might have already been achieved in the market. And what we are seeing is the bottom line has really not been increasing in that way.

Kamlesh Gandhi: So, to answer your question, I think on bottom line, if you see and if you do not just take a quarter or 2 or a year or 2, we already in our presentation that over 25 years, we have grown our PAT at a rate of 40%. And that is that well corresponds with the AUM growth, if you see a 25 years long journey. So, I think I will draw your attention to that fact. And secondly, the marketing expenditure and profitability absolutely line to line might not be practically possible when you are in an expansion stage, it might lag a few quarters.

But even though we have endeavored and we have demonstrated our capability to be very close to that. As I shared with you that 35%, 40% growth in AUM over all these years accompanied by a corresponding raise in profitability over an extended period of 20, 25 years, which is demonstrated and a lot of headwind over all these years and various cycles.

In terms of being aggressive in growth being the practitioner if I share with you, growth is not only the function of the capital under debt we have been into informal funding we have been into into retail funding. I think operational excellence plays a very important role. And even though when you talk about a 20%, 25% growth, that is doubling your AUM every 3 years. And over the years, we have seen that the common denominator for failures across the players has been exponential growth.

It is not about lack of opportunity or lack of capabilities to raise more debt or more capital. It is about a cautious understanding that how you can manage growth. The growth has to manage in such a manner that it adds value to all the stakeholders and generate a good ROAs and ROEs.

Coming to ROA, expansion of ROA, beyond a point is difficult if you want to create quality assets and if you really want to grow continuously at 20%, 25% because there are a lot of competitive forces. So, expansion of ROAs we have always seen that the value add what we do, 15% to 18% ROEs and close to 3%, 3.25% of ROA is in sync with the value add we do to all the stakeholders. And this is what we have understood, and we have zoroed down on the fundamental after a long understanding of 25 years of working.

Amarnath Bhakat: Just to follow up a little bit, sir, on the same point. So, your guidance is 20%, 25% of the loan growth. So, with the corresponding period of 5 years, what is your guidance on the ROA and ROE? This is my last one

Kamlesh Gandhi: While we cannot predict that, the visualization us that we will keep our ROAs anywhere in the range of 2.75% to 3.25%, translating into ROEs of anywhere between 15% to 18%.

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

Madhuchanda Dey: I have one housekeeping question to start with, which is what is the disbursement figure for the quarter?

Kamlesh Gandhi: It is Rs. 2,153 crores.

Madhuchanda Dey: Okay. Sir, my next question is, we have seen two rounds of rate hikes by the Central Bank in the last quarter. But we have seen that you have seen a tad reduction in the cost of funds and some improvement in margin also.

So, if you could explain that and also give us some guidance on how you see your NIM behaving in a rising rate trajectory like now?

Kamlesh Gandhi: To start with the NIMs, what we intend to maintain and what we foresee is able to maintain in that range of 6.75% to 7.25% if I talk range bound and if I give you a figure, it will be around

7%. In terms of what was the impact of the increase rate scenario, let me take you through how we borrow. Our borrowing is MCLR based and if MCLR resets is usually around 6 months to a year's time.

So, as soon as the repo rate increases, our borrowing rate does not correspond immediately. So, that is the advantage what we get, that there will be various borrowings where there will be resets at various point of time. And presuming that these repo are going to be at a pre-COVID levels, we envisage, as Ankit told in his opening remarks that we will be envisages and total is rise in interest rate by anywhere between 0.25% to 0.4% on our borrowing.

And as said in the last con call that we have around 70% of our assets, whereby we have the possibility to increase the interest rates. So, the passing on the interest rate in such scenarios where there are lot of subsequent rise is possible. So, we have 70% of assets like that. So, combination of our borrowing and our capabilities to pass on the rate to an extent to see us maintaining the NIM stabilized.

On a slight reduction in the interest rate might be the function of the change in the borrowing patterns of the institutes through which we were borrowing. So, it is not so that we have started borrowing at a quite less a rates, it might be a replacement of few type of credit with different type of credit. Just to give you an example. We have Rs. 2,000 crores of CC limit, which is around 60% is carved out as WCDL and the WCDL is benchmark to a 90-day NCLR.

So, if the usage during the quarter in that portion is higher, which reflects a lower rate of interest. But on a margin basis, a NIM basis, we expect this to be hover around 7% taking into account even the rate hikes.

Madhuchanda Dey: Sir, if I may just ask one more question. If you could throw some light on what would be the rough breakup of your AUM between your own sourcing, the third-party NBFC sourcing, fintech, and co-lending?

Kamlesh Gandhi: I think our own sourcing is 55% versus all other combined at 45%.

Madhuchanda Dey: I mean I am really keen on understanding how the fintech partnerships and the co-lending is picking up?

Kamlesh Gandhi: It is picking up gradually. Last quarter, we had Rs. 200 crores of disbursement through fintech origination whereby, as I said in my opening remarks it is based on the credit screens what we give and the area of operations we will be comfortable with. So, basis that we will entertain the lease from the fintech players, and that has been close to Rs. 300 crores this quarter as compared to Rs. 200 crores last quarter.

And this is a space where we all are trying to understand and learn that the nuances of the game in such a manner that in future, we can use this very effectively and efficiently to originate the business without compromising with the quality of the credit.

Madhuchanda Dey: And sir, your colleague mentioned Rs. 40 crores was the co-lending, right?

Kamlesh Gandhi: That is co-lending from the liability side. That is on the liability side.

Madhuchanda Dey: Okay. I am so sorry. What was the co-lending on the asset side?

Kamlesh Gandhi: I think on co-lending on the asset side, included in those 45%, and I think must be around close to Rs. 300 crores.

Madhuchanda Dey: In the quarter gone by?

Kamlesh Gandhi: Yes.

Madhuchanda Dey: Okay, sir. And if you permit me, I will just ask my very last question, which is, sir, you mentioned about this, your aspirations of a steady growth of 20% to 25%. In this year, in the current fiscal, I mean what are the challenges to this growth number? I mean, what do you see in the horizon which can offset this growth number?

Kamlesh Gandhi: So, as I see right now, interest rate is well covered and the probabilities of headwinds that we see is the volatility in interest rate that is well covered. In terms of the economy picking up, we see a very active movement among our borrowers for disbursement. We see this market picking up accompanied by our distribution increasing both through a direct retail and through NBFC reach and a very huge market.

So, I think that 20%, 25% growth, we are very confident on that. And the only headwinds what we see right now, presuming that things remain as benign on the health ground the way it is right now, I think what was the volatility in the interest rate and that is well covered. Besides that, I do not see much headwinds for at any of this 20%, 25% growth.

Moderator: Thank you. Our next question is from the line of Ankit Gupta from Bamboo Capital. Please go ahead.

Ankit Gupta: I think last two, three quarters, we have seen picking up in our disbursements and AUMs are growing as well. Sir, on our major segment, which is SME as well as on the microfinance side, in the last 5, 6 years, we have seen quite a bit of disruption starting from demonetization, GST, 2019-20 also was a bit challenging in terms of growth. And then you had last 2 years of Covid. So, almost 5, 6 years of disturbances.

We have had year after year, there have been tough points. Given our expertise in the segment and our lending into this segment, do you think that this segment will now bounce back and we can see a decent growth of 2, 3 years, barring some external disturbances or impact that can come? Apart from that, we hear it for at least 2, 3 years of normalized or a good growth in this segment now?

Kamlesh Gandhi: Definitely. When we talk about India growing at a healthy rate of 7% plus, these are the segments which are going to contribute predominantly. So, we see a lot of scope and we are very bullish going through not only for 2, 3 years, but in more than that in the medium term.

And secondly, as you very rightly remarked, these sectors have gone through the most difficult times of our life. If we add Covid, that has been a very unprecedented time what we have seen over all these years. And the enterprises who survived all these are well geared up and are very enthusiastic to grow and top up the lost ground of last few years.

So, all this combined should give us a good opportunity to be the partner in their growth. And providing their growth means they will need more working capital, they need more capital for capital expenditure. And that is where financial services will play a very important role being catalyst in their growth. So, I would absolutely agree with you that this is the time the next few years, at least if not envisaging any other macro hiccups.

I think this sector is going to exhibit a very strong and a decent growth and high-quality growth. And we can as a very strong player in this segment, I think and a very old player in this segment we will definitely tend to benefit from this. And that is where the confidence stands out that to grow at the rate of around 20%, 25% even on an expanded basis.

Ankit Gupta: Okay. And sir, second question was on the liability side. Given our size and our rating has been largely being dependent on bank borrowings and tax rate and term loan contributing more than 60%, 65% of our total borrowing. And our exposure to the capital market through NCDs as well as CPs has been pretty less and we just started exploring those options now

With hopefully improvement in rating to AA category with our size of AUM increasing over a year or two, our exposure to capital market will increase, and this might help us reducing our cost of borrowing by a certain extent given yields in those segments are relatively lower compared to bank borrowing?

Kamlesh Gandhi: Definitely. So, if you see that we already have made a very healthy entry into capital market borrowings around Rs. 700 crores outstanding in terms of NCD through capital market borrowings. So, that is approximately 10% of our total liability. And we believe in a diversified liability profile, be it banks, private banks and capital markets. And as the rating improves, as the size increases, definitely we get an advantage to tap the capital market at a more competitive rates.

Currently, restricting capital market exposure is only because that we want to be competitive on the rates also. The rates offered by other lenders are much more competitive than what we would go out to capital market and borrow. And as you have seen that given our track record, given our capital adequacies and all, the institutional lending pipeline has always been so strong.

Just to show with you, by August 15 or by August 30, we will be having the tie-up for the complete year, and then we will be scouting for better opportunities, lesser interest rate and diversified source of fund and so on and so forth. So, as we grow, capital market exposure will increase, but we will have an eye on the cost factor too.

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

Sarvesh Gupta: Sir, I had three questions. One is, while talking about ROAs and ROEs, we do have the sort of thinking about growing multifold from current levels over the medium term. So, when you break up the ROA, are there any levers on OPEX as we scale, let us we scale 4x, 5x from here, do we see Opex coming down? The other is cost of borrowing, which will definitely happen, but do you intend to sort of keep a part of that benefit to you increasing your ROA?

And third is, of course, the tech sort of efficiencies. So, you spoke about some of the tech initiatives that you are taking. So, do you see part of them sort of helping you increase the ROA? So, any of these three levers do you envisage them working for you if you go at a very high scale? So, that is question number one.

Kamlesh Gandhi: Sarvesh, economies of scale are always benefits. As we grow economies of scale along with the use of technology, they will definitely benefit. But if you say right now because of our distribution model, our OPEX is absolutely at the optimum level or at a very high efficient level. So, once we start having more and more business through direct distribution, the OPEX might increase, but it will not affect the ROA because the ROAs, the yields will increase at a faster pace than what we will spend as expenditure acquiring that business.

So, as we grow economies of scale, both in terms of operations using technology, increasing yields as we go along. And secondly, definitely, the decrease in interest rates because of the increase in ratings. See, this is if I take you to the fundamental. Lending is a business of arbitrage. So, as and when we grow and our rating also increases, so what will happen is that we will be at the higher strata, and we will be in a position to explore that to the advantage of increasing the ROAs marginally.

But having said that, as we grow, we will also have to enter a few of the segments whereby those segments would be a little competitive as compared to what we are working. So, over a period of time, we are talking about going 3x, 4x, so we talk about at a Rs. 20,000 crores, Rs.

25,000 crores AUM. What we envisage is that there is a lot of dynamic changes happening, and ultimately, we have seen and what we visualize that ROAs will settle in a range bound manner between 3% to 3.5%. And given a decent leverage and de-risking will result into anywhere between 16% to 18% ROEs.

Sarvesh Gupta: Okay. And what is missing on the tree also the fee income. So, do you envisage that as you scale up, are there any potential thoughts on generating non-lending sort of an income to sort of help that ROA? Are you seeing that as you scale that, that can be a possibility?

Kamlesh Gandhi: Yes. So, we are in process of getting the insurance license like we already do insurance business which is a natural service to our lenders to whom we lend along with the open market operations. So, this is one business which will align with our line of activities. And secondly, we will also explore other fee-based avenues whereby we can generate fees working with our own SME clients as we grow, how we can modulate capital for them or how we can give other services to them, that will definitely be explored.

So, currently, the idea is to first to build up scale and then once we build up scale, foray into various activities, whereby we can generate fee-based incomes. So, that for example, we have almost due to the broking license within say next quarter or two, and that should help us increase our fee-based income.

Sarvesh Gupta: Understood. Now coming to the housing business, sir, it is been there for a while. We have already showcased a very low NPA numbers on that book. But you would also agree that the book is so small that those NPA numbers do not sort of hint or tell us how it will behave at a scale. And book being so small, it has not really contributed at all towards the overall growth also. So, what is the thought process, sir?

I mean there is no sort of a meaningful contribution from that business to our business. It is been there at a very good profile, but then the scale is really low. So, do we really want to do something there? And when will because at that scale, 17%, 16% of growth is meaningless. It is such a small scale. So, do you see that book growing at 50%, 100% or plus? Or do we have any different way of looking at that business to scale it up or it will continue to be in the shadows?

Kamlesh Gandhi: That will start contributing very meaningfully. And we see a 3-year horizon whereby this book will grow at the rate of 30% to 35%. And just on the housing finance, I am not in judgment of how the various players operate, but we are seeing this informal housing finance so closely. There are two, three things where we differentiate. When we talk about housing is a majority pure play housing and not a bulk of lap into it, number one.

Number second, the quality definitely, you cannot extrapolate on a bigger number, but at least you can get the direction of the working of the company and the fundamentals of the company because if the direction is not correct, even on a smaller base, it is on the contrary, difficult to maintain a high quality of assets because we do not get the denominator advantage.

So, taking all these things into account, we are very confident that the things are stabilized whereby the housing finance market has been differentiated into various interest rate cohorts, right, starting from 7% to 9% to 15% to 17%. We are placed ourselves anywhere between a 10% to 12% interest cohort where we see a lot of traction. It was a very cautious decision by the company to grow it cautiously over all these years.

And now we will slowly 16%, 17% is a journey. Overall, it will start from this year we see I am very confident of overall 30% growth as compared to the last year. And with the next 2 years or 3 years, once we reach a Rs. 1,000 crores mark, and then also we continue with a growth of around 25% to 30%, will start contributing very meaningfully. And on medium term, our medium term view is that this is going to contribute not substantially, but it will contribute very decently.

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

Rahul Jain: So, sir, first question with regards to our micro enterprises loans. Typically, in last few quarters, our average ticket size used to be around 40,000 to 45,000. And gradually, it has come down in the last 3 quarters to around 24,000 from somewhere in the average of 40,000, 45,000. And in this quarter itself, we are seeing a jump from about 25,000 to 45,000, 46,000, the average ticket size has gone up. Anything to read into this? Or is this some reclassification being done? How do we read this?

Kamlesh Gandhi: I think the ticket size were lower in the previous quarters, mainly because we were during the COVID or coming out of COVID. So, during that time, the per person for individual exposures were restricted. And once we saw the things coming back to the normal, where we have come back to the original exposures. And if I tell you the direction, anything less than Rs. 3 lakhs will be a micro enterprise loan.

So, there is a conscious effort by the company to increase the ticket size with the deserving borrowers because we like to grow with the borrowers and now things being stabilized will give us the confidence to increase the ticket size there also. So, there we understand that the ticket size will gradually increase but once again, not at the cost of or compromising the quality of the assets.

Rahul Jain: Is there a change in the kind of borrowers whom we are lending in terms of typically certain borrowers to whom we were not lending. And now we have started the lending back or is it a different kind of borrower or is it more due to also higher disbursements happening to the fintech? Anything on those lines?

Kamlesh Gandhi: I think we serve to more than 300 different categories of borrowers and more or less, we revolve around those category of borrowers only. So, as I told you the ticket size is a matter of the comfort that we draw from time to time basis the macro conditions in the economy. So, if we are comfortable and if the things are going smooth and as you know that we have stabilized and we are in the process of stabilizing from last Q3 onwards.

So, now we are getting the confidence to cater to the demand the way the borrowers would like to borrow from us. Normally, what it happens that he wants Rs. 1 lakhs but we will contribute around Rs. 30,000, Rs. 40,000, Rs. 20,000, whatever the internal guidelines are from time to time. So, the borrowers remains the same and fintech or direct disbursement, our criteria for extending the loan does not change. That is if you do certain criteria, if it is direct origination or origination through fintech, physical origination or origination through fintech that does not change.

Rahul Jain: Sir, with regards to our branches, one observation is we have done very well in terms of expanding our branches in the state of Madhya Pradesh from about 10 branches about a year ago, we are today at 31. In previous interactions, you have mentioned that Maharashtra, Rajasthan and MP, these are your 3 focus areas to take the branch network from about 125 to 250 next 3 years.

So, MP, we have increases from 10 to 31 whereas on Maharashtra, typically in the last four quarters, it has remained in this manner or it has just gone up from 21 to 26. So, is it like there is some conscious effort going on in MP, where you feel we are much better off in terms of the resources or the branch network or the kind of reach you have got in MP? Just to understand and going ahead how do you see this?

Kamlesh Gandhi: So, opening of the branches depends upon our internal survey of those region and also getting the right sort of human resources. If you compare Maharashtra and MP, Maharashtra was slow deliberately because we all know that Maharashtra was highest hit during Covid. So, we are waiting for a while before we can really increase the number of branches there. So, we are trying to capture areas where we are more comfortable from credit risk as per our assessment and also getting the resources what we need.

So, there will be different numbers in different states from a quarter-to-quarter basis. It will depend upon the opportunity we get and how well we have executed in a particular state. So, depending upon execution, and the opportunity we get, it will differ. But overall, as I shared earlier, we intend to have around 250 branches among our areas of operations, maybe one state might be ahead than the other for a quarter or two. But once we get the right opportunity, I think it will be as per the overall planning.

Moderator: Thank you. Our next question is from the line of Deepak Sonawane from Haitong Securities. Please go ahead.

Deepak Sonawane: Sir, I have two questions. First is on fintech. Sir, we have seen a very strong growth in disbursements through fintech channels. So, what has been our average ticket size for the disbursement through fintech?

Kamlesh Gandhi: I think we have around Rs. 300 crores of disbursements done in this quarter. And we see the average ticket size depending upon the product. If it is an MEL loan, then the average ticket size will be around between Rs. 50,000 to Rs. 60,000. And if it is a SME loan, the average ticket size will be in the range of around Rs. 4 lakhs to Rs. 5 lakhs.

Deepak Sonawane: And sir, my second question is kind of a data keeping. So, can you just give out your stage 3 asset numbers or in percentage for all the four main categories like in MEL, SME, two-wheelers and commercial vehicles?

Darshana Pandya: So, in terms of percentage?

Deepak Sonawane: Yes. That will work.

Darshana Pandya: So, in two-wheelers it is 2.58%; SRTO is is 2.35%; MEL is 1.53%; and SME is 1.48%.

Moderator: Thank you very much. Ladies and gentlemen, due to time constraints, that was the last question. I now hand the conference over to the management team for closing comments.

Kamlesh Gandhi: So, thank you, everybody. And for the ones who have missed out on this Q&A session, I request them to contact Ankit Jain or Ninad Solanky who represents us from the IR, and we will be happy to answer all your queries. So, thank you so much. And once again, as I said in the opening remarks, we are very confident that we will be in a position to achieve the growth what we have done overall this year and having very strong enablers. I wish you all the best. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Edelweiss Broking Limited, that concludes this conference call. Thank you for joining us. You may now disconnect your lines.