"MAS Financial Services Limited Q4 FY2018 Earnings Conference Call"

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ANALYST: **MR. RENISH BHUVA – ICICI SECURITIES**

MANAGEMENT: **MR. KAMLESH GANDHI – FOUNDER, CHAIRMAN AND MANAGING DIRECTOR – MAS FINANCIAL SERVICES LIMITED**
MR. MUKESH GANDHI – CO-FOUNDER, WHOLE-TIME DIRECTOR AND CHIEF FINANCIAL OFFICER - MAS FINANCIAL SERVICES LIMITED
MR. ANKIT JAIN – VICE PRESIDENT FINANCE - MAS FINANCIAL SERVICES LIMITED
MRS. DARSHANA PANDYA - EXECUTIVE DIRECTOR - OPERATIONS - MAS FINANCIAL SERVICES LIMITED
MR. DHVANIL GANDHI – BUSINESS DEVELOPMENT MANAGER - MAS FINANCIAL SERVICES LIMITED

Moderator: Ladies and gentlemen good day and welcome to the MAS Financial Services Limited Q4 FY2018 Earnings Conference Call hosted by ICICI Securities. 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 Mr. Renish Bhuva from ICICI Securities. Thank you and over to you Sir!

Renish Bhuva: Good afternoon all. Welcome to MAS Financial Q4 FY2018 Earnings Call hosted by ICICI Securities. Today we have Mr. Kamlesh Gandhi – Chairman and Managing Director, Mr. Mukesh Gandhi – CFO and the Senior Management Team with us on this call. I will now hand over a call to Mr. Kamlesh Gandhi to take us through the Q4 FY2018 numbers and then we will open floor for Q&A. Over to you Sir!

Kamlesh Gandhi: Thank you Renish and good afternoon everybody. I am very happy to connect to all of you once again. I have with me Mr. Mukesh Gandhi who is a Co-Founder and Director of Finance, Ankit who is the VP Finance and Darshana Pandya, the Executive Director who looks after operations and Dhvanil Gandhi who undertakes the fintech initiatives in the company. I think all of you are aware about the company, but just for the benefit of ones who are joining for the first time, MAS Financial Services Limited is the 23 years old NBFC focused on serving informal class and over the period we have grown at a CAGR of 40% if you see in the presentation, our first balance sheet size was Rs.2 Crores way back in 1995 and what have we done overall in these 23 years is to create a quality portfolio and grow in a calibrated manner and which has resulted into AUM of Rs.4,114 Crores as I talk to you. So this is the brief history of MAS, we went to the market in October 2017. We are thankful to all the investors for the enormous faith they showed in the company and we as a management and the founders will always strive to live up to the expectation of the investors and the lenders and this is what we understand we are mandated to do.

Just to take you through the performance, the purpose of this call is to take you through the performance on a quarter-to-quarter basis and on a year-to-year basis as we have mentioned in the press release, it is a very robust financial performance. If you see our quarter-to-quarter performance, we have grown our AUM by 30.36%, income by 35.12%, profit on a quarter-to-quarter basis has almost doubled mainly because of the money raised during IPO and we have maintained a very benign quality of asset at point 0.91% net NPA and if you see on a year-to-year basis, the AUM growth as I told is 30.36%, total income up by 25.29%, profit before tax and profit after tax up by close to 53.5% and once again NNPA at 0.9%.

If you see the financial metrics, we have always endeavour to maintain an ROA of close to 2.5% to 3%. This time we have maintained 3% and that translates into ROC of close to 17% or more even on the expanded base of capital. If I take you through the segment wise performance as you know that we are specialized MEL and SME financer and bulk of the business is under this category where we serve the small and the medium enterprises of the country, in that in micro enterprise loans, we have around 29.8% of growth which has grown to Rs.2,576 crores. In SME loans, we have crossed Rs.1,029 Crores which is around 34.78% growth, two wheeler is Rs.362 Crores which is 27% growth and commercial vehicle has grown by 20% to Rs.146.22 Crores resulting into aggregate AUM of Rs. 4,114 Crores.

As you know we operate our housing activities through our subsidiary that is MAS Rural Housing and Mortgage Finance Limited and there we have registered a growth of 15% in AUM, 17% in profitability before tax, 28% growth after tax and we have improved on the quality of the portfolio that is from 0.34% NNPA we have managed to control our NNPA to 0.27% and I have interacted with many of you and that we always believe that as an intermediary we are mandated to create quality because in lending business top line is the easiest thing to do and as a company we always endeavour to see to that how we can keep the portfolio very benign. Briefly if I share with you that what have been the key enablers over all these years and this year being no different. If we talk about our performance, we have been growing at a very steady pace of 25% to 30% in AUM and in profitability, a very strong compounding story over all these years. We have doubled our AUM and profitability every three years and we will continue to do so and the endeavour is to do so in the future also.

Now if I share with you what are the enablers before which we can propose this robust growth on a year-to-year basis, I must start with the market size that the size of the market what we serve is a huge market out there. The difference between the demand and the supply of loans to the SME and the MEL is well known, but as it is known that every business opportunity is as good as you execute it, so the market size has always been a very big enabler, but accompanied by that our understanding is close to 23 years of the segment and the sector. If you ask me we know nothing but to serve this informal class especially belonging to MEL and SME and over a period of time you always learnt, unlearnt and have always tried to be more and more efficient in the last mile delivery of credit and if you ask the USP of the company is understanding the segment, whom we serve very thoroughly and which is reflected in our execution.

If you see our distribution pattern, how we distribute this last mile delivery of loans is through two distribution channels, one is our own distribution strength of close to 3,300 centers spread across 6 states and 77 branches and through 112 smaller NBFCs who are very closer to the ground, so ultimately even through NBFC whatever we do is creating the ultimate portfolio of MEL, SME, two wheeler and commercial vehicle which we do directly through our distribution network, but we always believe that rather than opting for a DSA or a franchise model, NBFCs have always proved to be a superior model in terms of the efficient last mile delivery of credit and hence we are channelizing that part of the credit through NBFCs whereby we have a revenue sharing model with them and they originate their service and their delinquencies also and the revenue sharing model is done accordingly.

I think I have shared with you in the past also that we used to work in the same model with HDFC Bank in 2002, 2003 and we had wonderful experience and from that time onwards we always thought that this is a very potent way of doing the last mile delivery of credit because in serving the informal class it is not about the size of the balance sheet that matters, but it is about the demographic understanding and we started with this one relationship in 2010 and as I talk to you, we have such 115 relationships.

So the understanding of the segment has resulted into a very potent and a very robust distribution network through our NBFCs and through our own distribution strength of 3,300 centres and secondly understanding of the segment has resulted into a very robust underwriting practices and processes. I think when it comes to underwriting, Darshana who handles the operations will talk to you much about it, but we always over the years have believed that extending credit where it is due is the ultimate aim and we always endeavour to do it and the quality of the portfolio is the result of the stringent credit what we do is the aggressive write off what we do and a strong collection and what we meant by strong collection is being very close to the entrepreneurs and very close to the borrowers whom we fund right from the first default to making them understand and see to that the burden on them does not increase to that level whereby they are not able to pay and this has resulted into a very constant and a consistent quality as far as the portfolio is concerned, because we firmly believe that increasing the topline in financial services business is far more easier rather than to strike a balance between growth and the efficient last mile delivery of credit and the quality of the portfolio which we have done over all these years and will continue to do the same.

As a result of which this company has become a self-propelling mode in terms of the capital requirement also. If you see in the last 23 years, we have raised primary capital only three times including IPO. Out of the total five to six capital raises, one was redeemable, other was secondary and third was the primary raise, so this company has the potential to grow through its self-accruals which we have demonstrated over all these years and when I pass it onto Mukesh bhai, he will talk much about the strategy on the liability side. So this is the performance for this year that we have grown at a rate of 30.36%, the profitability has grown at an higher pace at 53.44%, but this is because of the IPO money raised in the second half that is in October 2017 and the quality of the portfolio has been very benign considering the fact that we all know that this was a very challenging year… last year was a very challenging year and I must admit that I cannot take all the credit for the quality of the portfolio, I have to give the credit to the people whom we work with, the borrowers whom we work with, the entrepreneurs whom we work with who are so resilient and are so hardworking that irrespective of the fact that they see lot of problems, their problems were not passed down towards and they could maintain a good credit discipline which has eventually resulted into a quality portfolio that we always long for.

I would like to share with you about the HR policy at MAS because every company is as good as it has seen and I personally believe the team is a group of people having complementary talent and I must tell that at MAS we are having a very efficient team and I will be failing in my duty if

I do not acknowledge the role played by my core team who are with us say for more than 25 years now. We have close to 30 to 35 people who are with us since 1995 and they continue to head the main functions at the organization. Because being a practitioner, if I share with you in a lending business internal risk is far more than the external risk, because a single loanie has an influence of only one loan whereas the person managing many loans can poise larger risk, so we are very circumspect on how we select our people, we have a very good core team, we do the lateral recruitment from time to time in order to match the growth and to give the professional touch and the way we have grown all these years is with the big team, we fail together and we succeed together whereby it has given the sense of proprietary to each and every employee, each and every person who works over here.

This is our strength and at the same time the challenge too that at every time I talk to my colleague the only aim is that how we can inculcate the proprietary attitude in that and once the proprietary attitude is inculcated the things becomes very easy, so we have a simple HR policy that we consider everybody and we try to sit with that sense of proprietary is instilled in every one of them and I am very happy to share with you that few days back, I had one SME client talking to me that what are you doing that everybody I meet at MAS I feel like that they are the proprietor of the organization, but that is a very conscious effort on the part of the organization who make the employees feel that they are the part and parcel of the company and they are the owners of the company.

So overall these are the key enablers, the market size and earnings of the segment, the way we distribute our products because of our understanding, the underwriting practices and the HR management and a few other things in detail will be shared by my colleague and for the liability management I would like to pass onto Mr. Mukesh Gandhi who will take you through the strategy on how we raise liability because in a financial services company assets and liabilities both are equally important and I will call it interdependent for the robust performance of the company. So I will pass onto Mukesh bhai to talk to you about the liability management strategy as to what is our strategy over all these years and how we would like to carry forward, Mukesh bhai.

Mukesh Gandhi: Good evening everybody. So far as liability is concerned, if I take you from the CAR, currently on the capital adequacy is 31.29% and this high capital adequacy is due to the infusion of capital in through our IPO. Out of 31.29%, 29% is tier 1 capital which is almost three times the statutory requirement because statutorily you require 10% of tier 1 capital whereas we have 29% of tier 1 capital and 2.23% of the tier 2 capital. So basically we have always gone through a self-propelling business model as Kamlesh bhai told you that with the internal accruals we keep on fueling our growth and as the result over a period of time, we have raised the capital very judiciously and going forward also we will make the best use of capital to enhance the shareholders' value.

Now, the very important another aspect of our liability management is that we keep on assigning portfolio to the tune of 35% to 40% and when we assign this portfolio it is to de-risk from my balance sheet and we do not have to provide capital on that. Secondly when I assign the portfolio it qualifies for the bank as a retail portfolio and priority sector portfolio, so banks offer us at a very finer rate and debt has been maintaining the overall cost of borrowing under the control. So if you look at our cost of borrowing in the last year, our cost of borrowing was 8.67% whereas the cost of fund including the impact of capital was 7.74%, so this is what we have been maintaining, this very controlled cost of borrowing because of our relations with the banks and the various mix of raising the liability. We raise the liability through CC facilities. Within the CC facilities, we go for the short-term working capital demand loan. We raise certain term loan, we go for an assignment and because of all these mix our cost of borrowing is less. We also issue the commercial paper whenever the rates are very conducive and we have a excellent relationship with our bankers and we have a consortium of almost 20 banks and the same bankers are buying our portfolio, because we are aware of the quality of the portfolio what we are generating it and because of that they are very happy to buy this portfolio periodically.

If I take it to the performance so far is the NIM is concerned, we have an average deployment rate of around 15.77%, cost of fund is 7.7% and that leaves the margin of 8% and from that the cost of provisioning and delinquency is 1.35% and operational cost that we see is 2.08%, leaving 4.6% as a net profit margin. If you look at return on average asset, it is 4.41% and return on average AUM works out to be 3.01% and ROC the return on average capital is 19% on the extended capital base also and going forward we are hopeful of maintaining this around 19% to 20%.

Now so far as our asset and liability is concerned, our current ratio if you look at, that it is more than 1% and let me clarify that in this current ratio our CC facility is also included and we utilize 45% to 50% of CC facilities every year. The CC facility is the continuous facilities practically, technically it is considered for one year facility, but practically it keeps on renewing it. So if you consider that also then we have a robust ALM at place and going forward also we will continue to have that robust ALM, which will be at place. So far as the interest is concerned, now the bond market is tightening up and the rates are going up, but basically we have a relationship with the banks and till today we are getting the funding at the final rates. If we go for the issuing to the NCD or bonds then lot of people are ready to fund us, but given our present rating of A, the cost difference is between 100 to 150-basis points, therefore we are restraining ourselves from raising that particular source otherwise at any given point of time, we can switch over to the capital debt market and can raise the fund and that we will do it at the right time once we are finding that the rates are conducive to us. So this is how we are managing our total liability in an efficient manner to control the cost and keep the liquidity always available for the growth of the company. Now I pass it onto my VP Finance for the detailed funding sources and delinquency what we have with different financial institutions, Mr Ankit.

Ankit Jain: Good evening everyone. Just to elaborate on the liability management which Mukesh Sir told. Our company's primary source of funding is assignment of receivables, cash credit and term loan. First if I elaborate assignment, last year we did around Rs.1800 crores assignment transactions eventually with PSU bank like SBI, Bank of India, Union Bank, Dena Bank, Oriental Bank of Commerce, Andhra Bank etc, the assignment transaction has helped to save on our capital as we do it at a very competitive rate, almost all the transactions which we did last year was at one year MCLR of bank. Last year our incremental cost of assignment of transaction was around 8.75%. Secondly if I talk about cash credit, this helped us in maintaining sufficient liquidity in hand. We have around Rs.2000 Crores cash credit facility evenly spread over 20 banks. Here the lead bank is Dena Bank who was our first banker since 1996. The major banks are SBI, Andhra Bank, Bank of India, Union Bank, PNB, Bank of Baroda etc. Here we always make sure that round the year the utilization of CC facility will not be more than 50% to 60%. Here again in order to reduce our borrowing cost within the CC limit, we have sanctions of WCDL which we dole over each three months. The rate which is the WCDL are majorly at banks three months MCLR, last year on incremental basis, the cost of WCDL was around 8.25%. Thirdly in order to manage comfortable asset liability maturity pattern, we keep on raising term loan, last year we raised around Rs.225 Crores term loans with major banks and HDFC, Bajaj Finance etc and incremental cost of term loan was 9.25%. Now I hand over the speaker to Mrs. Darshana Pandya, who is a COO and Director.

Darshana Pandya: Good evening everybody. I am Darshana and I am working in operations since last 22 years. I will share some credit underwriting practices with all of you as it is an important part of our operations. As mentioned by Kamlesh bhai, with an aim to extent credit where it is due, what we do is we design the credit policy for all our products and for that what we consider is demographic understanding and the product characteristic while designing the credit policy for all these products and then what we do is follow the dictum of adherence and adaptability. We train our team for the policy and guide them to adhere to the policy hence based on the feedbacks from our origination team, portfolio management team and credit team, we adapt the policy on a periodical to regular basis rather. So that this keeps us very relevant at the market place and which helps us to create the quality portfolio. Now about the credit processes, though it is centralized it is seamless for the customer. We are sensitive to turnaround time to process to deliver the credit, but at the same time we are not obsessed for that and this is why we have set this process in such a way whereby customer does not feel that it is a centralized decision. So for credit process what we do is collect the information from the customer as we are serving to informal class of the customer, we collect required documents for their KYC and other cheques as they are from informal class, they are not in a position to prove their income on paper but in that case we have to understand their business model and based on that we have to take the final decision and our credit decision is headed by onsite credit verification, input from our collection team and credit bureau check and this also helps us to create the quality portfolio. Here the challenge is to systemize our learning, which is our USP also. What we do is we design the credit policy, then train our team and learning and unlearning is the continuous process at MAS and based on that time to time, what we do is we adopt the credit policy and once again train our team and this is the continuous process at MAS. To sum up, what we do is we design the credit policy, we have audit systems in place and we have risk and monitoring also at place, so this gives us 360-degree view. Credit policy and process helps us to analyze the current situation of the customers, audit is there to give us the hindsight and risk and monitoring is there to give us the foresight, so this is how we take our decision for final credit delivery and create a quality portfolio, which is a continuous endeavour of MAS. Now I will request Dhvanil to throw some light on technology development, which also helps us to improve our turnaround time and create the quality portfolio.

Dhvanil Gandhi: Good afternoon to everybody on the line. I am Dhvanil Gandhi working as a Business Development Manager and also working closely with the technology team at MAS. For MAS optimum use of technology to achieve our goal of efficient last mile delivery of credit and providing credit where it is due is at the forefront when we design any of our technology initiatives or undertake any of our technology initiatives and some of the projects that we are constantly working on currently is developing a very robust MIS system, internal MIS and dashboard system, which can give live feedback and data to our management for the decision making and some of the initiatives on the safe side is designing applications where we can track the activities and the efficiency of the sales people on the force, who are generating the retail loans for us and to make sure that wherever we can guide them on the basis of their activities, we always do that and we are also working with outside company, so at MAS we have an internal technology team in place to develop the applications like our core banking and all of those major applications and we also work with a lot of software providers, where we take a certain specialized softwares, which will help in increasing the efficiency of our credit process and underwriting and just to share with you guys, for example a bank statement analyzer, so we deal in our SME product with very bulky bank statements, so we have an application, which will analyze the bank statements and give us certain outputs, which we require for our credit decision taking and we are also working on e-training that is also a new initiative that we have taken for training of our sales force, our credit people and everybody who is working on the ground, so we provide training through gimmification making it more interactive, making learning more interactive and on the fintech front, as the NIM suggests, the financial prudence is of vital importance while undertaking any fintech activities and as far as MAS is concerned because our customer segment is informal that is why still touch base solution, touch base interaction is still the most efficient form of interaction that is there because we need to personally meet them, go to their work place, go to their home and understand their working and get the maximum information that we can by talking to them, so this is a brief update on the initiatives on the technology front. I will now request Mr. Kamlesh Gandhi to take it forward from here.

Kamlesh Gandhi: Thank you all of you for elaborating on the processes at MAS. Now I am coming to, I think all of you must be interested in what’s next, so just a guidance on how we have planned internally. We had a board meeting today morning and what we are planning is to once again grow at around 25% next year, so including our housing finance we should look like close to Rs. 5,200 to Rs. 5,300 Crores next year, maintain the quality of the portfolio, endeavour the PBT of anywhere between Rs.190 and Rs.200 Crores once again a 25% rise, this time a 53% rise is because of the money raise in the last year, but now we will be growing on the expanded base of profitability and we will endeavour to create more and more efficient last mile delivery of credit, increase our distribution strength from current 3,300 to 3,600 plus, concentrate on how we can add value working with our retailers channel and once again constantly endeavour to systemize our learning in terms of credit and once again work as I shared with you the very important resource for any organizations, the human resource, we will constantly endeavour to upgrade them to take them to the next level and together we succeed and this is how – we will see to that how we march ahead towards our mission and vision of maximizing the shareholders value and becoming a very responsible intermediary, so that is all from us and let me tell you that we have been doing since many years and we are at a very strategic inflection point now, at Rs.5,000 Crores we just go on doing what we have done and as a sharp learning curve, this is how – this can be a very big financial services company maintained and this is what we are committed, as I always tell that we are committed – if you see our punch line it is always excellence through endeavour, so we remain committed to our mission of excellence through endeavour. Thank you so much and now our Q&A may be arranged, we will start with the Q&A please.

Moderator: Sure. Thank you very much. We will now begin with the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. We have the first question from the line of Subhranshu Mishra from Motilal Oswal Securities. Please go ahead.

Subhranshu Mishra: Thank you Sir. Subhranshu here, just want to understand within your SME segment one is, I want to understand how do you assess the income of the borrower? Second is, what is the quality of collateral that we accept? Third is, what is the asset to the loan value generally we take during disbursement of the SME loans?

Kamlesh Gandhi: As far as SME loans are concerned, our primary focus is to give loans against machinery, against share and working capital loans against hypothecation of the current assets. In terms of loan to value – in terms of sales it is anywhere between 55% and 65%, machinery is around 75% and the same in the case of WCL whereby we have a practice of taking cash collateral in WCL to the extent of 25%, so this is how we operate in terms of our SME portfolio. In terms of assessment of income it is a multifaceted approach, but we see the – first of all it starts from evaluating the entrepreneurs, the business model, all the available papers what they can give our understanding on the factor and we combine everything and draw out their cash flow and assess their income, so having served this industry for long, we are aware of so many industries, we serve to as many as 600 different categories of customers whereby we can understand their cash flows, income and profitability, so once again as I always tell that this is the task we worked upon, we continuously work on improving it. If you see our credit appraisals memo in June, it would be different in September, it will be different in December, we go on adding as to how we can be closer to the reality and very importantly, it is our approach to this class of customers. We always approach to them as their advisors and not just a lender and our interaction with them makes it possible for us to understand their reality at the ground because it is very important to extract the real information from them, so that we have been doing which is evident from the quality of the portfolio. If I give you the quality of the portfolio in SME the NPAs there is 0.68%, so this is how we carry on our SME business.

Subhranshu Mishra: Right Sir and just one followup question on this Sir, you source this particular SME loans only through your own channels or through NBFCs as well?

Kamlesh Gandhi: It is both the way, we source through our own channels and through NBFC source.

Subhranshu Mishra: What will be the split in that case Sir?

Kamlesh Gandhi: Around 55% to 60% is direct through us and 40% through that.

Subhranshu Mishra: Just one last question Sir, how do we look at the growth of this particular portfolio and what kind of asset quality can we expect going forward as well?

Kamlesh Gandhi: I will answer the question in that the way we will grow a portfolio, if we can maintain the asset quality, we never believe in just growing the portfolio, so I will tell you that we will try to maintain the portfolio quality within our exact targets in our costing. We do not see the NPAs more than 1% or 1.25%, 0.68% is an very extraordinary achievement on a relatively smaller base of Rs.1,000 Crores as we go ahead, but that will be in built in the prices, so the quality should commensurate the pricing. At the end of the day, it should stand the litmus test of what returns it can generate for us, so quality will be of prime importance, if we succeed in that this should grow at around 35% to 40%.

Subhranshu Mishra: Right. Thank you so much for your time. I will come back in the queue.

Moderator: Thank you. Next question is from Madhuchanda Dey from MC Research. Please go ahead.

Madhuchanda Dey: I have two questions, one is nowadays if you talk to any banker the focus seems to be incrementally on getting the focus granular, focusing on SME and even the PSU banks once they are post the reconstructing processes, there are talks of creating specialized institutions for SMEs, specialized banks for SMEs, so the competitive intensity is going to be of a very different order, so how do you respond to this?

Kamlesh Gandhi: We have been working in this space since 20 years and everybody was present, the focus as you rightly told has increased, but at the same time it is a huge market to be served and a much customized market to be served. At the ground level, there are many more markets within the market. The bank is concentrating on one segment, the other bigger NBFCS are concentrating on the other segment, NBFCs like us concentrating on a different manner with 5.1 Crores SMEs and if India's GDP has to grow at 7%, this should contribute around 40% of the Indian GDP, it is a huge market to be served. So the market size is never a problem and if you see in the Indian lending space, nobody has ever suffered because of lack of market, everybody has suffered because of the lack of quality of the portfolio. So the right way of looking at it is that as I told you in lending increasing the book is very easy, but to increase the book and maintain the quality is very difficult and that is why there are very high entry barriers, so as I told – the market is huge, we have a very powerful distribution network and accompanied by our strategic intent of creating quality portfolio, we will be creating a very sustainable growth in this portfolio and we are very confident about this.

Madhuchanda Dev: My second is a housekeeping question, I wanted to know the slippage numbers for FY2018 as well as FY2017?

Kamlesh Gandhi: That will be shared with you, I do not have those at this point, so if I tell you about the NPA as on March 31 it is 0.68%, SME overall it is 0.91% and slippage that we will share with you in detail.

Madhuchanda Dev: Okay. Over the quarters has there been any difference in the trend of in the slippage, if you could just highlight that?

Kamlesh Gandhi: Come again please.

Madhuchanda Dev: Over the quarters has there been any change in slippage pattern?

Kamlesh Gandhi: Usually what happens is that, the slippages depends on number of factors, but what we have seen is that because of the efforts on collection and all ultimately the net results comes out best in the last quarter, but there are no set trends that this quarter we will have higher slippages or this quarter we will have lower slippages, it varies from year to year depending upon the macro situation and about the industries with whom we are working and about the particular state of the affairs with the borrowers whom we are working. So there are number of factors. It is difficult to point out the trend. There are different trends every year.

Madhuchanda Dev: Okay. Thank you.

Moderator: Thank you. The next question is from the line of Pranav Gupta from HDFC Securities. Please go ahead.

Pranav Gupta: Sir, Congratulations on a good set of results, I have two questions. Firstly if I look at your cost, so other expenditure has dropped sharply, any particular reason for that?

Kamlesh Gandhi: Other expenditure, give me a minute, I will have to look at the results. It was Rs.33 Crores in 2017, it is Rs.33 Crores in 2018 almost same.

Pranav Gupta: So if I am looking at the quarterly run rate it is about Rs. 7.5 Crores this quarter versus an average run rate of about Rs. 8.7 crores, so anything to yield to that or just a quarterly?

Kamlesh Gandhi: It is routine business affair, if I tell you on the way we conduct the business there is nothing extraordinary which would have increased the other expenditure.

Pranav Gupta: Second is just a clarification, so if I look at your presentation the breakup of the bucket wise NPA that you have given on the AUM that is on slide 22 says that…So if I sum up the 90 and 120 DPD plus comes up to 0.73% whereas the NPA is higher, so is there anything I am missing out or…?

Kamlesh Gandhi: See what happens that once the account is classified as NPA, it can be NPA sitting in other buckets also, once we have classified as NPA unless it becomes regular, it still goes on classified as NPA.

Darshana Pandya: We do not do reverse mandation.

Pranav Gupta: Okay, all right. Thank you so much.

Moderator: Thank you. The next question is from Digant Haria from Antique Stock Broking. Please go ahead.

Dighant Haria: This is again continuation of the previous participants question on operating cost, Sir I see that in the last two years our AUM has grown roughly by say Rs.1,400 Crores or Rs.1,500 Crores and our operating expenses, all kinds of operating expenses have just grown by say Rs.17 Crores or Rs.18 Crores, so we are practically adding Rs.100 Crores of AUM with just Rs.1 Crores of operating expense, which includes the employee cost, technology and all possible cost except interest cost. So in India there are not any retail businesses or SME businesses, which are able to do such kind of thing, so firstly I wanted the wholesale piece, last quarter I think it was 56%, I want that number if you can give me for March 2016 and March 2018 if I can get that?

Kamlesh Gandhi: Once again on the cost part if you see – there are two things, one is the way we distribute our products, we distribute through NBFCs, once again I for one for very practical reasons will not call it as wholesale lending because it is not the strategic intent, we do not finance to NBFCs into gold or real estate or corporate funding, we only have NBFCs as our channel partner who are in the similar line of activities that is the clarification on how we work. Technically it looks like wholesale funding because we channelize these assets through their books, otherwise it is just like another NBFC appointing a DSA or a franchise, but we impose more on them, this was the first part. Second is on the cost of the operation if we increase the size and secondly the way we distribute our product it is upfronted in the revenue sharing. If you see my yield, they come down in terms of when I lend it through NBFC because I pass on all the benefit of operational cost, the delinquency and the servicing by charging them less. If I give you the more detailed picture of our average yield on our retail assets, what we do through our NBFC channel is 13.96%, which was two years back close to 15%, so this is how the cost is covered in the yield because it is a revenue sharing model and the rest of the business what we do directly will increase our cost and that is why we are in a position to maintain our cost at around say 2.2%, it is a function of our distribution cost and the expanded base.

Dighant Haria: Just a proportion of this channel partner in the overall AUM?

Kamlesh Gandhi: I will just give you one minute, currently it is 58%.

Dighant Haria: And this number two years back would have been similar or?

Kamlesh Gandhi: 2016 was 55%, so it is in the range of 54% to 58% this year.

Dighant Haria: Okay Sir. Thank you and all the best.

Moderator: Thank you. The next question is from Piran Engineer from Motilal Oswal Securities. Please go ahead.

Piran Engineer: Hi Sir, just one or two quick questions, firstly I noticed that we have drastically increased our branch count from 77 to 120 for this quarter and bulk of that has come in Gujarat, so anything in particular that we see that we have almost doubled our branch count in one quarter?

Darshana Pandya: No, branch is still 77 in parent company, this number is consolidated, it is of MFSL and MRHMFL both.

Piran Engineer: Okay so the incremental branches have come for the subsidiary that is how I take it?

Darshana Pandya: 77 is of MFSL and subsidiary 69 and out of that 22 branches are shared branches. I think you are looking at consolidated presentation.

Piran Engineer: Okay, got it and also if you could just tell us the incremental yields in each product that would be helpful?

Darshana Pandya: Please come again.

Piran Engineer: The incremental yields in each product like in MEL at what rate are you lending today, in SME what rate you are all lending today in each of your four segments, five segments?

Darshana Pandya: So in our MEL product it is around 15.42%, SME is also 15.46%, two-wheeler is 18.18% and SRTO is 17.51%.

Piran Engineer: This is as of Q4 incrementally?

Darshana Pandya: Yes.

Piran Engineer: Okay. Thank you so much. That is it from my side.

Moderator: Thank you. As there are no further questions I would like to hand the conference back to the management for any closing comments.

Kamlesh Gandhi: Thank you so much everyone for joining this concall and I would like to once again assure that we would stick to our mission of financing the shareholder's value, we have been doing this since many years and we will continue to do that and suffice to say that our actions will speak louder than words. Thank you so much.

Moderator: Thank you very much**.** On behalf of ICICI Securities, that concludes this conference. Thank you for joining us ladies and gentlemen, you may disconnect your lines.

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MAS Financial Services Limited

CIN: U65910GJ1995PLC026064

ADDRESS: 6, Ground Floor, Narayan Chambers,

Ashram Road, Ahmedabad-380009.