"MAS Financial Services Limited
Q2 FY2019 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the MAS Financial Services Limited Q2 FY2019 Earnings Conference Call hosted by Axis Capital 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 Mr. Praveen Agarwal from Axis Capital. Thank you and over to you Sir!

Praveen Agarwal: Thank you Aman. Good evening everybody. Welcome to the earnings call for MAS Financial Services. We have with us Mr. Kamlesh Gandhi, Chairman & MD and Mr. Mukesh Gandhi, Wholetime Director & CFO and other members of the senior management team. I would request Mr. Kamlesh to take us through the key highlights for the quarter post, which we will open, the floor for Q&A. Over to you Mr. Gandhi!

Kamlesh Gandhi: Thank you Praveen and good evening everybody. I am very happy to connect to all of you once again. The purpose of this call is to appraise you about the numbers for the half year ended September 2018 and also for the quarter.

As already communicated, we have an AUM of Rs.4625 Crores, which is a jump of close to Rs.33.14 Crores over the last corresponding period and the Profit After Tax there is a growth of Rs.39.39 Crores so close to 40% growth in Profit After Tax and on a quarter-to-quarter basis this is 33.59% Profit After Tax.

Let me clarify that the numbers what I am giving you right now are as per I-GAAP numbers and then I will take you through the Ind-AS numbers also for a better understanding of the comparative period because this is the first year of transition and I personally believe that it is incumbent on us to give you the comparison based on the I-GAAP numbers, which will give you a good comparative analysis and then we will take you on the Ind-AS numbers also. The first numbers what I shared with you is on the I-GAAP numbers that is growth of 33% in AUM and 39% on HoH basis and 33.59% on quarter-to-quarter basis.

If we see the performance highlight on terms of disbursement grew by 27% on HoH basis and on quarter-to-quarter basis it grew by 29.92% and as always MAS is always focused upon the quality of the assets. This time also the quality of the asset is very benign. That has been our prime focus and I personally believe that we have mandated all the intermediaries in the financial services are mandated to focus on quality because we work as a trustee of the public fund and with that 1.38% is the GNPA and 0.97% is the NNPA. This is after adopting the practice of

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more provisioning rather the write-off moving towards Ind-AS. The total income also grew by 24.66% both on H1 and quarter basis and I shared with you about the profit.

On the capital adequacy front, we are at around 27.91% in total capital and the tier one capital is 26.38%. Now the way we manage our liabilities has the bearing on the capital adequacy we have because close to 35% of our portfolio is assigned and this is the practice what we are following since 2011. Of late you must have seen that there is more arch for the NBFC's to assign whereas we had identified this area long back and right from 2011 if you see our track record, we have been assigning anywhere between 30% to 40%. We are happy to share with you that in conscious to our policy, we have been declaring an interim dividend of Rs.1.5 per equity share that is around 15% on the face value.

Now if I take you through the various product segment that our microenterprises loan, we work in four main products that is microenterprises loans, small and medium enterprise loans, two wheeler loans and commercial vehicle loans. If you see our microenterprises loans and SME loans forms close to 85% to 88% of our total AUM where the growth is around 40% in microenterprises loans and in SME loans the growth is around 24.37%.

Two-wheeler has also registered a healthy growth of 25.22% and commercial vehicle loans growing at 15.28%, which gives us an overall growth of 33.14%. As you know that we have a distribution strength of close to 78 branches in our parent company and combined with our housing finance we are close to 125 branches and we cater to more than 3500 centers across our area of operation that is Gujarat, Rajasthan, Maharashtra and Madhya Pradesh in the West and Tamil Nadu and Karnataka through our branches in Chennai and Bengaluru in the South.

Besides this, we have a business model of working very closely with more than 100 NBFCs. We have said in our presentation also our key belief in how NBFCs can be used. Our win-win situation can be created through that distribution channel because serving the informal classes all about being closer to the ground. This model is also now 10 years old model. We started with just one NBFC in 2010 and as I talked to you currently we are working with more than 100 NBFCs spread across various products ranges.

Now if I take you through the Ind-AS numbers the change is on the profitability that is on a quarter-to-quarter basis the Profit after Tax for the quarter is 34.58% as compared to 24.31%, which gives a rise of 42.25% and in the same way if I compare it on HoH basis the rise is close to 58.33%. Now the reason for the same is as we know that there is a migration to Ind-AA from Q1 onwards, so all the adjustments in the past years were done in this year and hence is the affect as far as profitability is concerned, so we have shared with you the rise in profit both as per as I-

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GAAP and both as per Ind-AA and as per I-GAAP will reflect the real operational efficiency of the company and Ind-AS with some adjustments, which are required as per interim migration to Ind-AS.

As you know that we run a subsidiary that is MAS Rural Housing and Mortgage Finance Limited. There also the aim is to serve the same class of the society whom we serve through our parent company and in that the numbers are in front of you as I always shared with you that we have grown this company very cautiously because we are aware of the fact that we work with informal class giving them higher ticket size loans for the long-term which requires lot of attention and you will need to be very circumspect and extend credit where it is due and if I share the numbers with you for MAS Rural and Housing Mortgage Finance Limited that too first on the I-GAAP basis and then translating the same into Ind-AS. So our AUM has grown by 25.65% on a quarter-to-quarter and HoH basis taking it to Rs.237 Crores and our Profit After Tax is Rs.1.09 Crores for the quarter, which is as compared to 0.54% the previous quarter for the corresponding quarter that gives us an almost 100% growth and on an HoH basis the profit has grown by 58%.

Obviously, it was a low base and because of the more disbursement done in Q2 this is the effect of that. Once again the silver lining in this business also is the quality of the portfolio, which we have maintained. We have endeavored to improve every quarter and will continue to do so. As far as our NNPA is concerned is 0.26% as compared to 0.32% in the corresponding quarter.

This is as far as I-GAAP and as per Ind-AS the changes are in the profitability as I told you because of few adjustments whereby passing necessary adjustment entries to comply to Ind-AS the profits for the corresponding quarter that is Q22018 was Rs.31Lacs and as compared to that in Q22019, it is Rs.1.02 Crores, which gives us a jump of 225.86% that is more because of the adjustment that we had to do because of Ind-AS and in the same way, the first half if you consider the growth is 74.46%. The numbers being Rs.1.10 Crores in the first half last year as compared to Rs.1.93 Crores this year and if we see the stage three the way it is identified, I will take you to stage three in the parent company which I missed out. If you see stage three here it is 0.36% as compared to 0.44% and after provisioning as we commonly identify as GNPA and NNPA after provisioning it was 0.32% last year, which is 0.26% this year.

I will just take you through the quality of the portfolio as per Ind-AS in the parent company whereby GNPA that is stage three is 1.29% as compared to 1.33% in the corresponding quarter and NNPA that is after provisioning, it is 1.06% as compared to 1.23% in the corresponding quarter, so this the financial highlight. I always have shared and I will say the same thing that there is nothing new for MAS. If you see the performance of MAS even being listed and if you

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can pull out the performance of the last 15 to 20 quarters, we have steadily grown our AUM, maintained the quality, and maintained the profitability. We always believe that the pecking order of attention for financing companies and which we have demonstrated on the ground is quality, profitability and AUM because to grow the topline is always easy, but to strike the balance between these three is the demonstration of the real efficient work by any lending institute. So, this is about the performance of MAS.

Now I think all of you must be keen to know what our views on the current NBFC scenario. I communicated soon after this September end issue and had endeavored to communicate to the investors and all the people whom I had met over all this one year and the idea of communication was to convey to them that what MAS exactly is, how MAS manages the liability management, which Mukesh will take you through in detail when I pass it over to him, but if we analyse the situation and I have shared with so many people that over this 30 years what has not changed and what has remained constant is that when any such episodes happen everybody tends to become irrational in their approach whereby painting everybody with same brush when something wrong happens in the industry. I cannot comment on the working, but the approach towards the industry and approach towards the individual organization should be discreet because in good times not every company is good, during bad times not every company is bad.

For organizations like us we have to endeavor hard each time that is when there are good time people growing at an exponential pace we have to explain that what makes this thing that we should grow within 25% to 30%. There are instances that people will doubt the capability to grow, but being a practitioner for more than 25 years, we have understood, believed and seen that growing at a faster pace is easier as compared to growing at a calibrated rate because you have to be courageous to be patient, so this time also no different.

We are trying to convey to all the stakeholders that MAS is on very strong fundamentals. We continue with our disbursements. We do not have ALM and no asset liability mismatch because the way we raise our capital. Fundamentally, we have never believed that a mismatch is a good idea to reduce your cost of funds and also these things keeps us in good stead during such time. What I would like to urge all the stakeholders is to be discreet in analyzing NBFCs and see on a case to case basis that what are the fundamentals of the organizations they work with irrespective of a very good time or in respect of a challenging time, but however as we know this fundamental and this approach is often forgotten and which lands us in some problems over a period of time.

This is our take on this NBFC scenario. We know everything what has happened, but as far as MAS is concerned, we remain to be fundamentally very strong and this is nothing new for us.

Right from 1995 CRB scam to 2000 to earthquake to 2008 liquidity crisis and 2013 and now at 2018 and not only MAS every companies, which have sound fundamentals will navigate, grow and will get an opportunity to create good assets.

On the working of the company as I always shared with you that the focus is always quality growth. We continue to focus on the SME and MEL sector. We continue to focus through our direct distribution channel and through our partnership with various NBFCs, it is for us nothing but creating the portfolio what we work with directly. We are in close contact with all our distributor and partner NBFCs.

Let me tell you that all the smaller and the mid sized NBFC have no asset problem nor do they have ALM. The only thing is that because of the sentiment their credit flow might be restricted. That might result into shrinking of their asset size temporally because structurally if you see for India to grow at 7% plus and the services of NBFCs are inevitable because the growth at 7% plus is the function of how we can extend credit to the unserved, underserved and especially the MSME segment of the economy and unless you are in a position to extend credit where it is due to this segment the continuous growth is not possible, so it is not about lending to NBFC, it is about lending to this sector, which is so important for the growth of the economy and NBFCs have proved themselves over a period of time that they are one of the most efficient last mile. They can bring about the most efficient last mile delivery of the credit. Structurally NBFC remains very important.

The only thing is that all the NBFCs have to be fundamentally strong and it is not only incumbent on the NBFCs but the complete stakeholder to support fundamentally strong companies.

This is from my side. I will request Mukesh to take you through liability management and once he is through with the liability management how we manage it, I will take you through what we think that how we will plan to function in the second half of the year. Over to you Mukesh!

Mukesh Gandhi: Thank you Kamlesh. Good evening everybody. Now so far as the liability is concerned, we have been raising our borrowings with a different mix. We have assignment product, which we have been doing it as Kamlesh told you since 2011 and currently out of my total borrowing of Rs.3500 Crores, if you consider the assignment as the resources then total resources raised out of that 52% is through the assignment route and the advantageous is so far as the road to the maturity is concerned plus we are getting the benefit of interest also and it qualifies as priority sector lending for the bank also, so we have been doing this since long and currently our assignment portion is 52.55%.

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If you look at the cash credits facilities we have a total cash credit limit of Rs.1850 Crores, which amounts to 32% of my total resource mix, 13% is through a term loan and 2% is through a uptake. Because of this resource mix even there is a difficult time currently prevailing in the industry? We are better off or comfortable position so far as the liquidity is concerned. We never have any mismatch of asset and liabilities and whenever we are issuing commercial paper. Currently we do not have any commercial paper outstanding, but in past whenever we issued the commercial papers, we always see that it is for the reduction of the cost and not as an augmentation of the fund and we block our CC-facilities and issue the commercial paper, so this is the way we manage our liability portion and for current year for the entire year our resource requirement has been tied up and we have sufficient sanction on hand to take through this particular current year via different routes that is assignment, term loan, CC-facilities.

With that our positions so far as the liability is concerned is quite comfortable. Now if you look at the cost of the fund, then this particular quarter our cost of fund has been 8.95% and if you compare to the H1 to H1 then it is 8.65%. Going forward we see that this particular cost will increase and that will have an impact between 50% and 75% so far as our cost of borrowing is concerned. With that I end here, so far as the liabilities are concerned.

Kamlesh Gandhi: Thank you and just to add on before I will start Q&A session is that as of now it is difficult to predict future, but as we visualize right now, we stick to our original target given at the starting of the year that we will be around close to Rs.5200 Crores including our housing finance company and profitability around close to Rs.190 Crores to Rs.200 Crores looks quite possible anyhow we have to see how the things pans out over the next quarter especially over the next two months in this quarter.

This is about the results and this is about the working of the company, please feel free for any of your queries or any of your questions to be asked.

Moderator: Thank you very much. Ladies and gentlemen we will now begin the question and answer session. Anyone who wishes to ask a question may press "*" and "1" on their touchtone telephone. If you wish to remove yourself from the question queue you may press "*" and "2". Participants are requested to use handsets while asking a question. Ladies & Gentlemen we will wait for a moment while the question queue assembles. The first question is from the line of Trupti Aggarwal from White Oak Capital. Please go ahead.

Trupti Aggarwal: Thank you for taking my question. Sir I just has two questions. One said that the smaller NBFC is that you dealt with you do not that they have any ALM issues, but then definitely your credit squeeze in the system, so I wish to understand do you think there would be asset quality

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problems given this scenario? That is my first question and my second question is that what is your incremental cost of funds after the quarter?

Kamlesh Gandhi: I will answer your first question, all these NBFCs have proved time again that under any stress, the asset quality has been maintained and especially to look at from the other angle is that even though they do not continuously finance their borrowers, they are in a position to get the recovery, so we do not see any stress as far as the asset quality is concerned, because currently the epicenter is not the asset the problem is liability and once again it does not show that continuously supplying liability only will bring out about a quality asset, the asset quality depends upon the identification of the borrowers, so the first thing is that we do not see any stress so far we have not seen and on the liability side regarding the incremental cost of borrowing, it is around 9.25 to 9.5.

Trupti Aggarwal: So how much quantum of funds has you raised Sir after the quarter?

Kamlesh Gandhi: The current month only, we did assignment of Rs.225 Crores and we converted the CC-facility into WCDS facilities to the tune of around Rs.200 Crores.

Trupti Aggarwal: Okay Sir. Thank you.

Moderator: Thank you. The next question is from the line of Kamal Verma from CLSA. Please go ahead.

Kamal Verma: Thank you for taking my question Sir. I just had three questions regarding your on lending book, so you lend to about 100 odd NBFCs and can you please share with us like how this has the number moved over the past four, five years or may be or more, are there number of channel partners increased, have they lending ticket size to them have increased, what has happened?

Kamlesh Gandhi: If you see book to NBFCs over the last five years has grown at a CAGR of 35% the contribution is both increased in ticket size from time-to-time and increase of channel partners from time-to-time so there is a combination of both and the last five years CAGR is an excess of 35%.

Kamal Verma: Five years back, what number of channel partners would you be having like a ballpark number they see or what will be the longest?

Kamlesh Gandhi: Around 40 to 50.

Kamal Verma: Okay and are you source funders of these NBFCs or banks also fund them or they have other sources?

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Kamlesh Gandhi: They have various other sources because if you see the liability management of any NBFCs, the assets and liability runs down continuously, so in any balance sheet of NBFC will find multiple lenders and so the case in our case also, so depending upon the size of the NBFC, our exposure to them, there is anywhere between 5% and 25% of the balance sheet size.

Kamal Verma: Have you seen any slowdown in disbursement in the month of October or has it been inline with earlier months?

Kamlesh Gandhi: Can you please come again?

Kamal Verma: Number one, have you seen any problems with their funding issues with your borrowers because they would be borrowing from other sources as well, have you seen any problems in October or has it been business as usual?

Kamlesh Gandhi: Obviously in October hardly anybody has got any funds, but how these people work is that they always keep close to two to three months of liquidity on hand and September just being passed, everybody has sufficient liquidity on hand for this quarter may be in anticipation of credits they might have not disbursed as per the normal plan, but in October I do not think they got much funds in this month.

Kamal Verma: Just one last question like what will be the average size of these NBFCs to whom you lend, not the highest on medium and average size, what could be?

Kamlesh Gandhi: Medium we have around close of Rs.250 Crores.

Kamal Verma: Thank you so much.

Moderator: Thank you. The next question is from the line of Madhu Chanda Dey from MC Research. Please go ahead.

Madhu Chanda Dey: Thanks for the opportunity. Couple of questions. You mentioned about possible rise and which you have already seen in the funding cost, so how much of that you expect to pass on and how much of that will impact your margin going forward?

Kamlesh Gandhi: We expect the marginal cost of funds to increase by close to 0.75% and as I have already shared in the presentation also the clients whom we work with are not that interest sensitive so we think that we will be in a position to pass on the majority of the interest increase to our borrowers.

Madhu Chanda Dey: What was the exit NIM at the end of this quarter?

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Kamlesh Gandhi: It is around close to 7.93%.

Madhu Chanda Dey: My second question is on your NBFC channel partners while this is in the realm of expectation as of now that there could be some shake out in the NBFC space, should there be further aggravation of the liquidity crisis, so in light of this apprehension what is your take on your NBFC channel partners, have you done any exercise to have an understanding of what is their liquidity position, if you could just brief us as to what is the situation on the ground with your channel partners?

Kamlesh Gandhi: What we have done is that in fact we have been doing this right from the beginning is to go through their liability profile very thoroughly their ALM, their asset quality and what are their plans going forward and what we have seen is that in all the NBFCs whom we work with the only problem because of the credit squeeze can be shrinking of the balance sheet size of the portfolio and not on repayments and not on liquidity. In terms of the shakeout what I think is very early to think on these lines because the NBFCs whom we work with our fairly capitalized, the size of the NBFCs is an enabler to do a small ticket size loans. I personally believe that 100 x 5 NBFC are better than Rs.500 Crores into one and all these NBFCs have seen various types of ups and down and up and down cycle during their tenure. So I personally believe that they will be in a position to bear this out and this situation has to come to normal quickly not because we want to feed NBFCs on credit we want to feed the borrowers that is unserved, underserved and the MSME segment, so what we see that that the NBFCs whom we are working with by the end of this quarter we will start seeing the credit coming back to them and during this period, there will be patient, their ALM is absolutely perfect, the asset quality is perfect and we are very hopeful that they will be in a position to navigate the situation very successfully and we are working very closely with them.

Madhu Chanda Dey: Just like a related question, if it is hypothetical at this stage, but should there be a liquidity squeeze for smaller NBFCs which is a kind of apprehended, do you see a pressure on collection and hence in your asset quality?

Kamlesh Gandhi: I do not think, so because if I just share with you, we have been working with this NBFC since 2010, so this 10 years we have seen various cycles whereby there is a liquidity crisis or a asset problem from on the demonetisation side and the way they have navigated all this gives us the confidence that even though their balance sheet size shrink on the portfolio shrink, there will not be a problem on the asset quality and there will be in a position to recover what they have lent in the same proportion may be the profitability might come down for a quarter or two, but going forward they will be in a position to navigate this and this is because the structural if you see the Indian economy structurally they are required. If you want to do a small ticket size lending to this

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class of the society, this type of NBFCs are inevitable so to say, so structurally they are not in danger, the only thing is the perception and secondly when we are discussing this what is the problem with this NBFC. There has been no problem with this NBFC. They were not borrowing.

Madhu Chanda Dey: Is just a risk aversion Sir, if they do not get liquidity because of the risk aversion that is our concern.

Kamlesh Gandhi: That is what I think the lenders will also understand over a period of time, this is a knee jerk reaction that is what I told in the opening remarks that this is the time for the investors and the lenders to identify fundamentally good NBFCs. If you see the retail focused NBFC, that the NBFC is funding the small ticket size loan, there is nothing wrong in their balance sheet and this risk aversion has to reverse over a period of time and I am very confident it will, because take my example I have lent to 100 NBFCs over a quarter and we use the disbursement even though I get the repayments even though I see that the asset quality has not deteriorated, one thing is that their portfolio will shrink. I will start regaining the confidence, so I think this going that way, that is for this quarters, this NBFC has to be courageous to be patient, there will be concentrate on the quality of the assets and set their systems and operations have been ordered focus on that and once this sentiment settles down, they again start getting the fund what they want and secondly what is the quantity of funds they want. When I talk about a medium size NBFC of Rs.250 Crores want to increase their book by 25%, they have to have an incremental more liability outstanding of around Rs.60 Crores to Rs.70 Crores, so it is not so that they require absolutely big time money. It is only up to the lenders to understand and report a fit and how the lenders will get the fit is once even in the worst time I am getting my installments back and on my diligence I find that the asset quantity is not so good, they will once gain start getting the funding.

Madhu Chanda Dey: Okay, thank you Sir and all the best.

Moderator: Thank you. The next question is from the line of Kislay Upadhyay from Abakkus Asset Management. Please go ahead.

Kislay Upadhyay: Congratulations on a yet another good quarter. Sir I wanted to understand bit about your channel partners. In your balance sheet, you organized the loans to these NBFCs, so if there is any default by these NBFCs then you would recognize NPA in your system right?

Kamlesh Gandhi: Yes.

Kislay Upadhyay: So if there is any default in the end customers or the end loans, but not default by the NBFCS to you then you would not be recognizing any NPAs right?

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Kamlesh Gandhi: The system is what the underlying asset has to be standard, so what we do that we take the underlying assets once again coming to the basic, the idea is to create the ultimate portfolio what we work with, what we do directly, the NBFCs in conduit rather than appointing DSAs and franchises we have appointed NBFCs. Now the second point is that the condition is that whatever portfolio they have given to us as an underlying asset has to be standard, so any time when we see that the portfolio is not standard, they have to replace their portfolio, so all the underlying assets for the loans given to NBFC is standard and the overall management what we do and what is the due diligence to exercise is to see there overall PAR and we continuously monitor their overall PAR to see that they are bidding the range. So with these two parameters we go and monitoring the NBFCs and as far as our book is concerned, the underlying portfolio is also standard.

Kislay Upadhyay: So in that case, can you share a broad range of the NPAs of your channel partners that they have experienced in the last one, two years or the average ones?

Kamlesh Gandhi: As far as we work with around 40 NBFC-MFIs in the country and we all know that their problem during demonetization and post that everybody has come back again to a net NPA of anywhere between 1% to 3%, in SME focused also once again between 2% and 4%, in two wheeler focused NBFC depending upon the product and commercial vehicle is anywhere between 3% and 4%, so this is the range of NPAs, these NBFCs will have.

Kislay Upadhyay: Would I be right in assuming that we at MAS get the best cream of the assets loans that these NBFCs disburse?

Kamlesh Gandhi: Right.

Kislay Upadhyay: Sir my second question is on assignment do you see any competition or any slowdown in assignment, because other NBFCs would also be looking to do that given the liquidity squeeze?

Kamlesh Gandhi: One data point we will answer your question. We are right now having sanction limits on hand which will be sufficient for me till at least June 2019, so the traction is tremendous for me assignment is a 10 years old relationship with all the banks. Many of the NBFCs will be doing assignment for the first time cumulatively we have done assignment of close of Rs.4000 Crores over this period of time is an immaculate track record. So we have sufficient sanctions on hand and after these episodes even before this we had always felt that assignment as well as Mukesh will share with you that assignment is a good raise to raise money and it is win-win situation for the banks and the NBFCs so we have been doing it since long, we do not have issues on that.

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Kislay Upadhyay: Okay, when you say you have any sufficient sanctions till June 2019, for assignments between 35% and 40%?

Kamlesh Gandhi: Right.

Kislay Upadhyay: Thanks a lot. All the best.

Moderator: Thank you. The next question is from the line of Sanjiv P from Tamohara Investment Managers. Please go ahead.

Sanjiv P: The first question is considering the current scenario where we see there are lot of security issues, in this scenario would it be fair to assume that the kind of growth that we were initially estimating or initially will be witnessing should we revise that given the fact that at least it is a fine book or the NBFCs that we are talking about and because the environment itself is not conducive, so that we had envisaged in the beginning of the year, should we really look up?

Kamlesh Gandhi: Basically why we do not think to revise that because if you see the target what we said for ourselves for the modest 25% growth over last year and if I share a data point with you that our consolidated asset size is as I talk to you close to around Rs.4900 Crores and we are talking about Rs.5200 Crores on a consolidated basis by March 2019. I do not think we need to revise it, but as I told you I cannot predict future we will see from time-to-time that how the things pans out, we have never been obsessed with the topline as I told you the order of our focus is the first quality, profitability and then the AUM. So if we see that the quality is a risk or the profitability is shrinking may be we might revise the target, but I can tell you as a point of time are looking at the numbers what we have reached already and the way the things look like I visualize reaching their end. The target is also very humble when we started it was just around 20% to 25%, so do not think of a revision, can think at the end of the December I once again repeat it is difficult to predict right now, we will take a call from time-to-time what I am talking is as on date basis.

Sanjiv P: Sir, on the NIM side, because as you said that around 75-basis points you could see cost of funds going up, can we transmit anything, at least do you think at least for one quarter to two quarter scenario, this could be in a slightly pressure?

Kamlesh Gandhi: The way we raise our liabilities, our marginal cost of borrowing will increase on our new liability we raise in majority of the liability and that can be passed onto the borrowers whom we lend to may be at time lag of a month or so, so what looks like close to an 8% mean might settle around 7.5% NIM at the end of the year anyhow we will try to say that how we increase our operational efficiencies and how we can reduce the time lag of transmission of cost to the borrowers might further improve that.

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Sanjiv P: The question is on we assigning books typically do you have some lags or the gap what they recognize at NPA and then we recognize or it happens concurrently?

Kamlesh Gandhi: Can you come again; I did not get you, what was the question?

Sanjiv P: The question is on the assigned book, the kind of NPA recognition happens at the NBFC front and in our case does it happen concurrently or we recognize with a lag after they recognize?

Kamlesh Gandhi: SME works in such a manner that we have the sourcing and servicing agents once we sell the portfolio to the lending bank, it is without recourse on us and as far as the recognition is concerned, we are at par with the banks at any 90 DPD is NPA, but it is not with recourse on us.

Sanjiv P: Okay, so anything that goes wrong, so concurrently would be recognized at your end as well as assign this level?

Kamlesh Gandhi: At our end is MAS may be we always project the numbers on AUM basis in order to facilitate all of you on to analyze the operations of the company, but as far as recourse is concerned, it is absolutely on the banks.

Sanjiv P: Okay and Sir, the last question is from typically the assign book side I am saying we generate we do pass it on or we select from the entire pool of the NBFCs book?

Kamlesh Gandhi: You are talking about assignment?

Sanjiv P: Yes.

Kamlesh Gandhi: What we assign?

Sanjiv P: Yes.

Kamlesh Gandhi: The portfolio what we assign.

Sanjiv P: Yes.

Kamlesh Gandhi: In case of portfolio what we assigned it depends upon the lender choice as to what combination they need in terms of various products and depending upon that we will give them the portfolio and the same is rated by the independent rating agency and then with the same is sold to them, so it all depends upon the lenders choice on the type of portfolio they want, but having said that

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100% of our portfolio qualifies for a priority sector lending, so we are in a position to assign to the extent what we want to.

Sanjiv P: This current scenario as the liquidity scenario as you explained in the earlier to one of the participants, is that most of the NBFCs are having in your liquidity to manage things for the last quarter and likely to maintain that comfort for the next one quarter probably but if at all it shrink may be couple of more quarters, in that case at least in those NBFC side our business could slowdown a little bit?

Kamlesh Gandhi: Those NBFCs, if there is a credit squeeze, there are two things that will happen, their portfolio will shrink and our role in supplying them the credit where we are confident of the NBFCs quality, asset quality management will play a more important role anyway we do not take more than a certain percentage exposure of the balance sheet side, so I do not think our business slowing down, but for the portfolio at the NBFC level with whom be might shrink.

Sanjiv P: Fine Sir. That is it from my side. Thanks a lot Sir.

Moderator: Thank you. The next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: Thank you very much Sir for the opportunity. Just one query I have like over the medium term perspective in the past we have always been maintaining doubling our AUM every three years 25%, 30% AUM CAGR and profitability 2.5% to 3% in our way, so is there any change in our thought process because of recent whatever liquidity challenge or we still stick to these kind of endeavours that we were kind of giving in the past?

Kamlesh Gandhi: I will repeat the same thing structurally nothing has changed. This liquidity issue I reckon and we all to understand this is the temporary phenomena because the NBFCs in particular in the retail focus NBFCs and other NBFCs, they have no problem at all. This is just a sentiment, which is pertaining credit to them because everybody is painting; everybody with same brush whereas these NBFCs are totally different, so this is a very temporary scenario structurally nothing has changed. We see huge opportunity in the medium to long term because NBFCs do not need money for their consumption, they need money to dispense to the segments, which is most important to the economy that is informal underserved MSME so I do not think we should have rethink on the medium to long term plan, this is absolutely temporary I suppose.

Deepak Poddar: That is it from my side. Thank you very much.

Moderator: Thank you. The next question is from the line of Kamal Verma from CLSA. Please go ahead.

Kamal Verma: What is your outlook on your loan mix in terms of SME, MEL, two wheelers and CV loans for the next three, four, five years?

Kamlesh Gandhi: Right from the beginning we have been MEL and SME focused organization and we will continue to be one. Our assets anywhere between 75% and 80% of our assets will continue to come from MEL and SME, which is a huge opportunity, and we have the niche expertise.

Kamal Verma: In between SME and MEL?

Darshana Pandya: I think SME should be close to around 25% to 30% and MEL should be around 50% to 60%.

Kamal Verma: Okay and how many branches do you have right now for distribution for your direct extending of loans?

Darshana Pandya: In our parent company, we are having 78 branches.

Kamal Verma: What was the summer like five years back?

Darshana Pandya: Five years back it must be around 55 branches.

Kamal Verma: Okay and one more question regarding your assignment transactions, so most of these assigned loans, directly funded loans or you part of your on lending books?

Kamlesh Gandhi: It is both because whenever we fund to NBFC with an underlying assets of small micro and medium enterprises, it qualifies for a priority sector because of the underlying assets, so just to share with you of my total book size in the retail asset channel around 70% of them is assigned.

Kamal Verma: Okay, so retail asset channel would be like; total book around 40% has been assigned, so it could not actually figure it out what is the share of retail assets like 70% you are driving at?

Kamlesh Gandhi: What I am trying to tell you is that if I have Rs.100 NBFC portfolio out of that we are in a position to assign Rs.70 of them.

Kamal Verma: Got it and is it fair to assume that the larger part of assignment book would be your onlending book or is that not the case?

Kamlesh Gandhi: Yes, if you see the off book portfolio, it is 70%, 30%, 30% is from our retail assets and 70% is from retail assets channel.

Kamal Verma: That is it. Thank you so much.

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

Piran Engineer: Most of my questions have been answered. Just one small question may be a little far fetched here, but this recent migrant labour Exodus issue what kind of impact would it have on especially the MSME sector, we have read reports textile industry is going to be hit badly, sales are going to be down, 10%, 15%, 20%, jewelry industry will be hit, so any early signs that you would like to comment on?

Kamlesh Gandhi: Many of them have started coming back post Diwali everybody will come back, so that was one of episode in some part of North Gujarat. It is not everywhere in Gujarat and we are peace loving people, so this would stabilize soon, nothing to worry about that.

Piran Engineer: Thank you so much and all the best.

Moderator: Thank you. We have the followup question from the line of Kislay Upadhyay from Abakkus Asset Management. Please go ahead.

Kislay Upadhyay: Thank you for the opportunity again. Just a data point question, what is the average rate at which we lend to our channel partners?

Kamlesh Gandhi: 13.75%.

Kislay Upadhyay: And what is the yield at which they lend to the end customers?

Kamlesh Gandhi: Anywhere between 21% and 24%.

Kislay Upadhyay: And what is the yield of our direct books?

Kamlesh Gandhi: 17.65%.

Kislay Upadhyay: Thank you very much.

Moderator: Thank you. Ladies and gentlemen that was the last question. I would like to hand the conference over to the management for their closing comments. Thank you and over to you!

Kamlesh Gandhi: Thank you so much. We are very happy to answer your queries and once again I will reiterate that MAS will continue to work on strong fundamentals, what we have done over the last 20 years. I would like to once again express our view that the current situation has nothing to do with the type of NBFCs we deal with ourselves and we see this as a passing phase and soon we should see normalcy coming because structurally nothing has changed and margin will continue to grow at anywhere between 25% and 30% and that is what we visualized that we have done in the past and quality and profitability will be the essence of our growth and we will continue to be in your touch regularly and for any further queries you can mail it to us any time. Thank you so much.

Moderator: Thank you very much. Ladies and gentlemen on behalf of Axis Capital Limited that concludes this conference. Thank you all for joining us. You may now disconnect your lines.

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