"MAS Financial Services Limited Q2 FY2022 Earnings Conference Call"

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MODERATOR:	**MR. SANKET CHHEDA – BATLIVALA & KARANI SECURITIES**

Moderator: Good Day, Ladies and gentlemen and a very warm welcome to the MAS Financial Services Limited Q2 FY2022 Post Result Conference Call hosted by Batlivala & Karani Securities India Private Limited. 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. Sanket Chheda from Batlivala & Karani Securities. Thank you and over to you, sir.

Sanket Chheda: Hi everybody. Good afternoon to all of you. We have with us from the Management Mr. Kamlesh Gandhi – Chairman and MD, Mrs. Darshana Pandya – Director and CEO, and also Mr. Ankit Jain – CFO. So, I will now hand over the call to the management who can brief for maybe 5 -10 minutes and later we can follow that up with question and answers. Over to you, Sir.

Kamlesh Gandhi: Thank you Sanket and good evening to all of you and happy to connect again. To start on an optimistic note we are seeing a high level of normalization of activities across our borrowers and that is reflected in our working which will be taken in detail by Darshana ben when she take you through the figures.

But just to share with you on the asset side we could increase our disbursement this quarter so to say we got the opportunity to increase our disbursement given our dictum of extending credit where it was due and that translated into a rise in AUM also and if you see the quality of the assets we could maintain the quality at a stable level of around 1.80% of net assets of Stage-3 to AUM while maintaining a very robust buffer of 1.12% of on book assets.

We continue to concentrate on the MSME borrowers and we are very hopeful that once the things normalizes we will be in a position to create quality assets the way we have been doing it since long at the rate of 20%-25% growth which we are very confident and we have very strong enablers for the same. On the distribution front we continue to have focus on more than 3,500 centres which we anticipate to be close to 4,000 centres by the year end, once the things normalize we too will get the opportunity to increase our distribution strength and also with more than 100 NBFCs with whom we have been working since the decade to work as our extend arm within asset what we create directly.

On the liability front as you know that we are well capitalized with around 25% of Tier-1 capital and we recently raised the Rs. 50 crores of Tier-2 also that will further strengthened the capital base and we continue to command high level of respect from our lenders evident from the fact that we could not only raise money the way we wanted, but we could even reduce our cost of borrowing that is being a very high level of respect based on the track record and the faith shown by the lenders in our operations and the working we do.

Going forward we will continue to focus on as I told on creating quality asset, strengthening our distributions, strengthening our operations which should translate into a very steady 20%-25% growth going forward and once again I will reiterate we have strong enablers starting from self-propelling capital model and to share with all of you we completed close to four years of our IPO, we went public in 2017 and we have almost doubled everything from a Rs. 3,000 to Rs. 3,500 crores of AUM to a group AUM of close to Rs. 5,800 crores everything has grown through internal accruals while maintaining a very strong capital adequacy is testimony to a very efficient use of capital and robust operations and profitable operations and I just like to add one more thing here that we have increase our book value at a CAGR of 15% even during this torrid time, I think this was the most challenging time of our life for all of us and within this also we could increase our book value at a CAGR of 15% mainly through internal accruals and could maintain a very healthy ROA.

So, this strategy remains the same to focus to create quality asset, to make use of the best available opportunities including the latest thing that is the Fintech we have associations with many of the Fintech companies of the country, we are trying to associate with them in such a manner which helps us to create quality assets, widen our distribution reach and at the same time this would maintain our profitability is what our aim is when we tie up with any of the Fintech. So, we are trying tieup with various Fintechs in order to strengthen our distribution strength, but not to compromise on what we do that is creating quality asset and profitably. So, with this to do the number crunching for you I will request Darshana ben to take it forward on the numbers to how it looks like.

Darshana Pandya: Thank you sir. Good evening everybody. So, now coming to the numbers as sir shared our AUM has grown from Rs. 5,160 crore last quarter to Rs. 5,485 crores this September and mainly the main products are micro enterprise loan and SME loan which is contributing around 89% of the total portfolio and 11% is coming from wheels. If we compare the number with last September the main growth is in SME products it has grown by 21.83% and the growth has been compensated by micro enterprise loan so it is down by 8.06%. In terms of percentages commercial vehicle loan looks 51% right, but since the base is low so in amount if we look there is a rise of Rs. 78 crore, two wheelers remains more or less same so that is the configuration of our AUM of Rs. 5,485 crore.

Looking to the operational figure total income on quarterly basis has grown by 2.94% from Rs. 152 crore to Rs. 156 crore. Profit before tax has grown by 12.92% from Rs. 45.63 crore to Rs. 51.53 crores and profit after tax increased by 12% from Rs. 34 crore to Rs. 38.32 crores. On half yearly basis profit before tax has increased by 6.88% from Rs. 94.55 crores to Rs. 101 crore and PAT has increase by 61.5% from Rs. 70.80 crore to Rs. 75.15 crores. Regarding the asset quality gross Stage-3 assets as such if you compare it with June numbers, it was 2.21% in June 21 now it is 2.30% and net Stage-3 assets is 1.8% as compared to 1.74% in June 21. Our restructured book stands at around Rs. 29 crore which is 0.54% of the total portfolio and as on March it was around Rs. 15 crore. We hold special COVID provision of Rs. 49 crores which is

1.12% of our on book assets. So, this was regarding the parent company and now coming to the housing finance numbers.

AUM as on September is Rs. 300 crores as compared to Rs. 281.72 crore last September. Total income has come down by 1.15% from Rs. 9.33 crore to Rs. 9.22 crore. PBT has increased by 25.75% on quarterly basis from Rs. 1.50 crore to Rs. 1.89 crore and PAT that has increased by 26.44% from Rs. 1.17 crore to Rs. 1.48 crore. On half yearly basis PBT has increased by 1.44% from Rs. 2.91 crore to Rs. 2.95 crore and PAT has increased by 3.68% from Rs. 2.22 crore to Rs. 2.31 crore. Regarding the quality of the asset gross Stage-3 assets stands at 0.65% and net Stage-3 assets 0.46% as compared to 0.59% and 0.42% respectively last June 21. Here also we hold COVID provision of around Rs. 3 crore which is 1.2% of on book assets and in our housing portfolio the restructured books stands at 0.91% which is Rs. 2.72 crore in terms of amount. So, this was regarding the numbers. Now I will request Ankit to take you through the liability management.

Ankit Jain: Thank you Mam. Good afternoon all. To further elaborate on the capital and liability management in the current quarter, the company through its efficient liability management was able to maintain liquidity buffer of around Rs. 875 crore and unutilized cash credit facility of around Rs. 385 crore. In addition to this the company has sanction on hand to the tune of around Rs. 1,000 crore in the form of term loan and direct assignment. In the last quarter company did around Rs. 400 crore direct assignment transactions, the company further has around Rs. 700 crore sanctions on hand which will be utilized during the current year. The company aims to maintain around 20%-25% of AUM as off book in the form of direct assignment transaction. Company has available cash credit limit of Rs. 1820 crores out of which company maintains utilization of around 70% and rest portion is kept as liquidity buffer.

Further company raised around Rs. 375 crore term loan during the quarter which has helped us to further strengthen our asset liability maturity pattern. Company raised around Rs. 100 crore NCD in the form of MLD during the quarter. There is a PTC transaction of Rs. 90 crore during the quarter. We have assessed our structure liquidity for the period ended 30th September 2021 and based on the assessment there is no negative impact on liquidity and cash flow in all the cumulative buckets remain positive. Our capital adequacy remains strong at 25.62% with Tier 1 of 24.02% and debt-equity at affordable level of 3.30 times. Most importantly the cost of borrowing remained stable at 8.7% as compared to June quarter which was 8.72% and if we compare the last corresponding quarter it was around 9.22%. So, this is about the capital and liability management and I hand over the call to Kamlesh sir for closing remarks.

Kamlesh Gandhi: Thank you Darshana ben and Ankit this was from our side on asset, distributions and liability and the numbers we shared with you. Before I hand over to any of the question and answer from your end let me reiterate our commitment on our housing finance space that we remain committed for a very strong growth prospects there and we are confident of having a growth rate of 25% plus from our housing finance company also and which will start contributing very positively now onwards and we as a company are looking at a three year horizon and now as such we always look beyond that, but as a first phase we are looking at a three year horizon and we ourselves see that the opportunities what we see around and with a strong enablers we have I think we are targeting at close to Rs. 10,000 crore with the next three years give or take few Rs. 1000 crores here or there, or give or take a few quarter or two here or there, but with the priority on quality, profitability and then the growth, but we are confident of achieving all these three given the optimistic view that we have come back to the normal and MAS has the capabilities and niche expertise to demonstrate this type of results. So, with this I would like to handover for any of the question and answer from your end.

Moderator: Thank you very much. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Shubhranshu Mishra from Systematix. Please go ahead.

Shubhranshu Mishra: First question was what percentage of the AUM is contributed by the partner NBFC and among them what will be the composition like how many NBFC in total we have and what will be top 10 or top 20 NBFC contributing to, the second question is on the liquidity so when you talked that are in a low interest rate regime and there is enough liquidity why are we still holding so much of cash on our balance sheet and why are we utilizing cash credit generally for slightly in expensive form of borrowing these are my two questions?

Kamlesh Gandhi: Off the Rs. 5,500 crores of the AUM around 55% comes from our partner NBFCs, the top 20 borrowers of the company constitute around 22% of the AUM and on the front of the liability management let me tell you that cash credit is one of the most efficient source of liability for us giving the WCDL component, now with the latest RBI guidelines around 60% has to be in the form of WCDL and which is a carve out of CC and which is linked to a short term benchmark rate and if I share with you our WCDL ranges anywhere between 8% to 8.75%. WCDL is carve out of the CC so it does not create ALM in any sort of nature. So, this become one of the most efficient source of liability and that has contributed to an extent to reduce our cost also. In terms of maintaining cash this quarter I think we all were optimistic but not that confident that we are absolutely out of this COVID crisis. So, we thought that it will be only prudent to bear some cost on the profit, but being sufficiently liquid we have kept this cash equivalent which on an average and Ankit was talking about Rs. 875 crore it was on 30th September, but if you see the average cash maintained during the quarter is around Rs. 675 crore this is down by Rs. 350 crore as compared to the corresponding period. So, slowly we are reducing the cash that we like to keep as buffer, given the situation is improving.

Shubhranshu Mishra: What were your expecting towards the end of the year or starting FY23 on the liquid buffer?

Kamlesh Gandhi: I think we will be happy holding as shared earlier our liability management buffer revolves around two things that we keep around 30% to 40% of unused CC, if you take around Rs. 2,000 crore around 30% to 40% of that is anywhere between Rs. 600 to Rs. 800 crore take a minimum of Rs. 700 crores there and another around Rs. 300 to Rs. 400 crores will be good enough but cannot predict looks like that should be the ballpark figure.

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

Deepak Agarwal: Sir my question was on the BharatPe deal in terms of the as I understand from India article that we have lend closer to Rs. 100 crores to them, can you share broader in terms of how the deal structure by tenure of the deal so whatever it is share on that?

Kamlesh Gandhi: So, as you know BharatPe is a payment platform and engaged with so many retailers in the country and that has been aligned with our MSME segment as you know that we have been lending to the segment since long and BharatPe having access to the data from all those retailers those are very obvious candidate for some synergy. So, we started using their platform and we started with a limit of around Rs. 100 crore which will cover more than 1,000-1,200 plus retailer and it is with full recourse to BharatPe with there around Rs. 4,000 crores of capital. So, we are more confident to try this model out when we are getting the complete recourse from the platform as well as we would have got an access to lot of retailers whom they are working with and understand the working of the platform also and the tenure is around 30 months.

Deepak Agarwal: In case of defaults and all so everything falls back on BharatPe?

Kamlesh Gandhi: Yes. It is with 100% recourse on them.

Moderator: Thank you. The next question is from the line of Madhuchanda Dey from MC Research. Please go ahead.

Madhuchanda Dey: I have two questions one is you mentioned that you would like to take assets under management to Rs. 10,000 crore, is this including assets of housing finance company or is it for the standalone MAS Financial?

Kamlesh Gandhi: I think housing finance like a current state from Rs. 300 crore we expect that to contribute anywhere between Rs. 700 to Rs. 900 crores within next three years. So, this Rs. 10,000 crores what I mean will be a combined entity mark.

Madhuchanda Dey: So, from the current close to Rs. 5,500 crore you wish to go to Rs. 9,000 crore ballpark that is the trajectory?

Kamlesh Gandhi: Within next three year which will roughly translate into a 23% to 25% growth our customary trajectory of growth.

Madhuchanda Dey: I mean that excludes FY22 because so far FY22 the growth has been pretty like cluster?

Kamlesh Gandhi: So, that is what I was taking so this is an intent of the company and that is what I share in the opening remarks that we reach Rs. 10,000 crore may be quarter or two here or there, but the idea is that the next three years so it is September 21 by September 24 this should be close to Rs. 10,000 crore which will translate into a CAGR of anywhere between 23% to 25%.

Madhuchanda Dey: See we have seen first not your direct comparison, but peer group financial companies they have kind of highlighted a lot more optimism and improvement in asset quality compared to what you have reported so far and what you are referring to so I mean what is that is kind of bothering you which some of these peers are not seeing or is it that at the bottom of the pyramid and the small borrowers the pain of the COVID itself is much higher what is that we should conclude from this?

Kamlesh Gandhi: As our peers are concerned ranging from 4% to the levels where we are is what they are optimistic about but when if you see MAS we had always been range bound in the worst of the times also. So, we did not say that substantial deterioration in quality and that is why improvement will also be in the same manner. So, if you say you were originally between 1.5% to 2% on GNPA and 1% to 1.5% in NNPA that has shifted to 0.5% on the higher side from 2% to 2.5% on GNPA and between 1.5% to 2% on NNPA I think working in this sector and if you compare this number with any of them will only give you a fair idea on the quality of the assets that we have hopeful of and we think that this will be a very good performance on the part of our borrowers to maintain at this level.

Madhuchanda Dey: Any color on the kind of interest margins, delinquency, growth that you see in the second half of the year?

Kamlesh Gandhi: If you think we continue to venture a very strong business model with close to around 6.5% of NIMs and then translating into anywhere between 2.8% to 3% of ROA that is what we will continue and might improve with lesser burden of carrying cash. So, it will be a fair assumption that will be in a position to maintain anywhere between 2.8% to 3% of ROA.

Madhuchanda Dey: And in terms of growth?

Kamlesh Gandhi: Second half growth I think from current Rs. 5,500 crores levels we should be anywhere between Rs. 6,000 to Rs. 6,250 crores by March this is what we have the hunch right now.

Madhuchanda Dey: And one last question which is compared to the pre pandemic scenario which are the stress pockets which still makes you uncomfortable or if you just tell us very simply what I mean how many months before you see a complete return to normalcy where we can go back to business as usual?

Kamlesh Gandhi: As I have been sharing with many people I had met that once the real economy starts we say there is a lag effect for lenders because the way we need to observe the consistency in the real economy working. So, I think within next two quarters we will be in a position to make out the real sectors which have come back to normal or which are the ones will take time or which are the ones who have really suffered badly. So, I think these two quarters should be keep fairly clear.

Madhuchanda Dey: I mean you actually see real recovery from FY23 first quarter is that a correct understanding?

Kamlesh Gandhi: Yes, but it is in a phase manner the real recovery in the sense that pre COVID recovery as a lender our stance will be to come back to the normal growth rate of 25% plus from Q1 FY22 to FY23, but anyhow as I shared with you that we end up anywhere between Rs. 6,000 to Rs. 6,250 crores we will have 12% to 15% growth this year also.

Moderator: Thank you. The next question is from the line of Sagar Jethwani from Phillip Capital PMS. Please go ahead.

Sagar Jethwani: Sir any thoughts on higher OPEX to NII ratio how do you see that going forward any comments there and secondly what was the rejection rate during the quarter?

Kamlesh Gandhi: To be honest higher OPEX to NII ratio we would like this time because that is the sign of normalcy of operation. When we talk about last quarter and that quarter before this the operations were not normal so it will be anywhere between 20% to 30% that is what we assume and it all depends upon the configuration the product from time-to-time. So, we are more concentrating on the ROA that every product will generate and as a group level AUM we target ROA as I shared earlier of around 3% and rejection ratio is usually around 40% to 45% in our business where it might be marginally higher during this two quarters because of some stringent norms that we would like to implement and even for next two quarters we will be very watchful so might be close to around 55%.

Moderator: Thank you. The next question is from the line of Ankit Gupta from Bamboo Capital. Please go ahead.

Ankit Gupta: Sir on the micro enterprise loan side how are the customers dealing with now because MFI has been one of the worst impacted segments and do you think the worst is behind them and things are improving on the ground?

Kamlesh Gandhi: Definitely that is what we are seeing the recovery rates from around low 70% have improved now to close to between 85% to 90% and if you see it at the sector level the net NPA hover around 6% so that is the start improvement within this last two quarters and if things remains normal I think we should improve further because these are the borrowers who constantly require money for their working capital these are our very small borrowers who take loans anywhere between Rs. 50,000 to Rs. 1 lakh the cycle is around 24 to 30 months you cannot expect the capital formation of the equal size within 24 to 30 months and their growth also. So the growth and their cycle what they have as borrowing then it would borrow continuously so we would not like to default. Now with normalization of activities I think we should see within next two quarters still more improvement in this sector.

Ankit Gupta: Sir on the target of Rs. 10,000 crore AUM over the next three years which segment do you think will be the major driver of growth post this COVID as a company will be like to give more emphasis on the micro enterprise or we will shift more towards SME, housing, two wheeler and commercial vehicles?

Kamlesh Gandhi: See more or less the contribution will remain the same MSME where they would like to club the MSME segment that is MEL and SME which is currently around 89% for that increase with wheels portfolio once the things normalizes we might see around 80% coming from our MSME sector and 20% coming from wheels and if you include housing, housing can contribute another 10% so it will be 70:20:10 so to say.

Ankit Gupta: So, our focus will also continue towards funding these NBFCs which are micro enterprise loan segment and SME will also grows it is not that we will be focusing more on SME loans which direct links to the customers instead of micro enterprise loans?

Kamlesh Gandhi: We believe in extending credit where it is due and as and when we get the opportunity and that is why I told that we club MSME that is micro enterprise loans and SME or it all depends upon what opportunities we get in the market place and which is the best distribution model, distributing through a 4,000-5,000 centers which we have related to increase too or maybe few distribution to around 100 NBFCs the idea for us is an efficient last mile delivery of the credit which creates a win-win situation for the borrowers and all the intermediaries. So, we have been constantly monitoring this and we will be aliening our activities with our aim to create quality portfolio and win-win situation for all of us.

Moderator: Thank you. The next question is from the line of Sagar Jethwani from Phillip Capital PMS. Please go ahead.

Sagar Jethwani: Hope this COVID goes off, but in any situation God forbid if the cases start rising again or maybe if they are up and down somewhere in range when do you decide or how do you decide that yes we should kind of stringent our underwriting process now and we should be little relatively lenient in terms of lending or push the credit, so how do you decide that and are there any parameter in place?

Kamlesh Gandhi: So, just to share with you we have been lending since 25 years and this has been a part of our business activities that nothing remains constant there are geographical crisis, there are sector pressures or some unprecedented situation like COVID. So, we reward on the formula of extending credit where it is due, understand the customer, understand the micro and macro situation on an ongoing basis and then calibrate our credit screens from time-to-time. So, this is a very continuous exercise. Still COVID is so pervasive that everybody knows them, but if you ask me as a lender we come across the situation on a daily basis where we need to calibrate things very constantly in order to acquire goal of extending credit where it is due so it is a very regular exercise for us.

Moderator: Thank you. The next question is from the line of Prashant Shah from Serum Institute. Please go ahead.

Prashant Shah: So far in the last few calls you have been very cautious in terms of your growth guidance and in terms of your approach to lending, what gives you confidence after this quarter to say that we can go back to doubling our AUM in the next three years that is my basic question right now?

Kamlesh Gandhi: That confidence stands out of the fact that we are optimistic to go to the pre COVID levels in terms of maybe economic growth or the real economy functioning and if you see our last 25 years growth trajectory you will see that we have always double our AUM every three to four years which gives us a growth rate of anywhere between 20% to 25%. So, it is very simple pre COVID times pre COVID growth.

Prashant Shah: I get that your track record has been there is no question on your track record, my question was pertaining from the perspective of how has things changed on the ground that you have got the visibility to share we can go back to the pre COVID growth again?

Kamlesh Gandhi: As I shared in my press release also that as I started this press release with an optimistic note with an experience at the ground level that among our borrowers we are seeing lot of normalization of activities we are seeing lot of demand coming from them and on the contrary few of them expanding their capacity. So, we are seeing lot of positivity all around and we presume and by talking to them we are confident that they will be growing once again or even faster than what they were doing earlier. So, this sense out of the fact that the information what we get from the ground level is very, very positive.

Prashant Shah: And on the context of the growth that you are doubling you mentioned about growth coming from which segments, but will this growth also include your geographical expansion or you continue to focus on this core areas only where you are present right now?

Kamlesh Gandhi: The geographical expansion will happen because from our current 3,500 reach will be close to 4,000 centres by year end.

Prashant Shah: In the same areas or you are looking to expand it to newer areas also is my question?

Kamlesh Gandhi: See there are few states we work in the Western state and two states in South. In this 6 states where we are in the position to penetrate more and maybe we might add a state or two more the next year.

Moderator: Thank you. As there are no further questions I now hand the conference over to the management for their closing comments.

Kamlesh Gandhi: Thank you everybody for joining this conference and hearing us patiently and I would like to once again reiterate on behalf of team MAS that we remained committed to our mission of excellence through endeavor and we would try to add value to all our stakeholders as shared with you earlier. Thank you so much.

Moderator: Thank you. Ladies and gentlemen on behalf of Batlivala & Karani Securities India Private Limited that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.