"MAS Financial Services Limited Q3 FY19 Earnings Conference Call"

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MANAGEMENT:	**MR. KAMLESH GANDHI – CHAIRMAN & MANAGING DIRECTOR** **MR. MUKESH GANDHI – WHOLE-TIME DIRECTOR & CFO** **MRS. DARSHANA SAUMIL PANDYA – EXECUTIVE DIRECTOR & CHIEF OPERATING OFFICER**

Moderator: Ladies and gentlemen, welcome to the Q3 FY19 results 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 the senior management team.

I would now like to hand the conference over to Mr. Jignesh Shial of Emkay Global. Thank you and over to you Sir.

Jignesh Shial: Thanks and good evening everyone. I would like to welcome the management and thank them for giving us this opportunity. I would now handover the call to Mr. Kamlesh Gandhi for opening remarks. Over to you Sir.

Kamlesh Gandhi: Thank you Jignesh and good evening to all of you. I am very happy to connect to all of you once again, and the purpose of this con-call as you know is to share with you the Q3 results of the company. Before I do the number crunching, let me give a brief and what everyone of us are aware of that Q3 was a very turbulent time for NBFCs, but as far as MAS is concerned with a vintage of more than 2 decades, we have navigated through such times many times, and I don't in any way say that we like this type of pressure and we will like this type of headwind, but having faced this type of headwinds a number of times, we were well equipped to navigate through that successfully, and if you go by the dictum that actions speak louder than words, the numbers speak for themselves for this quarter. The financial performance was very robust and as you all know that this was a liability-led issue as far as the NBFC sector was concerned and we could navigate through this situation very successfully basically because we always go on the fundamentals and observe the fundamentals very closely. As I shared with my communication soon after the crisis that at MAS the liability management is at play, more precisely because there was no mismatch of funds. We have never endeavored to do any mismatch of funds in order to reduce our cost of borrowing and that helped us a lot during this period. So, whether it is an asset-led crisis or a liability-led crisis, we have always navigated through it successfully because we believe in following the fundamentals and calibrated growth approach.

Now, with this background, let me take you through the numbers. Now, if you see the size in AUM on a YoY basis is 34.36%. The asset under management stands at 4914. Before I do the number crunching, let me share with you that I will be going as per the I-GAAP number and then will share the Ind-AS number for making it easier for all of you to do the comparison because last year we were as per I-GAAP. So, as per I-GAAP, the AUM was around 4914 crores as compared to our earlier AUM of 3657 crores which translates into a growth of 34.36%. And if you see the profit before tax, as per I-GAAP is 46.72% rise, i.e., at 56.86 crores as compared to 38.75 crores last years and profit after tax is at a growth of 47.15%

which is at 37.29 as compared to 25.34 last year. These are I-GAAP numbers and GNPA 1.28% and net NPA of 0.88%. Now, if I translate this to Ind-AS number, the asset under management stands at 4956 crores which roughly translates into a 34% rise. The profit before tax is 69.36 crores as compared to 46.14 crores last year which is a rise of 50.31% on a quarter-to-quarter basis and profit after tax at 45.45 crores which is a 50.94% rise on quarter-to-quarter basis. If you see on a 9-month basis, the profit before tax has increased 47.24% and profit after tax has increased by 55.20% and Stage-3 which we know conventionally as NPA, the gross NPA or AUM Stage-3 before provisioning stands at 1.38% which was earlier 1.37% and the net Stage-3 post provisioning is 1.13% which was earlier 1.26%. So, if you see the performance growth in AUM, growth in profitability and we have maintained the quality of the assets. If I take you to the disbursement growth, the disbursement grew by 29.26% for the 9 months to 3400 crores from 2631 crores, and if you see the quarter also, this is a very important point to be noted that the disbursement made during the quarter also registered a 32% rise as compared to the last quarter. So, testimony to the fact that consistency is the hallmark at MAS and as I shared with you in the opening remarks that being very vigilant and very circumspect on fundamentals helped us to register this growth even in this quarter. Now, if I take you through the various products, as you know that we are a multiproduct company, we are predominantly into MSME funding which we bifurcate into micro enterprise loans and small & medium enterprise loans, I think there is a very detailed description on each of the products in our presentation which is there on our website and it is on the exchange also. Our micro enterprise loans as on 31st December stands at 3062 crores which is a 35% rise over the last year as compared to the number of 2266. SME loans registered a rise of 32.99%, i.e., 1192 as on 31st December 2018 as compared to 896 the last year. Two-wheeler we could register a handsome growth of 41.39% or 502.51 crores as compared to 355.42 crores because of the advantage where many of the players working in this segment had slowed down the disbursement because of their internal liability issues. And in commercial vehicle also, we could see a growth of 13% where the AUM stands at 157.19 crores as compared to 139.03 crores as on 31st December 2017. So, this is about the detailing as far as the product is concerned. And if I talk about how we manage these products in terms of our distribution, we continue to have distribution; direct distribution centers of more than 3500 centers across 6 states of operations, add to that our partnership with various NBFCs numbering to close to 120 which is growing from strength to strength and even in this time they have proved a good business model for us because of the asset quality which we could maintain even in that module. Now, if I take you through by housing finance which is a subsidiary of MAS Financial Services Limited and if you see housing finance as per the I-GAAP number, the asset under management is 251.37 crores which is 31% rise on a quarter to quarter and total income has increased by 28%, profit before tax has increased by 61% and profit after tax has increased by 78.63% on quarter-to-quarter basis as per I-GAAP. GNPA, the conventional 90 DPD what we calculate is 0.32% and net NPA at 0.25%. If I translate the same into Ind-AS numbers, the asset under management stands at 251.93 crores on a quarter-to-quarter basis and profit before tax at 85 lakhs as compared to 86 lakhs and if you see the 9 months profit, it is 3.26 crores as compared to 2.42 crores. That is a rise of 34.98%. Profit after tax for the quarter is 72 lakhs as compared to 57 lakhs last quarter, and if you see on a 9-month basis, it is 2.64 crores as compared to 1.68 crores which is a jump of 57.59% on 9-month basis and 25.01% on quarter-to-quarter basis. And once again, the Stage-3 what we calculate as more than 90 days is 0.34% as compared to 0.36% the corresponding quarter and net NPA at 0.24% as compared to 0.26%. I would like to draw the attention on the quality of the portfolio as far as our housing finance is concerned. While the book is small but at the same time, we have demonstrated our capabilities to grow at a good pace and maintain the quality of the portfolio. If you see the peers working in the same segment, i.e., the informal and affordable housing space, the NPAs have increased. I was talking to few of the channels in the morning. I told them the same thing that at MAS, the priority is quality, profitability, and growth and this is what we have been doing over last 20 years and will continue to do so going forward.

Now, a quick view on how exactly we extend credit and on the product. Going forward, we would like to concentrate on the MSME segment where we see tremendous scope but in the same vein, it has its own challenges also. So, what we have done over all this 25 year is to gain the niche expertise, and this is the task we worked upon can be worked out. It is not so that today I have gained it completely. We learn and unlearn daily, and as a result of which, we are in a position to create a quality portfolio even in the most challenging segment. So, we will continue to concentrate on MSME and SME. The dictum of credit is extending credit where it is new and just not giving them the funding but being their liability solution provider. This is on the product side. We will continue to focus on two-wheeler and commercial vehicle also with our deep penetration and a long vintage and relationships with the two-wheeler dealers across the country. We will continue to see a robust and a decent growth in two-wheelers also and in commercial vehicles also we see that now the way the things are going, we can see a decent growth but at the same time, we will be cautious on the quality because we all know that in commercial vehicles, the essence as far as this portfolio is concerned is the quality of the portfolio. So, there we will like to trade cautiously. Giving a view on the distribution, we will gradually increase our distribution. The plan is that from the current 72 branches according to the planning from quarter to quarter within next 2 to 3 years, these branches can be close to 150 branches and accordingly the distribution centers will also increase. Secondly, we will continue to work with well managed NBFCs. I think once again I will like to draw your attention on the presentation whereby we have given a very detailed presentation on how we identify the NBFCs, how we do our due diligence, how we give them 360-degree services, and going forward what type of synergy we anticipate with various NBFCs. So, I think that model also should work good for us for a robust distribution. That is about the product, this is about the distribution. Let me share with you that any company is as good as its human resource and at MAS we take pride that we have more than around 35, 40, 50 people working with us right from the beginning. We continuously add up to the natural talent and once again the dictum is very simple; appoint the right person for the right job, training the evaluation, once again training, and action. We follow this and as we grow, I think we will also make necessary changes as far as our HR policy is concerned and we will build up a robust team. And in financing, we pay more thrust and attention on honesty, dedication, and loyalty besides the skills sets what they bring to the table. In terms of technology, as I always tell that weeds out to the segment whereby technology has to be utilized more for transaction purposes rather than evaluating the credit because they have not reached their stage whereby we can evaluate them basis on the input I get from using technology. So, once again we will continue to focus on the touch based approach. Having said that, we are in close touch with all the fin tech companies to understand that how they are working. We are trying to work closely with few of them, so that will give us an understanding on what the latest things are happening in the market.

To sum up once again, it was a very turbulent quarter. MAS could navigate through because of its expertise and because of its calibrated growth and the approach to stick to the fundamentals, and as we go forward, we see no reason why we could not continue with the same type of growth what we have been doing since all these years and we have proved time and again that we have the capability to navigate through turbulent times.

Now, I will request Mukesh Bhai to take you through the liability whereby he will explain you that what is the policy of our liability raising and what exactly we did in Q3. Mukesh if you can take them through that.

Mukesh Gandhi: Good evening everybody and thank you for your participation. We at MAS, whenever we go for the borrowing mix, we take the care that there is no ALM mismatch and in this particular quarter when there was a turbulence we were saved because our fundamentals were very strong and at that time our borrowing mix if I could share with you, 50% was from the direct assignment, 35% from the CC facilities, and 12% from the term loan. So, we never had any mismatch. So far as the direct assignment is concerned, we get door to door maturity. CC facilities, technically this is a 1-year fund and we have a matching portfolio so we don't have a mismatch in that. And term loan is for a long-term purpose. So, this is the way direct assignment is we are utilizing it and year after year 35-40% of our portfolio remains off the balance sheet and we assign to the various banks. By assigning this portfolio, it qualifies as a retail portfolio and priority sector portfolio for the banks. So, there is a lot of interaction. And during this turbulence period, you must have seen that banks were insisting on buying of the portfolio rather than extending the more and more term loan or CC facilities to the NBFCs. And during this quarter, we raised 780 crores by assigning the portfolio. So, that is what our interactions with the various banks is and that was at the cost of 9.5%. So, for the quarter, our average cost of borrowing is 9.1% but my incremental cost has gone up to 9.75%. and going forward, I think that that will remain the way of the life because the cost of fund has been increasing and out of that, certain thing has been passed on to the customers and certain will be the compression of our NIM, net interest income. So, last quarter it was 7.8%. Going forward, we may see that it may end up at 7.5% or so because we have to absorb that particular amount of the rise of the cost of borrowing. And going forward, we will be touching the capital market because now our size is bigger one and we are also working on raising ECB also at the right time given the various mix. So, in our borrowing mix, we will be adding certain portion of capital borrowing. Borrowing from the capital market and borrowing through the ECB route, so our dependence on the bank may reduce to that particular extent. So, this is how we have been managing our liability profile and whenever we issue CP (commercial paper), we utilize this for the reduction of the cost rather than enhancement of the resources and that pays of us. So, there is no mismatch so far as the ALM is concerned and we never intend to enter into any mismatch for the reason of reducing the cost. With that, I end up over here so far as our liability management is concerned. I hand over to Kamlesh Gandhi.

Kamlesh Gandhi: This was from our side on how we manage the assets, and useful input from Mukesh Bhai on the liability structure and what we did in the last quarter raising 780 crores in last quarter on assignment is the testimony to the fact of our relationship with various bankers. And just to add to what Mukesh Bhai told that we have the system of remaining ahead as far as the sanctions are concerned. If I share with you, we have 2 quarters of sanction on hand for various types of liability that we will need in the Q4 and Q1. So, with this input from our side, we will be happy to take questions from your end.

Moderator: Thank you. We will now begin the question & answer session.

The first question is from the line of Nikhil Valecha from Sundaram Mutual Funds. Please go ahead.

Nikhil Valecha: My first question is on the average ticket size. If you see in the SME, the average ticket size has reduced from around 7.2 million to 5.4 million. Any particular reason for that? That's in a quarter to quarter.

Kamlesh Gandhi: Our SME portfolio comprises of machinery funding, shed funding, and working capital to various dealers and various viable clusters we work with. Depending upon the traction from quarter to quarter, it will vary. If you see a few quarters back, it was close to 90 lakhs and it was 72 lakhs and now it is 54 lakhs. We predict an average range of anywhere between 50 to 75 lakhs. It is all about the type of business we can stage on a quarter-to-quarter basis on the market. So, there were no special efforts to reduce the size because the SME portfolio has been behaving in the desired manner. So, we will continue with this business model and the way we are working on ticket size, but the difference on quarter-to-quarter basis is because of the type of the business is done in a particular quarter.

Nikhil Valecha: Secondly, as seen within the borrowing mix, the proportion of term loans have come up implying that our term loans have actually declined sequentially. What is the reason for that? Is it because the banks are asking for the very high…, are they charging very high lending rate or is there any other reason?

Mukesh Gandhi: During that period, whatever the repayment was there, because of that, the term loan got reduced and fresh term loan, we did not read because of the rates. Instead of that, we mobilized the resources by assignment and in that, the rates are very conducive because as we know that this assignment portfolio is qualifying as the retail and priority portfolio for the banks.

Nikhil Valecha: What are the rates that banks are asking now?

Mukesh Gandhi: Now the banks are asking anywhere between 10.5 to 10.75%.

Nikhil Valecha: So going ahead, obviously, are we comfortable borrowing at this rate or we would be continuing to increase the proportion of the direct assignments?

Mukesh Gandhi: Direct assignment will have some limitation. We will not be in a position to assign all our portfolio because it has a seasoning requirement also. So, for creation of that, we do require some sort of a term loan also. So, going forward, we have to borrow some term loans even at the higher rate.

Nikhil Valecha: If I see the last quarter disbursement, during the Q4 were significantly high, disbursement growth. It actually increased to 80% plus during Q4. So, do we expect a similar traction in this quarter as well or will the pressure on the liquidity would inhibit us to reach a similar kind of disbursement rate?

Kamlesh Gandhi: If you see 17 December that is to be compared with the earlier December quarter, that growth was on a smaller base. Now, when we talk about this quarter, it will not be comparable to that quarter in terms of growth. So, sequentially, we grow on quarter-to-quarter basis by around 6-7%. So, what looks like 1200 crores right now, should be close to 1300-1400 crores this quarter.

Moderator: The next question is from the line of Alpesh Mehta from Motilal Oswal. Please go ahead.

Alpesh Mehta: Good evening Sir, and congrats for the good set of numbers. First question is on the assignment transactions. You mentioned this quarter, it was around 780 crores. Can you help me with the first two quarters assignment numbers as well?

Mukesh Gandhi: First quarter it was 350 crores and second quarter it was 525 crores.

Alpesh Mehta: What would be the income which has been up fronted on these transactions; first, second, and third quarters? or the disclosure in the reconciliation between Indian GAAP and Ind-AS is the number to look for?

Management: If you see the reconciliation of our P&L, it shows that there is a jump of profit in this quarter. The reconciliation between I-GAAP and Ind-AS numbers should give you that picture because in I-GAAP we don't consider assignment income upfront whereas in Ind-AS, we consider the assignment income upfront. So, the difference between the both should give you the picture. If I just tell you in Q3, we had an excess of 8 crores of income as compared to I-GAAP numbers only because of the more assignment done and because of the assignment income being up fronted.

Alpesh Mehta: Because when I look at the reconciliation, it shows the assignment income of 10.5 crores. That's why I just wanted to be doubly sure whether that number is the right number or not.

Mukesh Gandhi: That is the difference the I-GAAP and the Ind-AS. So, this is the increased income from when we go from I-GAAP to Ind-AS.

Kamlesh Gandhi: That is the increase in income. According to I-GAAP, the normal income will accrue. Whatever the normal income is there will accrue as per the I-GAAP numbers but when we do assignment, we have to upfront the income. So, the number what you are saying of 10.5 is the difference between the normal income if it is done in an amortization way and the up fronted income.

Alpesh Mehta: Logically, the up fronted income would be higher than 10.5 crores. Is that the right way to interpret this?

Kamlesh Gandhi: Yes, right.

Alpesh Mehta: What was this number for the first 2 quarters; 1Q and 2Q? because in 1Q, we had a net negative number of around 3.5 crores.

Kamlesh Gandhi: It all depends upon what is the assignment for the corresponding period done. Say for example, that is what we were…, I think we missed out on that but we are now going to put the assignment income on a quarter-to-quarter basis separately so as to give the right picture on terms of the income booking. Say, for example, this quarter I have assigned 780 crores and next quarter I assign less, reported profit will come down but there is nothing wrong in the business or there is nothing wrong in the profitability. Only because of the operational issue, this has happened. And more details will be shared offline. You can be in touch with Ankit.

Alpesh Mehta: Just a request if you can start putting that as a separate.

Kamlesh Gandhi: We will put it that. I wanted to do that, we missed out this time, but next time we will put it.

Alpesh Mehta: Secondly, just a qualitative question on the relationship with the NBFCs. Online include the NBFCs, right? So, during this liquidity crisis period, what has been their behavior? Were they able to get money while they must be getting money from you but from the other financers from where they are sourcing their funds, what was the situation? Just a qualitative comment on that front would be very useful.

Kamlesh Gandhi: Let me take you that how we conducted ourselves as far as our NBFC business is concerned. What we did was that the first thing that we asked all the NBFCs to give their cash flow and on a static basis, we calculated the cash flow that presuming that no money is going to be received as that and you are not going to do any business but how are you placed as far as the cash flow is concerned. So, the first thing what we engaged with them is to advise them that you should not be very enthusiastic on the disbursement currently and you should do the disbursement only to the tune of the fresh money you received. So, this was the evaluation from our end, and since we know this sector closely, we were the ones who were funding them, and there are a few others in the market also who started funding them from say Mid November and from December onwards, there were many people funding them. During this quarter, it was a mixed quarter for them whereby they started getting money in December or late November besides what we were doing. So, our idea was to engage with them and see to it that they maintain positive cash flow, maintain disbursement in such a manner that the cash flow is not hampered and this is how we took our call on funding each one of them. I am happy to share with you that all of them have done well during this quarter in terms of their cash flow management. Maybe some of the NBFCs might have reported drop in AUM and hence drop in profitability but as far as cash flow is concerned, none of them had problems.

Alpesh Mehta: Just on the individual AUM segment-wise, i.e., micro enterprises and the SME, what would be the percentage of on-lending to the NBFCs into these individual segments?

Kamlesh Gandhi: As you see on an overall book size, it is around close to 59% slightly skewed on MEL. As far as MEL is concerned, it will be more. It will be around 65-70% whereas the rest SMEs around 50% and in rest of the products it will be on a lesser side. So, it is slightly skewed on microenterprise loans because we consider that these are small ticket size informal loans to be distributed by the people who have the perfect demographic understanding.

Alpesh Mehta: My question was on a sequential basis; the annual MEL average ticket size has gone up quite significantly from 29,000 crores to 39,000 crores. How do we read this? I understand from the SME perspective but from an MEL perspective, it looks on a slightly higher side.

Kamlesh Gandhi: The growth you are talking about?

Alpesh Mehta: The average ticket size which was being reported in the second quarter, MEL was around Rs. 29,000 per customer and which has increased to around 38,500 in this quarter. Would that be the case that you have given the additional funding, just to keep them liquid and the number of customers are more or less the similar and that's why the average ticket size looks on a higher side?

Kamlesh Gandhi: No, not at all. What happens that the ticket size range is anywhere between 25,000 to 50,000 and they are funding up to 75,000 but the range is anywhere between 25,000 to 50,000. It all depends upon how the portfolio has been built up this quarter, by which NBFC has contributed to this portfolio. So, there are various permutation and combinations which will bring about various ticket sizes, but it will be within a range as I see right now within a range of 25,000 to 50,000 going ahead.

Moderator: The next question is from the line of Rinish Bua from ICICI Securities. Please go ahead.

Rinish Bua: Just a follow up question on the other income part. This quarter we saw a sharp increase in the other income portion to roughly 4 crores versus only Rs. 27-20 lakh rupees for last 3 quarters. What was the reason for that?

Kamlesh Gandhi: As such it looks other income but practically it was a drain on the income to a certain extent because usually we don't have any negative carry on our liability. This was the time whereby we had to borrow and keep the liquid funds in various instruments, more precisely into fixed deposits. So, this is the interest we got on those type of funds. So, that was the treasury income in short.

Rinish Bua: So, the same holds true for these at a robust NIA growth also at 16% QoQ vis-a-vis our AUM growth was only 6% QoQ. Basically, it was largely due to the margin expansion we must have saw during the quarter. Can you please throw some light on the margin part and the yield on the book?

Kamlesh Gandhi: Our NIMs have remained constant, not much difference on the NIM part. If you just see our net interest income was around 7.8% and right now also the net interest margins, they have remained constant. The expansion is more on the growth of the book. If you see a 30% expansion in NIM is because of around 35% expansion in the loan outstanding.

Rinish Bua: I am talking about the sequential thing, not YoY growth.

Kamlesh Gandhi: If you see the sequential NIM, September 2018, our NIM was 7.93 whereas it is 7.92 in December 2018. The NIMs have more or less remained the same.

Moderator: The next question is from line of Dipanjan Ghosh from Kotak Securities. Please go ahead.

Dipanjan Ghosh: So just two questions from my side. First is, could you shed some light on your segment-wise asset quality, for example, what are your Stage-3 loans in the various segments; CV, SME, microenterprise loans; both as of 3QFY19 and also maybe QoQ?

Management: Two-wheeler is 1.63%, MSE is 1.43, SME 0.71, and SIT is 1.59, and overall it is 1.28%.

Dipanjan Ghosh: In continuation with the last question, could you shed some light on…., You told that you are going to pass on some of the rising borrowings cost to the customers. Have you raised lending yield across products and if so by how many basis and what are the present yields across the various product classes?

Kamlesh Gandhi: With the various NBFCs whom we are working with, we have increased the yields anywhere ranging from 0.5 to 0.75% so that covers 60% of our portfolio. And in terms of yield, as and when we got the opportunity, we have transferred it and I think I will share the numbers.

Darshna S Pandya: In MEL, it is around 15.5%, SMEs 15%, two-wheeler is around 17%. From September from overall 15.27 to 15.55%.

Kamlesh Gandhi: So, it has increased by 0.35%.

Dipanjan Ghosh: You have done a securitization assignment of 780 crores in this quarter and your AUM has gone up by around approximately only 3000 crores. So, have you parked any of the borrowings as like any other investments or like kept it liquid?

Kamlesh Gandhi: As on December as I told you usually what happens that we keep CC limits undrawn, but December was not the time where we could have capped the CC limits undrawn. Usually what happens is when we get the assignment receives, we deposit in the CC accounts, and the CC limits get reduced from an average utilization of around 65-75% to around 30-40%. So, if you see in the balance sheet also, it will reflect that we had a cash on hand, i.e., in terms of fixed deposits with the bank to the tune of 400 crores.

Moderator: The next question is from the line of Rohan Mandora from Equirus Securities. Please go ahead.

Rohan Mandora: If I understand correctly, the other income of 4 crores that you explained was due to the treasury fee. Just wanted to understand like since we have a good CC outstanding, when we borrow in terms of say term loans of whatever amount it is, won't the CC go down and what the need to keep the part of the surplus money into a say treasury, debt mutual fund, or any of those kind of products and why not reduce the CC.

Kamlesh Gandhi: Ideally you are correct. There should not be any need to do that but practically that was the time as I shared with the earlier gentleman whom I interacted with that that was the time to be CC limits fully utilized before any bankers can change their mind on the sector. The problem with this sector is that we have to go through acid test every day. So, what happens that one fine morning, the banker something happens in some remote part of the country and they say that ok all undrawn CC to be held back for the time being, then it can cause problem for us. So, that was the time whereby we didn't want to take chance, whatever money we raised rather than filling up in the CC, we had to park it outside and as I shared with Rinish that that upfront income in fact is to an extent that drag on our process because there will be differential at the rate I wish I put the deposit and the rate I wish I rate. This type of treasury management is very common among lending institutions especially NBFCs. Where are we unique is that since we have CC limits, and CC limits we are having it because of the fact that we have sufficient 12-month asset on hand gives us the room to get away from this negative carry. So, that was the fact of life in this quarter.

Rohan Mandora: On this assignment transition, what was the spread that we would have on this 700 odd crores?

Kamlesh Gandhi: Our average blended yield is around 16% and we borrow at around 9.5%. So, that is the spread.

Rohan Mandora: Thirdly, with respect to the policy of lending to NBFCs, and NBFCs are reporting a loss in the previous audited financial, would we be lending to them? Would we be okay sanctioning them new limits? With respect to the lending process, this was 1 part. Second part is that is there a minimum AUM criteria that we have when we are lending to an NBFC when we are looking to start a relationship. And third was that till what share of NBFCs borrowing are we comfortable in lending?

Kamlesh Gandhi: To answer all your questions. Number first is on loss. We discourage NBFCs from having any model in which they incur loss. But having said that, there are various situations whereby sometimes on a quarterly basis, they might have incurred loss. And in that situation, if they have sufficient capital to absorb loss and post capitalizing their losses, if their capital adequacy and leverage is within the acceptable limit and we see that in near future they can break even or they will start making profit, we might go for the exposure.

Minimum AUM size is, if you see our business model, we support all NBFCs in their formative years because we know they are working very closely. We ourselves were only 2 crores in 95-96. So, usually if they are working with MFI, the minimum size is 5 crores as per the capital requirement and for NBFC, it is 2 crores. So, we might start with a very small exposure provided we are convinced of the capabilities of the entrepreneurs who are running this NBFC. So, if we are convinced that he has a domain expertise, he has the required statutory capital and he can create a good portfolio and be profitable, we will start with a very small exposure and what it happens practically that once we start with a small exposure, he starts attracting that from other companies also. And this is how he grows big and then in turn will attract investment from the investors. So, this kicks in a very benign cycle of their growth and that is what we are credited to by many of the NBFCs. If you can ask to many of the NBFCs, they will credit us for their growth in the formative years.

Rohan Mandora: So essentially the maximum limit that we can go is 100% of the borrowing because at an initial stage, we may be?

Kamlesh Gandhi: Not 100%, it can never be 100%. I will give a simple example. Somebody starts with a 5 crores as far as MFI is concerned, so he is going to deploy his money. I am not going to lend 5 crores to him. Credit will start with a very small exposure of 20 lakhs, 25 lakhs, 50 lakhs. So, on a total portfolio of say 5.5 crores, I will be around 50 lakhs. If I just give you an idea on what is our exposure, if you take the top 10 borrowers also, our exposure of their balance sheet size is around 7%.

Rohan Mandora: I just wanted to understand for the smaller NBFCs, not on the larger ones because larger ones would have a diversified borrowing.

Kamlesh Gandhi: The natural credit what we get is in bigger NBFC and we have to see to that we don't take an exposure beyond a point in terms of our percentage exposure and in smaller NBFCs, the amount in absolute terms is very less. Says for example, 80% but I might be only 1 crore. That is how they decide practically.

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

Kislay Upadhyay: Could you share the fresh slippages number for this quarter compared to last year and last year and if you see any incremental stress in a particular segment?

Kamlesh Gandhi: The slippages in this quarter is 15.26 crores approximately and in the last comparative quarter was 14 crores. And last quarter 23 crores.

Kislay Upadhyay: So, there is actually a favorable trend, not something to be worried about?

Kamlesh Gandhi: Yes.

Kislay Upadhyay: On the OpEx, there seems to be some improvement in cost to income ratio. Could you share the cost to income ratio and if any initiatives you have taken to improve on the same?

Kamlesh Gandhi: Operation cost is a function of the size. So, as we grow in size, the operation will get the advantage as far as the cost of operation is concerned, so one is that. And second is the business model what we follow that around 59% of our business comes through partnership through NBFCs. So, in a sense, that operational cost is up fronted in the yields I get from the NBFCs. So, this is the reason for maintaining the operational cost at a very favorable level.

Kislay Upadhyay: What would the number will be for this quarter and compared to the last one?

Kamlesh Gandhi: This quarter it is 1.79% and last quarter it was 1.81.

Moderator: The next question is from the line of Rinish Bua from ICICI Securities. Please go ahead.

Rinish Bua: Just a small clarification on this treasury income. Basically, what I understand from your comments is we have utilized the sanctioned CC limit. So, that's why and we have put it in the treasury. So, that has led to the extra treasury income. At the same time, we must have paid interest on that and that might get considered in the interest expense, right? So, that is why this interest expense…,

Kamlesh Gandhi: That is what I remarked what optically looks like other income is in a sense a drag on my profit.

Rinish Bua: Exactly. That was my follow-up question on this. So, basically if we have to not utilize this CC limit, ideally the profit would have been higher than what it looks like.

Kamlesh Gandhi: Yes, to the extent of the gap.

Moderator: The next question is from the line of Sanjeev Panda from Tamohara. Please go ahead.

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Sanjeev Panda: Considering the current turbulent time that in initial commentary that you said, our numbers in this quarter showed a robust growth. So, one thing is that maybe because some of the activities would have already done but the post event that has happened, do you see any concern from liquidity side, especially for the NBFCs that we are tied up with? and if you can throw some light on the ground how things are or if at all you are cautiously taking stake or not in terms of any of the products out of the couple of products that we are dealing with. If you can throw some light in the forward-looking way, that will be helpful.

Kamlesh Gandhi: Lending with caution is an all-time phenomenon at MAS, not Q3, not liquidity turbulence, not asset based turbulence. Lending with caution has been the way of life at MAS. If you see, we have taken 20 years to reach what we call a 5000 crore AUM speaks of our calibrated growth approach. So, caution will be there irrespective of the situation, but you are right. As the situations are bad, you have to be more circumspect and we are.

In terms of the liquidity situation at the ground level, everybody is not getting liquidity. As I told you that the very reason that we could raise 780 crores from our bankers is the testimony to the fact that what type of faith they have in us because in such situation, if I share with you, even the lenders will like to work with the known parties and with the parties where they have the track record rather than taking newer exposure. But having said that, even we had to work hard to get these sanctions and we are working hard to get the required sanctions because overall the situation is not as it was before September that people were very bullish on the sector and would like to land very liberal. So, the liquidity will not be an issue but at the same time, we will have to work hard on that. As far as MAS is concerned, liquidity will not be a constraint for their steady 25-30% growth. And I shared with all of you how we work with NBFCs in such scenario, it is already there in the presentation also that we are their friend, philosopher, guide, and then their lenders. So, we evaluate them very closely. During this quarter, we monitored their cash flow very closely. We are doing that still now, and this is the merit we partner with them and increase our portfolio. So, going forward, as we have given the guidance at the beginning of the year that we will be anywhere close to around 5300 crores plus including our housing finance subsidiary looks well on track and PBT somewhere in excess of 200 crores looks well on track.

Sanjeev Panda: The next thing is we commented that we will be looking at commercial market borrowing and cost of borrowing. If you can help us to understand what range, what size, or what composition that you will be looking at and because of that what could be the cost of borrowing that blended-wise you are looking at? Is there any benefit that you are looking at? If you can help us to give a guidance in terms of range?

Kamlesh Gandhi: That will depend upon the market situation. The comment made by Mukesh Bhai was in light of diversification of resources that we have sufficient resources but going forward say we will be 5500 crores this year and close to 7000 crores the next year, so we need a diversified resource base. So, we are waiting for the situation to be normal to touch the capital markets, raise NCDs. Provided things are normal, we would not like to pay too much of premium just for diversification. So, that is there on the cards as a plan, but it will depend upon the market situation and if at all we are going with, it can be to the tune of 3-5% of our total requirement. And once again, it will not be a short-term paper, it will be a matching paper. We will see to it that there is no ALM created just because we want to save on interest. It all depends upon the market situation but as of now, we will contemplate to raise anywhere between 3-5% from that source.

Sanjeev Panda: Last thing is operating cost benefit that you said as a function of growing business and then getting the leverage. You think the line items based on that will continue to have this leverage maybe and what range that you are seeing thing that it could go down maybe in 3 years' time period.

Kamlesh Gandhi: Let me share with you; I have shared this with lenders and investors a number of times that I don't want to take undue credit on a low operational cost because that is the function of the business model. Let me give you an example. Three years down the line, my retail asset channel, which comes from NBFC, is down by 25%, then my yields will increase but my operational cost might increase. So, how we frame our pricing policies on return on asset. So, return on asset is a function of the yield I get less the cost of borrowing, less the credit loss and less the operational cost. Say, for example, if I am operating through my 3500 or maybe 4000 centers directly, I might get higher yield but that can increase my operational cost also. So, the focus is on ultimate return on assets what we can generate and that is anywhere between 2.5 to 3% range.

Moderator: The next question is from the line of Hitesh Gulati from Haitong. Please go ahead.

Hitesh Gulati: I have a couple of questions. Firstly, why are the provisions and loan losses increased so significantly on a YoY basis or have we sort of written-off substantially again in this quarter?

Kamlesh Gandhi: If you see on a quarter to quarter basis, the increase 1 is the increase in the portfolio, and second is the increase in the provisioning in the standard assets and in the Stage-3 asset as per Ind-AS calculation. So, if you see at the end of the day, our net NPA has reduced but our provisioning has increased. There are 2 reasons. One is 35% growth in the portfolio and second is change in the provisioning. Just to share with you, last time we have had a standard asset provisioning of 0.57% which was increased to 0.67% this time. With Ind-AS being inducted, this type of variations will be found in all the lending institutes because it all depends upon the bucket of the portfolio from time to time. So, that is the reason why this has increased.

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Hitesh Gulati: Just to get a sense on lending to our NBFCs. What would be the growth rate of some of the NBFCs that we were lending to? Obviously, we have grown well at 35% but what about the onward lending? How was their growth pattern in this quarter?

Kamlesh Gandhi: This quarter, it was very difficult for them to grow because to register a growth in this quarter requires a very long track record, very strong fundamentals that were the prerequisite to grow in this quarter. Not many NBFCs could grow in this quarter. The median size of the NBFC whom we work is close to 200 crores. So, I think this quarter, they must have grown on an average basis of not more than 10-15% where some of them not grown at all.

Hitesh Gulati: Our growth of 35% like how do we sort of reconcile that has our growth through the direct channel increased in this quarter versus the NBFC channel?

Kamlesh Gandhi: When we talk about their growth not increased, but in NBFC, there is a continuous rundown. Even you have to maintain an asset of 100 crores, I will have to continuously raise money. So, when we do the disbursement, it is on the basis of the continuous rundown. So, as long as we maintain our exposure, we can maintain our growth rate even on lending even though they do not grow their portfolio.

Hitesh Gulati: Going forward, how do we see the split of NBFC and direct lending channel sort of moving both in the state of Gujarat and outside. I think in Gujarati we are very low on the NBFC channel but how do we see it overall as well?

Kamlesh Gandhi: We have a good spread among various states. Eighty percent of our portfolio is more or less evenly spread at the rate of 15-16% in 5 to 7 states which falls within our criteria of credit evaluation. And this is how we see this going forward.

Hitesh Gulati: I wanted to check on the NBFC channel partner and the direct channel. How will that split? Are we going to grow faster on the direct over let's say 2-3-year timeframe?

Kamlesh Gandhi: Three years' timeframe if I tell you classically it will be direct channel growing fast because the number of NBFCs will not increase in the same proportion as I will increase by distribution centers. So, as it looks right now, what it looks 60:40 can look other way round 60% through direct channel and 40% through NBFC on a 3 years horizon. Even though you can't predict future, but this is how it looks like as of today.

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

Kislay Upadhyay: It's in the context to the question that you just answered. I wanted to understand how many NBFCs as the partners we would need if we keep on growing at 30% or so given that we work so closely with the NBFC partners and the management bandwidth will be limited. I am trying to understand how scalable we are with this business model if we don't change from 60:40 to 40:60.

Kamlesh Gandhi: In terms of scalability, it is a function of how this NBFC grows over these years. If I tell you that on a normal period, the last quarter was an abnormal time, but under normal circumstances, at 200-crores median size, this NBFC has a potentiality to grow anywhere between around 35% to 45%. Once they grow at that rate, automatically we will find the room to tag along with their growth. As far as the market size is concerned, looking at the MSME segment, more and more NBFCs will be required which has been acknowledged even by the regulator. So, it is a function as to how many new NBFCs are coming into the fray, how these NBFCs under normal situation are growing. So, our growth will also be dependent on them. As I see right now, we should not see any problem at even this combination to grow our book at around 25% to 30%. Having said that, I have always told and I repeat once again that the pecking order of our priority is number first is quality, profitability, and growth.

Kislay Upadhyay: What would be the number of NBFC partners we would be comfortably able to work with given?

Kamlesh Gandhi: Right now, we are working with 120 partners.

Kislay Upadhyay: How much of our management bandwidth would allow us to go up to in terms of the number of NBFC partners?

Kamlesh Gandhi: That will be increased from time to time. If it is 120, it becomes 150, we will have the management bandwidth accordingly. It is not so that to manage this business, there is no sufficient skills that available in the market. There is lot of skills that available in the market and we have a set processes and we have the set business model. So, as and when we increase our business, we will be in a position to add on to our management bandwidth also.

Moderator: The next question is from the line of Rohan Mandora from Equirus Securities. Please go ahead.

Rohan Mandora: Branch expansion 150, what is the timeline for that?

Kamlesh Gandhi: Branch expansion I will share with you 2 things. It will be within the states of our current operation, i.e., 6 states, the western and 2 southern states. And it will depend upon the opportunity we see at various places on penetrating it deep. We don't believe in spreading it too thin in too many states. So, in these 6 states, we will be expanding our branches. And when we talk about 75 to 150, it can be within next 2 to 3 years.

Rohan Mandora: Secondly, with respect to the incremental sanction that we have given during the quarter to the NBFC relationships, just trying to understand were there any cases wherein we had some discomfort on the cash flows of these NBFCs and did not give sanctions to decrease the injuries of the NBFCs during the quarter?

Kamlesh Gandhi: That's a very routine thing because they might have given their part of the understanding but if we are not comfortable with the cash flows which we got, we might not have funded to them.

Rohan Mandora: So, in these kind of relationships, gradually we exit those relationships or over a period of time we monitor and then?

Kamlesh Gandhi: That is a very dynamic process. If we see the financial position of any NBFC or any bank, it is a very dynamic process. This quarter its cash flow might be squeezed, and he coursed in around 50 or 100 crores of capital, he is stronger than many of the rest. So, then we can start funding them. So, it all depends upon the current situation of that NBFC.

Moderator: As there are no further questions from the participants, I now hand the conference over to management for closing comments.

Mukesh Gandhi: Thank you everybody, and I appreciate all of you joining this conference call and once again I reiterate that at MAS, we are committed to excellence through endeavors and we will continue to follow this mission and vision. Thank you so much.

Moderator: On behalf of Emkay Global Financial Services, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.

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