Q3 2020 Earnings Call

Company Participants

- Kamlesh Chimanlal Gandhi, Founder, Chairman & Managing Director
- Darshana Saumil Pandya, Chief Executive Officer & Whole Time Director
- Mukesh Chimanlal Gandhi, Co-Founder & Whole Time Director
- Ankit Jain, Chief Financial Officer

Other Participants

- Shweta Daptardar
- Analyst
- Kislay Upadhyay
- Shubhranshu Mishra

Presentation

Operator

Ladies and gentlemen, good day and welcome to MAS Financial Services Limited Q3 FY20 Earnings Conference Call hosted by Prabhudas Lilladher Private limited. As a reminder, all participant lines will be in the listen-only mode. Please note that this conference is being recorded.

I will now hand the conference over to Ms.Shweta Daptardar from Prabhudas Leeladher Private Limited. Thank you and over to you, Ma'am.

Shweta Daptardar

Thank you. Good evening, everybody, on behalf of Prabhudas Lilladher, I welcome you all to the Q3FY20 earnings conference call for MAS Financial Services Limited. We have with us today, Mr. Kamlesh Gandhi, Chairman and Managing Director, Mr. Mukesh Gandhi, Whole Time Director and CFO, and entire Senior Management Team of MAS Financial Services.

I would now like to hand over the call to Mr.Kamlesh Gandhi. Over to you, sir.

Kamlesh Chimanlal Gandhi, Founder, Chairman & Managing Director

Thank you, Shweta, and good evening to all of you. It is my pleasure to connect with you once again. And as we have mentioned in our presentation, we are delighted and excited to present this 99th quarter results. The company is in its 25th year of operation. In the next quarter, we'll be completing 100 quarters.

As we look back with pride what we have done over all these years what comes out of it is the constant performance. So while these 99 quarters have been very exciting and consistent, we would once again like to reiterate that we would like to follow the same path. And we always think and feel that at MAS is any time we reach a milestone; we say we have just begun.

So with this background, I would like to give very brief information on how we did in Q3FY20, which will be followed by the detailed number explanation by Darshana and followed by Mukeshbhai and Ankit. As we all are aware, this is the most challenging time for NBFCs. And this is the time where the strength and the weakness of any NBFC will come into the force.

We are very happy to share with you that even during this challenging time, the fundamentals that we have followed over all these years and what we have understood over all these years in prioritizing quality and profitability over the growth and not only chasing the growth but selecting the borrowers and creating a win-win situation has helped us to navigate this situation very successfully.

In the past, we have seen many such events, but let me tell you that according to my experience, this is the most prolonged event of challenge. But nonetheless, I think complaint is the domain of the weak, let us focus on how we can strengthen ourselves and how we can prepare ourselves for future challenges, if any.

From the performance point of view, , our AUM grew by 20% on a YoY basis to Rs. 59,604 Mn, Q3FY20 & 9MFY20 PAT grew by 21% to Rs. 551 Mn and 29% to Rs. 1,425 Mn respectively on a YoY basis. Net stage 3 assets stood at in Q3FY20, as compared to 1.13% in Q3FY19, and maintained at the same level of 1.06% compared to last quarter Q2FY20, despite the fact that this has been the most challenging time for not only NBFCs but also the customers whom we serve in the MSME segment.

We have very comfortable Tier I capital adequacy of 28.79%. We know our business model of assigning close to 35% of our assets that we originate.

In our housing finance segment, AUM grew by 12.75% YoY to Rs. 2,840 Mn, and profit after tax grew by 57.84% on a quarter-to-quarter basis.

On nine month basis PAT grew by 27.65%, the asset quality in this segment has remained very pristine. In housing finance, we think that it takes time to build up book, and that is where you have to be courageous to be patient. So, we are growing the book gradually, but we are happy with the performance of the portfolio with 0.24% of net stage 3 assets compared to 0.34% in the corresponding quarter last year. So we have seen improvement in the quality of assets.

Just to share with you strategically, we have always concentrated on how we can extend the credit where it due over all this period and improve on the quality of the assets. We have given a presentation on understanding of MAS Financial from the point of view of what we believe wisdom, vision, and belief. What has made this journey of 99 quarters so exciting and consistent is because of the teamwork. The fundamentals that we have followed, in terms of asset creation of extending credit where it is due, the product mix adding value to our borrowers, and a unique distribution model of around 3500 centres, and working close to 100 NBFCs of the country. On the liability side, we have a unique self-propelling model; thereby the majority of the capital requirement is met through the internal accruals.

As you can see from our tier I capital adequacy currently at around 28.79%, and over the journey of 99 quarters, including IPO, MAS has raised capital only 3 times. And if you ask me the future plans, the answer is, I don't know in the short & medium term. Never say never, but in short to medium term, we don't see that we'll need more infusion, the way we are growing at around close to 20%, 25%, and fuelling the growth through internal accruals.

This makes our model a very robust model, in my opinion, with a very healthy ALM that's currently the problem faced by NBFCs was of ALM. And when somebody asks me what about ALM, and we've never knew that ALM could be so distorted in the industry. So we never had any thought of ALM during this period, and that is what has helped us to navigate successfully.

Right resource mix and once again, very important, the cost efficiency that we have, we are very conscious at rate at which we borrow. A very important thing in lending, which I share with many of my colleagues and many of my NBFC partners and with my team, that lending is not a business of capital and debt, lending is a business operational excellence, that is where we have always endeavoured to improve, to learn, to unlearn because it is the task we have worked upon.

So going forward, we will continue to capitalize on what we have learned over all those 99 quarters and carry it forward. We are at a very strategic inflection point now; we have to continue doing things which we have been doing in all this 99 quarter. We have tremendous leverage of a large market type, of very robust liability management of a self-propelling capital mode and experience of creating quality assets.

So the journey looks very exciting, but once again, every opportunity is as good as it is executed and we are aware of the fact, and we are trying to work hard on that to still improve, learn and unlearn.

So with this background, I will ask Darshana to take you through the numbers in detail; as such, it is presented to you, but for the convenience to understand it once again, she will take you through the numbers in detail. Thank you.

Darshana Saumil Pandya, Chief Executive Officer & Whole Time Director

Thank you, sir. Good evening, everybody. I'll take you through the numbers quickly. As of 31st December 2020, our AUM stood at the INR5,960 crores. It was INR4,056 crores as of 31st December 2019, a growth of 20.27% YoY. Disbursement increased by 14.17% YoY to Rs.3,882 crores compared to Rs. 3,400 crores last year.

Total income as of December '19 is Rs. 510 crores; last year it was Rs. 417 crores, which is 22.36% growth. PBT increased by 9.81%, to Rs. 186 crores as against Rs. 168 Crore last year. PAT has increased by 28.98%. Last year it was Rs. 110 crores, this year it is Rs. 142 crores.

And we have improved in our stage 3 assets. , last year gross stage 3 assets were at 1.38%, this year it is at 1.29% and net stage 3, last year it was 1.13%, this year it is at 1.06%. Regarding the quarter performance, our total income has increased by 13.72%, PBT has increased by 6.59%, and profit after tax has increased by 21.27%. So this was regarding our parent company.

Now, if I take you through the nine month performance for our subsidiary MAS Rural Housing and Mortgage Finance Limited, asset under management increased by 12.75%. Last year, it was Rs. 251 crores. This year it is Rs. 284 crores. Total income has grown up by 29.46%; last year was Rs. 23 crores. This year it is Rs. 30 crores.

Profit before tax has increased by 27.65%, last year it was Rs. 3.26 crores, this year it is Rs. 4.17 crore. Profit after tax has grown by 18.70%. Last year it was Rs. 2.64 crores, this year it is Rs. 3.14 crores. Gross stage 3 remained constant, and net stage 3 is now 0.25% as against 0.24% last year.

This is regarding nine months, and for the quarter, total income has grown by 21.85%, profit before tax has increased by 57.84% and profit after tax are one up by 30.52%. This was regarding the performance of both the companies. Now I'll request Mukesh sir to take you through our liability management.

Mukesh Chimanlal Gandhi, Co-Founder & Whole Time Director

Thank you, Darshanaben. If I talk about our liability, we have fundamentally strong liability management with a capital adequacy of 30.11% of which tier 1 is 28.79%, and tier 2 is 1.32%. We have the self-propelling business model, meaning thereby, the growth is achieved mainly through internal accrual.

We have a liability tied up for an entire year and for the next six months or so of the next year. The cost of borrowing is down from 9.71% to 9.15% even in this tough period. We have a healthy ALM position as far as the asset and liability mismatch is concerned.

These are the fundamentals on our liability management and it has paid off over a period of time. Even in the time of difficulty also, we could mitigate successfully because of our fundamental approach for the liabilities. With that, I request Ankit, to take you through the further details and numbers so far as the liability is concerned.

Ankit Jain, Chief Financial Officer

Thank you, sir. Good evening all. So further update on liability management. In this quarter, we did around Rs. 956 crores assignment transactions with the various banks, namely SBI, OBC & Indian Bank. Going forward, we have more than around Rs. 1500 crores sanctions in hand, which we will be utilizing in the subsequent quarter.

In this quarter, we used around Rs. 300 crore term loan, from some PSU banks banks like SBI, OBC and we raised the refinance from MUDRA. Further, we have around – Rs. 300 crores sanctions in hand, which we will be lending again in the succeeding quarter. We have around Rs. 1800 crores Cash Credit limit of which we will utilize 75% on a daily basis, with WCL as a sub-limit. During the quarter, we rolled over WCL of around 1200 crores in this quarter.

The PSL tag on the term loan, government perks on the NBFC sector along with our robust performance and vintage has helped us to bring down the cost of borrowing at the given quarter to 9.15% from 9.35% in Q3FY19. We continue to work hard to further reduce the cost of borrowing, back to exploring the new and cheaper sources of funds. Our debt-equity stands around 3 times as of now.

I now hand over the call to Kamlesh Sir.

Kamlesh Chimanlal Gandhi, Founder, Chairman & Managing Director

Thank you, Ankit. This is about liability management and talking about how we created assets during this year. As discussed with you, we grew our AUM by 20% YoY. And to just to share with you, that this was a very cautious decision on the part of the company to be very prudent and extend credit where it is due.

Because it was a unique situation for us where we had sufficient liability and had very good traction on demand, but at the same time, we have to be very circumspect on who qualifies for the loan. I personally believe that whenever you lend and extend credit where it is due, you are not only doing a favor to the company but also you are doing a favor to the borrower.

With this background in mind, we have continued to work with our borrowers, that are why I have always been advocating that we should not create borrowers, but we should create successful entrepreneurs. This has been our fundamental on asset creation, the liability, and the results are before you.

With that, we are okay to take questions from you regarding any of the queries you have.

Questions and Answers

Operator

Question and Answer

Operator

Thank you very much, sir. Ladies and gentlemen, we will now begin the question-and-answer session. (Operator Instructions) We have the first question from the line of Dhvanil Desai from Turtle Capital. Please go ahead.

Analyst

Hi. Good evening, sir, and congratulations for excellent credit quality in a very tough environment. Sir, three questions from my side. The first one is as you mentioned, we were in a situation, where we had ample funds available and demand also, but we were very selective and apprehensive in terms of lending. So, in the last two, three months, at least, we are hearing a lot of data points about the economy picking up, and things seem to have picked up. So, would you be slightly more or less circumspect going forward as you see the situation on the ground?

Kamlesh Chimanlal Gandhi, Founder, Chairman & Managing Director

See, first of all, we were more circumspect in funding as we rightly pointed out, and secondly, we have always not seen so short term, because if you see short-term, you plan short term. So, we never think about a quarter or half a year or year. The right question to ask to us is that what we'll be doing in the next decade because you can't frame your policies on a quarter.

But having said that, just to answer your question, it will give you some heads up on that, that data point and ground-level reality are not always in sync. It all depends upon what type of customers we get, what type of demand we get and individually how we can assess them in such a manner whereby they're eligible for credit. But having said that, even in this tough scenario, because of our network, because of our vintage, because of the customer base, we have the propensity to grow anywhere between 15% to 20%, which we had demonstrated and we think we will be in a position to do.

Analyst

Got it, Sir. The second question is on our cost for the fund, I think it has come down to 9.15% and with liquidity situation improving, do we see any improvement on the cost of the fund side going forward?

Kamlesh Chimanlal Gandhi, Founder, Chairman & Managing Director

As Ankit told, we constantly endeavour to reduce the cost of funds, because I always interact with the bankers that you never lose money from funding a good customer at a lower rate, but you lose money when you even charge higher, and the customer is not good. So, with our background and with the way we have demonstrated
Over all these years, it will be our endeavour to get it further reduces. Let's see how much we can reduce it going forward. Difficult to give you any number, but it has been a constant endeavour, and if this quarter is anything to take a cue about what we've done in this quarter, it will be sufficient to understand.

Analyst

Okay. Got it. And the last question for Housing Finance, I think, as you rightly pointed out, we are kind of calibrating our business model around that space. I think one question that I have is that this is one space, which is where there are many players, and some of them have a much lower cost of funds than us. So, how do we profitably scale up this model? I mean your thoughts around that would be very useful.

Kamlesh Chimanlal Gandhi, Founder, Chairman & Managing Director

Once again, as I told lending is not only the business of debt and capital and the cost of fund. It is all about operational excellence. If you see the demand in the space where we are working that is rural and affordable, it's a huge demand. And if you can understand the customer correctly and if you can satisfy the need honourably and on time, 100 or 150 visit points here or there doesn't make much difference to them. It's all about the availability of the credit understanding of their income criteria and on.

And having said that, the way we raise the liability our cost of funds will not be that substantially high even if you compare with the bigger HFCs or even the bank. Whatever the cost they say, they all have higher operational cost. So, I don't think that you have a substantial disadvantage in cost. Having said that, it will definitely be higher on cost but will not have that substantial disadvantage on cost, whereby it will be difficult to sustain given our customers approach and given the large market size. So, there also the market size is not a problem. But the way we conduct ourselves in terms of identifying the customer and extending credit where it is due, leads to a much calibrated growth in AUM.

Analyst

Right. The question was from the perspective that we are earning very, very healthy ROE in all other segments. Now in housing finance, can we replicate and aim towards 15%, 17%, 18% not in the near term, but in the medium term as we scale-out. I mean, is that something, which is in your business plan, in your business model, is that kind of number, which is based in or factored in?

Kamlesh Chimanlal Gandhi, Founder, Chairman & Managing Director

Right. We presume that how we find these ROEs is on a critical mass say about close to INR1,000 crores and the way we have planned our activities and various asset class, and we'll be in a position to generate close to 15% ROE; this is what we have planned internally.

Analyst

Okay. Got it, thanks. That was very useful and all the best for the future.

Kamlesh Chimanlal Gandhi, Founder, Chairman & Managing Director

Thank you so much. Thank you.

Operator

Thank you. (Operator Instructions) We'll take the next question from the line of Kislay Upadhyay from Abakkus Asset Managers. Please go ahead.

Kislay Upadhyay

Hello, sir. Congratulations on another steady quarter. Could you help us to understand AUM movement vis-a-vis the interest income movement quarter-on-quarter, the AUM was largely flattish, but interest income saw a significant jump.

Kamlesh Chimanlal Gandhi, Founder, Chairman & Managing Director

See, what happens is that when we talk about the AUM on a given day, when I talk about AUM as on 30 September and AUM as on 31 December, we have to take average AUM into account in terms of interest-earning. So, the opening as on Q2 and the closing as on Q2, the average and the average as on opening as on Q3 and the closing as on Q3. So, to keep it simple as the company will earn interest on the opening plus the increase or the decrease or if it has been steady, it has been around Rs. 5,900 crores for the whole quarter. That is for Q2, 900 crores were as on the reporting date. So, we have to take the average AUM. I couldn't share the average AUM.

Darshana Saumil Pandya, Chief Executive Officer & Whole Time Director

Average AUM on a monthly basis for the 9 months is INR 5,500 crore.

Kamlesh Chimanlal Gandhi, Founder, Chairman & Managing Director

We will get you the number, but it is on the average AUM for the quarter. Average AUM for the quarter will increase in Q3 as compared to Q2.

Kislay Upadhyay

Okay. So, the ending AUM reported is actually less than the average AUM for the quarter. The difference should explain the interest income movement.

Kamlesh Chimanlal Gandhi, Founder, Chairman & Managing Director

See, I didn't get your point. Can you come again?

Kislay Upadhyay

Did I get it right that the average AUM of Q2 was actually lower than the ending AUM Q2?

Kamlesh Chimanlal Gandhi, Founder, Chairman & Managing Director

It happens like that only, because, the AUM what we reported is as on the reporting date. That's INR5,900 something as in September, and then as in June, there will be some numbers, so if you average it out, so the average AUM of Q2 was less than the average AUM of Q3. Yes, you understood it correctly.

Kislay Upadhyay

Okay, sir. So, the second question could you throw some light on our plan to increase direct reach compared to lending through our lending partners i.e. NBFC partners. How is that progress coming, and could you throw some colour on that?

Kamlesh Chimanlal Gandhi, Founder, Chairman & Managing Director

Once again, I'll take you through the business model. The ultimate aim is to solve the MSME customer’s i.e. lower-income and the middle-income group. Direct reach versus NBFC is the medium to serve them. So, having said that, our approach is not to fund the NBFC, but our approach is to fund to create the ultimate assets.

Now it all depends upon the level of efficiencies at a particular region if I work directly or if I work through an NBFC. So, with business in mind, we have started with the morning. Having said that, I always maintain that the number of NBFC is increasing, and our operations centres are increasing over a period of time. Our operational centre is increasing over a period of time will be more than the number of NBFC increasing as it looks now. So, over I say around a 3-year basis, or a 2-year basis, what looks like 57-43 might look around say, 50-50, and then it will improve on a direct basis only because our operational centres will increase. There is nothing wrong with distributing credit to them and having the last month's delivery of credit to the people, who have the perfect demographic understanding and if our granular approach with all this NBFC that we have really created an efficient distribution channel. So, going forward, it looks like this.

Kislay Upadhyay

Okay, sir. And finally, adding to this, could you mention the number of direct branches that we opened and NBFC Partners that we added during the quarter?

Kamlesh Chimanlal Gandhi, Founder, Chairman & Managing Director

During the quarter, we added three branches, and in nine months, we added 27, and in terms of NBFC partners, I think we must have added around 7 to 8 partners.

Kislay Upadhyay

Okay, sir. Got it. Thanks a lot. And all the best.

Kamlesh Chimanlal Gandhi, Founder, Chairman & Managing Director

Thank you.

Operator

Thank you. We will take the next question from the line of Sneha Ganatra from Subhkam Ventures. Please, go ahead.

Analyst

Sir, just wanted to know, the first question is on these channel partners. What are the tie-ups and the fee income tractions, which we are focusing on?

Kamlesh Chimanlal Gandhi, Founder, Chairman & Managing Director

The way we work on these NBFCs are on an interest-sharing model. We have dedicated a five-slide presentation on how we work with them, but if we take you through it, it's an interest-sharing module, whereby they will originate as per our mutually agreed credit screen, which will be then audited, and there will be a deep diving done from time to time, and then there will be rate of interest which will be decided between us and the NBFCs and the ultimate rate they charge to the customer. Based on that, the interest-sharing model is devised. So, that is an interest-sharing model with the NBFC. And it depends on NBFC to NBFC and customer they serve to. Say, for example, if someone is working at 19%, then the interest is shared accordingly, somebody working at 24%, the interest is shared accordingly.

Analyst

Okay. My second question is on the current -- what are the status of the liquidity and the borrowing mix considering some of the ALMs are on the shorter tenure?

Kamlesh Chimanlal Gandhi, Founder, Chairman & Managing Director

See, as far as our borrowing mix is concerned, around 45% to 50% is through the assignment, and rest is through term loan and cash credit. And on terms of ALM, we have matching fund as far as the assignment is concerned. For the term loans, we have a liability which is of the longer tenure of 36 months to 48 months as compared to the average maturity of around 24 months. So that is a positive liquidity position. In terms of cash credit, whatever we enjoy, that is renewable every year, and that has been renewed all these years. So, this is our liability profile as I talk to you. And in short there is no ALM. There is always a positive ALM as far as ALM is concerned.

Analyst

Okay. Sir, what is the outlook on the two-wheeler industry scenario overall and what are the underwriting policies for Our company on the two-wheelers and the mutual-fund business also?

Kamlesh Chimanlal Gandhi, Founder, Chairman & Managing Director

Two-wheeler, as we are aware, it's down 20%- 25%. We all hope that it picks up over the next few quarters. On underwriting policy, can we share with you in detail, but to sum up, we extend credit, where it is now based on the customer profile and the asset profile, so we decide the LTV according to the asset and depending upon the customer profile, the loan is given to them. So, in a nutshell, sufficient care is taken on the repaying capacity, and sufficient care is taken on what type of asset they purchase in terms of the two-wheeler.

Analyst

Going forward, how do you see the incremental growth? Which portfolio would you expect the growth will be picking in?

Kamlesh Chimanlal Gandhi, Founder, Chairman & Managing Director

As evident from our asset profile, we are predominantly MSME funders, and we have niche expertise in that segment over the last two decades. So, obviously, the agility of the growth we are expecting is from this MSME product only.

Analyst

Okay. And on the asset quality front, any stress in portfolio book for anything or it would remain in that same trajectory what we have seen in the third quarter?

Kamlesh Chimanlal Gandhi, Founder, Chairman & Managing Director

See, on asset quality, we have always told that we endeavour to create a quality asset, and then we create growth. So, I always maintain that it will be range-bound that GNPA will range between 1.25% to 1.5% and NNPAs will the range between 1% to 1.25%, depending on the performance on a quarter-to-quarter basis.

Analyst

Okay. And the outlook on the margin front?

Kamlesh Chimanlal Gandhi, Founder, Chairman & Managing Director

The NIM is currently at 7.36%, improved from 7.0% last quarter, and we expect this to be maintained during this quarter also.

Analyst

Okay. And your ROA and ROE target, which you mentioned, is intact, right?

Kamlesh Chimanlal Gandhi, Founder, Chairman & Managing Director

Yeah, that will be in line.

Analyst

Okay, got it. Any risks or the challenges are we seeing on the overall book? Any news from the regulation side or anything?

Kamlesh Chimanlal Gandhi, Founder, Chairman & Managing Director

From the regulation side, over the last one year, the government has been very supportive coming out with various new things to support NBFCs, and on compliance over all these years, we have been excellently complaint. We have to adhere to RBI regulation. We were doing it very diligently, and we don't foresee any risk in the short term or medium term.

Analyst

Okay. Got it. Thank you.

Kamlesh Chimanlal Gandhi, Founder, Chairman & Managing Director

Thank you.

Operator

Thank you. (Operator Instructions) We'll take the next question from the line of Shweta Daptardar from Prabhudas Lilladher. Please go ahead.

Shweta Daptardar

Thank you, sir for the opportunity. Congratulations on a good set of numbers. Sir, any impact of floods in the Karnataka and Maharashtra markets in particular? Secondly, sir, in the Rajasthan market, we've been hearing especially on the SME loans side and the micro-enterprise loan sides that it's becoming a slightly higher NPA risk market and thirdly, sir, if you could allude on the fact that, you know, how has our ALM behaved on the shorter tenure side. Thank you.

Kamlesh Chimanlal Gandhi, Founder, Chairman & Managing Director

See, our partners did have to bear some losses on Maharashtra and Karnataka, where we have predominantly been creating assets through our partners, and our arrangement is such that they originate and bear the complete risk. So, in Maharashtra and Karnataka, they had some fights in NPAs, but that was born by our partner. So, as a matter of fact, our portfolio is absolutely benign, and that is how it is structured when we work with them that we provide them sufficient margin to bear such eventualities of losses and it is not beyond the margins, what we have provided to them while structuring the transaction.

In terms of Rajasthan, you're right. Rajasthan predominantly was the LAP market. Everybody grew very fast during that two-three years when liquidity was available in plenty. Now, people have learned their lessons. There is a problem with the ticket size; what they are extended the problems on their assessment techniques, and it always happened over all these years. We have seen that whenever liquidity abundantly available, people tend to make mistakes on their underwriting, and the same has happened in Rajasthan. They have understood that and now they're correcting aggressively and we engage with all those NBFCs very closely to improve their underwriting practices too.

And the third one on the shorter-term ALM profile, we have no asset-liability mismatch. But once again, what you asked for the shorter term asset-liability profile can come again on that. And I will ask Ankit to respond to it.

Ankit Jain, Chief Financial Officer

Hello.

Analyst

Yes.

Ankit Jain, Chief Financial Officer

If you can explain it further what you mean by the shorter-term

Analyst

What is our ALM mismatch and maturity on the shorter tenure side?

Kamlesh Chimanlal Gandhi, Founder, Chairman & Managing Director

Month to month, we are positive.

Ankit Jain, Chief Financial Officer

If you see month to month in each bracket we are positive.

Analyst

Okay.

Ankit Jain, Chief Financial Officer

And on cumulative basis we're also positive in each bracket.

Analyst

Okay. Sir, lastly, one question you highlighted the fact that two-wheeler loan industry's stress. Sir, what are the kinds of customer profile we are catering to in two-wheeler side? And what is your outlook ahead, because then we have been consistently seeing slightly negative growth on this particular portfolio.

Kamlesh Chimanlal Gandhi, Founder, Chairman & Managing Director

We predominantly serve the semi-urban and the rural parts of the areas, where we are operational. And since the sale of 2-wheelers is down, automatically the financing activities will also take a hit. Markets are there to stay. It's very important for us to stay during the time where the markets are down, as a financier, we should never be innovative in trying to grab more share or try to increase our growth, which is not in parity with the market growth. So, that is where we are very circumspect. So, the outlook is that it is -- we will grow along with the industry, and that also will be extending credit, where it is due; and with that fundamental
in mind, we'll be catering to this product.

We are one of the oldest two-wheeler financers in the country, but we are yet to grow the way other people have grown. I'm not judgmental of anybody's growth, but I personally believe that the two-wheeler market being a smaller ticket size for companies like us, we have to be very circumspect if you want to create a quality asset. So, the outlook is if the growth improves, which is very difficult to predict, because every
Quarter we think next quarter something will happen and the growth will come back, but the best option with us is to hope for is to be optimistic. So, with the next quarter the growth will once again start growing at a rate of 15% to 20% in that product also.

Analyst

Right. Thank you, sir.

Operator

The next question is from the line of Shubhranshu from BOB Capital Markets. Please go ahead.

Shubhranshu Mishra

Hi, sir. Thank you for the opportunity. Well, the first question is that we are sitting on quite a bit of capitalization and
So wanted to understand which particular portfolio will drive the incremental growth going forward. So, would it be MFI or would it be our micro-enterprise loans or SME loans. How do we look at the growth rates if you can give the growth rates going forward for FY '21 for each segment?

Kamlesh Chimanlal Gandhi, Founder, Chairman & Managing Director

If you see our product mix, around 85% of our portfolio is from MSME, and 15% is from wheels, which is a two-wheeler, used car commercial vehicles. And as I replied to one question earlier those we are predominantly MSME financers having niche expertise of more than two decades. So, going forward, not only for 2021, but we think that for coming time, we like to have the specialty maybe when the market improves as far as wheels are concerned, the proportion of wheels from 15% might be around 25%, but--

Shubhranshu Mishra

When will that be, sir, 25%, in which year are you forecasting?

Kamlesh Chimanlal Gandhi, Founder, Chairman & Managing Director

It all depends upon how it picks up because you see the commercial vehicle market is down, two-wheeler market is down. So, if that starts growing, our portfolio also starts growing. So, difficult to predict when it will happen, but until then the product which will drive our growth will be MSME that is micro, small, and medium enterprises.

Shubhranshu Mishra

So, what kind of growth rate can we expect in this business in FY21?

Kamlesh Chimanlal Gandhi, Founder, Chairman & Managing Director

We always maintain that we intend to grow anywhere around 20% to 25%, depending upon the market situation. If the markets are favorable, it can be 30%; if the markets are not that favorable, where we would be very selective on credit, it can even sustain. So that is the range-bound growth, but once again, the focus will be on quality, profitability and then the growth.

Shubhranshu Mishra

Sure, sir. My second question would be on your stage 2 assets, which have gone up on a Y-O-Y basis. So, I just wanted to understand this movement and also if you can give us some guidance in terms of the credit cost for FY21?

Kamlesh Chimanlal Gandhi, Founder, Chairman & Managing Director

The moment between the stages is a dynamic process, and it all depends upon the movement in the particular quarter. So, ultimately, where we are circumspect is on the Stage 3 assets and more particularly because the customer to whom we serve, they are all lower-income group customer class customers and informal whereby a 30 or 60 DPD does not necessarily mean a stressed asset; that is a very regular feature working with them.

So, the right way – is to see the Stage 3 assets, where we concentrate much of upon. Because up till Stage 1 and Stage 2, we are very cooperative with the customers as we do that how they can be regular. So, this is a dynamic process, which goes up and down during the quarter. But at the end of the day, what matters is loss given default and the ultimate losses that you bear on the balance sheet. And in terms of '21 as I told you, the would GNPA range from -- according to our past experience, we can never predict future, but what we visualize that given our underwriting practices and all, the GNPA should range between 1.25% to 1.5% and NNPA can be anywhere between 1% to 1.25% range-bound.

Shubhranshu Mishra

Well, sir, in terms of credit cost, what I was trying to really understand is what will be the provisioning on the P&L and what kind of ballpark write off are we expecting in if FY '21?

Kamlesh Chimanlal Gandhi, Founder, Chairman & Managing Director

Currently, on a range-bound basis, the credit cost comes anywhere between 1% to 1.25%, including provisioning and impairment.

Shubhranshu Mishra

Right.

Kamlesh Chimanlal Gandhi, Founder, Chairman & Managing Director

And I think we should be in a position to maintain those levels.

Shubhranshu Mishra

Okay. Sure, sir. And sir, just one last question given that RBI has this new policy, yesterday, it came up for the banks where the banks can lend to SMEs. SMEs with the CRR extension, so how do we compete against this, sir?

Kamlesh Chimanlal Gandhi, Founder, Chairman & Managing Director

See, the problem is not on how we'll compete; the problem is that how all of us will create a quality asset.

Shubhranshu Mishra

Okay.

Kamlesh Chimanlal Gandhi, Founder, Chairman & Managing Director

There are a lot of people who want more and more money. If I give you an example just to share our working that even in our existing customers, who normally would fund them continuously, under the current situation, we have to call them and explain to them that to decrease the level of leverage given the market situation.

Shubhranshu Mishra

Okay.

Kamlesh Chimanlal Gandhi, Founder, Chairman & Managing Director

So, the competition is in the space of creating quality assets. If you want just to create assets, there are no problems; anybody can create assets.

And secondly, the -- currently, the problem is not of non-availability of liquidity to SME, the problem is that -- SME conducts themselves, MSME conducts themselves to be eligible for funding. So, this is the key point, which all lenders will have to address. Demand for funds does not constitute eligibility for us. So, our competition is not in the face of growing the books and we always try to create quality books and the market is so huge. India is a credit-starved economy, so there is a lot of incremental credit gap. The only thing is that what your aim is. If your aim is just growth, then it's a different way of working. But as far as we are concerned, we have never bothered about competition or the marketplace.

Shubhranshu Mishra

Right, sir. So, we don't envisage any strong competition from the PSU banks.

Kamlesh Chimanlal Gandhi, Founder, Chairman & Managing Director

These are all extraordinary situation, but all these 25 years, we have focused on what we want to do. We are never focused on what others want to do, and we are fortunate to have a large size like the Indian market. So we’ll need not worry about the market size. We need to worry about your operations.

Shubhranshu Mishra

Okay. Okay, sir. Sir, just one data-keeping question if you can help me that, sir; what will be the concentration of top 50 customers in your SME book and the top 100 customers in your micro-enterprise book.

Kamlesh Chimanlal Gandhi, Founder, Chairman & Managing Director

I will share it offline.

Shubhranshu Mishra

Sure.

Kamlesh Chimanlal Gandhi, Founder, Chairman & Managing Director

We'll share it offline. Ankit will be in touch. It will be shared offline.

Shubhranshu Mishra

Sure, sir. Thank you so much.

Kamlesh Chimanlal Gandhi, Founder, Chairman & Managing Director

Thank you.

Operator

Thank you. Ladies and gentlemen, due to time constraints, that was the last question. I now hand over the conference to Ms.Shweta Daptardar for closing comments. Over to you, ma'am.

Shweta Daptardar

On behalf of Prabhudas Lilladher, we thank the MAS Financial Services team for the opportunity. Thank you all.

Darshana Saumil Pandya, Chief Executive Officer & Whole Time Director

Thank you.

Kamlesh Chimanlal Gandhi, Founder, Chairman & Managing Director

Thank you. Thank you, everybody.

Ankit Jain, Chief Financial Officer

Thank you.

Operator

Thank you. On behalf of Prabhudas Lilladher Private Limited, that concludes today's conference. Thank you for joining us, and you may now disconnect your lines.