"MAS Financial Services Limited Q1 FY2022 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to Q1 FY2022 results call of MAS Financial Services Limited hosted by Systematix Institutional Equities. 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. Shubhranshu Mishra from Systematix Institutional Equities. Thank you and over to you Sir!

Shubhranshu Mishra: Thank you. Today, we are hosting MAS Financial Services Limited. We are joined by Mr. Kamlesh Gandhi – Chairman and Managing Director, Ms. Darshana Pandya – Director and CEO, Mr. Ankit Jain – CFO and members of the senior management team. Over to you Sir!

Kamlesh Gandhi: Thank you and good evening to all of you and I wish all of you are in good health, your family, your colleagues are doing well. Happy to connect to all of you once again. As shared with you through our press release and investor presentation, once again in Q1 also we have focused on strengthening the fundamentals mainly on strengthening the capital base, maintaining the sufficient liquidity, high quality of assets and maintaining the provisioning buffers because of these unprecedented times and constantly engaging with our customers.

As a result of it, as I talk to you, we have more than 25% as Tier-I capital, we have managed to maintain our asset quality at around less than 2% (net stage III assets around 1.72%) accompanied by a very strong additional contingent provision buffer of 1.34% which is not netted off when we calculated this net stage III assets, so we have around 1.3% of an additional buffer which we have practically not dipped into throughout this pandemic period once it has been created.

On the performance of the quarter while as we all know that two quarters and two periods Q-o-Q and Y-o-Y are not at all comparable but just to take you through the basic numbers and then it will be followed by my colleague, Darshana Pandya to take you through in detail, we could register our AUM of Rs. 5170 Crores approximately which is a dip of around 9% as compared to last quarter Y-o-Y and mainly because of the collection exceeding the disbursement and as we all know that it was a very difficult quarter for everybody where April and May were practically no business zones and whatever we could must have the later part of May and in June.

So with that collection exceeding our disbursement there was shrinkage of AUM by 9% but however, we could maintain our profitability more or less at a stable level Q-o-Q and Y-o-Y at around Rs. 37 Crores and as I shared with you quality of assets being stable with net stage III assets of around 1.72% of our AUM.

Our focus continues to be on our basic product that is MEL, SME, two-wheelers and commercial vehicles whereby micro enterprise and SME loans forms a major part of our asset under management followed by two-wheeler and commercial vehicle loans. This was about the working as far as the parent company is concerned.

Just to add to that on the collection efficiency, we had an average collection efficiency of 93% in this quarter increasing every month from April to May to June and as I talked to you, we are at close to around 96.5% in our collection efficiency, very close to our normal 97%-98% what we usually maintain.

On the restructuring front, we are in the process of assessing the financial position of various borrowers whom we work with and we will be in a position to complete our assessment this quarter and in cognizance to our policy of not rushing it into restructuring very aggressively, we would be doing the restructuring this quarter depending upon the merits of the cases, so as not to spoil the history of the borrowers who have genuinely affected by this pandemic wave.

On Housing Finance, as I shared with you last quarter that in medium term we see housing finance to play an important role in the overall scheme of things of the group. We could register an AUM of Rs. 294 Crores, which was a slight increase as compared to last quarter that is Y-o-Y basis and there also the quality of the asset is maintained at 0.56% of net stage III assets and with a COVID buffer almost intact of Rs. 3 Crores which is around 1.15% of our on-book assets and a very strong capitalisation of 49% because of the risk weightage that are assigned to this asset and in the class which we are working is less.

That is about the working in housing finance company. There is a contraction in PAT by 21% mainly because of higher provisioning. The last comparative quarter being in the moratorium period there was not much provisioning done in the Housing Finance Company, so instead of Rs. 1.05 Crores of PAT in Q1 FY2021, it is around Rs. 0.82 as in Q1 FY2022. Here also we have a very strong balance sheet to grow the asset once things normalizes and we are really very hopeful that this company will start contributing very positively in our overall growth.

Before I handover to Darshana ben, let me reiterate that the company is well poised to capitalise on all the future growth opportunities because of a very strong capital base, very strong liability management, just to share with you we had a liquidity buffer of close to Rs. 1000 Crores. Currently, we have a debt tie-up of almost for complete year in terms of our assignment term loans and various facilities and the distribution of 3500 centres and also through our partner NBFCs, we are very confident that once the things normalize which I think will be sooner than later and it has already started, we will be in a position to go back to our trajectory of 20%-25% growth which we have been doing since years and we have all the enablers for the same.

To take you through some detailed numbers for you to understand better, I will pass it on to my colleague Darshana ben to take you through those numbers. Thank you.

Darshana Pandya: Thank you Sir. Good evening everybody. The numbers are in front of you. Press release and presentation is also there for your reference but I would like to take you through the key numbers very briefly.

As on June 30, 2021 our assets under management stands at Rs. 5,162 Crores which is contraction of 8.77% as compared to last quarter Y-o-Y. SME and commercial vehicles loan have contributed positively and micro enterprises loan and two-wheeler loans has come down. So, if I give you the configuration of the asset Rs. 2762 Crores is from micro enterprises loan which was last year Rs. 3424 Crores, SME loans is Rs. 1813 Crores as compared to Rs. 1674 Crores last year.

Two-wheeler loan is Rs. 375 Crores as compared to Rs. 400 Crores last year and commercial vehicle loan is Rs. 211 Crores as compared to Rs. 158 Crores last year. Total income as on June 2021 is Rs. 148.5 Crores as compared to Rs. 160 Crores once again there is a contraction of 7.42% which is in line with reduction in asset under management.

Profit before tax is Rs. 49.53 Crores as compared to Rs. 48.92 Crores last year and profit after tax is Rs. 36.83 Crores as compared to Rs. 36.59 Crores last year, this is more or less stable. Regarding the quality of the assets, Gross Stage III assets is 2.21% as compared to 1.41% and after provisioning Net Stage III asset is 1.74% as compared to 1.14% last year. Here, I would like to mention that we have not netted of the COVID provisioning of around Rs. 54 Crores which is 1.34% of our on-book assets. So, this was regarding the parent company.

Now coming to our housing finance numbers, assets under management as on Q1 FY2022 is Rs. 295 Crores as compared to Rs. 284 Crores last year, which is a slight increase in portfolio by 3.71%. Total income is Rs. 8.89 Crores as compared to Rs. 8.77 Crores which is 1.41% rise in income. Profit before tax is Rs. 1.06 Crores as compared to Rs. 1.41 Crores and profit after tax is Rs. 0.82 Crores as compared to Rs. 1.05 Crores last year. The reduction in PBT and PAT is mainly because of higher provisioning during Q1 FY2022.

Regarding asset quality of housing finance portfolio is Gross Stage III stands at 0.59% as compared to 0.36% last year and net stage III is 0.42% as compared to 0.26% last year. Here also we have a COVID provision of around Rs. 3 Crores, which is 1.15% of our on-book asset. This was regarding the performance during the Q1 FY2022.

Now, I will request Ankit to take you through our capital and liability management.

Ankit Jain: Thank you Madam. Good evening all. To further update on the liability management, the company through its efficient liability management was able to maintain a liquidity buffer of around Rs. 800 Crores and unutilized cash credit limit of around Rs. 485 Crores which accumulates to around Rs. 1300 Crores which is the liquidity which the company has.

Addition to that the company had sanctions on hand to the tune of another Rs. 1300 Crores in the form of term loan and direct assignments. In the last quarter, the company did around Rs. 200 Crores direct assignment transaction. The company further has more than Rs. 1000 Crores sanctions on hand which will be utilised during the year.

The company aims to maintain 25% of AUM as off book through direct assignment transaction which help us to maintain the capital adequacy as such. Company has available cash credit facility of around Rs. 1820 Crores out of which company maintains utilisation level of around 65% to 70% and rest portion is kept as a liquidity buffer.

We successfully rolled over around Rs.1100 Crores short-term working capital loans which has sub limit to this cash credit limit. Further, company raised around Rs. 100 Crores term loan during the quarter. This helped us to further send an asset liability maturity pattern. The company further has more than Rs. 300 Crores sanctions on hands which will be utilised during the current year.

During the quarter, company also raised Rs.100 Crores market linked debentures for tenure of 30 months. The company has to assessed its structural liquidity for the period ended 30th June 2021 and based on the assessment, there was no negative impact on the liquidity and the cash flow in all cumulative buckets remains positive.

As told, company's capital adequacy remains strong at 28.42% with Tier-I capital base of 26.55% and debt equity of 2.93 times. The cost of borrowing for the quarter works out to be 8.72% vis-à-vis the last year which was around 9.24%, so we were able to reduce our cost of borrowing and we further work towards how to reduce the cost of borrowings further.

Now I hand over the call to Kamlesh Sir for closing remarks.

Kamlesh Gandhi: Thank you Ankit and we are open to take questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Bhavesh Kanani from ASK Investment. Please go ahead.

Bhavesh Kanani: Thank you for the opportunity. I had two questions one on the growth, in this quarter Q1 we saw that disbursements have stayed quite healthy especially when we compare to similar kind of operating conditions in the year ago quarter. So, should we expect the pace of disbursements to pickup from here on and that is one and second one was on the asset quality side. It has held a pretty well except for the absence of any restructuring during the quarter, so do we have any request pipeline as on today and if you can quantify any such restructuring pipeline or request you would have received?

Kamlesh Gandhi: We are expecting good disbursements this quarter going by the June numbers because what the majority of the disbursement was done in last 40 days to 45 days obviously that was a work of the earlier days by the team, so if the same pace continue we should have a good disbursement this quarter and we have already witnessing the same in July and around 10 days or 12 days of August. So, I am very hopeful that the disbursements will pick up. In terms of asset quality as we have worked very hard to maintain this asset quality and we are engaging with various borrowers as to their requirement and as I talked to you, we are close to around Rs. 15 Crores to Rs. 20 Crores as restructuring demand which will be evaluated closely and then we would like to engage with them and give them the offer based on the board approved policy and the RBI directives.

Bhavesh Kanani: Okay and Sir if I can add one more question, given you just said on the disbursements, is it right to expect AUM growing by end of the current fiscal?

Kamlesh Gandhi: Definitely, it should.

Kamlesh Gandhi: Just to share with you as a team 𝔐𝔄𝔖 and I am taking my neck on this as a team 𝔐𝔄𝔖 you know that we do not have only a quarter or two of visualization, we visualize next 12 to 15 quarters within next three years what looks like a combined AUM of around Rs. 5600

Crores should be close to around Rs. 10,000 Crores, this is what we are trying to aim provided we are not surprised by anything that we have seen in the last one and a half year and definitely this year should see a growth may be based on Q1 number, as we all know that in Q1 around half the Q1 or even more than half the Q1 was wasted in pandemic.

Bhavesh Kanani: Okay and lastly Sir, any update on recovery from the Sambandh Finserv?

Kamlesh Gandhi: Outside recovery agent has been appointed and the total recovery as of now as per the latest information I got is around Rs. 32 Crores to Rs. 33 Crores which has been lying in an escrow account and once the intercreditor agreement is signed around the same will be distributed according to the share.

Bhavesh Kanani: What share we would have in the total scheme of things?

Kamlesh Gandhi: I think around 7% to 8%.

Bhavesh Kanani: Okay. That is all from my end. Thank you.

Moderator: Thank you. The next question is from the line of Shubhranshu Mishra from Systematix Institutional Equities. Please go ahead.

Shubhranshu Mishra: I had two questions right now. One is what is the percentage of AUM sourced by partner NBFC over the last two to three quarters and second is if I look at the housing finance subsidiary, it has barely made any kind of profit in the last three odd years may be around very low profit, so what is the thought process there? Should we even have that subsidiary academic not getting enough profits? So, these are my two questions as of now?

Kamlesh Gandhi: To answer your first question as you know that around 57% of our AUM is contributed by the distribution network through NBFC and 43% is through our around 3500 centres reach, so that was the proportion we have been maintaining since last two to three quarters also. That is on the question housing finance subsidiary I think that is going to contribute meaningful in coming years and if you see any housing finance companies they take time in the initial years to grow and the profit has been in line with the AUM at around Rs. 200 Crores to Rs. 300 Crores of AUM. First of all to be profitable at a small base itself is a challenge and then also to maintain return on assets of close to 1%to 1.25% and even on lower base of AUM reflex of an efficient management, so we are very hopeful on our housing finance subsidiary, it is here to stay with the group very long and it will contribute very meaningfully.

Shubhranshu Mishra: Sure Sir. Thank you.

Moderator: Thank you. The next question is from the line of Anand Bhavnani from White Oak Capital. Please go ahead.

Anand Bhavnani: Thanks for the opportunity. Just wanted to understand if you can give us some numbers on segment wise Stage II and Stage III each of our sub segments?

Kamlesh Gandhi: Segment wise Stage III, I think overall it is 2.21% and segment wise on wheels we are approximately 2%-3% on Stage III whereas the major part of our portfolio that is SME and micro enterprise loans, 2.13% in MEL loan and 1.95% in SME loans that is Stage III.

Anand Bhavnani: What is the Stage II?

Kamlesh Gandhi: Stage II in two-wheeler we are close to Rs. 8 Crores and MEL loans we are around Rs. 42.39 Crores, SME is around Rs. 52 Crores and in SRTO it is around Rs. 7.51 Crores in Stage II. So that gives you total of 110 Crores.

Anand Bhavnani: Out of total SME book what is originated through partners?

Kamlesh Gandhi: Partners as I told you our NBFC distribution we have around close to 57% to 58% of a book coming from our NBFC partners.

Anand Bhavnani: But is it distributed across all the segments?

Kamlesh Gandhi: It is around 40% must be coming from our MFI partner and rest 60% coming from two-wheeler, commercial vehicle and SME partner.

Anand Bhavnani: SME largely the book is our only out of 57%, 40% is MFI and remaining 15%-17% SME and MSME, so that means largely MSME is done by us, may be 80%, right?

Kamlesh Gandhi: That is the policy of the company, that we would like to have the distribution tie up with the NBFCs who are in the same line of activity while our main focus is MSME, and SME we would like to have majority of the tie up with all the partners who are into SME and MSME business.

Anand Bhavnani: I am still not sure if I have understood the business well, what percentage of our SME and MSME book is done directly by us?

Kamlesh Gandhi: On product to product in annual around 60% must be done through partner, in SME around 65% because majority of the business done though partners is in MFI and SME and in two-wheeler and commercial vehicle the range is around 40% to 45% through partners and the rest will be through us.

Anand Bhavnani: Sir just trying to understand the business that we do lot of MSME and SME directly, so there is no balance sheet question of the partner and yet we have been able to have very low Stage II and Stage III, so what has helped us to in such good asset quality even in direct loans where there is no question of partner NBFC?

Kamlesh Gandhi: If you see the retail portfolio, as I told you around 57% of the business we source across product in different proportion in percentage give or take 5% odd here or there the intermediation is through our partners whereby the credit cost is absorbed by them. So, whatever the credit cost we are seeing is more or less on the retail portfolio which has been originated by us but having prospered on the yield matrix is that when you work with the partners whatever the anticipated loss depending upon the product is that is built upfront in the yield, say for example directly I might be doing at 18% but through partners I might be doing it around 13% or 14%. So, ultimately what we aim at is to maintain anywhere between 2.75% and 3.25 % ROAs depending up to the distribution we do, if we do through our NBFC we pass on that credit cost upfront to the NBFCs. So, if they have a better credit management they can save on money and if they lose more than what has been anticipated they have to share from their profit and in our direct we get higher yield but at the same time the credit cost is also higher as far as the retail direct portfolio is concerned. So, the hybrid of it is maintained in such a manner that we maintain anywhere between 2.75% and 3.25% of return on asset while having a fair amount of control on the quality of the assets.

Anand Bhavnani: Sure, Sir. In fact, overall, in whatever current NPA we see is it fair to say that 90% would be in the book that we have originated because anyway the first loss guarantee in the partner NBFC book would ensure that most of the losses and NPAs would be flowing to them and is that the right expectation that 60% of the book is like responsible for maybe 90% -95% of the stage II and stage III?

Kamlesh Gandhi: Right, they absorb it.

Anand Bhavnani: Yes, and Sir given that we work with NBFCs and currently these NBFCs might also be incrementally getting lot more options to work with banks and other larger NBFCs given system credit offtake. So, are you seeing any deterioration in terms that what you did NBFCs because they are getting more options from other banks, PSUs or private sector?

Kamlesh Gandhi: See, it is a continuous process. This is a decade old relationship with all these NBFCs, and I have shared number of times that in NBFC business asset and liabilities runs down continuously. As far as MAS is concerned our relations with NBFCs is not just like a corporate funding but it always like helping them to do the last mile delivery of credit and at the end of the day build up the same assets which you build up directly. So, the consistency what they get from us is unparallel so to say. So, our expected business with them despite of the fact that they grow, they pour in more capital, they have more options. But share what we want in terms of amount we are in a position to maintain since last ten years and we are seeing strong traction because of our performance over all these decade. Given our consistency and understanding of the sector we get an opportunity to partner with all the NBFCs irrespective of their size.

Moderator: Thank you. The next question is from the line of Deepak Agarwal from Axis Mutual Fund. Please go ahead.

Deepak Agarwal: Good evening, Sir. Thank you for the opportunity. So, wanted to understand on the growth side, you did mention that in the longer run over a period of three to four year you would want to see the AUMs closer to Rs.10,000 Crores. In terms of compensation of growth between the growth via NBFCs and what you originate organically in your own books. So, your thoughts, are it like it will be much more in favour of retail compared to NBFC, how should we look at that over the next few quarters?

Kamlesh Gandhi: Obviously, because we plan to increase our reach from current 3500 centres to not less than 5000 centres because in all the six states of our operations we have not penetrated as we have penetrated in Gujarat and having worked there for more than three to five years on an average in each of the states, we are geared up to penetrate those states also deeply. So, given this fact our contribution from the retail assets will increase and what looks like 57%:43% in favour of NBFC might look reverse in favour of our direct retail that it might be 55%:35% is what we presume.

Deepak Agarwal: Got it, and Sir second question in terms of the products, so obviously we have a large SME book, the SME will continue to be the growth driver or you think others as you mentioned like home finance or two-wheeler, commercial, any one of them because some of them look to be subscale right now considering your own balance sheet size. So, is it with dominantly an SME lending or how should we look at it?

Kamlesh Gandhi: Well definitely the focus will remain on the MEL and SME space, because we have been that niche players since last 25 years but with normalization of the economic growth we will find opportunities in commercial vehicle, two-wheelers and used car also. So, I presume that what looks like 80:10 should look like around 75:25 in terms of wheels contributing 25% and 75% coming from MEL and SME.

Deepak Agarwal: Got it, and Sir just last question, so any thoughts on SFB license, how do you look at that opportunity?

Kamlesh Gandhi: See, we continue to hover that thoughts that as SFB we are not going to do anything different, we are going to serve the same class of the society and in terms of liability management if you are well capitalized and given our track record with the various bankers and various lending institutes for us to raise liability at a competitive rates has not been a problem and what all being an SFB we save on interest rate can be absorbed in the operational cost and lot of regulatory compliances, I think we are better placed by focusing on the asset side of the balance sheet creating an efficient last mile delivery of credit across the segment we work in, this is currently strategically we believe in.

Deepak Agarwal: Thank so much. Thank you.

Moderator: Thank you. The next question is from the line of Abhijit Tibrewal from Motilal Oswal. Please go ahead.

Abhijit Tibrewal: Thank you for taking my question. Sir, I just had one question but before that if you could please repeat the product wise or segment wise stage-III and stage-II numbers that you gave unfortunately my line was not good, so requesting if you could please repeat that?

Kamlesh Gandhi: Now, I have in front of me the percentage also, so as far as stage-III is concerned we have 2.48% in two-wheelers, 2.08% in MEL, 1.22% in SME and 2.33% in SRTO loans and the stage-II percentage is 2.13% in two-wheeler, 1.53% in MEL loans and SME is 2.90% and CV is 3.54%.

Abhijit Tibrewal: Sure, that is useful. Sir now the only question I had here is when I look at your asset quality and I am sure you have touched upon it in the last question as well, difficult to understand given that the product segments that you cater to, micro enterprise loans, MEL, SME, Two-wheeler, commercial vehicle, in Q1 all these product segments appeared very, very stressed, I mean talk about any of these product segments and despite that I must compliment you, your asset quality performance has indeed been very, very good. So, if you maybe try to share some more colour around this and the other thing Sir, given that 57% of our AUM comes from loans which are sourced by NBFCs at least in the current environment NBFCs which do on-lending to other NBFCs they have gradually been wanting to reduce that book, I mean I understand that is more on-lending while what you are doing is retail loans being originated by your partner NBFCs so indeed there is a difference there. But at least in the current environment most of the other NBFCs have been more comfortable organic sourcing and reducing on-lending to other NBFCs while I see that you kind of tend to have a niche here in terms of getting your loans sourced from other NBFCs which I feel is beautiful. So, if you could just share some of your thoughts around this?

Kamlesh Gandhi: First of all, it is all about being one of them over all these years. As you know we started with a very small size of Rs.2 Crores, our first balance sheet size was just Rs.2 Crores and being an NBFC we can understand the working of the NBFCs very close and that puts us in good state in being very consistent in relationship with them and as you very rightly put for us these are not corporate loans or not just writing big cheques, it is about reaching to the last mile doing the last mile delivery of credit through the people who know the business the best because what happens that serving the informal class you need a very strong value chain, it is not a function of a stronger balance sheet size, but it is a function of a better and the stronger understanding. So, since last ten years we have been working closely with majority of the NBFCs more than 100, started with one relationship in 2010–2011 soon after the AP crisis and as I talked to you more than 135 such relationships and growing and we contribute to each other and complement each other in a way that we being a 25-year-old organization being larger in size, have access to credit and access to debt and understanding of the segment over the years we share our experience, and they will share their demographic understanding and we provide them the funding on a consistent basis. Just to give an example, if something goes wrong anybody in the economy the first thing that the lenders think that I am not going to write a cheque for one quarter, two quarters I am not going to fund to them, that is why we differentiate ourselves that we know these peoples working because they are in the same product in which we are and hence we have an enabling processes to maintain the quality of the assets with these NBFCs. So, this has been an experience of going through what they are going to right now in our earlier stages and that puts us in good stead in understanding that. So, that is the main reason of our consistent relationship all these NBFCs and coming on the asset quality, as I shared earlier that the way we have planned our distribution is such that we are making that distributor also responsible for the asset quality, and we are passing those expected credit losses right in the interest rate we offer. As I told I might be working is the same segment at 18% but when I work with an NBFC I might built in the credit operational cost and their profitability that is where that keeps us in good stead in managing the asset quality over the years. I must compliment my partner NBFCs who have by and large absorbed all the losses, be it demonetization, be it COVID-1, be it COVID-2 and because of our assessment on the basis of that stress capital and stress liquidity we could maintain the good quality of the portfolio. So, this is the function of the distribution network what we have and as a practitioner we always believe that if you have very strong value chain then you can create an efficient last mile delivery of credit which signifies that extending credit where it is due and at the same time each and every stakeholder benefit from this lending activities.

Abhijit Tibrewal: Sure, Sir. This is useful and Sir I do not know if I am drawing the right example here, but the way I see your business model and the kind of relationship that you have with your partner NBFCs, would it fair to say let us say Amul has done in the dairy space you are also more like a cooperative or this large set of partner NBFCs so that everyone tends to benefit in this relationship?

Kamlesh Gandhi: It is difficult for me to draw parallels, but definitely we have been working in such a manner where we have created a win-win situation for both of us, be it a smaller NBFCs in terms of as I told you in help them grow many of the SFBs what you are saying right now had been our borrowers at time so we have been catalyst in that growth and at the same time we could realize our objective of extending credit where it is due to the most needy class of the society.

Abhijit Tibrewal: Sure, Sir. This is very useful. That is all I have. Thank you so much.

Moderator: Thank you. The next question is from the line of Anand Bhavnani form White Oak Capital. Please go ahead.

Anand Bhavnani: So, my question is, as of today based on Q1 performance and our performance in FY2021, do you feel that we have done very well and better than our expectations, that is my question?

Kamlesh Gandhi: I will put it that way that this has been our focus then we could get the results as per our expectation, because our focus through remained on maintaining consistencies and strong balance and we have never been carried away by short-term goal, so we were never worried about quarterly disbursement or quarterly growth we have always taken a medium-term to long-term view. So, in consistence to our view and our fundamental understanding we have worked accordingly and that has yielded the results, I will put it that way.

Anand Bhavnani: Sure, so given that we have been able to conservative in the pass maybe I would prefer to use the word passed the litmus test, do you think there is a chance for us to aggressively grow now given that our model has over 25 year and more so on COVID done very well if that is for us to grow very aggressively is my question?

Kamlesh Gandhi: If I share my experience as a practitioner lending and aggressively does not go together so you need to strike that balance as to how you should grow. Let me take you through how we assess the situation is that over the years we have mainly grown through internal accruals. We think that the profit you make is the right barometer of the value add that you do at the marketplace and lending is not just a business of getting capital or debt is about operations. So, good times or bad times the level of operations and the growth what you can manage has its own limitations. So, I personally believe that we are geared up fundamentally we have to belief that a growth of around 20% - 25% is good enough which translates into doubling your AUM everything to three to four years will not only give you growth but an all-round growth which translates into the development. So, this is what we believe in as a practitioner of 25 years.

Anand Bhavnani: Sure, and if I may ask one more question, given this tough environment how are you seeing some of your NBFC partners suffering heavily and being on the verge of closure and how many of your NBFC partners do you feel that they would not be able to come back due to these two waves?

Kamlesh Gandhi: So, there will be two set of things, there will be few NBFCs whose growth will be hampered few of the ones who are more or less normal, majority of them are in that space whereby within a quarter or two quarters they will come back to normal and obviously this is the time where everybody cannot pass through there might be NBFCs which might not stand this litmus test. So, the NBFCs with whom we are working if I just share you over the decade, we must have done a cumulative disbursement of more that Rs.15,000 Crores, and even during these situations we do not expect the losses to be more than 1% cumulatively given in this segment. So, definitely some of the NBFCs will face problems but majority of them over a period of time will come out.

Anand Bhavnani: Thank you.

Moderator: Thank you. The next question is from the line of Shubhranshu Mishra from Systematix Institutional Equities. Please go ahead.

Shubhranshu Mishra: Sir, last few questions, if you can give me the ROA segment wise and the second question is cash credit is generally expensive and we have it almost 31% as percentage in borrowing and it has been at similar levels for the last few quarters. Given the fact that we are in lower interest regime, any thoughts on lowering this cash credit as a percentage of borrowing anyway it has expenses and of course if you can give me the ROA segment wise?

Kamlesh Gandhi: I will request Ankit to share with you ROA segment wise that will be shared with you offline. On your CC limit let me tell you that we have converted this into an opportunity because of the WCDL factor. What has happened is now that around 60% has to be in the form of WCDL i.e., working capital demand loan, and this working capital demand loan as Ankit shared with you in the opening remarks that it is a sub part of CC limit and this WCDL demand loans are linked to MCLR anywhere between 90 days to 120 days or 180 days depending upon the options we take which practically helps us to reduce the rate of interest without creating any ALM. So, CC limit for us out of the 30% of the total CC limit we use 60% of it so that translates into an 18% of the total liability and with WCDL in place whereby the rates are very competitive that has translated into reduction in cost as compared to term loans.

Ankit Jain: Just to add on this, WCDL has lowest cost of borrowing among all other facilities, because this will come for the short-term nature.

Shubhranshu Mishra: Right, sure. Thank you. Those were my questions.

Moderator: Thank you. The next question is from the line of Bhavesh Kanani from ASK Investments. Please go ahead.

Bhavesh Kanani: Thank you. My question was on the partner NBFCs which are engaged in microfinance business. If you can share some comparison of how they have been behaving over last five quarter- six quarters so that we have a better idea of the movement from stage-I to stage-II and from stage-II to stage-III in case of this MFI partner?

Kamlesh Gandhi: In MFI partner NBFCs we have close to 97% to 98% collections within last quarter post pandemic and majority of them are well capitalized and they have sufficient liquidity and might be few of them might be facing problems where we are in closely contact with them. So, we are at around 97% - 98% of the collection efficiency ever during this tough time gives us the confidence that they will be in opposition to navigate this situation.

Bhavesh Kanani: That is quite surprising given that large MFI players have materially inferior collection efficiency?

Kamlesh Gandhi: That is where that intermediation plays a very important role, because what happens that they cannot pass on their collection efficiencies to the lenders and the way we have structured a business with them is that any of the losses or any of the shortfall in liquidity has to be absorbed by them. So, that is what I was sharing with all of you that right from demonetization where they had losses to the tune of 5% to 7% has been absorbed through their profit or through their capital infusion and to current where their collections has dropped to as low as 70% in some of the areas these people have managed to be on time as far as majority of the NBFCs are concerned and this is how we assess their structural liquidity, their liquidity position and their capitals.

Bhavesh Kanani: Sir have we used escrow mechanism when we are dealing with partner NBFCs at their collections from borrowers land up in escrow and then we recover our money first and then the partner NBFC can use it for operational purpose?

Kamlesh Gandhi: We are trying to do it through designated accounts because escrow is a very cumbersome and a long process, so we are trying to do it through designated accounts and a hurdle what right now we are facing is a current RBI circular as to restriction on opening accounts other than where they enjoy the leverage. But just to share with you that we have already started working on this idea and within a quarter or two quarters we would work on such a manner that we have still closer control on that cash flows. So, that will be deposited in their designated accounts we will draw our part, they will draw their part and whatever the short fall is they are going to put in that account, and we will our money rather than they just paying us on a particular date. So, there will be multiple transactions involved there should enabling programmes, alignments with all such partners and we are in process of that. So, within next quarter or two quarter we will see that absolutely functional.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to Mr. Shubhranshu Mishra, for closing comments.

Shubhranshu Mishra: Thank you participants and thank you management of MAS Financial Services Limited.

Kamlesh Gandhi: Thank you. Thank you everybody and please feel free to contact us for any further any details. Thank you.

Moderator: Thank you. On behalf of Systematix Institutional Equities that concludes this conference. Thank you for joining us and you may now disconnect your lines.