"MAS Financial Services Limited Q1FY21 Post Results Conference Call"

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MODERATORS: **MR. UDIT KARIWALA – AMBIT CAPITA**

Moderator: Ladies and gentlemen, good day and welcome to MAS Financial Services Limited (hereinafter referred to as "MAS and/or Company") Q1FY21 Post Results Conference Calls, hosted by Ambit Capital. 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 "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Udit Kariwala from Ambit Capital. Thank you and over to you, sir.

Udit Kariwala: Good evening, everybody. And welcome to the management team of MAS Financial Services Limited. Today from the management team we have Mr. Kamlesh Gandhi – Founder, Chairman & Managing Director; Mr. Mukesh Gandhi – Co-Founder, Whole Time Director & Chief Financial Officer, along with them we also have other senior team members joining us for the call. So without further ado, over to you, sir.

Kamlesh Gandhi: Thank you, Udit and good evening to all of you. I trust that all of you are good. Your colleagues, your family are doing good as far as your health is concerned. Just to share at MAS, we are also doing good.

I'm very happy to connect with you once again and let me first start by informing you all that we are here to give you one of our strongest financial results of the last 25 years, a paradox but true. What makes us think that this is among the strongest balance sheet, what we have overall this 25 years, then sort of the fact that from the capital, we have 32.2% of Tier-I capital and if you add Tier-II capital, we are close to 34% on capital adequacy. It is worth noting that it is entirely through the internal accruals. So, a very strong capital base because of the internal accruals for this quarter and a very slight decrease in the AUM.

Secondly, we are focused on a very high level of liquidity. We have liquidity and available funds close to Rs.2,000 crores, which has been a very important element as far as the NBFCs are concerned. If you remember the day lockdown was announced, the biggest concern for all was how are the NBFCs going to manage the liquidity. We are very thankful to the lenders for the faith shown in us, to the extent, we could keep ourselves liquid, which is sufficient enough not only for operations and repayments but to launch our normal disbursements once the things normalize and we find enough opportunities in extending the credit where it is due.

A very important point for any lender is the quality of assets. Net NPA stood at 1.14%, which is as good as the same quarter of the last year. I will agree that this is an evolving situation. still, to counter the evolving situation, we have a very strong buffer of 1.62% of our on-book AUM as COVID provisioning, which increased from 0.6% to 1.62% this quarter. When, I talk about the asset quality as a provisioning buffer, in the same way, I would be missing in my duty if I don't acknowledge the role played by our borrowers. With around 74% collection in June and 87% collection in July and with effectively 26% of the borrowers under moratorium by value in June and by 13% in July is the testimony to the credentials of the borrowers, and I would not like just to take the credit of having done or having extended credit where it is due. So, on that count also this year stands out, that when they were tested to the team, they were out there as far as the performance is concerned.

Also, if you see that this was the time where even the employee and I will not call them the employees, all of our partners in business they also contributed very significantly evident of the fact that we could reduce our OPEX by 40% on a YoY basis. Thus a combination of all these things very firmly makes us think that this is one of the strongest balance sheets we have given in such challenging times. While the comparative figures are in front of you, last quarter to the current quarter is not comparable. So if I give a headline number for you, the AUM stands at close to Rs. 5,657 crores which is almost equal to the June numbers last year and a contraction of around Rs. 300 crores for March, 2020 quarter. Once again a paradox here, I was discussing with my Board yesterday that, this is a time where we see a lot of paradox. We are at home, but we don't feel like we are at home because we work from home. If anybody tells us that I'm not meeting, we are happy they are okay; we are not meeting them. So in continuation with the same paradox, a contraction in an AUM from March signifies a very high level of collection and a very cautious approach in disbursement. With a PAT of around Rs. 35.5 crores with COVID provisioning there is contraction by 12.5% as compared to the last quarter in profitability. But if you normalize it, and if you even normalize the tax structure because last time you were paying 35% this time you are paying 25%, so, that will amount to a 25% growth in profitability, and without normalizing the tax structure it is 40% plus growth in profitability as compared to last quarter

So all-in-all, what we did this quarter or right from March is to focus on maintaining a very strong capital base, having a very high level of liquidity, the quality of assets, and creating provisioning buffers to the maximum capabilities. It is required because as we know, this is an evolving situation and provision not required will sit on the balance is not going anywhere and last but not the least, the constant engagement with all our stakeholders for understanding the evolving situation not only from the point of view of the collection but also from the point of view of what new opportunities we can explore with them going forward as far as disbursement is concerned.

While this can be summed up in 10, 15 minutes in an opening remark, I must tell and acknowledge the role played by the complete team MAS within the last six months. We have given our best, and we would strive to continue giving the best under all circumstances the way we have done over all these 25 years.

Just to give you a very brief on our housing finance company, the AUM stood close to around Rs. 285 crores and 0.26% of the net NPA with COVID buffer of 0.81%. We are maintaining an approach of keeping a high level of liquidity, strong capital adequacy of 42%, that also on the back of some internal accruals and a slight shrinkage in the portfolio and once again, maintaining the same dictum we will do a quality growth there also. So, that is on the housing front.

So, to summarize opening remarks, I would once again tell that this is the strongest financial performance or this has been our strongest balance sheet of 25 years. This is from the capital adequacy point of view, from the respect shown by the lenders, from the resilience demonstrated by our borrowers, and the teamwork we have demonstrated over all this time. So, with this, I will ask Darshanaben to take you through some of the numbers on a comparative and absolute basis. Before that, I would like to ask Mukeshbhai to add on if he thinks something to what I told and then Darshanaben will take you through the numbers for the quarter. Mukeshbhai, if you can add on to if you would like to add something to what I told them.

Mukesh Gandhi: Good evening everybody, and thank you for attending this con-call. Now, what Kamleshbhai told you I would like to add one more thing is that we have been following fundamentals very diligently and we will continue to do so. The result of following the fundamentals strictly, is a robust performance on financials for every stakeholder of the company, and this is what we have been doing since last 25 years, and we will continue to do that. So, the crux is sticking to the fundamentals, and if it is asset side or liability side or management side, we have always done what is correct and helpful for the organization. That’s what I want to add and with that, I hand over to Darshanaben for the numbers. Darshanaben, over to you.

Darshana Pandya: Thank you, sir. Good evening, everybody. I’ll take you through the numbers very briefly. In our main book asset under management as on June 20 stands at Rs. 5,657 crore, which is more or less stable as compared to last June quarter. Total income is Rs. 159 crores, which is also once again stable as compared to the previous quarter. Profit after tax is Rs. 35.64 crore, which is 12.5% contraction as Kamlesh Sir has mentioned, which is mainly because of our COVID provisioning. If we remove the effect of COVID provisioning, there is a growth of 43.59%. Regarding the quality of assets, net stage 3 assets stands at 1.14%, which is stable once again as compared to the same quarter last year.

Regarding COVID provisioning, in March quarter, we provided Rs. 20 crores and we’ve added Rs. 30 crores more during this quarter. So now our total COVID provisioning stands at Rs. 50.88 crore, which is as Kamlesh sir mentioned 1.62% of our on-book assets. Regarding our capital adequacy ratio as on June 20, it stood at 34.93% and Tier I capital at 32.20%.

Now coming to the breakup of our assets under management. So, this Rs. 5,657 crore asset comprises of MEL portfolio of Rs. 3,424 crores, SME is Rs. 1,674 crores, the two-wheeler is at Rs. 400 crores, and the commercial vehicle loan is Rs. 158 crore, which is in lines of almost the last quarter. There is a contraction in AUM by Rs. 300 crores if we compare the numbers with March 2020 figures.

Now, coming to over the housing finance performance. Our asset under management of housing finance company is Rs. 284 crore, total income is Rs, 8.63 crores, and PAT is at Rs. 0.95 crores. There is a contraction of 14% in our PAT numbers, and that is mainly due to COVID provisioning, and the tax. Regarding the quality of the asset, net stage 3 asset stands at 0.26% and last year it was 0.29%.

And regarding COVID provisions in our housing finance company, we have provided for Rs. 2.10 crores, which is 0.8% of our assets under management. So, this was regarding the performance of the company. Now, I will request Ankit to give you a brief on our liability management.

Ankit Jain: Good evening, all. Thank you, ma'am. To further elaborate on liability management, in the last quarter, the company did around Rs.227 crores direct assignment transactions with the bank. The company also has around Rs.1000 crore sanction on hand for direct assignment transaction, which we will be utilizing in the current quarter as well as the next quarter. The company has the available cash credit facility of Rs.1,800 crore out of which company maintained utilization level of around 65% to 70% on the go, and the remaining portion is kept as a liquidity buffer.

We rolled over around Rs. 1,100 crore short term working capital loans, which are sub-limit to this cashcredit limit. The company raised around Rs. 100 crore long-term loans in the quarter. The company further raised around Rs. 150 crores under NCD under PCG scheme of the government and Rs.125 crore under refinance from SIDBI in July 2020. This has helped us to strengthen the asset-liability maturity pattern further. As on 31st July 2020, the company had cash and cash equivalent of around Rs. 1,300 crores. Company has assessed structure liquidity for the period ended 30th June after taking into the account of moratorium extended to his borrow under RBI Relief**.** Based on this assessment, no negative impact on liquidity have been observed, and the cash flow in all the buckets remained positive.

The company has further applied for the fresh sanction from its existing lenders as well as the various scheme by RBI and government. Company has tested its liquidity model, and it's comfortably placed to meet its repayment obligation for the entire next year. In the next one year, the repayment obligation is around Rs. 650 crores only. As told earlier, the company's capital adequacy stands at around 34.93% with Tier I capital of 32% and leverage of around 2.7x, which shows the strong fundamentals followed by the company on the liability side. I now give the mic to Kamlesh sir for closing comments.

Kamlesh Gandhi: So, this has been how we have conducted our self this quarter and now we are open to any questions from the guests.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question and answer session. Our first question is from the line of Bhavesh Kanani from ASK Investment. Please go ahead.

Bhavesh Kanani: The first question is mainly on the yield on AUM. It seems to have come down materially from our earlier range of around 11.5% to about 10.7%, much experience this contraction in yield is the first question. And the second one is really on the AUM mix. The only book that has grown sequentially is the CV book. Now, although very small just wanted to get your thoughts on this lending product?

Kamlesh Gandhi: If I take you through the crux on yields and cost and the OPEX, the yield is currently at around 15.29%, and the NIM is around 6.21%, and if you add back the carrying cost, it will come back to our original NIM of around 7%- 7.1%. On sequential growth in disbursement, it was not planned. So, it's just we got the opportunity there, and it has been done, that too on a very smaller book. As I told you April and May practically there was no disbursement, in June there was a disbursement of around Rs. 100 crores, depending upon the opportunity we got in various segments. So, that was purely based on what opportunity we get from time-to-time as far as the market is concerned and following and extending the credit where it is due.

Bhavesh Kanani: Going back to the question on yields sir, I do understand there is a carrying cost of liquidity, but that would impact the NIM part of it. You mentioned your yield is around 15% that must on the denominator, in that case that would be the on-book balance sheet. So, if I'm looking at yield on AUM, there is a contraction that the case that is reflected in your numbers, the way you calculate yield?

Kamlesh Gandhi: See, for all practical purposes of giving you the right perspective of the business we do this yield is on the loan assets. That the loan assets what we do that is, on that the yield is around 15.29% and carrying cost can be calculated in two ways how we calculate carrying cost is that all the amount which we have raised, but not deployed for the asset but if it has cash and cash equivalence, if you add that to it than your yield will fall, and the NIM will get adjusted that way, but here for in order to give you the right picture on what are the yields on loan it is 15.29%, and the NIM will not get altered either way, either you calculate it as a liability cost or as a reduction in the asset.

Bhavesh Kanani: Okay. So as far as lending yield is concerned, is it a flattish year?

Kamlesh Gandhi: 15.29% for Q1FY21, compared to 15.68% for Q1FY20.

Moderator: Thank you. Our next question is from the line of Dnyanada Vaidya from Axis Securities.

Please go ahead.

Dnyanada Vaidya: Sir, I had a couple of questions, so first is in what range the collection efficiency would for the NBFC partners be currently. Was it pretty low as we discussed in the last con-call?

Kamlesh Gandhi: You are referring to ours?

Dnyanada Vaidya: NBFC partners.

Kamlesh Gandhi: So, NBFCs have done exceedingly well for June and July 2020. Because if you see the collection from our NBFC partners, it was 80% in June and 93% in July. So, once again this proves the robustness of the model, what we do, what we have been doing since last decade that we understand that serving this class, there should be a very robust value chain. So the way the NBFCs have conducted themselves over this period, we are more than happy with all of our partners with the collection efficiency going to 93.32% in July, as compared to 80% in June.

Dnyanada Vaidya: Okay. And just one clarification, this 13% moratorium, if the borrower has not even paid a single instalment or does it also include anybody who has paid one instalment or a couple of?

Kamlesh Gandhi: See, we have tried to make it very simple as far as the moratorium is concerned. Say for example somebody is supposed to pay in July, he is under the moratorium, what we have done is that we have extended the moratorium to everybody. And then what we did as we are very explicitly given in our presentation that we will try to educate them to pay. So, out of the 100 people Rs.100 is to be collected, we could collect Rs.87 and hence Rs.13 is considered as a moratorium for July.

Dnyanada Vaidya: Okay. Sir and my last question is about the OPEX. In the presentation you have mentioned that we are moving to a variable cost model, whether you see these cost savings coming from and if you could quantify it for FY 21 and 22 will be how much could you be able to save on opex?

Kamlesh Gandhi: See currently when we talk about 40% contraction in OPEX, the contribution is from variable pay, reduction in pay and other situation, it contributes around 33% of the cost reduction and another 67% is from the other expenditures that are travelling, conveyance, advertisement, reduction in rent, our profit share fees and other spending what we incur. So, this is a contribution of as far as the reduction in OPEX is concerned. Now, once again, I would like to share with all of you that this is the year where it is tough to budget. We are going on a quarter-to-quarter basis. What we did in April, May and June, in July, August and September might differ depending upon the market situation. So while we will be constantly trying to see that how we can reduce OPEX through higher efficiencies, what we have done in reducing OPEX is that we have not reduced anybody’s pay, but we have put more into variable rather than a pay cut and

Obviously, because of the restriction on travelling and other things the other cost is already reduced. So difficult for me to give you the complete picture of 2021 but for the quarter it is down by 40% as compared to last quarter. And in terms of the amount as compared to last quarter, we have reduced by Rs. 7.37 crore and the other way of looking at it sequentially, that in Q4 as compared to Q4 our cost is reduced by Rs. 10.96 crores. So, there is a constant effort in tandem with the team and all the stakeholders within the company to have to not reduce the efficiency, but reduce the cost by increasing efficiencies.

Moderator: Thank you. Our next question is from the line of Alpesh Mehta from Motilal Oswal Securities. Please go ahead.

Alpesh Mehta: The first question is, sorry to go back onto this moratorium thing, but just on a technical basis want to understand if we say 87% is the collection efficiency, was the denominator of Rs.100 the billing for July and Rs.87 which is the numerator it is also out of the July month billing you recovered Rs.87 or is the back book also is getting recovered in that Rs.87?

Kamlesh Gandhi: Now, let me clear it with an example. Say, for example, the moratorium is from March, April, May, June, July and August for six months. Now, practically having granted moratorium means I cannot raise demand, so my demand is zero. But having said that, we remained continuously in touch with the customers to pay if they have excess liquidity. So, it happens like that for the month of July the amount to be paid was Rs.100 out of that we have collected Rs.87.

Alpesh Mehta: So, in the normal case the billing would have been Rs.100 only right if we forgive that this moratorium nothing was there it was like.

Kamlesh Gandhi: Yes, it would have been Rs.100.

Alpesh Mehta: It would have been Rs.100, and out of that, you recovered Rs.87 from the customers?

Kamlesh Gandhi: Yes. And what we are trying to tell by this is that if you see in April, I was supposed to collect Rs.100, I collected Rs.49, in May I collected Rs.45, in June I collected Rs.74, in July I collected Rs.87. So, what makes us confident with our borrowers is that more and more borrowers are paying even though they are technically eligible for the moratorium.

Alpesh Mehta: Okay. The second question is when I look at your disclosure, so at least till Q3 FY20, 1 to 90 DPD number used to be in the range of around 5% of the portfolio. Now we have moved down to 2.5% of the portfolio or 2.6% of the portfolio. So, what per cent out of this reduction of 2.4% obviously, a large part of that would be because of the moratorium customers, but apart from that are you seeing any other factor which is driving this?

Kamlesh Gandhi: As you know that the DPDs are frozen as on February and to answer your question very objectively, as such our provisioning was a write-back if I remove COVID, there was a write back in the normal provisioning by Rs. 3.5 crores. So, that we could recover from the various existing bucket, the way we just went, what Rs.87 includes is only the demand in the same way if I have collected from the previous outstanding is not included in my receipts. So, when we talk about the collection, it is this plus the collection from the outstanding bucket.

Alpesh Mehta: Previous outstanding bucket also, so your actual collection would have been 87% plus 2.5 % logically.

Kamlesh Gandhi: Yes, but I can never calculate that because I'm calculating only against the demand for July. So, I am not calculating the overview.

Alpesh Mehta: Okay, got it this is very clear.

Kamlesh Gandhi: We will try to make it very simple, we are saying that there are so many versions of moratoriums and DPD and we are trying to make it very simple.

Alpesh Mehta: Perfect, got it. Sir, the third question is on the OPEX side. Earlier, before this entire COVID thing at least till December, what was the mix between variable and fixed on the employee cost and now what is the mix between a variable and fixed that you are targeting?

Kamlesh Gandhi: Before that, it must be 70:30 fixed to variables, and now, we are targeting around 50% variable on a MAS the company as a whole, maybe different departments will have different dynamics and formula, but the company as a whole we will try to maintain 50:50.

Alpesh Mehta: Okay and is it fair to say that now the things are normalizing from the second quarter onwards. So, as the AUM growth will pick up the variable component will also be on a higher side. So, on a sequential basis, the employee cost increase could be slightly higher than or maybe somewhere near to the third quarter of last year?

Kamlesh Gandhi: Strategically we are happy within 1.4%, 1.5% OPEX because we fell that is one of the most efficient OPEX one can have. This 0.8% is coping up with an extraordinary situation. Now, as the things improve and if I have the room to disburse more, to do more business, I'll be happy to go back to 1.4% I am in no way trying to tell that we are permanently reduced our OPEX to 0.8%. This 0.8% is a very temporary phenomenon. Once things normalize, we will be back to 1.4%, but then my capacity to absorb cot will also increase because the income will also increase.

Alpesh Mehta: Okay. And I just have the last question, more strategic question. What's your view on the microloan segment and the SME segment now considering the ground-level situation, that's the first part and how are your channel partners treating the current situation are they very cautious, or they think that the things are almost back to the normal and we need to grow the portfolio aggressively?

Kamlesh Gandhi: See as I have constantly been telling that the customers and the borrowers whom we serve are mainly into basic activities. So they will take less time to come back to normal, and by looking at the way we are getting the collections it is more or less on the same lines. On our partners, the collections for our partners range from 40% to 80%, depending upon their collection efficiencies, and depending upon the comfort of the ground level, everybody has started disbursing in more or less proportions. So, if things progressively improve from Q3, we see normalization in the collection, and maybe from mid Q3, there can be normalization in disbursements also.

Moderator: Thank you. We'll take our next question from the line of Jehan Bhadha from Nirmal Bang. Please go ahead.

Jehan Bhadha: I have a couple of questions. So first one is on disbursements. So, if I look at your disbursements even before COVID, they had virtually not been growing since after September of last year. So, what gives you the confidence that from Q3 onwards, they will start growing? And when will we see the disbursement growing, reaching a 15%, 20% kind of growth mark?

Kamlesh Gandhi: See right from the beginning we've always maintained that we will use a high level of credit diligence on disbursement and evident from what we have done over all these years that we would try to test it on a litmus test of risk-return reward, when you know that post IL&FS that things as such that it was not a time to accelerate your disbursement so, they were a little muted you are right. On when we'll reach 15%, 20%, once again it depends upon the opportunity we get in the market, whereby is it stands a litmus test of credit and the margins what you can make, but given the segment to whom we are catering to and given our vintage and experience, we know that such type of situations are temporary. This is being prolonged. Still, such type of situations are temporary, and the ones who exercise more restraint and control during this period will get more opportunities to disburse and to grow at a higher rate, post all such challenges. So, besides having a good capital buffer, we need to have a very high level of patience also here, and that is what we are keeping. I am very sure that once the thing normalizes within say one quarter or two quarters, the companies like us who have the capacity to disburse. It is not that we don't have the capacity to disburse, it's all about where we should disburse and how much we should disburse, getting into the credit quality and hence the profitability. And the segment that we are working is very huge. So to objectively answer your question, we should wait for another couple of quarters hopefully things progress, we'll come back to 15%, 20% growth very soon.

Jehan Bhadha: Okay. My second question pertains to your smaller segments, so if I look at the two-wheeler, CV and the housing book, so, broadly speaking over the last five, seven years, they're not grown in double digits. So strategically, what is the outlook on these three segments, because looking at the base one will think that we should be growing at a much, much faster pace in the segments?

Kamlesh Gandhi: You're right. So, when you do it on an analysis level, you are right, but let me tell you that practically once again, we have concentrated 87% of our focus book is from MSME. At the same time, we see a lot of opportunity to what we call it is as a wheel segment and this two-wheeler or commercial vehicle. I will come to housing later, but somehow or the other we have sound, I will stick my neck out and tell competition not to be healthy. Because at the end of the day, I can build a book, but if you don't make money out of it, it's not worth putting your money into it. So since the last five years, if you see the commercial vehicle and you can take up anybody's balance sheet and you will see everybody has struggled. If I'm an only commercial financer, I have no option but to grow my book. But I am a multi-product company. I would always choose a better option, and we found MSME as a better option. So this was a very conscious decision by the company to allocate its resources where the product stands a litmus test of risk and return. We found that in two-wheeler and commercial there were too many players trying to do so many things, thereby that was very difficult for them to stand that test and hence they could not get the financial allocation as per our policy.

On housing front also, let me tell you that housing is a business which takes time to develop and we are not in a hurry to develop that book. If you see in housing, if you extrapolate it in terms of CAGR, it is around 15%- 20%. A very small book it should have grown at 35%, 40% but there are also we found headwinds in terms of the way the credit costs were taken, the way the rates were given, and ultimately since last two years when they were stress much is out in the public domain on the fundamentals of those models. So, housing is a huge opportunity. We are more focused on semi-urban and rural. It will still take time to grow, but we'll grow. But we will grow cautiously depending upon the opportunity we get, sometimes a situation like this when a couple of years we find that to be very the competition to be very unhealthy according to us, I am not in judgment of anybody's working. But according to us if we don't find situations to be conducive, we will prefer to wait. But let me tell you that the way we are positioning ourselves in housing and the way the strategy is what we have, as far as rural housing is concerned, we are very confident of growing the book. It will take time but will grow the book.

Moderator: Thank you. Our next question is from the line of V.P. Rajesh from Banyan Capital. Please go ahead.

V.P. Rajesh: My question is your SME book grew year-over-year. So can you give some colour around that, if you're finding the right customers to give loans to or if this is coming from NBFCs?

Kamlesh Gandhi: It's the combination of both. Let me tell you that our ultimate aim is to reach out to these customers maybe through my 3,500 centers or our very strong distributions strength 108 NBFCs the ultimate aim is to reach out to the people who need credit, and who deserves credit.

So it's a combination of both this distribution and our focus on the segment, and given the market size, we could do this.

V.P. Rajesh: Okay. And just on the collection efficiency, if I heard you correctly in an answer to a previous question, you're saying that if let's say somebody has taken a moratorium in May or June you will not be counting him or her in that July collection efficiency is that right?

Kamlesh Gandhi: Yes.

V.P. Rajesh: Okay, so people who had taken moratorium in the previous months, only in September when you start looking at them as non-moratorium account, that's when you have a real picture of what the moratorium numbers will look like, is that sort of the right way to understand this?

Kamlesh Gandhi: No. So, what will happen that in April and May if they have not paid, and they start paying from June, they get a new repayment schedule starting from June. So, if they start paying from June onwards is a good enough signal for us that these are the borrowers who will go on paying us.

V.P. Rajesh: I see. So, your 87% efficiency is a mixture of both the numbers people who have previously taken moratorium but then have become regular as well as people who are continuing in the moratorium, right. That's the way to think about it?

Kamlesh Gandhi: Right.

Moderator: Thank you. We will take our next question from the line of Nischint Chawathe from Kotak. Please go ahead.

Nischint: Sir just your view on the outlook on collection efficiency, I understand the way you are calculating it. But just wondering that you've already seen kind of 87% collections coming into the month. So, what kind of outlook would you have, are we kind of almost close to normalization? I believe you're stage one, stage two put together is almost like 95%. I'm sorry, stage two; stage three put together is around 95%. So are we kind of almost there in terms of collections. Are the businesses back on track or there is something that, so this is in terms of the number of customers or is this in terms of the quantum first of all?

Kamlesh Gandhi: Right, and it is by value, whereas since we have a moratorium is a uniform ticket size, it will extrapolate with the number of customers also. But what we are giving right now it is by value number one, and number second was normal collection efficiency range is around 97%. So when we talk about 87%, we are a couple of months away from being normal.

Nischint: And are these businesses are paying because they are back on track, or are is it something that they're paying from the past savings, or do you see that they're just kind of improves from your in terms of 87% to 90% or something of that sort or is it something that there might be some element of year-over-year especially given the fact that, you've seen the pandemic now moving into the interiors?

Kamlesh Gandhi: As far as our borrowers are concerned, they will work on a month-to-month basis depending upon their liquidity, and once a person is paying despite the fact he knows that he has the option not to pay your reasons to believe that his cash flow has improved, it was very difficult for us to gauge that it is on the savings or from the new inflows, but once they know that they have the option not to pay whereas it has been very clearly communicated to them. And even though they are paying and that number is increasing on a month-to-month basis, your reasons to believe that his cash flow is improving. And if things goes on the way it has been going on and the way we are saying progressively in April, May, June, and July. So, that is what I was trying to get the point on that within the next two months. We should see that coming to the normal.

Nischint: Interesting. Just now on the funding side if you could share in terms of what would be the incremental funding dates and from where you will be following?

Kamlesh Gandhi: Given our size and give our track record with the banks, we have predominantly funding from the bank we have Rs. 2,000 crores of the cash credit limit, and then 45% of our book is assigned, we have assignment sanctions of more than Rs 1,000 crores on hand even during this situation. So, the funding mix will be a mix of assignment term loans and the cash credit limits what we have, and we have then sufficient traction and sufficient sanctions on hand to see the year through.

Nischint: No, what I was saying was that incrementally over the last two or three months you would have borrowed at what rates?

Ankit Jain: So, it depends on the time which we have borrowed because we have taken some term loans, which was at around 9%. We have taken some NCDs which were effectively at around 8.5%-8.6%. We have taken refinance from SIDBI, which was around 6.2%. So, it depends on the incremental borrowing, but on the overall borrowing, there will be a slight decrease in the borrowing costs going forward.

Nischint: And you also have the working capital limits right from banks?

Ankit Jain: Right. So, there has been an effect of reducing the MCLR. There has been a decrease in the cost of borrowing, and there will be a decrease in the cost of borrowing going forward.

Nischint: Sure, and maybe last less relevant question for you, but would you be looking at any loan restructuring at all?

Ankit Jain: Any?

Nischint: Any loan restructuring on the asset side at all?

Kamlesh Gandhi: See, very early to talk about that currently, but we'll wait up till September and loan restructuring will be more from the point of view to facilitate the customer, and they say that it's a genuine SME or MSME borrowers when they predominantly we serve to and restructuring will help him to maintain his credit history, will definitely do it for them. But, right now difficult to tell how much it will be or how we'll be going about it we are waiting for a clear cut guidelines from RBI.

Moderator: Thank you. We will take our next question from the line of Rajiv Mehta from YES Securities. Please go ahead.

Rajiv Mehta: My question is on the borrowing. So when I look at the borrowing, the borrowing has also shrunk in the quarter whereas the cost of borrowing has actually gone up, if I read it correctly. So two questions here. Firstly, the borrowing costs in the first quarter which were essentially through direct assignments and then PCG and even the refinancing from SIDBI where the costs higher and whether did we also reach a large chunk of possibly lower costing, borrowing and which is why the over borrowing number is also lower. So, if you can just kind of explain the movement in the borrowing cost being higher in the first quarter as compared to the fourth quarter?

Ankit Jain: The borrowing we mentioned are done through the government scheme and has been done in the current month. And see, the cost of borrowing is a mix of borrowing which you have done prior to the quarter even. So, when the mix changes, it is not necessary that the cost of borrowing will be reducing. It may happen that my CC cost would have reduced, the term loan cost would have increased, and therefore, overall, it was around 9.30%. MCLR reduction impact is also yearly effect. MCLR is not changed on a daily basis, it depends on which MCLR it has been linked to, so we see in the current quarter there would be a larger impact on the cost of borrowing as compared to the previous quarter.

Rajiv Mehta: Okay. And sorry if I've missed it, but have you given the AUM breakup between direct lending and to NBFC partners?

Ankit Jain: It is in the press release, but if you want, we can give it separately also.

Rajiv Mehta: No, I'll refer that. And on the overall, dialogue with the NBFC partners towards growth or can one presume that you would work with select NBFC partners as you go forward since you would want to look at their health and capital adequacy, liquidity and asset quality position. So, you would want to approach the NBFC partner growth more selectively going ahead?

Kamlesh Gandhi: That we have been doing it all the time whether COVID or no COVID, associated with NBFC partner has always been selective and currently what we have added to that is that we have implemented a very stringent stress liquidity scenario and a very stringent solvency

Scenario for all those NBFCs that we on our own accord, irrespective of what their practical write-offs are. We take our call and then the level of write off and then knock that outcome from the capital and then see their solvency and see to that, that what are their capabilities to withstand the stress, what are their capability to withstand the stress on liquidity and solvency. So, if they stand on that stress, they will be in a position to get more money from us.

Rajiv Mehta: And can one presume that 7%-8% of the NBFC portfolio is under moratorium since you said that the latest collection efficiency is around 93%. The NBFC portfolio under moratorium will be around 7%?

Kamlesh Gandhi: Yes, around 7%.

Rajiv Mehta: Okay. And the last question is on the overdue, because when I look at your DPD buckets, which you show and of course we've seen a reduction in 1 to 90 bucket percentage in the last quarter itself, but that is the 29th Feb number. And now there has been a further reduction to it to 2.6% as compared to 3.5% in the previous quarter. So, these are the all your customers who are paying you their current instalments, as well as they, would have paid something which was overdue as on 29th Feb?

Kamlesh Gandhi: Yes. So, this as I told one of the other gentlemen, that this is not collection, this is not included in our normal collections, and whatever overdue we collect is not considered in this collection. So there will be a new collection from the overdue, and as I told you that, as such, there was a write back on our books of around Rs. 3.5 crores. So, that signifies that the quality had improved in various buckets because under ECL when a bucket changes the provisions also changes, say from example from current to 30 or 30 to current or 90 to 60 whenever the bucket changes the provisioning also changes. So, we have done some recovery there the provision will also be reduced. So, reduction of write back of provisioning by Rs. 3.5 crores signifies that there was a collection in greater than 90 buckets.

Rajiv Mehta: Okay. And specifically with regards to the microfinance portfolio, I know microfinance will be a subset of your MEL portfolio. But any colour on the moratorium there?

Kamlesh Gandhi: See, it is more or less in the lines of the same as an NBFC portfolio was doing in the case being as that we collected 93% in July 2020. It was 85% in June. So, it was more or less on those lines. They also started collecting anywhere from 40% to 80%. They are getting more funds from various other institutes' SIDBI, NABARD and few of them have started getting capital also. So, this is a combination of everything from their liability side those in terms of making them regular with us.

Rajiv Mehta: So you're saying that collection efficiency on your NBFC-MFI portfolio will be around 70%-75%?

Kamlesh Gandhi: It all depends upon region to region, but the trend is varying from 40% to 80%. Some have reached to 80% level, some have reached between 40%, 50% so depending upon the area they work it is from 40% to 80%.

Moderator: Thank you; we will take our next question that's the last question from the line of Nitin Bansal from Tata AIA Life. Please go ahead.

Nitin Bansal: Sir, just one clarification on collection efficiency is on overall AUM basis and will it be same on the on-book loan?

Kamlesh Gandhi: There's a margin difference because when we talk about 87% and 75% is on-book because once we assign it, we just work as the collection and paying agents. So the numbers we can give is for on-book, and that is 87% and 75%. But if you consider on AUM also, there will be a marginal difference of around say 2% or 3% here or there.

Nitin Bansal: Okay. And sir my second question is this 7% of people availing moratorium on the NBFC side how is it being distributed in a number of accounts?

Kamlesh Gandhi: I don't have it off the top, but by and large, everybody of them is paying just to give you the colour on it that it is not so that some people have stopped paying everything because there will be various people who were paying interest plus instalment, some might be paying just an interest. But we are collecting at least the interest from all the NBFC borrowers, and we will share with you on the number of NBFCs in that term.

Nitin Bansal: Basically, I'm just trying to gather there are no lumpy high tickets NBFCs out there in the 7%?

Kamlesh Gandhi: No.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the floor back to Mr. Udit Kariwala from Ambit Capital for closing comments. Over to you, sir.

Udit Kariwala: Thank you so much to the management and all the participants for dialing into the call. This was a quite informative call and thank you so much. And, I thank everybody from Ambit Capital. Thank you so much.

Kamlesh Gandhi: Thank you everybody and I wish every one of you very good health, and we'll be in touch. Thank you.

Moderator: Thank you, members of the management. Ladies and gentlemen, on behalf of Ambit Capital, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.