‘At this point in time, the alternative lending space does not look like a disruption model’

Raising resources in the right mix and the right price keeps Mukesh Gandhi, CFO of the Gujarat-based MAS Financial Services awake at night.

Mannu Arora | ETCFO | Updated: December 23, 2017, 13:28 IST

New Delhi, December 23 -- *In the recent times, the lending landscape in the country has been witnessed a major shift. Many new age, online lenders are catering to the small and medium enterprises with improved credit assessment based on analytics culled from non-conventional sources.*

Mannu Arora of ETCFO spoke with Mukesh Gandhi, Co-Founder & CFO of the Gujarat-based NBFC, MAS Financial Services to get a sense of the market. The company went public in October 2017 and raised Rs 460 crore in an issue that was oversubscribed 128 times. Edited excerpts from the interaction:

Q: How you think the lending business is changing over the last few years?

Mukesh Gandhi: Change is the way of life. In lending business ever since we have started 22 years ago, we have periodically seen changes in the way people conduct the lending business but ultimately those who stick to fundamentals navigate the situation successfully.

Off late, the SME business is being conducted very aggressively by way of loan against property (LAP). Fintech companies too are trying to source the business through technology or trying to take credit decisions through application of algorithms.

At our end, in the context of digitisation, we are improving our dashboard management. The feet on the street are given a tablet so that lot of information is captured in real time. The data collected is analysed in various ways to make the optimum use of it in procuring quality business. On transaction side, we are yet to make use of digitisation as required support from the customers is still lacking.

Q: What do you make of the alternative lending space? Do you see it as causing a disruption?

Mukesh Gandhi: The companies lending in alternative space have recently been brought under RBI regulations and they are classified as NBFCs only. That means they are required to follow all the prudential norms prescribed by RBI. At this point of time, it does not look like a disruption model.

Q: What kind of risk analysis you do before lending to your customers? Explain to us how are you using analytics in this regard?

Mukesh Gandhi: Before lending to our customers robust credit assessment, qualitative and quantitative checks are done. Risk analysis regarding income profile, stability, track record, end use of loan and asset profile is carried out. We do CIBIL check and de duplicate each and every file logged into the system.

Q: What does your funding portfolio look like? What is your cost of capital? How do you see Moody's recent rating upgrade?

Mukesh Gandhi: Our funding portfolio comprises of capital to the tune of 20%, cash credit facility to the tune of 30% and term loan from banks of around 15% and assignment of portfolio up to 35%. Currently, our cost of fund is around 7.00%. Since we do not have external borrowing, the Moody's recent rating upgrade may not much impact our cost of borrowing.

Q: Give us an idea of your asset management strategy? What makes you special here?

Mukesh Gandhi: We have very stringent asset management strategy. For success, asset creation has to be backed up by robust credit assessment. As mentioned earlier, we have very robust system in place. Our total portfolio is backed up by post-dated cheques and hence with very first instance of bouncing of a cheque, our asset management team swings into action and the same is very closely monitored.

Q: What are the top two internal controls in your organisation? How do you ensure they don't get breached in any which way?

Mukesh Gandhi: The sourcing of business and credit evaluation of the same is by different persons. And we strictly follow the concept of maker and checker for all processes. We have appropriate systems in place to ensure that these controls are not breached.

Q: Ind AS deadline for NBFCs is approaching? How are you preparing for Ind AS? What are the issues you are facing? How are you dealing with them?

Mukesh Gandhi: We shall be preparing our accounts for the year 2017-18 as per Ind AS by taking advice from our statutory auditor and income booking under assignment or securitization transactions. Basically, for Ind AS we require clarification from RBI regarding provisioning for non-performing assets. Under Ind AS, NPA provisions are to be done as per discretion of the management. As regards the latter, such income has to be booked upfront, whereas currently RBI directives allow only amortization of such income over the tenure of the portfolio.

Q: How has the compliance changed over the last one year?

Mukesh Gandhi: We are regulated by RBI and in last one year there have not been many changes so far as prudential norms are concerned. The change in NPA classification is the exception. This has been brought in at par with the banks -- 90 days past due from 120 days past due by the end of current financial year. Recently, we went for an IPO and so now we will be regulated by SEBI as well.

Q: How important is corporate governance for you? Please elaborate with respect to your role at Mas Financial. *There are a couple of criminal cases pending before you? Could you share some details? How soon you expect them to be resolved?*

Mukesh Gandhi: Corporate governance is the way of life for the corporate entity and rightly so. It is really very important when owners and managers are different.

Detail of the cases are in public domain. In lending business whenever default arises, the borrowers try to derail the process of recovery and to misuse the law but ultimately truth always prevails. In our case, all criminal cases are by defaulters only. The resolution of these cases depends upon the legal process in the court and hence it is difficult to comment on the timeline.

Q: CFOs are today increasingly becoming risk managers. Your comments?

Mukesh Gandhi: With constantly changing business environment, different types of risk are emerging and CFO also has to contribute as a risk manager in the organization. For instance, we rejected an apparently favourable proposal from a bank to convert an INR term loan into foreign currency term loan as the risk involved in it was not clear to us. In hindsight, it proved to be correct decision. Thus, before thinking of the benefits one has to look at the risk involved and mitigation possibilities.

Q: What is the one important issue that keeps you awake at night?

Mukesh Gandhi: Continuously raising resources in the right mix and at most competitive pricing is my focus. And achieving it keeps me awake at night.

Q: CFOs are today increasingly involved on the strategic side. Your view.

Mukesh Gandhi: A CFO's inputs on strategic issues are very important and are considered seriously today. In our organization ,before we launch any product, the input of CFO is invited for raising supporting liabilities (tenure and rate wise) to create the asset.

Q: What are your priorities going in 2018? What are the critical challenges you think BFSI CFOs are facing today?

Mukesh Gandhi: In 2018, top two priorities will be further reduction in rate of borrowing by moving the rating ladder up and strengthening investors' relations by educating them with regard to our business model.

Top two challenges faced by BFSI CFOs are asset liability matching and mobilizing funds at most competitive rate to survive in competition.