"MAS Financial Services Limited Q2 FY2020 Earnings Conference Call"

November 08, 2019

ANALYST: **MR. JIGNESH SHIAL - EMKAY GLOBAL FINANCIAL SERVICES**

MANAGEMENT: **MR. KAMLESH GANDHI – CHAIRMAN & MANAGING DIRECTOR - MAS FINANCIAL SERVICES LIMITED.**
MR. MUKESH GANDHI – WHOLE-TIME DIRECTOR & CHIEF FINANCIAL OFFICER - MAS FINANCIAL SERVICES LIMITED.
MRS. DARSHANA PANDYA - DIRECTOR & CHIEF OPERATING OFFICER - MAS FINANCIAL SERVICES LIMITED
MR. ANKIT JAIN – VICE PRESIDENT (FINANCE) - MAS FINANCIAL SERVICES LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY2020 Results Conference Call of MAS Financial Services Limited hosted by Emkay Global Financial Services. We have with us today, Mr. Kamlesh Gandhi, Chairman & Managing Director, Mr. Mukesh Gandhi, Whole-Time Director & CFO, and senior management team of MAS Financial Services Limited. All participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal for 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. Jignesh Shial from Emkay Global. Thank you and over to you.

Jignesh Shial: Good evening, everyone. On behalf of Emkay Global, I would like to welcome the management and thank them for giving us this opportunity. I would now hand over the call to Mr. Kamlesh Gandhi for the opening remarks. Over to you, Sir!

Kamlesh Gandhi: Thank you so much and good evening to all of you. I am very happy to connect to all of you once again, and as you know, the objective of this con-call is to take you through the performance of the second quarter for this year 2019-2020. I will talk to you on what strategy we pursued this quarter followed by remarks by Mr. Mukesh Gandhi and then my colleagues, Mrs. Darshana Pandya and Mr. Ankit Jain will take you through the numbers in detail.

Now, if I share with you what we did this quarter, I think not many commentaries are needed on the overall situation that the economy is facing, especially NBFCs and also in the segment in which we are working, i.e., micro, small and medium enterprises.

Now what we did this quarter was nothing new than what we have been doing since more than 20 years, that is following the fundamentals, focusing on the quality of the customers whom we will fund rather than just chasing the growth, and having the right mix of liability so as not to create any ALM, but to create a matching fund as far as the balance sheet is concerned, and follow the fundamentals that can propel the growth the way what we have been doing since all these years.

So nevertheless, we followed the fundamentals, but it was a very challenging quarter or a very challenging year from September 2018. We all were on our toes, and we were extra agile, we worked very hard as usual and at the end of the day what is of the essence is that we could produce the desired results. There are a few other changes in the organisation that we have shared with you in our press note. We have a formidable second line, so we have promoted few of the guys that also has been shared in detail in the press note. Mrs. Darshana Pandya, who is with us for the last 23 years, will take charge of the CEO, and Mr. Ankit Jain, who is with us for the last 10 years, will take charge of CFO along with Mr. Mukesh Gandhi and me. We created a post of Chief Risk Officer even though we are not mandated as per the RBI guidelines currently, and we have promoted Deepak Dangar to the post of Chief Operating Officer for our retail asset channel business. This is what we did in strengthening the management bandwidth, and I am very happy to share with you that this is from the ranks and files of the organisation and that is what differentiates our HR policy as far as MAS is concerned.

So once again taking you back to that fundamentals that we worked on very hard this quarter, we could achieve the results that we anticipated and what we planned and the numbers are well before you, but I request Darshana to take you through the numbers in details, which would give you more insights on how we have worked and then we will be happy to take any questions pertaining to that. Thank you. Over to you, Darshana!

Darshana Pandya: Thank you, Sir. Good evening, everybody, I will quickly take you through the numbers for this quarter and the half-year. With a growth of around 17% in disbursement on YoY basis, our AUM as on 30th September 2019 stands at Rs. 5,894 Crores, which is 26.44% growth than the last year and the total income grew by 23.19%. PBT fell slightly compared to last year, driven by write-offs during this quarter.

However, we recouped our PAT number, which grew by around 34.95%. Due to our aggressive write-off, we could maintain the quality of the portfolio. Our net stage 3 stood at around 1.06%, which was 1.06% in Q2FY19, so we could maintain that level even during the period of stress that was there across all the segments.

Let me take you to the product-wise growth in AUM. Microenterprise AUM grew by 22.83%, SME AUM grew by 47.34%, two-wheeler AUM grew by 7.88%, and CV AUM came down by 8%.

Regarding the income book under the Ind-AS for our assigned portfolio, our upfront income booked for the quarter was Rs 24 Crores along with income on asset created out of the spread of Rs 1.54 Crores and spread that would have been booked on assigned portfolio on the amortised basis it would have been Rs 25.78 Crores. So, the net impact of assignment income is very negligible at Rs 6 lakhs for the quarter, and for the half-year, it is less by Rs

4 Crores. Regarding our MAS Rural Housing and Mortgage Finance Limited, which is a subsidiary company for our housing loan segment, the rise in AUM stood at Rs. 282 Crores as on September 2019, a growth of 18.65% on a YoY basis. Total income grew by 30.16%, PBT grew by 15.04%, and PAT rose by 6.18%. Once again, there is an impact of tax rate change of Rs 6 lakhs, and hence, the growth in PAT is less than the growth in PBT. Gross stage 3 assets of our housing finance company stood at 0.40%, which was 0.36% last year, and the net stage 3 assets stood at 0.30%, which was 0.26% last year.

Kamlesh Gandhi: Thank you, Darshana. To summarise the performance, rise in AUM by 25% and rise in profitability by 35% and maintaining the net stage 3 at 1. This is an improvement from the sequential quarter, which was 1.14 last June that improved to 1.06% because of our policy of aggressively writing stage 3 assets rather than booking more profits, which further strengthens the asset quality at MAS. This has been the main focus, and we personally believe that we are all mandated as far as the lending institutes are concerned who focus more on quality rather than just showing very high profitability or high AUM growth. Similarly, in our housing finance segment, the growth as you saw is around 15% to 17%, but as you all know the housing finance industry is facing a lot of headwinds, so we were circumspect and could maintain an immaculate quality as far as asset quality is concerned at close to 0.4% or so in our net stage 3 NPAs. So all in all, a satisfactory quarter in terms of our performance, and I will ask Mukesh Bhai now to give his opening comments on the liability fundamentals we follow and will be followed by Mr. Ankit Jain’s remarks on how we did it on as far as the numbers are concerned.

Mukesh Gandhi: Good evening, everybody. Now regarding our company’s policy, if you look at on liability side, we always maintain the ALM. There is no mismatch so far as the ALM is concerned, and that is the very first basic fundamental, which we have been following for the last two decades, and that is what keeps us in the good state. If you look at the capital adequacy, we are adequately capitalized, rather more than adequately capitalized. Our capital adequacy ratio is 26.88%, and out of that, the Tier-I capital adequacy is 25.52%, and Tier-II is 1.36%. So we have sufficient room to raise the Tier-II capital going forward, and as far as the resources are concerned, we mainly raise the resources from the bankers. We have a relationship with more than 20 bankers in our consortium, and because of our immaculate track record even during the tough time, fundraising was possible for us. The cost of fundraising was higher, but that was the case for everybody. So far as we never found any difficulties in raising the resources and with that capital sees a good state. Now I request Ankit to give you some further details regarding the borrowing cost and all these things, which he will explain to you in detail. Thank you. Over to Ankit!

Ankit Jain: Good evening everyone. To further elaborate on the liability part, our source of fund mix has remained somewhat similar to the last quarter. We have 47% of funding to the assignment, 34% to cash credit facility, 18% to the term loans, and 1% to sub-debt. In Q2, we have raised around Rs. 651 Crores through direct assignment transactions mainly through large PSU banks and we further have around Rs. 1,600 Crores sanctioned in hand. As you all know assignment help the banks to bridge their PSL and retail target gaps and is already beneficial to the company as the portfolio gets de-risked from our book and we are not required to keep capital on it. Also, it is a cheaper source of funds for the company. We have around Rs. 1,800 Crores cash credit faculty, which we keep utilizing around 65% to 70% majorly in the form of working capital loans.

In the last quarter, we rolled over around Rs. 1,450 Crores Working Capital Loan. In the last quarter, we raised around Rs. 210 Crores term loans, and going forward; we have the sanction of around Rs. 500 Crores, which will be utilized in the latter part of the year.

We mainly raise term loans to keep healthy ALM. Also, the RBI moved to again tag all lending to NBFC on PSL, which further boosted our term loan raising plan and this will help us reduce the cost of interest on the term loans. The cost of borrowing was around 9.26% in Q1FY20, which has increased to 9.71% in Q2FY20, and we have already explained this in the last quarter. This increase is majorly because of the increase in the ROE of borrowings as well as excess liquidity, which we have kept invested in FD during the quarter.

On our debt-equity part, it was around 2.66 times in Q2FY19, which has increased to 3.05 times mainly because of the increase in the portfolio and the liquidity. Now I hand over the call to Kamlesh Sir for the closing comments.

Kamlesh Gandhi: Thank you, Ankit. So just to sum up on what Ankit and Mukesh Bhai told, we have a very robust way of raising liability and I must add that I am thankful to all the bankers who have supported us and showed tremendous faith by not only providing us the timely liability but also at the rates, which were relatively competitive. So that put us in a good state. As far as growing our AUM, we grew at around 26%. The business model continues to pursue MSME as our main business model. We serve this vast and a huge class of economy from our more than 3,500 centers. We have increased our branches to 100 now. With 100 branches and more than 3,500 centers and as you are aware that around 120 NBFCs are also adding to our distribution strength, gives us not only a pan India presence but a very effective distribution as far as the last-mile delivery of credit is concerned. So this is about the asset-liability and the business model, the results are in front of you, and we are very confident of repeating our performance in coming quarters, and as we believe no stone unturned, we will pursue a quality growth what has been the hallmark as far as this company is concerned overall this year. With this, we are open to taking any questions.

Moderator: Thank you very much, Sir. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Rahul Jain from Credence Wealth. Please go ahead.

Rahul Jain: Congratulations Darshana madam and Ankitji for the promotion. I have a couple of questions. One, as mentioned by you in the opening remarks and also in the result notes about aggressively writing-off stage 3 assets in this quarter. You have explained that you have used the profit tax rate, which has come down for this, but if you could just talk about if there is any segment, which is facing some kind of issues, some kind of headwinds, any of your segments whether it is micro-enterprise or the SME loans, which form a larger part of your book. The second question is that out of the micro-enterprise, loans are we facing some challenges in terms of raising loans in that particular category. Thirdly for the SME segment, how is the SME portfolio doing. There are talks in the market about some stress in the segment so how are we positioned in the portfolio, fourth is two-wheeler and CV loans we have been somewhere around the same range or same AUMs for last four to five quarters, I understand that overall the OEM segment had a degrowth in last one year, but how do we look at this segment in terms of next two, three years, do we plan to take this to the next level and lastly sir Ankit you just mentioned about cost of borrowing going up to almost 9.71%, which as per my understanding for last six quarters is in the higher band. So, what are we doing in terms of cost of funds? Are we trying to get those cost of funds? What kind of levels can we look at, and what are we doing over there?

Darshana Pandya: Starting from the first question on aggressive write-off, as the numbers tell that we have further strengthened the quality of the asset. I would say that write-off was not warranted, but it was a prudent decision by the management that rather than showing 63% PAT growth and 1.24% net NPA, we thought that it is good to have 36% PAT growth and close to 1% NPA. Having said that as we know that there is stress across the segment, it is very difficult to identify a particular cluster because of the various reasons like lower demand, increased working capital cycle, less availability of the fund, bankers been very shy of giving funds especially to the MSME class of the customers. So there is a mix and match of so many reasons, which we all know and proved. For each and every cluster, there will be some definite reasons because of which they are facing headwinds. So across the cluster, there is stress. Just to tell you that even my old customer that used to qualify for a loan automatically was put under stringent test, and sometimes even exiting limit was reduced because the situation is not that good currently. So, as far as the stress is concerned, it is across the segment, but because of the way we work and the way we lend here, the fundamentals play a very important role. Whenever the lenders and investors always tell them that prudence has more value at the time where things are going nicely, but it is only valued at such time. So, because of that, we could maintain the net NPAs across the segment within acceptable limits. This is resulting in an overall net NPA of close to around 1.04%. Now coming to the cost of funds, this cost of the fund has two elements involved in it. One is cost increasing, which is now slowly reducing. I think in the next two quarters we will see a reduction in the cost of funds. The number second is that we will have to take a negative carry. We have a unique way of managing our liability because of the cash credit facilities, and we enjoy to the tune of around more than 20% to 25% of our AUM. We have the liberty of having available cash in terms of the available cash credit, and we do not have to park it outside and pay interest on the same and on lesser interest through FD. But last two quarters were a different situation whereby we have taken a conscious decision to park that liquidity outside the consortium banking limits, and that is where we get a negative carry of close to Rs 5-6 Crores if you do the math and if we foresee that there will be no negative carry. So henceforth, there will be a reduction in the rate of interest. On your question on a two-wheeler and commercial vehicle, let me tell you that it will be very difficult for me to predict what will be the numbers on Commercial Vehicle and two-wheeler. For us, any product to qualify for the allocation of debt has to qualify on two basic criteria the quality and profitability; as long as it meets that two criteria, the funds will be allocated and will show as a product line or the growth in the product line on our balance sheet. We never comment on growth on a particular product as long as that product stands the test of profitability and quality. If it stands the test, ideally, if you ask me commercial vehicle and two-wheeler structurally has tremendous opportunities, so we continue to serve this segment, but if you see in last three, four, five, six quarters or maybe last 2-3 years commercial vehicle has faced a lot of headwinds, and we have never seen opportunity to allocate more funds there, and that is evident from the stress, which other companies are also facing who are just into commercial vehicle. So, it would be difficult for us to give you the number, but I can just tell you that these are the two areas, which have enormous potential and we will keep the powder dry as far as our distribution network is concerned. As far as our understanding of the market is concerned and as and when we get the opportunity, we will be in a position to scale that up.

Rahul Jain: Thank you so much madam, and really appreciate the kind of strategy and policies that MAS management has put in place and given the challenging environment, the kind of results which we have seen from MAS on a consistent basis. Congratulations on that, and hope to see many more surprises going ahead. Thank you so much.

Moderator: Thank you. The next question is from the line of Prasheel Shah from Capgrow Capital. Please go ahead.

Prasheel Shah: What is your proportion of AUM from proprietary and from the partner?

Kamlesh Gandhi: If I take you through a distribution system, we have 3,500 direct centers and 230 NBFCs to create the assets for us in the same line of products, which we are doing directly. As we have mentioned in our press release also that around 58% of the assets under various categories come through our distribution network through NBFCs because of the reason that the segment would not be served that is an informal class of the society and in the interlines. The strength of the partner is not in terms of what is his balance sheet size, but what are his expertise and demographic understanding. Given this fundamental view over the last 10 years, we have been in a position to have very robust distribution channels through various NBFCs to answer your question into numbers. 58% is through our NBFC partners and rest is through our direct distribution network.

Prasheel Shah: Going forward, what is your strategy on onboarding more of these partners and how scalable is this process going forward?

Kamlesh Gandhi: Once again, in terms of numbers, I will not target it as long as the partners qualify by virtue of the demographic understanding. If you go to our investor presentation, we have five slide presentation on how we select our partners. If they stand the test, we will be very happy to work with them and scale up with them and provide a very effective last-mile delivery of credit, and if there are more of them coming, we will be happy to onboard them. Otherwise, we have a very robust distribution system of our own, whereby we have more than 3,500 to 4,000 centers as of now, and that will gradually increase. It all depends upon the quality of the partners that emerge and evolves in the system.

Prasheel Shah: Okay, thank you. That's it from my side.

Moderator: Thank you. The next question is from the line of Subhranshu M from BOB Capital Markets. Please go ahead.

Subhranshu M: My first question is that we have seen your SME loan ticket size, it seems to be a bit on the higher side, and you mentioned that it is largely an unsecured loan. I just wanted to understand the overlap of these customers with banks, and why should I choose MAS Financial if I already have a banking account? and now you have got MUDRA loans, which can be offered in less than an hour, so what is our USP here given that this book has been increasing and what proportion of this SME book is sourced from our channel partners?

Kamlesh Gandhi: First of all, our SME loans are not unsecured, but they are secured by the hypothecation of their current assets. We do not take any additional collateral security. Our ticket size at Rs 40 lakhs is, in fact, reduced on a quarter-to-quarter basis and coming to your query on why you should select MAS for our NBFC. I think the right question to be asked is to the borrowers, but even if I answer on behalf of them. the value we add by doing what we do vis-à-vis a person having a bank account and getting a loan or 16 years MUDRA loan when it really comes to articulation and real delivery we have lot more value because we understand the businesses and we do not just insist on their external credit rating and their balance sheets, so as a result of which we can lend them money and create a quality asset as compared to banks and other institutes. So if you talk about more than 6 Crores SMEs were working in India, and a majority of them now have a bank account. Having a bank account does not necessarily mean a bank limit, and if you do a reality check at the ground level the PAT at which banks operate and very rightly so because we have the benefit of our size, we have the benefit of having a very close network with them along with the demographic advantage. So, because of this advantage NBFCs are the best-suited vehicle for the last mile delivery of credit, and that is what in turn, gives an effective credit to the SME as and when they required so this is where we play a very important role.

Subhranshu M: So, what proportion of your SME customers would have an overlap with banks or how many of them would have bank accounts?

Kamlesh Gandhi: Almost all of them. We did not find anybody who is not having a bank account. Let me take you around 15 years back, there was a time when if they did not have a bank account we would insist for it, we will have them open the bank account before taking a loan from us because we think that taking them into the main financial stream is really inclusive. So the customer having bank account is a positive credit assessment for us, and this is not a model we have for the deficiency of the banks or other institutes as far as he would like to take money from the people who understand him and who can lend him timely and at the same time will require diversified resources. We are serving SME who is already having the loan from Bank of Baroda, and still, I am giving him the loan, so at ground levels, even in diversified resources, the person who can really understand his business model and can help him grow and double up.

Subhranshu M: Sure, and how do you source the SME loans? Is it all on your own or through family partners? What is the proportion?

Darshana Pandya: It is both. It is through our NBFC partners and is done on the same lines the way we do through our 3,500 distribution centers through our 100 branches.

Subhranshu M: One last question. I wanted to understand that you have these one or two branches in Karnataka, Tamil Nadu and Delhi for quite some time. What plans do we have to expand in these three territories, and what do they contribute in terms of our AUM and profit?

Kamlesh Gandhi: The basic idea of opening the branches in these geographies was to expand our commercial vehicle business because as you know South is the hub as far as the commercial vehicle business is concerned. So we started to serve the branches to concentrate more on the commercial vehicle business and, more particularly in the used vehicle business, but as I told in of the earlier answers, it has to stand the test of quality and profitability. Unfortunately, we could not scale up there so currently the business is not so sizable, but now we are trying to introduce other products also, and within a period of time it will start contributing to our total AUM.

Subhranshu M: Correct Sir, what is the proportion today, and what is our plan for Karnataka, Tamil Nadu and Delhi in the next three years, if you can specify that?

Kamlesh Gandhi: Currently the proportion from Karnataka, Tamil Nadu and Delhi must be close to 5% and difficult for me to tell you how much it will translate into. Lending right from two years, we have predicted on numbers, you can ask me and get the assurance from me on quality and profitability, I do not know about the numbers because if they stand a test of profitability and quality, it will be 15%, if not so they can be even 2%.

Subhranshu M: One last question if I can squeeze in the number of people you deploy in collections and any off-role collection agencies that you have?

Kamlesh Gandhi: It is a combination of both depending upon the critical math of collection if there are only three cases, I would not appoint a guy there, but if there is a critical mass and I wish that there is never a critical mass on collection. So, depending upon the critical mass of a particular area, the policy is decided we have close to around 350 to 400 people directly working in the collection, and whenever it is required, we outsource it.

Subhranshu M: So, any number of agencies that are entangled with us, Sir?

Kamlesh Gandhi: Difficult off the cuff, I do not have the number but can be shared with you if you need it.

Subhranshu M: Sure Sir, thank you so much for your time, Sir. That is it from me.

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

Ankit Gupta: Sir, I just wanted to know how much is our concentration of the top 10 borrowers in our micro-enterprises loan?

Kamlesh Gandhi: Top 10 borrowers in MFI?

Ankit Gupta: Yes, MFI, NBFC segment that we have.

Kamlesh Gandhi: It is around 15%.

Ankit Gupta: I just wanted to know your thoughts on all NBFCs that we cater to, i.e., 120 NBFCs. We have these NBFCs and will also be borrowing from banks and other NBFCs if these NBFCs or MFIs are facing challenges on getting borrowing from banks or other financial institutions, how does it impact us or are they actually facing any challenges on getting more loans from banks?

Kamlesh Gandhi: Yes, if you have read the statements of few of the leading bankers or even RBI governor told a few days back, and it will be right, bankers are lending selectively to NBFCs, and when it comes to selective it is the size, the vintage, the rating and all that comes into play. Now the things what the lenders need to understand and over a period of time they have come a long way in understanding the NBFC sector as compared to when we started, that the strength of an NBFC is not its balance sheet size, the strength of an NBFC is its distribution model and the last mile delivery of credit. So with all the NBFCs whom we are working they are definitely facing problems in generating liabilities from the banks in the way they would like to, but nonetheless they are getting it so what has impacted is their growth rate, usually these NBFCs used to grow at 35%, 40%, 45% given the medium size of around 100, 200 Crores, which might come down to around 15%, 20% for this year or maybe for few more quarters, and NBFC does not consume money for themselves, if they get more money they will distribute more if they get less money they will distribute less what ultimately happens is the growth in the profitability reduces, and they grow at a lesser rate, or their ROEs may reduce. So that is the ultimate thing that happens, but it is true that they are facing a problem, and over a period of time, it is getting easier and easier for a greater number of NBFCs as we go along.

Ankit Gupta: And Sir in this scenario how are we keeping a check on the credit profile of our borrowers in macro enterprises, have we changed some of our policies have we become more stringent if you can just highlight a few things that we have done during this period to keep a more check on this loans?

Kamlesh Gandhi: See in my opening remarks I told that the situations currently said that we have a dictum of extending credit where it is due and in our class of the customer their cash flows, their profitability, their vintage, the business model and their track and the current situation of the business plays a very important role. So at MAS, I will not use the word change, improvement in credit assessment depending from time-to-time is the way of life. If you see, for SME in December, it will be different in June a few things added and so on. So depending upon the business models, depending upon the demography, depending upon their vintage, there are a lot of things, which are added from time-to-time, and the evaluations are taking place that way. Just to give you one example say somebody is my existing customer formally you would have got the loan only assessing the few parameters subsequently but now we reassess the case as if he is borrowing from me for the first time even though I had evaluated him six months back I would evaluate the same thing once again and as I told you that at the end of the day we might say that I need not increase the exposure but the time is that, that we should be very closely monitoring him and stick to that, that we do not take more exposure on him. So that is a very continuous process, very hard work, and the team and we enjoy doing this hard work and creating this quality.

Ankit Gupta: But are our macro enterprise loan customers or the borrowers of those customers are seeing challenges in delinquencies or pricing entities?

Kamlesh Gandhi: See as I told you the stress is all-round the cash flow and there are various reasons whereby the business has slowed down, the profitability has reduced so there is always a stress and when there is a stress the payment will not be regular and when the payment is not regular few basis points in terms of NPA and credit losses will be there, but that is temporary. Here NPA does not mean you are going to lose money. Your NPM is temporary, and they are not in a position to pay, but later on, if you identify the right borrower over a period of time, you will definitely get the money. There is definitely stress in the economy in terms of regular repayment.

Ankit Gupta: On the liability front cash rate, we have a policy of increasing our cash rate limit every year so that our average utilization remains around 65%, 70%, and we have enough 20%, 30% of the buffer with us. So with the current state where the banks are facing, we are not increasing the limits for many NBFCs. Are we facing any issues on that front, that they are not increasing our limits also especially on the cash credit front?

Kamlesh Gandhi: We also face the same problem; they will not increase readily the way we use to have it before September 2018, but having said that, given our vintage, we can convince them to do it and given on cash credit limit of close to Rs. 2,000 Crores currently, we are okay on a 20% cash credit limit on a scale of Rs. 10,000 Crores, which is at least two years away, so we are much ahead on our cash credit mobilization currently, and we did not worry about the current scenario; this is what we always plan. So when Rs. 10,000 Crores will be once again added in two years bankers will not be readily coming to me and tell that okay Mr. Gandhi I am increasing by 25%. I have to go to him persuade him that we differentiate our selves and then once they are convinced we can increase it, but we are not in a dire need so that it should be increased immediately. So we are well ahead as far as that format of liability is concerned.

Ankit Gupta: Next year, how much increase are we looking for in cash credit yields?

Kamlesh Gandhi: If we get good rates, we will increase it; otherwise, as I told you, we are good up till Rs. 10,000 Crores at this level, this was a function of rate, borrowing is never a problem for us. This one is about the rate.

Ankit Gupta: And Sir, on the assignment front, are there any issues because the banks are upbeat well of doing assignments?

Kamlesh Gandhi: As I am telling you once again that they are selective, overall cumulative, and we must have close to more than Rs. 10,000 - 15,000 Crores of assignment track record with losses within the estimated or less than the estimate. This is what keeps our relationships with the bankers very healthy, and as Ankit shared with you, currently, we have Rs. 1,600 Crores of unused assignment limits. So as far as we are concerned, given our track record bankers would like, and this is the time where banks will like to work with the known parties, with the people who have the track record, so all this helped us.

Ankit Gupta: And Sir, as of now, we do not have any borrowing from NCD and CD markets and maybe given our size, and credit ratings in future are we looking to tap that market also?

Kamlesh Gandhi: As I told you, it all depends upon relatively what are the rates we get. Funding per se is dependent on what are the rates we get from time-to-time; how is the maturity profile, and depending upon what we will frame our liability raising program.

Ankit Gupta: And sir just last question from a longer-term perspective with this tax that we were earlier paying 35% and there will be almost 10% saving on the tax front with the tax rate coming to 25% and with the raising of IPO we have maintained ROEs at 18%, 20% and with the loan leverage as of now and currently we have around 25% capital adequacy ratio on Tier-I so given our approval and our long-term vision do you think we have been needed to dilute equity over the next two, three years?

Kamlesh Gandhi: I cannot predict future, but in a visible future no because if you see our model it is self-propelling model at around 3% plus percentage of ROAs and growth of 25% and de-risking at the rate of 35% and still have sizable growth in raising Tier-II I do not see we diluting invisible future.

Ankit Gupta: Thank you very much, Sir.

Moderator: Thank you. The next question is from the line of Viraj Mehta from the Equirus PMS. Please go ahead.

Viraj Mehta: Sir just wanted to understand what will be your position on the MFI sector in terms of we are hearing a lot of stress coming to MFI especially some of the smaller MFIs even well-managed ones especially in Maharashtra and in an around area are not able to get funding, but we have lent to some of them so if you can throw some color there and what is our exposure to the entire MFI, NBFC sector for us?

Kamlesh Gandhi: See as I always maintained that the way we select the companies is based on the entrepreneurs, their domain expertise, their business model it is true that they are not getting the funds the way they would have like to and hence the growth has been hampered, but at the same time we see that once the things stabilize structurally NBFCs and NBFC MFI will play very important role in the effective last-mile delivery of credit. So with the improvement in situation they will start getting that also and if you are aware lot of MFIs has got sizable capital in this last year, but that is to show that still the faith in the sector on the structural importance of MFIs tax not getting that for a couple of quarters or not getting that for say year or two and growing slowly does not necessarily mean that they have no scope to survive or sustain and besides that we very closely monitor their operations, we engage with them very closely, we impress upon them the importance of having a proper cash flow management and not be obsessed with disbursement and the balance sheet size this is a task that we do very regularly with all the entrepreneurs, keep them in good state and this is the time whereby the entrepreneurs had to be more confident. If I share my thinking that a business does not run only on capital index it runs mainly on the confidence of the people running it so we engage with them very thoroughly and see to that, that they have to sharpen their operations from time-to-time and the growth does not create any solvency issue that with lesser growth may be lesser profit for some time. So this is how we are working very closely with them from time-to-time they reduce the exposure where we think that we are not in sync with those guys, so that is a continuous effort at MAS.

Viraj Mehta: Sir, the exposure to the MFI sector for us?

Kamlesh Gandhi: It is close to Rs. 1,000 Crores on-book how we work as far as our asset is created, the concern is that we originate to sell also, so either our Rs. 1,000 Crores is onboard, and in total AUM, it is around Rs. 2,000 Crores.

Viraj Mehta: And everything will be with recourse, right?

Kamlesh Gandhi: Yes, as far as the assignment is concerned, it is without recourse.

Viraj Mehta: Assignment is without recourse?

Kamlesh Gandhi: Yes, yes assignment as per RBI guidelines I cannot give any credit enhancement to the bank, so it is up to the banks evaluation once I assign to them they get the credit rating done, they do the due diligence, once they are okay with the borrower then only they will get it because right from 2011 there is an RBI guideline that assignments, there cannot be any credit enhancement on assignment. So as far as the assignment is concerned, it is without recourse.

Viraj Mehta: And Sir due to the stress a lot of these smaller NBFCs are facing, and liquidity challenges that a lot of them are facing are you seeing that your spreads, especially with some of these smaller NBFCs, have improved in spite of your borrowing cost going up have your spreads with some of these guys gone up?

Kamlesh Gandhi: See you said this is not the time to exploit the situation, and they are not getting money if I increase the spread this is not the time because we are doing the practice now we understand that this is the time on the contrary where their profitability and margins are under stress, if I wish we could have done that, but we are not doing it because at the end of the day you make money not by increasing your spread, but you make money by maintaining the quality of the assets, so we have not done that.

Viraj Mehta: Thank you, Sir, and that is very helpful guidance. Thank you.

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

Kislay Upadhyay: Congratulations on another good quarter, Sir. My question is on cost front Sir we can see efficiencies in operating expense ratio to assets could you mention to what efficiencies can we attribute it to?

Kamlesh Gandhi: Efficiencies can be attributed to efficient people. That was on the larger base, when we increase our base certain expenditure remains constant so the cost-to-income ratio is improving because we grow by 25% we get that advantage of a larger base and that is where it helps plus even though we are very efficient in our cost-to-income ratio the constant endeavour on the part of the company to analyse and read out the unnecessary expenditures in the system or find out the ways to do it more efficiently so it is a combination of larger base, the deliberate efforts of the company and the business model what we follow of distribution through a direct model and through NBFCs.

Kislay Upadhyay: There is no component of any accounting changes?

Kamlesh Gandhi: No.

Kislay Upadhyay: And the same operating expense as a percentage of NII is not showing so much of improvement can be the reason because of net interest margins have gone down?

Kamlesh Gandhi: Yes.

Kislay Upadhyay: Sir, our 120-130 partners, is there any delinquency in any of their debt obligations to us?

Kamlesh Gandhi: As of now, there is hardly anything in 90 DPD plus there might be some delays here or there, but there is hardly anything cognizable in 90 DPD plus.

Kislay Upadhyay: So that the entire NPA write-off takes the extra write-off that we did and the provisioning everything is related to our direct book only?

Kamlesh Gandhi: Direct, yes.

Kislay Upadhyay: And just one last thing our interest coverage ratio going down is again our NIM reduction is the only reason or what it be?

Kamlesh Gandhi: And the leverage, the marginal increase in leverage as we have increased the leverage.

Kislay Upadhyay: Okay, that is it from my side. Thank you and all the best.

Moderator: Thank you. The next question is from the line of Savi Jain from 2Point2 Capital. Please go ahead.

Savi Jain: Sir, in the release of your results, you mentioned that there is the board took note of RBI letter on inspection under Section 45N, so what exactly is this?

Kamlesh Gandhi: That is a routine inspection that is done anywhere inspections and that we have to put it to the board before we reply to RBI, so that is the routine yearly inspection.

Savi Jain: So, there is nothing out of the ordinary this is every year you get this?

Kamlesh Gandhi: Yes, every year.

Savi Jain: And I missed that number on your AUM breakup between the NBFC partners and direct, can you just repeat that, please?

Kamlesh Gandhi: 58% and 52%.

Savi Jain: 58% is?

Kamlesh Gandhi: To NBFC partners.

Savi Jain: And this 58%, so you said 2,000 Crores is MFI out of your total I think 5800 so large part of that will be in the NBFC partners and not in the direct, am I right?

Kamlesh Gandhi: See 58% is more or less well spread across all the segments we work; if I once again take you how we work is that this NBFCs are mandated to create the assets in our line of activities only that is MSME, SME, two-wheeler or commercial vehicle. So, this is more or less on the same ground across the products.

Savi Jain: And lastly, on the MFI side, how much would be your larger exposure to a single state, including direct and indirect, do you have that number?

Kamlesh Gandhi: See state-wise larger exposure must be close to 14% to 15%.

Savi Jain: Only that much because your presence is only across a few states right and then predominantly lot of it because that is the branch presence, but the NBFCs might be actually outside those states right, the NBFCs that you lend to maybe outside the states in which your branches are present?

Darshana Pandya: No, this exposure through our NBFCs will be to the customers in these states, so when I am lending to an NBFC and if it has created the portfolio in a particular state would be 15%.

Savi Jain: That is great. Understood. Thank you.

Moderator: Thank you. The next question is from the line of Madhuchanda Dev from MC Research. Please go ahead.

Madhuchanda Dev: My question is on collection efficiency, what kind of deterioration in the collection efficiency if you see which might have prompted you to kind of too aggressive write-off in the quarter?

Kamlesh Gandhi: I will request them to give me the exact number, but let me once again come to the aggressive write-off fundamental. Aggressive write-off is to strengthen the asset further if I decode it for you had I not done aggressive write-off what looks like 1.06% or something look like around say 1.20% and that is also where within the acceptable range what we always deal between 1.25% to 1.5% so this aggressive write-off is because we thought that rather than increasing the profit let us make the books more benign in stage III assets, so it was not because of a substantial deterioration in the quality nevertheless there was stress on the quality and if I tell you in terms of our current on AUM.

Madhuchanda Dev: Sir, if I may read you correctly so, is it that because of the tax bounty, you decided to take this write-off as a prudent pressure?

Kamlesh Gandhi: Correct and if I decode it with you the first result what I got was around 17% rise in PBT and 63% rise in PAT because of the tax benefit and then we set together that what should be done and I do not like to name but thanks to few of the investors who initiated that it is always a good idea to create buffer. Now in NBFC to create buffers I do not get a tax break nor are we are allowed to keep floating provisions like banks and once they keep a floating provision it is very difficult to pull it out so what we did was that it let us make the stage III more benign because for that I do not need to take permission from anybody so when my stage III is around 1.4% and then I can bring it to even 2.4% so what we thought that the tax benefit I was getting if I decode it with you the tax benefit I was getting was close to Rs. 16-17 Crores so out of that we utilized around 60%, 70% for aggressively writing-off convincing the auditors to accept that and from that we could come at 1.06%, otherwise normally it was coming as 65% PAT and all, and then we discuss among ourselves and the board and the audit committee and all and I told that it is always a good idea being a leverage organization is not to change the profitability growth, but to make the asset as benign as possible.

Madhuchanda Dev: Sir, one small question if you could shed some light on the profile of the disbursement that you did in the quarter is it the same proportion of your overall AUM breakup or if you could just shed some more light on that?

Darshana Pandya: For the quarter out of Rs. 1,360 Crores around Rs. 920 Crores is for MSE loan, SME is Rs. 330 Crores, two-wheeler is Rs. 98 Crores and SRT was around Rs. 11-12 Crores.

Madhuchanda Dev: Thank you, Madam. Thank you and all the best.

Moderator: Thank you. The next question is from the line of T Desai from Turtle Star Portfolio. Please go ahead.

T Desai: Congratulations on a great performance in a challenging time. Sir my questions are three questions on the housing finance side, one is in terms of provisioning and so the factor even on the non-salaried class is there are fairly many players in that segment so how is it that someone to play and compete and kind of maintain quality and also earn decent money if you can throw light on (inaudible) that is the first one and second is I think for (inaudible) what are the steps that we are taking to increase that part, and you ask me on the ALM side on the housing finance typically that endeavor of those loans are 15, 20 years while most of the term loans at much lower tenure?

Kamlesh Gandhi: Your voice was not very clear and even though from what I could make out starting from your last question as far as our housing finance is concerned we have ALM well in control if we take our one year ALM what was the gap is there we have more sanctions on hand than that gap and if you see our current ratio it is close to 1.16 depicting that my one year asset maturity is more than the liability that I have to pay. On the MSME front, if I understand, you are asking how we do the business once again.

T Desai: The question on the housing finance only. So, housing finance is fairly competitive, even in the non-salaried segment. So how is it that what is our game plan to kind of maintain quality and make money as there are very many players in that segment? If you can elaborate on that.

Kamlesh Gandhi: Very true. So if you see, we are growing our housing finance business at around 15% to 20%. As I told you that I never promise numbers to anybody, the promise is on quality and profitability, so what we do is that we stick to what we want to do. So have being a practitioner let me share with you that in lending you never compete with anybody, you should know what you want to do, work hard, identify your type of customers and over a period of time you will start getting that provided you are not in a hurry to build up the book very fast, so that is the fundamentals what we follow, the market is huge, the only thing that you need to have patients you build-up the strength, you build-up the customer base and then over years you grow, but you might grow slower if you are committed to creating quality and profitability. So the market size and our policy combined, we are confident that we will be in a position to take it to the next level over the year, and it is always good to be patient on creating numbers rather than creating numbers that create a problem for us. So that is how we will grow, the markets are there to stay here, it is very important for us to stay and looking at the overall size what all we want to do will definitely be in a position to achieve it may be here or there.

T Desai: And Sir, the last question was on the NHB refinancing was at a pretty lower 6%, so any effort or concrete plans to increase that numbers will that our cost of borrowing can also go down on the housing finance side?

Kamlesh Gandhi: So we are working very hard with NHB to get the line of credit, they have their own ways of dispensing credit, and they have their own understanding and plan, so the only thing what we can do is to follow them very diligently, we put our point across from time-to-time and we always try to get the maximum from them and up till now we are succeeded to this extent and hopefully we can have a larger share of NHB going forward.

T Desai: Thanks. All the best for the future, Sir.

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

Kamlesh Gandhi: Thank you everybody and thank you for your patience and as I told you that we are committed to a wisdom of excellence through endeavors and in the business of lending operational excellence plays a very important role, and I am thankful to all the bankers, my team, the investors for being with us and sharing our vision and working on it. Thank you so much, everybody. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Emkay Global, that concludes today's conference call. Thank you all for joining us. You may now disconnect your lines.