"MAS Financial Services Limited Q2FY 2021Earnings Conference Call"

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MODERATOR:	**MR. HITESH GULATI – HAITONG SECURITIES**

Moderator: Ladies and gentlemen, good day, and welcome to the Q2 FY2021 Earnings Conference Call of MAS Financial Services Limited ("hereinafter referred as MAS"), hosted by Haitong Securities. As a reminder, 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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Hitesh Gulati, a BFSI Analyst at Haitong Securities. Thank you and over to you, sir.

Hitesh Gulati: Good evening, everyone. On behalf of Haitong India, I welcome you all to the Q2 FY2021 Earnings Conference Call for MAS Financial Services Limited. To discuss the Earnings and Business Strategy we have with us today Mr. Kamlesh Gandhi – Founder,Chairman and Managing Director, Mr. Mukesh Gandhi – Co-Founder, Whole-Time Director and CFO, Mrs. Darshana Pandya –Executive Director and CEO, and the senior management from the company.

Now without much ado, I hand over the call to Mr. Kamlesh Gandhi, post which we can have a Q&A session. Thank you, sir. And over to you.

Kamlesh Gandhi: Thank you, Hitesh, and Good evening, everybody. I am happy to connect with all of you once again, and this is regarding our Q2 results for financial year 2021. Post the 25th year of completion, we are counting it as how many quarters of 100. This is the 102nd quarter of a very robust and consistent financial performance. I think we have very sufficiently given the information on our presentation and also on the press note. But just to take you through the strategy and what we think how we have conducted ourselves during this quarter, and how we want to take it forward, I will share my thoughts with you.

So, once again, as we know in Q2, there were two months under the moratorium and one month was a normal month From Q3 onwards, we will be seeing a normal business as routine in terms of no lockdowns and all. But we are waiting for the businesses to come back to normal, which we are very optimistic should come back within a couple of quarters.

Now, what we did during this quarter was to concentrate on the basics. Once again, if you see, there is a very strong capital base of 36% capital adequacy, that is on the back of the internal accruals this quarter and the marginal decrease in the AUM. That's very healthy and more than a sufficient capital base to once again start growing at our normal rate of 20%-25% once the things normalize.

On the liability side, we had a very high level of liquidity. Once again, it was a strategic decision to have liquidity buffers, while the things were settling but we didn't believe in taking chances, so we had high liquidity, which from Q3 & Q4 will start reducing and come back to normal level hopefully. So, while it was a conscious decision, it definitely came with a cost and that was a carrying cost. We maintained a high liquidity level of Rs. 1,600 crores. If I talk to you about the sanctions on hand, we have more than sufficient sanctions for the current year and maybe it can spill over to next few quarters for the next year. This is how we have been working.

To take you through the quality of assets. On the quality of assets, as you know, it is around 1.16% using Supreme Court dispensation, or 1.18% net NPA not using Supreme Court dispensation. I would like to mention that, as we know that we had one troubled NBFC account, which has been provided 100% in this quarter itself. On the COVID provisioning, we have close to 1.70% of the COVID provisioning and if I give you a perspective of the provisioning, it is more than net Stage 3 assets on-book and around 65% to 70% above the net Stage-2, Stage-3 combined. So, the COVID provisioning also has been more than sufficient. We continue to have constant engagement with our borrowers from time to time in order to understand the ground-level realities and explore the new opportunities for disbursement which we will be doing on the dictumof extending credit where it is due.

I would like to bring to your notice anothervery important development, that from this quarter itself we have started amortizing the income on a gain on assignment over the tenure of the loans rather than booking it upfront, for which we have given a sufficient presentation in our investor presentation and also it is hyperlinked to a concept note. Just a very brief on that, we have been doing assignments since 2002. We had practised during the earlier times for booking it upfront. And then from 2010, 2011 onwards,post the RBI's directive and very rightly so, we started amortizing it, it was until IndAS was introduced, and post-IndAS we were constantly in engagement with all the stakeholders on following the same. This, as I said,we wanted to do it from Q1 itself, but because of COVID and all we could not implement from Q1,but from Q2 with the Board and the Audit Committee's insistence that the assignment income should be amortized over the tenure of the loan rather than upfront, because of the serious limitations, it poses to any financial institute if they upfront the income and it will be against the basic preamble of fairness and transparency in accounting.

So, we have adopted that from this quarter and let me tell you that whosoever we have shared with, they have been more than happy that this income has been amortized. Thus, I will tell that we are strengthening our fundamentals once again, so there is no inflated profits or inflated 6:27.8as shown in the balance sheet. And what we talk about a 36% capital adequacy is after netting off that additional income which was booked over all these quarters post IndAS, to the tune of Rs. 51 crores, that has been taken from retained earnings to unearned gain on assignment on the liability side. So, 36% is post that. And just to remind you, we started doing this right from Q1. If you see my Q1 representation also, there also we have mentioned that this has been netted off. So, this is an important development this quarter. And going forward, we intend to continue with the same.

Coming to the OPEX and the overall working, we could reduce the OPEX once again because of the concentrated efforts to reduce the OPEX and link it to the performance. So, the OPEX has come down by 40%, while we could do a disbursement of Rs. 800 crores as compared to approximately Rs. 100 crores in Q1, and Q3 and Q4 we expect Rs. 1,000 crores to Rs. 1,200 crores respectively, which will keep our AUM in the same line with the last year or maybe a contraction of a few percentages, which we are not concentrating upon while we are more circumspect on the quality of the assets we generate. This is the year whereby we have to evaluate the year as it comes and understand the merits of the overall macro situation rather than just comparing with the previous year or previous quarters.

So, this has been our working during the quarter. While Ankit and Darshanaben will take you through the numbers, let me tell you that as MASwe have worked very hard, the team MAS has put its best and we will continue to do it. We are very confident, be it our business model of distribution through 3,500 centres or more than 100 NBFCs. A few of the episodes which we faced in early October has further strengthened our resolve to be more circumspect, to be more agile and as you know that this is the best way you learn. Having said that, this is not preferred and we have shared our thoughts to the extent we should on what are the new dilligence techniques we are going to adopt, especially in our NBFC model. While we remain confident because of the track record and because of the current situation where we have reevaluated all NBFCs, we are quite confident about this model going forward. While there will be some changes in the way we work with them from time to time.

So, this is from me on how we have done this quarter, on the strategy and the things going forward. We are quite optimistic,if you see, even under the stress situation we have been maintaining a very healthy ROE which is close to 13% plus. We will hopefully within next few quarters can come back to our original of around 18% plus and which we are very confident,given our expertise and opportunities we will get once the things come back to normal, accompanied by a very strong capital base and a very solid liability management, backed up by tremendous faith from all the lenders and investors.

So, with this, I will ask Mukeshbhai to share his thought very briefly, followed by Darshanaben giving you the numbers which are already with you, but just a glimpse of that, and then followed by Ankit sharing with you about what exactly happened on the liability side in this Q2. So, Mukeshbhai, if you can share your thoughts.

Mukesh Gandhi: Thank you,Kamlesh Bhai. Good evening to everybody and welcome to this conference. See, basically, in this particular quarter, I would like to tell you that we are grateful and quite thankful to all the bankers the way they have helped us. Because it was a very difficult time and in this difficult time all the bankers have helped us in maintaining our liquidity position.

Secondly, we have been following the fundamentals very correctly. If you look at it with an asset side or be it liability side, our fundamental decisions will always be there and as a result, today we are standing very solid, so far, the asset quality is concerned and the liquidity buffer is concerned. Going forward, we will be maintaining all these things that is what I would like to convey. I hand over to Darshanaben to share certain numbers.

Darshana Pandya: Thank you, sir. Good evening, everybody. So, I will briefly take you through the numbers. As on September 30, our AUM stands at Rs. 5,300 crores, which constitutes of the micro-enterprise loan at Rs. 3,146 crores, SME loan at Rs. 1,643 crores, two-wheeler loans Rs. 359 crores and commercial vehicle loan Rs. 150 crores. Our PAT for the quarter is Rs. 34 crores and for the half-year it is Rs. 70 crores. As such, we cannot compare these two periods, but for the reference of all the stakeholders, that there is a contraction of 10% in our AUM and if we look at PAT numbers, there is 14.91% contraction for the quarter and 15.43% for the half-year and if we exclude the impact of COVID provisioning, there is a contraction of 12.62% for the quarter and an increase of 12.98% for the half-year.

If we look at the Stage-3assets, as Kamlesh sir mentioned, that with Supreme Court's dispensation, gross Stage-3 assets is 1.56% and net Stage-3 assets is 1.16% and if you don't consider that, then it is 1.6% gross and 1.18% net Stage-3 assets. So, these are the numbers for our parent company.

Now coming to the housing finance company. So, asset under management of MRHMFL is Rs. 281 crores, so it is more or less stable, as compared to last year. PAT is Rs. 1.17 crores, which is 7.52% increase in PAT. GrossStage-3assets is 0.24% and net Stage-3 asset is 0.18%,with Supreme Court dispensation and if we ignore that,gross is 0.37% and net Stage-3 assets is 0.28%.

So, this was all about the numbers. Now I will request Ankit to take you to over liability management.

Ankit Jain: Thanks a lot, ma'am. To further elaborate on liability management, in the last quarter, the company did around Rs. 417 crores direct assignment transactions, and further has more than Rs. 1,000 crores sanctions on hand, which we will be utilizing in the third and the fourth quarter. Company has an available cash credit facility of around Rs. 1,795 crores out of which, the company maintains a utilization level of 65% to 70%, and rest portion is kept as a liquidity buffer. We rolled over around Rs. 1,100 crores short-term working capital loans which are sub-limit to this working capital limit. During the quarter,the company raised around Rs. 250 crores from non-convertible debentures under the PCG scheme of the government and raised around Rs. 125 crores from SIDBI under the refinance scheme. This further helped us to strengthen the asset-liability maturity pattern.

As on 30th September 2020, the company had cash and cash equivalents of around Rs. 1,600 crores. Company has further assed its structural liquidity for the period ended September 30,based on the assessment, no negative impact on liquidity has been observed and the cash flow in all the cumulative buckets remain positive. Company has also applied for fresh sanctions from the existing lender, as well as various schemes launched by RBI and Government of India.

Our company has also stress-tested its liquidity model and is comfortably placed to meet its repayment obligation for the entire year. The next one-year repayment obligation is around Rs. 600 crores. As told by sir, the company's capital adequacy remains strong at 35.58%, with Tier 1 capital of 32.72%, and the debt-equity of around 3times.

Now, I hand over the call to Kamlesh sir.

Kamlesh Gandhi: Thank you, Ankit, Darshanaben and Mukeshbhai. With this, we are open for Q&A session. I would be happy to answer the questions regarding this.

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

Jehan Bhadha: Firstly, I would like to congratulate the management on a very good performance in this tough time. I have two questions, the first question is on a number of customers or AUM where you have not received a single EMI since the moratorium began? And so accordingly, what will be the restructuring? So, one is that. And the second question is on your COVID related credit costs. So, you have already created Rs. 52 crores, so should this amount be enough, or you see a need for more provisioning going ahead? That's it.

Kamlesh Gandhi: You see, with respect to the collection efficiency, it was around 87% in August, and from September it has been normal. We will share the exact numbers of who has not paid a single instalment during this moratorium offline. But overall, if I share with you, we are more than happy at the way the collections are happening, from September itself coming back to the normal trajectory and not much migration within the buckets, if you see 0 to 30 and right up to 90 and 90 plus. On your query on how much will be the restructuring. Let me share with you that restructuring for MSME can be up to 31st March. If you ask me personally, we would not like to encourage much of restructuring within our borrowers unless we find merit that he is genuinely in a position to pay post restructuring. So, we will engage with all of our borrowers on restructuring. While in the same vein, let me tell you that we are open for restructuring where we see that they were facing only temporary problems and going forward they will be in a position to regularize the account once we restructure it. So, giving the numbers on the same will be difficult. I sharewith you the collection efficiencies of 87%, and back to normal of around 92%, 93% both, in-housing and our parent company.

Jehan Bhadha: And sir, on provisions, will we need to do more COVID provisions on that’s it, I mean, we are done with COVID provisioning?

Kamlesh Gandhi: See, as a lender and as running a leveraged organization, we always want to grab all the opportunities when we can do extra provisioning. Because post ECL, floating provisioning and extra provisionings are not allowed, while we will start deliberating with our auditors on the same also. I personally believe that floating provisions and extra provisions really helps the company rather than aligning it only to certain aspects. So, depending upon the performance of this quarter, if we think that there is a lightest necessary to increase it, we will definitely increase it. But if you see from the performance, this is more than sufficient to cover around 60% - 70% of our on-book assets, ranging from 60 plus. So, technically not required, practically we might take this opportunity to increase it.

Moderator: Thank you very much. Next question is from the line of Saurabh Dhole from Trivantage Capital Management. Please go ahead.

Saurabh Dhole: I have three questions. So, the first one is with respect to your NBFC partners. So, now you are sourcing a reasonable part of your business from smaller NBFCs, which were I think about 120-odd for the quarter. So, now, with all of them,you have had a very long history of operations. So, I am just curious to know have you ever thought of acquiring any of these smaller NBFCs? So, that's question number one.

Kamlesh Gandhi: To answer this question, we might be interested in the one who matches our operational metrics, just to share with you, over the last two quarters we have been presented opportunity many times,that these are the NBFCs where you can really have a substantial stake. But we want the ones who are operationally strong because NBFCs are business not of only capital and debt, but it is of the operational excellence reflected in their profitability, and their earning capacity. So, if you find across an opportunity where they can be ROCE lucrative for us, we can have a look at that. While we are very circumspect that we would like to, while if you ask, the broader objective is to grow organically. But if at all we get a chance whereby it is very compelling, we might look at it. But currently, I don't see such opportunities around with our expectation of gross and operational metrics we look at.

Saurabh Dhole: Sorry, I am not too familiar with the history of the organization, but in the past, have you actually acquired some of your partners?

Kamlesh Gandhi: No, just to take you through, this is a 25-year-old company, grown organically and mainly through internal accruals. So, as we have raised capital only 3 timesand the rest of the growth has always been through internal accruals.

Saurabh Dhole: And sir, the second question is on the opening comments, where Kamlesh Bhai mentioned that there are going to be some changes in the way you operate with your partners. So, if you could broadly provide some comments on what kind of changes are you looking to make.

Kamlesh Gandhi: So, within the limitations of preserving the credit and risk parameters, if I share with you, it will be more on their conduct, on their financials, on their operations,we will be more inclined towards the NBFCs who use banking platform exclusively for disbursement and collections as compared to the ones who are using cash-based collections. So, this will be the few of the changes which we contemplate.

Saurabh Dhole: Okay. And sir just lastly on the branches, what you have seen is that they have contracted to about 99 from our 105. So, any plans that you have with respect to branch expansions for the next 12 to 18 months?

Kamlesh Gandhi: Branches will increase, contraction from time to time has been the way we work. Whenever we find that, that we need not expand our activities here or there is not much opportunity there, we might shift that branch or merge that branch with some other branches. But if you ask as strategic intent, from 3,500 centres, had COVID not been there,we would have expanded to 5,000 centres from 3,500 centres, which in turn would require at least 25 to 30 more branches. So, we were originally planning anywhere between 125 to 150 branches. I think, maybe one year later, but strategically it will increase.

Moderator: Thank you very much. The next question is from the line of Hitesh Gulati. Please go ahead.

Hitesh Gulati: Sir, my question is related to this MFI Sambandh Finserve, in which we had to take some provisions. So, could you just provide a little bit more colour on what is the exact nature of the loan that we have given?How much of that is on book, and some other qualitative details around that?

Kamlesh Gandhi: Just to talk about Sambandh Finserve, as we have already informed the Boards also on 16th October, we have on-book exposure of Rs. 18.4 crores, which has been completely provided this quarter itself. Like all lenders, we have relationships with them right from 2013. They ticked all the box on the quality and to the extent, we could do the due diligence, which in the hindsight has proved to be short of what it should have been, not only for us but for also for all the capital providers and all the lenders. And we firmly believe that this is a one-off event, looking to our total track record which we have shared in the investor presentation of more than Rs. 14,000 crores to be precise, over the last 10 years. With losses, if I consider this 100% also, is less than 0.5%. So, while there are so many learning lessons from this, that is what I told in the opening remarks. But we continue to remain confident on this distribution model whereby people closer to the ground are strongest. And once again, with increased due diligence and with a change in a shift in the way we evaluate them should further strengthen it. Efforts are on to recover as much money as we can. But for us, Sambandh is not about lending, writing-off, or getting the money back, it is much more than that on how we can strengthen our learning curve. And not only help us but help other NBFCs also to maintain a very high level of transparency and quality whereby they can scale up in the future.

Hitesh Gulati: Thank you, sir. Sir, just one more follow-up on this. Are there any other MFIs in our portfolio that we have seen certain worrying trends? Or do we feel that the MFIs whom we have lent to, they have sort of done well compared to the current names that we spoke about?

Kamlesh Gandhi: Pardon?

Hitesh Gulati: So, are there any worrying signs in any other names that we have lent to, in terms of NBFC?

Kamlesh Gandhi: If I share with you our collection in the month of September, it has been 98% from our retail asset channel, that is the NBFCs with whom we work with. So, while we are in constant touch with them, but this number sufficiently reflects the quality of the other NBFCs within whom we are working with.

Moderator: Thank you very much. Next question is from the line of Madhuchanda Deyfrom MC Research. Please go ahead.

Madhuchanda Dey: I just want a qualitative comment from you on what kind of things you are seeing on the ground, in terms of collection where are the pressure points?And in terms of demand for new loans, where is the pickup and where is the sluggishness, some kind of qualitative colour?

Kamlesh Gandhi: From Q2 onwards, depending upon the region the enterprises are working, my answer is more focused towards our flagship product that is MSME. So, the areas where we are working, depending upon their demography, we are seeing some traction in the ground level on the activity, and so are we seeing the traction on the demand for loans. And in terms of the pressure on the collections, the ones which were struggling before COVID have exhibited more pressures as compared to the ones who were regular before COVID. Because in August also our collection was 87% and in September we are coming back to normal, reflects that the ones who were under pressure remain under pressure post-COVID also. What was the other follow-up question?

Madhuchanda Dey: So, my question was, is there any pressure point in terms of any particular segment, which has, say, worsened in the last six months due to COVID? Where you still see that there is still some time for them to recover, that is one. And on the loan demand side, where are the pockets where there has been a decent pickup and which are the pockets which are still sluggish?

Kamlesh Gandhi: So, the activities have started once again. Say,for example, pockets like Maharashtra remain sluggish, and at the same time, we are more cautious in terms of loan demand. So, the ones which have stabilized, especially the likes of Gujarat, to an extent MP, to an extent Rajasthan which has stabilized, we are seeing the demand back, not as normal, but we are seeing some traction on the ground. Whereas, the regions which will take time to stabilize will take some time for us to see the same traction which was pre-COVID. And just to add to that, we get a lot of inquiries from our existing customers also for the loans under ECGLS and the credit guarantee scheme, we have extended to the extent we can give, not just depending on the guarantee of the government, but depending on the merits of the borrower. So, we are also cautious in how we lend to them, irrespective of the demand. So, ultimately, if you see, our Q1 disbursement was Rs. 200 crores whereas it has increased to Rs. 800 crores in Q2, the demand coming from the states like Gujarat, Rajasthan MP and Maharashtra and all those states remaining a little sluggish.

Madhuchanda Dey: So, Maharashtra is a little sluggish. And in terms of the profile of the borrower, is there any particular profile which is still a little challenging because of COVID?

Kamlesh Gandhi: Ironically, the smaller ones have started normalizing fast as compared to the ones with the bigger enterprises. So, if we see that I see our micro-enterprise loans picking up faster than our small and medium enterprises loans in the next few quarters. So, the smaller the size, better in a position they are to once again come to normal, as compared to the ones who are slight of a bigger size.

Madhuchanda Dey: So, my last question is, can you comment on the possible rescheduling or restructuring that is likely to come up? Now that you said that the environment is normal, so you have an exact idea of who is able to pay, who is not able to pay, and hence any guesstimate on rescheduling or restructuring?

Kamlesh Gandhi: Just to share with you how we worked during this six months from March to September, we were busy understanding how exactly they are working and convincing them that it is a good idea to pay even during the moratorium, and post moratorium also, any rescheduling will cost them. So, the efforts are to understand and extract the best information from the borrowers as to how do they not fall within the rescheduling jargon. Because deferment of instalments, if offered plainly, will be accepted by many. So, we are here trying to engage with all of those who can be convinced to pay and continue to pay regularly. Maybe they have to manage some stress, but going forward, basically, it is in their interest. So, once we complete this exercise, then we will come to know that within, say, by this quarter Q3end, that how many customers deserve restructuring. As I told earlier that we would not like to use restructuring that will just delay the NPA. So, our first effort is to convince the customer not to go for restructuring, and at the same time, if they deserve it, then they will definitely get it. So, difficult to give you any number, but if I tell you our endeavours are that we don't end up on a higher percentage of restructuring.

Madhuchanda Dey: And Rs. 52 crores is the excess provision that you are carrying?

Kamlesh Gandhi: Right. Rs. 52 crores is excess provision. If I give a perspective, is more than 100% of our 90 DPD Net Stage-3 assets and around 65% Net Stage-2,Stage-3 combined.

Madhuchanda Dey: So, on a normal course, in case if the restructuring takes place as per your expectation, which is miniscule, you should not be required to give excess provisioning in the second half?

Kamlesh Gandhi: No, we don't envisage that.

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

Kislay Upadhyay: Congratulations on the quarter. Sir, my question is on the changes that we will do in our relationship with the NBFC partners. You mentioned that maybe we will go with the NBFC partners who have 100% banking platform. In that respect, we also have microfinance and NBFC partners, whose operations mostly deal in cash disbursal or collection. Does it mean that we might do away with our relationship with these? Or how should we understand?

Kamlesh Gandhi: See, as far as microfinance institutions are concerned, we had discussed with them a number of times that there cannot be a better opportunity for them to switch to a banking platform. And we have found encouraging results at the ground whereby disbursement is almost 100% through banking for the majority of them, while collections is a challenge for them, and they also realized during the COVID times. So, they are slowly moving towards the banking base collections. We will be watching their effort very closely. Atleast we will not be much inclined towards microfinance where disbursement and collections both are cash-based. But gradually,we will insist for MFIs to have our exposures that they should convert themselves into banking based collections and disbursement.

Kislay Upadhyay: So, it would not be hard and fast cut out for them. Great. The second sir, we don't have direct exposure in microfinance JLG format and correct me if I am wrong, we have not done much of it in the past also.How is the hand holding of the NBFC partners that we talk about, how are we able to do it in the microfinance segment?

Kamlesh Gandhi: Microfinance, while we have not done it on our own, we have the equivalent experience of working with more than 100 NBFCs for more than a decade. So, the experience what we have gained through the ground level is sufficient enough to handhold them both on strategically and operationally. Because this as I have always maintained, this is a decade-old model, we have been working with them so closely and we have worked with a number of them. So, I think that is sufficient enough for my team to guide them as to what should be better practice as compared to what they are practicing right now from time to time.

Kislay Upadhyay: Okay, that's comforting enough. And sir, one more on the NBFC partner. The numbers used to run 120-plus partners a few quarters back, it has come down to 108, anything to read into it?

Kamlesh Gandhi: That is based on the transaction, so for the ones where you have continuous transactions or maybe for a quarter or so we might not have any transactions and our exposures runoff, for that might have reduced in that quarter. But as far as if you talk about relationships, we are having active relations with all of them.

Kislay Upadhyay: Okay. So, active relationship with (+120) maybe, but direct exposure only to 108?

Kamlesh Gandhi: Yes, on a quarterly basis that exposure might add have run out and new exposure might not have taken, or they might have not opted for a new loan. So, for that quarter it looks like 108. It will be range bond, anything between 100 to 120.

Moderator: Thank you. Next question is from the line of Dnyanada Vaidya from Axis Securities. Please go ahead.

Dnyanada Vaidya: Sir, my first question was about the NBFC partners. I mean, last data, the collection efficiency was at around 93% at the end of July, and some of the MFI partners still were at lower collections, at about 40% or 50% kind of percent. So, sir, how has the collection efficiency improved from them for the NBFC partners as a whole as well and also the MFI NBFC?

Kamlesh Gandhi: With the MFIs with whom we are working, they at a medium basis are at around 75% to 80% in their collections. And our collections from our NBFC partners for September has been 97% plus. As I said, it is normal in September. So, for them, it has been around 75% to 80%, and for us, it is at almost normal, at around 97% for all of our NBFC partners.

Dnyanada Vaidya: Sir, my second question was around this Sambandh Finserve. So, I mean, you have provided for the whole thing, so has it been classified as an NPA?

Kamlesh Gandhi: Yes, it has been classified as an NPA.

Dnyanada Vaidya: Okay. Sir, and after this Sambandh, after talking to your NBFC partners, have you kind of pinpointed on any other of your partners where you found that there is maybe some problems with terms in liquidity or any other solvency kind of issues that any other NBFC partners are facing?

Kamlesh Gandhi: Reflected fromthe performance, we have not found out such issues. And secondly, if I share with you, while this was absolutely shocking, surprising, I am short of vocabularies for Sambandh, but this is not the trend for the industry, this was a very peculiar case where it was a question of integrity. Because all the NBFCs which we were working with, be it demonetization, be it the IL&FS crisis, be it the liquidity crisis for the NBFC sector for such a long, we have witnessed 100% on-time repayment. Even during COVID times, they are collecting 80% - 85%. But the quality of intermediation is such that they have strived and achieved almost normal collections for us. So, while we are constantly engaging with them, and as I answered a few of the queries before, that for us, Sambandhwill not end at recovery and collections, it is much more in terms of how we can strengthen our learning curve and our assessment techniques.

Dnyanada Vaidya: Right. Sir, and are we seeing a pickup in our CV disbursement?

Kamlesh Gandhi: Not really in these two quarters. As you know that we have always been a marginal player in commercial vehicles, given our understanding that it does not stand a litmus test of riskadjusted return. So, we always maintain a low profile on CV, and I don't see that picking up much during these two quarters. While we definitely believe that there is an opportunity if the business is conducted in the right competitive manner. In commercial vehicles we have seen, in my views,I am not in judgement of the industry practices, but in my view, we don't see the competitive practices to be too healthy.

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

Kislay Upadhyay: Sir, on the amortization of assignment income, is it permission that just we have got from the regulator? Or is it a systemic change that is going to come, everybody will need to amortize it?

Kamlesh Gandhi: No, this is the decision taken by the Board and the Audit Committee, under our right to the present fare and transparent financial results. Because I think if you go through the presentation, and we have been engaging with all the stakeholders since long, I think it is not rocket science, that if I upfront a five-year income,three-year income, two-year income, I can inflate my profit at will and then there will be a lot of volatility when that is not happening. While in our case, we have been doing assignment very continuously. But we have the longest experience in the industry, one of the longest experiences so that I don't sound modest, right, from 2002. We very firmly believe that any upfronting of income is not advisable, and you are inviting risk sometimes in the future. So, we have always at a bar level, at audit level very consciously decided that we should amortize this income and under our right to present fair financial result, we have to amortize it and despite from a particular accounting standard which mandates post-IndAS to book it upfront. And even if you see the regulator's stand, in 2012 the regulator came down very heavily on upfront booking of income. They told that you can never book upfront income, even though you have received the complete income, not realized but received, and we are meant to amortize in 2012. But post Ind-AS, since IndAS is implemented, we all had to follow that and we had to upfront it. But we were always in discussion, right from day one, that this is a practice which at a Board level and at a company level we don't endorse. So, we are taking this as a management overlay and amortizing it, while giving the complete information on how it would have been if it would not have been amortized or if it would have moved upfront. So, over this, what we have done is that we have voluntarily reduced our net worth by Rs. 51 crores and took it to unearned income on assignment. So, what we talked about 36% of capital adequacy is after accounting for that. And we have started doing it from the last quarter itself for our assessment and for our understanding. So, this is very basic, very fundamental. We are engaging with all the stakeholders and trying to make them understand that while there can be technicalities, but the basic preamble of any accounting standard is fair and transparent for the ones who are reading the financial statements, and also for the company. Imagine a housing finance company amortized upfront an income of 10 years, on Rs. 100 crores I make Rs. 110 crores of interest and that are upfronted, I will book a profit of Rs. 80 crores in one quarter itself. So, what we did was that we tried to assign such assets which do not inflate our income exponentially and now we have shifted to amortizing it.

Kislay Upadhyay: Right. Great. And this, you don't envisage that any external body can raise a concern and ask us to go back to upfront income booking?

Kamlesh Gandhi: Ideally no, I think the concern should be raised or upfronting not on amortization. Because if I am amortizing the income, you have been an investor,what would you like me to do? Would you like me to show inflated profits or would you like me to amortize my income?

Kislay Upadhyay: Definitely the amortization part is something which is much more stable and makes sense. We have discussed it also.

Kamlesh Gandhi: So, please do write to me, we acknowledge you amortizing the income, so I can show it to all the people concerned who are so technically oriented, that it should be upfronted only, it will be nice of you if you can write to me that we welcome amortization of income.

Kislay Upadhyay: Sure, sir. Maybe I will do that. Sir, on Sambandh, you said we provided 100%, Rs. 18-odd crores exposure we had.

Kamlesh Gandhi: Yes, we have provided 100%.

Kislay Upadhyay: So, how much did we provide, because 20% cash collateral also we had?

Kamlesh Gandhi: So, that is net of everything.When we talk about 18.4, it is a net exposure. And it has been provided.

Kislay Upadhyay: Okay. And sir, if I look at the profit numbers, it seems like we will end the year with profit numbers lower than last year, maybe at Rs. 150 crores Rs. 160-odd crores. Is that right assessment?

Kamlesh Gandhi: I would not like too much dwell upon comparing it with the last year. But if half-year is we are at around close to Rs. 70 crores, this proves that we should end up around that figure, between around Rs. 150 crores. But for us, this is a very special year whereby I would request all of you to see this year in the perspective it should be seen, from the point of view of how we have strengthened our balance sheet also during this time. While a few percentage profit rises or drops here or there should not matter.

Kislay Upadhyay: Sure, sir. And finally, if it's possible to share a disbursal number for October or November.

Kamlesh Gandhi: For October, November? This quarter I can give, last quarter were around Rs. 800 crores, this quarter we should be around Rs. 1,000 crores.

Moderator: Thank you. The next question is a follow-up from the line of Jehan Bhadha from Nirmal Bang. Please go ahead.

Jehan Bhadha: Sir, if I look at the operating expenses, they are down 40% broadly in the first half, even in Q2. So, how should we see this line item going ahead? Our cost to income used to be 21% since the last couple of years, this time the first half it is at 15% odd.

Kamlesh Gandhi: See, if you ask me personally, I would like this to go up as fast as possible because that will be reflective of normalcy at the disbursement and the business level. What we did that in our endeavour to conserve profit and to mitigate all the circumstances created out of COVID, we had shifted to more of a variable versus fixed. So, what you will see as a reduction in operational cost is a tremendous contribution by team 𝔐𝔄𝔖, along with few steps to cut down on cost. So, we don't claim this to be a permanent feature. I think if you see, Q1 was 0.84%, it has increased to 0.91%, Q3 will further increase,Q4 will further increase. And from next year, we can come back to a normal position. Because you will agree that we are one of the most efficient OPEX model and we would like to maintain that and come back to normalcy on businesses.

Jehan Bhadha: Okay. But net, net, still we would be lower than what we used to do earlier, right,OPEX to assets?

Kamlesh Gandhi: Yes, that will be lower, yes.

Jehan Bhadha: Okay. And on the fees and commission income, I can see that this quarter it is much higher, almost twice that of a normal run rate of Rs. 3 crores, Rs. 4 crores, it is at Rs. 7.5 crores. So, why is that?

Darshana Pandya: So, that is mainly because of upfront fees charged against the new disbursement.

Jehan Bhadha: Yes, I agree. But disbursements actually Y-o-Y were lower. And this figure is actually almost 2times of that figure, right? So, I was just wondering,if this is sustainable because since the last many quarters we have been just doing Rs. 3 crores to Rs. 4 crores.

Darshana Pandya: So, additional what we have charged is the monitoring charges from all of our borrowers for evaluation for restructuring or maybe for ECLGS and all, that is the income.

Moderator: Thank you. The next question is from the line of Ayushi Garodia from ITI. Please go ahead.

Arushi Garodia: Sir, I just wanted to get some sense on that, currently the system is flush with liquidity and Q2 was a month where the customers were required to just pay a one month or two months sort of instalment. So, do you see the collection efficiency which we have currently of 87% and October, of course, more than 90%, will we able to sustain it? Or you see with rising inflation and with the liquidity which we have cleaned out, this will go down?

Kamlesh Gandhi: See, the September collection was almost normal the way we used to have it at around 92%. And that is a reflection of normalcy in their activities because the borrowers whom we serve are not much reflected by the macro liquidity in or out, because they are not that linked to the macro liquidity in the country. So, the instalments or the collection efficiency as far as we are concerned depends upon their level of activity. So, once we tell that our borrowers are back to around 90%, 92%, so we can say that they are back to normal to that extent. So, this is reflective of the normalcy of activity. And we see this continuing this quarter also. And in October also we are seeing the same.

Arushi Garodia: Sure. And any instances wherein partner NBFC we have to make an adjustment against the cash collateral rather than doing the collection?

Kamlesh Gandhi: That can happen sometimes because cash collateral is kept for that only, that in case they have to add on to the collection in place of the borrowers not paying them, but that is very negligible.

Arushi Garodia: Okay. So, what gives us confidence that will NBFCs have a collection efficiency of around 70% and our collection efficiencies are 87%. So, they are paying it on their own or how, because of our relationship, some colour on that.

Kamlesh Gandhi: Let me tell you, we are in the business of intermediation, and we are creating value chain. And they are not in the business of asset or no return. Whatever they collect, they have to add on through raising new liabilities, the new capital, and then make good the instalments which are not received, and that is why they are getting the spread. Our NBFCs get spread anywhere between 6% to 12%. If I am funding an MFI, if an MFI gets around 14% or 13%, they can charge around 24%. So, a spread of 11% to 12% is given to them to add value accordingly.And that is what is expected from them.

Arushi Garodia: Sure. And sir, AUM we saw a little de-growth, so some colour on like this de-growth will persist or you see that no, some outlook on AUM, how you are seeing it?

Kamlesh Gandhi: See, as disclosed in the press note also and, in our presentation, that we are into a business whereby over AUM runs down very fast. So, ironically, a higher collection will also reduce our AUM, accompanied by our cautious approach to disbursing. What happens is that even during this lockdown period or so, we had a very high level of collection, and whereby the disbursement was cautious. And that is why we are seeing a dip of around 10% on a Y-o-Y basis.

Moderator: Thank you. Ladies and gentlemen, that was our last question for today. I now hand the conference over to Hitesh from Haitong Securities for closing remarks. Over to you.

Hitesh Gulati: Yes. On behalf of Haitong Securities, a big thank you to the management team of MAS Financial Services Limited, for allowing us to host the call.

Kamlesh Gandhi: Thank you, Hitesh. And thank you, everybody. And I wish everyone of you a very happy and a prosperous Diwali and a prosperous new Vikram Samvat because it's a new year for us also post Diwali, wish you a very prosperous and a blissful new Vikram Samvat. Thank you.

Moderator: Thank you very much, members of management. Ladies and gentlemen, with this we conclude the conference call for today. On behalf of Haitong Securities, we thank you for joining us. And you may now disconnect your lines.