"MAS Financial Services 2QFY18 Results Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to MAS Financial Services Q2 FY2018 Results Conference call, hosted by Motilal Oswal Services. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Alpesh Mehta from Motilal Oswal Securities. Thank you and over to you Sir!

Alpesh Mehta: Thank you Raymond. Good evening and welcome to the MAS Financial Services 2Q and 1H FY2018 results conference call. Today we have with us Mr. Kamlesh Gandhi - Founder and CMD, Mr. Mukesh Gandhi, Co-Founder, Wholetime director and CFO, from the management along with them we have the senior management team present on the call. Now without much ado, I now hand the call to the management for the opening remarks and after that we will have Q&A.

Kamlesh Gandhi: Thank you Alpesh for the introduction. Good evening everybody. Thank you for joining this concall. As you know this is our first concall post the listing. Just to give you the brief, we have had our IPO in the month of October and got listed on October 18 and we are thankful to each and every investor who showed tremendous confidence in the company. We met more than 125 national, international and domestic investors and we presented to them the working of the company, which is a two-decade-old company.

For the benefit of the ones who will be knowing MAS for the first time, I would like to introduce MAS Financial Services Limited that it is a two decade old NBFC and we were among the first to get registered as NBFC in 1995 and since last 20 years in the corporate form, we have been focusing basically to serve the middle income and the lower income class of the customers and if you have seen the investors presentation in that we have shown our journey over the last 20 years, which depicts the consistent quality growth. I will emphasize the word “quality” because we have taken so much of time to reach the AUM of close to 3500 Crores, but we should be cognizant of the fact that this company started with a humble beginning of 2 Crores in 1995.

This is managed by the first generation entrepreneurs, myself, Kamlesh Gandhi and Mr. Mukesh Gandhi and we have been viciously guarding shareholder’s interest right from the day one. And with the new opportunity what we got to list the company on the exchange and get the investors at the initial stage we are more than a lakh retail investors and a very reputed domestic and international funds also. This strengthens our results further to safeguard the interest of the shareholders.

This is the brief history. Over the last 20 years we have been focusing where we had value, we continue to focus on the micro enterprise price loans and small and medium enterprise loans, along with commercial vehicle and two-wheeler. Now coming on the performance for the quarter and for the half-year, as shared with the exchanges, and I think it is already on the website of the exchange I am very happy to share with you that our AUM has grown by 25% and our half-yearly profit has grown by 41.71% over the corresponding period. And if you take Q2 to Q2 it is a growth of 31.82% in the profits.

I talked with you of the channels in the morning and I told them the same thing, which I will be telling you right now that for us this performance is nothing new. Over the last 20 years we have continuously grown at a CAGR of around 25% to 30% on our AUM and on our profits, but after listing it gives the company an opportunity to share the results with the large number of investors. If you see the performance for this quarter and at this half-year I would like to share that this and we all know that this was in fact the tough two quarters post the demonetisation and post the GST, but the key drivers in the assets, as far as the assets are concerned, has been our SME business and two-wheeler business along with our MEL business too. So if you see the growth in the products under assets under management, you will see that there is 25% overall growth which has been led by our growth in SME along with MEL and two-wheeler and still we find that allocation of funds to SRTO will require some more time and more confident on our part before that sector really starts showing the signs that they can stand the liquid states of balance of portfolio and profitability.

So this is QOQ result and HOH result. I think in term of total income we have grown by around close to on a half-yearly basis by around 20% and on a quarter-to-quarter basis our total income has grown by 22.43% and very importantly the quality of the assets that we have maintained our quality at 0.96% of NNPA and after 1.20% of GNPA and the provisioning thereof has left us with an NNPA of nonperforming assets of 0.96%.

Just a word on that right from the beginning we always believe that we are not mandated to build only numbers, but number with quality. In lending business doing numbers is the easiest thing or the increase in the topline is the easiest thing what one can do but striking the balance we require, I will use the word that you have to be courageous to be patient to strike the balance between growth, quality, and profitability and that is what we have done over all these years. Once again in terms of our quality of portfolio, be it GST or be it demonetisation over all these 20 years we have seen various such situations and because of following the fundamental of growing in a calibrated manner and incurring on the quality we have navigated through all such situations very successfully.

During our investor's meet also I used to tell them that GST and DeMo are the ones, which are the most populist thing that people know. We have even faced a massive earthquake in 2004 or maybe 2008, a global crisis because of the fundamental we could very successfully navigate in terms of growth and quality both. So this is our view on the quality of the assets and this is what we have maintained as far as this current quarter is concerned and this has been our motto and this has been our intention right from the beginning and we will continue to do that.

Now if I talk about our subsidiary because I am trying to add on the housing finance business also because if you see MAS it is predominantly to middle and the lower income group and we have covered the product that is be it micro enterprise loans or SME loans for machinery, working capital, or for purchase in shares or in two-wheelers or commercial vehicles we have added housing through our subsidiary. Now if I talk about housing we all know that sector because of RERA, GST, Demonetisation three things combined, the financiers had to be very cautious. If I give my view on housing finance companies, I always share with my colleague that the highest and the longest period of taking a house is of the financiers.

A developer will get the money within two to three years and then he will be off that project. The loanee is going to invest around 10% to 15% of the money. The biggest involvement is of the housing finance companies. So it is very imperative to see that that have you judged the customers and how you are conscious about the legality and the technicality of the assets you fund. So at MAS we have been very cautious on how we develop our housing finance portfolio. Despite of all the shortcomings we could grow the AUM by modest 18% and that was supported by a profit after tax on a quarter-on-quarter basis rise of 25.91% and on HoH basis it is 53.77% rise in profit after tax because we changed a few of the things on the operation, which helped us to reduce our operation cost and could register higher profits but obviously on a very lower base.

Now if I talk about housing finance, we are very bullish on it. In the initial period we have taken time and we will take time, but your lining is the portfolio. We serve the informal class, the lower income and the middle income group of the society and if you see the GNPAs and NNPAs is in the decimal. That is 0.3, 0.42 and 0.32 despite of the overall stress in the economy. I personally believe that stress is the time where the prudence is judged. Stress is the time where your experience is judged and during the stress period also if you are back to the quality along with the required growth is the real taste of the management efficiency of the organization and that is very important in a lending business.

So this is how we have managed our housing finance business and going forward we all know it is a very big opportunity but it is as good as it is managed and we are very cautious of this fact, so we will take some time to grow but I can promise that we are very confident of growing in such a manner which will ensure the quality of the portfolio which creates a win-win situation for all of us, because I always share and we always believe that we do not want to create just borrowers, we want to create successful entrepreneurs and the successful people who own their house and it becomes a delight rather than that becoming a burden on them.

Now a word on how we distribute. The key strength of the company is the various product it caters to in the segment which we know the best that is the lower and the middle income and the informal class over all these years, and our distribution strength comprises of our direct distribution channel of close to 3500 centres and we also work through a distribution channel of more than 105 NBFCs. We are NBFCs have leverage on this understanding to an extent whereby we are in a position to not only expand our relationship but strengthen our relationship with more than 105 NBFCs and that has kept us in a very good stead in terms of our distribution network and that ensures and that has played an important role in ensuring the type of growth what we make even during the period of stress.

We will continue to strengthen this relationship, we will continue to expand our geographical reach through various centres and through various branches and this will propel our growth going forward. So this is about our distribution strength. If I talk about NPAs and NIMs, when Mukesh will take on the liability side, but just to add to that that the current IPO fund raise we have been put in a very comfortable position in being in reducing our cost of funds and that will give us a tremendous competitive edge going forward.

We are great believers that we as NBFC do not survive on the deficiencies of public sector banks or the other financial services institute. NBFC on its own if managed nicely have the propensity to grow and serve the wide need of the nation. Along not only giving and reaching out to the people who are excluded but even those who are included will also be eligible under our financial services and that is where our competitive advantage in terms of interest rates will also play an important role.

Just to share with you the current cost of funds, we get the capital leverage of 135 Crores raised as pre-IPO for this quarter and this half-year and we will get the leverage of another 215 Crores raised the price increase and during the IPO, we will restrict our cost of finance at around 8% and that will be a great enabler for us to extend loans at a competitive rates and that will kick start the chain of quality of portfolio, we can choose and select the clients to whom we want to work and in turn the quality portfolio will give us the desired profitability and it will also help us to cut down on our cost of operations.

Very importantly, if I stand in the shoes of the investor the very first question asked is how do you manage? And I would like to take you through how we manage the show at MAS. First of all, MAS is run in a former credibility’s, promoter driven, professionally managed with trusteeship in entire. If I share with you, I will be failing in my duty, if I do not recognised the role played by our core team, only me and Mukesh we are co-founder and co-founder will not be completely right. We have another group of around 25 to 35 people who we serve since last more than 20 years and that has always kept us in a very good stead and the objective we follow is that we bagged on anybody who identify the area with MAS and we groom them and at the same time we are cognizant of the fact that the requisite talent is also hired from time to time. So we have a perfect combination of a core team which anchors the HR, the lateral employment which gives us the requisite talent and from time to time we groom them as per the requirement of the company. So this has kept the company in a very good stead because as a lender and a practitioner if I share with you the biggest risk for any lending institute is not the client, it is the internal risk. Because the client has only influence of only one loan whereas the internal person will have an influence of many more loans, we are aware of the fact and right from the beginning we have designed our HR policy in such a manner and the approach is we fail together, we succeed together resulting into minimum attrition at the top level and the management level and that ensures stability to the HR team.

If I talk about coming to the use of technology, nowadays it is we all know that technology has huge potentiality, but at the same time we need to understand that what will be the optimum use of technology to get the desired result for the organization. So if I bifurcate technology into two parts, that how we use this for our internal control and how we use it to acquire clients and how to be useful to the clients so that we can now have more and more clients under our fold and give them the desired services. We have an in-house software team accompanied by outsourcing agencies, which helps us to improve our dashboard management from time to time. As you know this is our task we worked upon, can be worked out, we are continuously working on how to improve our dashboard management to take real time decisions to be relevant to the market and at the same time we are exploring our relationship, many of the Fintech companies.

Now if you see the Fintech companies on the ground have more technology driven and they need to understand the finance in the right perspective and that is where we personally believe that we can add a lot of value. We have started working with a few of the Fintech companies where we add value on our credit prudence and they add value on their technological aspects, very initial stage but we intent to establish and strengthen our relationship with various Fintech companies which best suites the company and which enhances the company’s efficiency. So this is our take on Fintech if we use optimally we will and we are aware of the fact that Fintech is very important and will play an important role going forward but it has to be used optimally and Fintech is a technology cannot be an alternative to credit prudence. You will need to have the credit prudence and technology can help you for seamless transactions or can help you for managing last data and lot of data mining and data mapping. So that is how we are trying to use technology.

In terms of I think I have told the strengths of the company that how we are going to and what we have done in the past, what we did this quarter I will take two other points on challenges going forward. In terms of challenges as you know we work on the informal class of the society. Our strength over the years what we have built up once again I will use this word has to be worked upon can be worked out was our strength is being absolutely indulged with the entrepreneurs whom we work with and the challenge in the same way is how to systemize it for scalability and start with what is required and then as the saying goes that do what is possible and do what is required so, you would be doing the impossible. So we are trying to more and more indulging, we systemize these processes for scalability and this is we have what we have successfully done over all these 20 years and that is where I have shared the number of people that the class whom we serve might be a very big market, many people are attracted, many organizations and many lending institutes are attracted towards this class but let me tell you that there are very high entry barriers for sustainability and scalability, and sustainability and scalability is directly proportion to the quality you create and for this the indulgence with them is absolutely necessary and that is we stand apart.

That is where it has been our forte and now because we are extraordinary persons, but we have that reserve that we have to be their financial advisors not just lenders. So these are the challenges what we think the scalability of indulgence and then increasing the business and capitalizing on this trend continuously will differentiate us from the other peers.

Going ahead if I give you the guidance that for 2018, we handed as a group in 2017 March, we closed to 3350 Crores of AUM and we are confident that by 2018 we will grow within 25% to 30% that will give us an AUM anywhere between 4000 and 4250 Crores including our housing finance company and we are pretty confident of being anywhere between those number that is 4000 to 4200 Crores and that will result into a standalone profitability in excess of 100 Crores. What we had committed right when we went to the public and we are well on course, if you see the half-yearly result, we are already at 48.13 Crores in terms of our half-year profits and we are confident that we will be in a position to achieve the target what we have set for ourselves in terms of profitability and very importantly in terms of how we manage our quality and in terms of AUM also. So this is how we think that we will be going ahead in terms of the coming year.

Thank you so much for hearing me out patiently. I hand it over to now to Mukesh Bhai where he will take you through what we have done on the liability side, because lending is and the competitive age in lending is as good as the liability is managed and under the leadership of Mukesh we will be raising the liability at the most competitive rates over all these years and he will take you through what we did in this half-year on liability side and we will take you through the NPAs and the NIMs for the period which we are discussing. Thank you so much. Over to you, Mukesh Bhai!

Mukesh Gandhi: Good evening everybody. Just to start with we had a capital infusion of around 368 Crores and IPO was of 460 Crores, so out of that the 233 Crores they came into the company, and the remaining was for the offer for sale that provided the exit to our existing investor and in pre-IPO we got 135 Crores, so total infusion into the company because of this IPO is 368 Crores. Now as you know that the IPO had a very good response. The IPO site was 460 Crores and it was oversubscribed by 128 times and inflicted with a premium of 44 Crores. So we thank all the investors who have understood our business model and who have cooperated in that and put the faith in the company.

Now, during this particular H1 we mobilized 200 Crores by way of the term loan and the rest of the term loan because the term loan duration is for up to three years and the rates was 9.25% to 9.5%. Very importantly we continue to do the assignment transaction as well. So in H1 we did the assignment transaction of Rs.850 Crores and the rest of the assignments we got was 8.42% to 9% and we have currently the outstanding portfolio for an assignment to the tune of 1400 Crores. We had a 60 facilities of 1750 Crores out of that we utilised around 1000 Crores by way of WCDA and that gives us the edge and that is we got that fund at the rate between 8.25% and 8.5%.

So our average cost of borrowing went down from 9.45% to 8.95% and if you consider the cost of fund because of the capital infusion, it is around 8%. So that will give us the strength of creating the quality portfolio also because we can do the business at a very competitive rate as well. Now whatever the assignments we are doing is that lot of interaction is back on the banks because of our quality, lot of banks are interested and currently we have sufficient sanction on hand, which will last at least for the next one year just to do the assignment transactions.

In our subsidiaries, that is MAS Financial Services Limited from time to time, we have been using the liability comfortably and during the H1, we raised Rs.26 Crores of term loan, just to fuel our growth.

If you come down to the net profit margins then it works out like that the average rate of deployment was around 16%, to be precise 15.96%. Our financial cost is 8.13% that leaves the net interest margin of 7.84%. Our credit cost is 1.2% and operating expenditure is 2.08%, which leaves the net profit margin of 4.55% and this credit cost what I am talking that is inclusive of provisioning as well. So the write off as well as provision in the standard asset provisioning as well and that results into the return on asset of 2.98%. So this is how it is in line what we have been anticipating to maintain the return on assets of 9.25% on a year basis. Our NPA was 4.55% and our ROA is 2.98%. So what that whatever the information we wanted to give you on the liability side is over. So Alpesh you can takeover and ask the audience if somebody wants to ask some questions and all.

Moderator: Thank you very much. We will now begin with the question and answer session. We have the first question from the line of Harshvardhan Agarwal from iAlpha Enterprises. Please go ahead.

Harshvardhan Agarwal: Congratulations on good set of numbers. Just wanted to understand that we have around 50% of the book, which is onward lending, so wanted to understand what is the yield spread on those kinds of loans and also the ratings of the borrowers that we lend to?

Kamlesh Gandhi: First of all I would like to take you a brief on the model when we do indirect lending it is to the NBFCs who are in the similar line of business and we understand that the people closest to the ground are the strongest so we get the demographic understanding from them and it helps us to reach out to the people in normal circumstances would have been difficult for us. And this is the relationship, which is now eight years old. Coming to the rate of deployment it is average rate of deployment for them is around 14.13% on an average the rate of deployment the rate at which we give comes out to be 14% as I said 14.13% and coming to the rating the majority of them have the ones who are around 500 Crores less than 500 Crores and I think around 60% of them might be having the investment credit rating and 40% of them might not be having that.

Harshvardhan Agarwal: Okay, so Sir, just wanted to understand like most of this NBFCs as you said are like less than 500 Crores loan book so what would be the risk weight that we need to main on these kinds of loans?

Kamlesh Gandhi: Sorry.

Harshvardhan Agarwal: The risk weight that is used in our capital adequacy calculation, so we need to calculate.

Kamlesh Gandhi: The risk weightage is 100%.

Harshvardhan Agarwal: The risk weight is 100%. Again more into the onward lending, can we get a breakup as in what percentage of loans are actually given to SME and what percentage of loans are given to MSME, something like that?

Kamlesh Gandhi: See overall it is close to 55%, so more or less it is in the same proportion but for MEL whereby the proportion is higher in that.

Harshvardhan Agarwal: That is all from my side. Thank you.

Moderator: Thank you. We have the next question from the line of Antariksh Banerjee from ICICI Prudential. Please go ahead.

Antariksh Banerjee: Good evening. Congrats on good numbers. My question is a little more qualitative regarding your future growth strategy, so after the IPO and infusion, how do you look at scaling up your business? Are you looking for geographical diversification, just in what segment and how do you take that forward?

Kamlesh Gandhi: Going forward, we will be concentrating on the segments which we have been concentrating so far but for addition of used cars in the product and as far as the geographical concentration is concerned, if you see our majority of the portfolio currently comes from Gujarat and Maharashtra and we already have another four states drive for our future growth that is Rajasthan, MP, in the west and Tamil Nadu and Karnataka in the south. We always believe that we will be concentrating on a few areas because concentration of risk we believe is much less than spreading it too thin, so I think that for the coming two years at least these states where we are working would be sufficient to feed our growth anywhere between 25% and 30%.

Antariksh Banerjee: Just to take it forward, right now some of the other financiers who are funding in Tamil Nadu other than, you are talking about a little bit of stress? Are you witnessing that and are you going cautious on that? How do you see that?

Kamlesh Gandhi: As far as Karnataka and Tamil Nadu portfolio is concerned under our direct distribution is hardly around 3% and we are not seeing any stress in that. As I told you whenever we start any new state we are very cautious in developing the portfolio over there and in the space also say for example, many of the people are keeping stress in Maharasthra whereby despite of the fact that we have around close to 11% of business in Maharasthra and that was a direct distribution model our portfolio is immaculate there and that is where we always stood out that we grow slowly in a calibrated manner but we always focus on what we should do.

Antariksh Banerjee: Last thing is since you have such an old Fintech in the business, you have your tradition what trend you see evolving in the market like these three indices that you are more and more aggressive over the last couple of years to an extent that it may become dangerous. I am not talking about MAS, but I am talking about the industry in general. So you see a bit of aggressiveness that you probably might have not seen in the last three to four years?

Kamlesh Gandhi: Doing a practice for 20 years, I would just share what I firmly believe that lending is not a business of excitement. Lending is a boring business. So aggression and lot of excitement will definitely have a question mark on sustainability and scalability. So this is my take on it. I cannot comment on the other companies working, but strategically it a huge opportunity out there for all the financial services provider, but it is as good as it is managed. So the ones who are growing in a calibrated manner will ensure sustainability and scalability and not recently. This we have seen over 20 years. There are phases and cycles whereby people suddenly start feeling that there is lot of vacuum. They will go very aggressively and then you all see in that what happens at the end of the day.

Antariksh Banerjee: That is all from my end. Thank you.

Moderator: Thank you. We have the next question from the line of Bunty Chawla from B&K Securities. Please go ahead.

Bunty Chawla: Thank you for taking my question. My query is as you said that you are lending 50% of these NBFCs indirectly. So as after post-GST they moved to the organised sector easily, so do you think you would be having pressure on the yields though growth is at 25% or 30% on the small base it is much easier to grow but getting the pressure on the yields because the banks after these GST part banks can focus on the lending?

Kamlesh Gandhi: Let me tell you that in Indian landscape first of all the market is very huge and secondly we right now we have so many clients where there is a private sector bank or public sector bank or foreign bank and he also lends. So let me tell you strategically what happens that one lender will not like to sacrifice 100% need of one borrower and one borrower will not like to take 100% of the loans from one lender. So strategically there is always a room for multiple lenders and borrowers. Now how you will fill in that gap depends upon your level of indulgence with the client you have. I hate to call them borrowers. I use the word clients. It all depends upon what is the level of indulgence you have with the clients. Are you giving him the right financial advice? Are you giving them the funds in the right manner and secondly as in the opening remark, I told that at around 8% cost of funds and further slated to go down we can be also competitive, but let me tell you interest led for the class whom we work is one of the factor and not the only factor, but given the market size, given the strategically room for multiple lenders and given our understanding we were only 2 Crores when we started and over these years at 3500 Crores we have not worked, but we were always seeing competition and from time-to-time we had competition from likes of international players like GEs and PTs of the world and that also we have navigated very successfully. Going forward we see that as long as we go on adding value to the clients whom we work with and looking at the market size we are confident that we will be in a position to drive our growth.

Bunty Chawla: Lastly on a data part, as you have said, you have given the growth guidance as well as the PAT growth, can you similarly give the guidance on the margins part as such?

Kamlesh Gandhi: NIMs will remain more or less the same. Currently if you see our net interest margin as Mukesh Bhai told is close to around 7.64%. So we understand that we will be in a position to maintain more or less the same NIMs as it looks today.

Bunty Chawla: Thank you very much.

Moderator: Thank you. Next we have a follow up question from the line of Harshvardhan Agarwal from iAlpha Enterprises. Please go ahead.

Harshvardhan Agarwal: Thank you. Just wanted to know on our MSME book, we said the average ticket size is around 35000, so this amount seems to be very low and it is more or less very close to the microfinance loans that many of the MFIs have. So is this the loans that we actually are giving to individuals who are actually part of the microfinance community or this is actually something very different?

Kamlesh Gandhi: These loans are different. When we talk about our micro enterprise loans this is different in the sense that micro enterprise loans are usually given for the start-ups whereas we are giving loans for the business development and these are all individual loans. So that is where the difference is.

Harshvardhan Agarwal: And Sir on our onward lending when we lend to this NBFCs do we get some kind of business guarantees?

Kamlesh Gandhi: Business guarantees? Come again please.

Harshvardhan Agarwal: Sir, just wanted to understand because what I understand most of these NBFC loans are secured loans and this would be secured against the loans that they give so do we get a guarantee that these kinds of loans would only a certain portion of that would be allowed to fall into NPA categories because it relates to the asset quality because our asset quality seems to be very low, it is actually good for us?

Kamlesh Gandhi: How we do on lending is that it is a complete recourse on the NBFC. That is how the revenue is shared that it is with complete recourse on the NBFCs and they are supposed to provide us the underlying assets, which are current.

Harshvardhan Agarwal: Sir, just a data point can you help us with absolute amount of GNPAs and NPAs on the book?

Kamlesh Gandhi: GNPA is 1.20, absolute amount, one minute. It is 41.8 Crores and 33.4 Crores.

Harshvardhan Agarwal: 41.8 Crores and 33.4 Crores and does this include any write offs during the first half?

Kamlesh Gandhi: Understand the complete thing. It is at portfolio at risk then after portfolios of risk there will be write off and after write off there will be a gross NPA then there will be provisioning and that will give us the net NPA. If you see the write off it is around 0.80% of our AUM.

Harshvardhan Agarwal: 0.8% of our AUM. And Sir what was the last year number for write off on the percentage basis?

Kamlesh Gandhi: On the percentage basis it was…

Harshvardhan Agarwal: Sir, if you have the absolute number that would help. We can still calculate the percentage.

Kamlesh Gandhi: 0.75% in last year September 2016 it was 0.75%.

Harshvardhan Agarwal: 0.75% and these numbers are around 120-day DPD or 90-day DPD?

Kamlesh Gandhi: It is intra basis. What we have given in our press release. It is a good question that you asked. I missed out. September 2016 and September 2017 are not comparable in the sense that when you talk about September 2016 number it was 120-day and in September 2017 it is 90-day. So we have improved our NNPA despite of the fact that this is 90-DPD standards now.

Harshvardhan Agarwal: Great. Just had a query on our housing finance portfolio, given our size which is just around, our AUM is just around 200 Crores the growth of around 18% seems to be a bit low given our small size so what is the reason for the slow growth during the quarter?

Kamlesh Gandhi: As I told you the housing finance was characterised by three things. One was GST, DeMo effect was there in our clients and also the RERA thing because we had decided as a company that we would be working with the developers who are RERA compliant and majority part of this period, people were in process of understanding the RERA and registering the RERA authorities. So this was one of the key dampener during this period and that is why we could not grow the assets under management to that extent. Secondly, I would like to tell you that in our housing finance business and if you see any of the current good housing finance companies to name HDFCs and all they grow very slowly at the initial years and then they get the advantage of the longer tenures and bigger ticket size as they go along, but we want to incur to the quality of the portfolio. So we are not going to compromise on legality, technicality and the quality, so this is the mixture of all. The stringent norms that the company wants to adhere to plus the macros, which were there hedging as far as the macros were concerned.

Harshvardhan Agarwal: Sure, Sir since you are talking about this RERA compliant developers, what percentage of book for housing book would be developer financing?

Kamlesh Gandhi: Our housing finance is close to 70% and the developer project funding in our project funding is a retail loans in progress because what we do that when we do the developer project funding it is only for affordable housing and that too has to be converted into retail and we get a special line of credit from NHB for giving project funding in the affordable space.

Harshvardhan Agarwal: What is the scene of this Pradhan Mantri Awas Yojana especially in the state of Gujarat what we understand is Gujarat is one of the few states where this scheme is doing very well?

Kamlesh Gandhi: It is doing well as compared to other states.

Harshvardhan Agarwal: So, any idea what amount of may be like what amount you have got under this PMAY specially the CLSS scheme.

Kamlesh Gandhi: We have so far received 70 lakhs and certain other claims are pending.

Harshvardhan Agarwal: Basically 70 loans have been processed through CLSS?

Kamlesh Gandhi: 70 lakhs.

Harshvardhan Agarwal: Thank you Sir. That is all from my side.

Moderator: Thank you. We have the next question from the line of Rohan Mandora from Equirus Securities. Please go ahead.

Rohan Mandora: Good evening Sir. Thanks for the opportunity. Looking to the slide #16 on the presentation, on the cost of borrowings, if we look at the sense from FY2015 to 2016 there was an increase in cost of borrowing at a time when the systemic rates were declining and from FY2017 to 2Q FY2018 there has been around 50-basis point decline in cost of borrowings. So just wanted to know what has led to a sharp fall in the cost of borrowing in the first half on the liability side?

Kamlesh Gandhi: The decline in Q2 is because of the 100 Crores infusion and because of that and overall reduction in rates and the assignment what we do from time to time. Now what happens that first of all if you talk about 2017 in that the base rate based assignment was done and now recently we have started doing MCLR based assignment. So when base rate were higher than the MCLR rate so when they were linked to base rate we had to pay more on our assignment assigned loans. When you talk about cost of borrowing we are including even our assignment portfolios also. So that we have to pay on the basis of base rate and then we could convince the banks to transfer to MCLR based.

Rohan Mandora: Like most of the assignments are now on the MCLR?

Kamlesh Gandhi: Now mostly all MCLR.

Rohan Mandora: What would have been the benefit in terms of the cost savings in this migration that we would have seen some basic MCLR?

Kamlesh Gandhi: That is evident that in assignment 37% is from assignments so that incremental difference is around 0.5% to 0.75%, 50 basis points to 75 basis point benefit is there.

Rohan Mandora: Sir, can we get your movement of NPA for the quarter, additions during the quarter and what were the reductions in terms of upgrades and write offs?

Kamlesh Gandhi: That I do not have readymade; I will send you across because currently the information in front of me will not give the correct answer. We will give you that.

Rohan Mandora: Sure. And Sir next the data which is there on slide 22 wherein you have given the date past due across various buckets, so would we have that data for the non-institutional lending, only for the non-institutional part, like how would it look like?

Kamlesh Gandhi: This you can call it as non-institutional only because as far as our institutional lending is concerned, 100% is current.

Rohan Mandora: So, currently this would be on overall AUMs so we can adjust it according to the prices?

Kamlesh Gandhi: Yes.

Rohan Mandora: What is the rate of interest that we pay on the security deposits that we receive?

Kamlesh Gandhi: Security deposits what we receive is the rate varies from the type of the customers whom we work with so it is depending upon the integrators, their size, what is their base rate, so there are so many underlying conditions to that.

Rohan Mandora: But that would range around 7% to 8% on an average?

Kamlesh Gandhi: It can range from 6% to 8%.

Rohan Mandora: Thanks a lot Sir.

Moderator: Thank you. Next question is from the line of Sneha Ganatra from Shubhkam Ventures. Please go ahead.

Sneha Ganatra: Sir, can you provide the disbursement number? How much was there for this quarter along with the breakup how much was for car, MHCV and CV?

Kamlesh Gandhi: One minute, if I take you through the disbursement product wise, I am giving you, but if I talk to you about the disbursement in H1 it is 1873 Crores and for the quarter it is 985 Crores.

Sneha Ganatra: Along with the breakup if you can share?

Kamlesh Gandhi: Breakup we will send you across because currently we have the data compiled on AUM basis.

Sneha Ganatra: My second is on this you have mentioned in your presentation that there is a revenue of 100 Crores. Could you give the breakup how much is your interest income and how much is the fee income?

Kamlesh Gandhi: We have very negligible fee income. So you can presume that this is all interest income.

Sneha Ganatra: Okay and your cost to income ratio considering the trend, which stands at around 23% where do you see, that would be settling around, your cost to income ratio?

Kamlesh Gandhi: Cost to income ratio is a function of the AUM we get from various products, so the cost to income ratio is right now less because in this quarter we are getting the majority of the business from SME and also our channel business through NBFC is also around close to 55%. So if this trend continues like the cost to income ratio should be maintained at this level.

Sneha Ganatra: On the AUM, which you have guided for 25% to 30% mix, would remain more or less in same manner?

Kamlesh Gandhi: The mix remains the same.

Sneha Ganatra: On the securitization also it would remain the same manner?

Kamlesh Gandhi: It should remain in the same manner because as Mukesh Bhai shared with you we have limits lined up till September 2018. So we already have that with us.

Sneha Ganatra: Got it. Any target you have mentioned for your ROAs, you would like to maintain, ROA and ROE?

Kamlesh Gandhi: ROE on an expanded base will be anywhere between 17% and 19% because now we have expanded our capital base as we told in our liability presentation that we infused close to 360 Crores in the company. With the expanded base we should be anywhere between 17% and 19% and we will maintain our ROA on AUM of close to around 3%.

Sneha Ganatra: Got it Sir! All the best.

Moderator: Thank you. The next question is from the line of Harshvardhan Agarwal from iAlpha Enterprises. Please go ahead.

Harshvardhan Agarwal: Sir just wanted to request if you could include your consolidated income statement from the next quarter it would be helpful for us.

Kamlesh Gandhi: We will do that. That already is on the agenda and we will do it.

Harshvardhan Agarwal: Thank you.

Moderator: Thank you. As there are no further questions, I would like to hand the conference back to the management for any closing comments.

Kamlesh Gandhi: I would like thank everyone who have participated and please feel free for any further information you need from us. In our investor presentation already the name and the number of the concerned person, you can contact and we will be more than happy to share the information with you and the concluding remarks is that we remain committed to our mission of excellence through endeavors. We always believe that we are mandated to create quality assets, which we have been doing since last 20 years, and we will continue to do that and we want to make this company not an investor's preference but an investor's delight. Thank you so much once again, me, Mukesh Bhai and my team over here. Thank you so much.

Moderator: Thank you very much. On behalf of Motilal Oswal Securities that concludes this conference. Thank you for joining us. You may now disconnect your lines.