"MAS Financial Services Limited Q3 FY2021 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Q3 FY2021 Earnings Conference Call of MAS Financial Services Limited hosted by Edelweiss Broking. 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 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. Jigar Jani from Edelweiss Broking. Thank you and over to you Sir!

Jigar Jani: Thank you Inba. Good afternoon to everyone who has joined on the call on behalf of Edelweiss Broking Limited I welcome you all to the Q3 FY2020-2021 Earnings Conference Call for MAS Financial Services Limited. To discuss the earnings and the business strategy, we have with us today Mr. Kamlesh Gandhi, Chairman & Managing Director and Mrs. Darshana Pandya, Executive Director and CEO, Mr. Ankit Jain, CFO and the senior management from the Company. I will now hand over the call to the management team who will give us a brief overview of the operations and the business strategy post which we can have a Q&A session. Thank you, Sir, and over to you!

Kamlesh Gandhi: Thank you. Good evening everybody. I would like to start this session by giving our heartfelt respect and tribute to our departed Co-Founder, my brother, my father and my mentor for 54 years, Mr. Mukesh Gandhi. While we are in deep grief but the family and team MAS is very resilient and confident of marching ahead on its mission of excellence to endeavor and as a hallmark of a true leader, Mukesh Gandhi in order to focus on health had passed on the execution responsibility to MAS team in 2018 itself and serving a very seamless and an efficient transmission. May his soul rest in peace while we miss him dearly, but we have decided to remember him always strongly and carry on with the same vigor on our mission of excellence through endeavor and we are confident of doing the same.

Coming back to the performance on the quarter as we know we are slowly moving out of this pandemic era and hopefully we should be out within next two quarters in terms of the overall health and vaccination also in place and so on and so forth, and we expect the businesses also to come back to normal within a quarter or so. But as we are all aware, our motto, our strategy that we have always been a cautious funder and we have always put precedent to quality and profitability with over just building up the books and this quarter was no different for us in terms of how we have executed our strategy this quarter.

The first and the foremost strength of any lending institute is its capital. We stand on a very solid capital adequacy of 30% plus with a very strong liquidity of 1000 Crores plus and overall a very stable asset quality at 1.33% and then if you take the Supreme Court dispensation at net NPA stands at 1.00%, but however, we focus on 1.33% in all our execution plans.

With a high collection efficiency and with a cautious approach on disbursement, we personally believe that as soon as the economy starts picking up we will have to wait for some time before we really start disbursing normally. With the actual disbursement of Rs. 1000 Crores and with a very high collection efficiency of almost at pre-COVID level of around 96% plus we had ended up with an AUM of close to Rs. 5055 Crores precisely.

For the quarter, we had a profit of around close to 36 Crores and as I mentioned with a very robust asset quality and focus on maintaining good amount of liquidity which will gradually decrease as we move over a period of time. Once again I would like to reiterate that the segment we are working be it our direct distribution of 3500 Centers or be it our distribution strength through our NBFCs we are in constant vigil and we are evaluating the ground situation as to how we can jack up the disbursements. Our strategy has always been to understand the markets thoroughly before we come back to normal disbursements which hopefully can start to a major extent from Q4 and then Q1 onwards we can see normalcy coming back obviously with a caveat that we should get an opportunity to create quality assets because with the fundamentals what we have it is just a matter of time whereby we can once again move back towards normal growth of around 20% to 25% and continue with our very strong compounding story.

If you see our investor presentation over a span of 25 years, growth was 30% plus even after the all the odds we have seen these year. So, we are quite confident of capturing the opportunity as it comes along once the things are normalized. We are riding on very strong fundamentals, on a very strong asset quality and while Darshanaben will take you through the comparative numbers, where we all agree that this is no time to compare the last year or the last quarter with the current year or the current quarter.

I would like to repeat that we stand on a very strong fundamentals and we are all ready to capture the opportunities, but the quality and profitability are the top priority evident from the working what we have done so far by maintaining the asset quality and creating more than sufficient buffers, our buffers stand at around 1.67% of our on book assets which is more than sufficient looking into the current situation. I will request Ankit to take you through the liability management and then Darshanaben will take you through the number for better understanding. Ankit if you can brief them on the liability management.

Ankit Jain: Thank you Sir. Good afternoon all. To elaborate on liability management, the company through its efficient liability management was able to maintain liquidity buffer of around Rs.1000 Crores and unutilized working capital facility of around Rs. 500 Crores which is in total is 1500 Crores, the liquidity buffer which we had as on December 31, 2020.

In addition, the company had sanction on hand totaling of Rs.1850 Crores in the form of term loan and direct assignments, the company will be utilizing over the current quarter as well as the first quarter of the next year.

In the last quarter we did around 103 Crores direct assignment transaction with PSU banks and we have around 1000 Crores sanction on hand which will be utilized in the coming quarters.

The company has available cash credit facility of around 1800 Crores out of which we utilized around 65% to 70% and rest we have kept as a liquidity buffer. We were able to rollover around Rs. 1100 Crores short-term working capital loans, which are sub limit to the cash credit limit.

The company raised around Rs. 35 Crores term loan during the quarter. This helped us to further strengthen the asset liability maturity pattern and the company further has more than Rs. 500 Crores sanctions on hand, which we will utilize in the coming quarters.

The company has assessed the structural liquidity for the period ended December 31, 2020 and based on the assessment there were no negative impact on liquidity and the cash flow in all the cumulative buckets stands positive. The company has also stress tested its liquidity model and is comfortably placed to meet is repayment obligation for the entire year. In the next one year the repayment obligation would be around 500 Crores.

The capital adequacy is around 32.61% with a Tier I capital of 30.35% whereby as per the regulatory guidelines we have to maintain Tier I of 10% and Tier II of 5% minimum.

With the debt equity of around 2.64 times, we are very well placed for the next phase growth in the coming quarters and I would like to further reassure that the company and MAS team will continue to manage the liabilitiy efficiently in the way past managed by our beloved Sir, Mukesh Sir. Thank you.

Darshana Pandya: Thank you Ankit. Now just to brief you about the performance of the quarter, I will start with the disbursement. Disbursement for the quarter was Rs. 1031 Crores as compared to Rs.820 Crores last quarter which is 26% rise compared to the last quarter resulting into the AUM of Rs. 5055 Crores. Profit before tax for the quarter was Rs. 48.38 Crores and PAT for the quarter was Rs. 36.18 Crores and if you look at the nine months number PBT was Rs. 142.93 Crores and PAT was Rs. 106.98 Crores.

If you look at the quality of assets without considering this Supreme Court dispensation, the gross stage 3 was at 1.70% and net stage 3 was at 1.33%. Now as mentioned by Kamlesh Sir, in his opening remarks that the two periods were not comparable, but if we compare the PBT and PAT with last corresponding period for the quarter there is a contraction of 25% in PBT and PAT and for nine months contraction of 21.38% in PBT and 18.99% in PAT.

Now coming to our Housing Finance Company our AUM stands at 277 Crores as on December 31, 2020. PBT for the quarter is 60 lakhs, PAT for the quarter is 46 lakhs and for nine months PBT is 3.51 Crores and 2.68 Crores was the PAT for nine months. Here also the comparison with corresponding period, rise in PAT for the quarter is 19.72% and rise in PAT for nine months is 3.08%.

As far as our portfolio quality is concerned, without considering Supreme Court dispensation, gross stage 3 is 0.36% and net stage 3 for the Housing Finance is 0.26%. Here once again I would like to mention that these are without considering special COVID provisions. This is after considering normal provisioning only.

With this note, I would request Kamlesh Sir to take it forward.

Kamlesh Gandhi: We are open for any questions, anybody who would like to ask, we will be more than happy to address their queries.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin the question-and-answer session. We have the first question is from the line of Bharat Shah from ASK Investment Managers. Please go ahead.

Bharat Shah: I want to express my condolence for Mukesh Bhai's departure. Just wanted to raise one important issue what I felt, while over the period of time that MAS has been conservative in approach, quality of the book is very vital, the business to be written is to be quality business and you cannot change the business for the sake of it and with a sound fundamentals, good return on assets, healthy return on equity and all absolutely correct fundamentals. But in these nine months, while clearly pandemic has been a challenge every lenders, whether banks or otherwise, I thought things have been opening up for the other lenders, first quarter everybody took a beating and had a challenge, second quarter there was some kind of getting back on the feet, and in third quarter very clearly, we are seeing signs of growth and readiness to grow at a much faster pace. Have we kind of shrunk into the shell within where we become too conservative and denying an opportunity to us because keeping excess liquidity in the finance firm, I would not regard the necessary is the virtue that is the virtue and there is a challenge but ultimately money has to be utilised and it got to create value. So, are we becoming too conservative and have we kind of shrunk within and have become too cautious and risk averse?

Kamlesh Gandhi: Thank you Bharat bhai for expressing your feelings and coming back to our approach. Now I personally feel that there is a very simple logic here, nine months April to December till August everything was practically not functional and from September to December with an average efficiency of the businesses in which we work with anywhere between 40% to 70% increase in progressively giving us a comparative 30% working as compared to last year and the contraction in AUM is, I think given. While I will not be in a position to talk about other lenders, different lenders have different strategies, but we firmly believe this is not the right period to focus on the topline. We have demonstrated our capabilities to grow continuously at 15% to 25% over last 25 years and once things normalizes, we do not see why we cannot achieve that, but we firmly believe that this is not an on off switch that once it starts, the lending also will start at the same pace. And especially to the customers whom we serve too, the informal class of the society are already vulnerable so, while there might be opportunities, and we might have tightened our credits screen I would not call it going to the shell, but we will use the word of extract cautious and prudent which we will try to normalize over the next few quarters. I would refrain from giving any growth numbers still for two quarters, because I think that growth in the segment in where we work there is an enormous opportunity. The only thing is that we have to navigate through this time successfully and fundamentally very strongly and if you see our disbursement for Q1 was nothing, Q2 was Rs. 800 Crores, Q3 was Rs. 1000 Crores, as Darshana ben had mentioned we grew by 26% from Q2 to Q3 but for companies like us whose loan cycle is anywhere between 18 and 24 months and then we have 96% of the recovery, the result will be a shrinkage in AUM to the tune of around 12% to 15%. So, achieving around 85% of what we were last year despite of the fact that in nine months we have got only 30% practically three months to work full-fledged and that too after such a big shock to the economy, I think we would justify our strategy based on our experience. Coming on the liquidity buffer, I understand that liquidity buffers beyond a point is a negative carry. But here if you see what happens is you cannot predict the disbursements in such uncertain times, so from Rs. 1600 Crores we have reduced to Rs. 1000 Crores and from Q4 it will further reduce and once we have line of credit accrued and sanctioned it is incumbent on us to draw certain lines for a long-term relationship. So, while we are aware of not holding on much more liquidity at the same time, looking at the current situation it was prudent to honor the commitments, in interest of the long-term benefit of the company and gradually decreasing with which we have already demonstrated in our workings that from Rs. 1600 Crore we come to Rs. 1000 Crore and once again we will reduce it. So, all in all, I think the strategy of especially to the class that we are working the strategy of growing cautiously will be the beneficial to all the stakeholders and we need to wait for few quarters before we really come back to around 15% to 20% to 25% growth and even by observing such conservatism also as you remarked we stand on healthy ROEs and all. So, let me assure you that once things are back to normal according to our assessment because things becoming normal as per the economic surveys or we are just comparing with other lenders will not be the right thing to do for us. So, we will be coming back to the normal soon. Let us hope that things normalizes, and we will come back to about 15%, 20% growth.

Bharat Shah: Basically, we are saying that we have all opportunity to grow, our clients set, it is for us to choose when we want to grow but given the set that the kind of clients that we serve there is inherent vulnerability and therefore prudent and cautious stance maybe better rather than get aggressive. So, we are not denying ourselves but we are just being wise, is that what you are trying to say?

Kamlesh Gandhi: Yes, and a practitioner I believe that lender reaching around 80% to 85% of his last years' volume is also commendable job. If it is not creating problems in the quality or liquidity because hardly we will be having around 50% of the work done during this year and lending is a business that any business will affect our balance sheet. We serve to 200 different categories of customers and to assess those people entities so that they are back on track the way they can borrow and repay I think even reaching around 85% of what we were last year will be a good job done.

Bharat Shah: So for next two quarters or so, still we will be relatively be more watchful though we may grow on a quarter-to-quarter basis?

Kamlesh Gandhi: Yes. Now you have to take a new guard on growing on quarter-to-quarter basis and then we will catch up on a year-to-year basis. This is how we are internally planning.

Bharat Shah: On asset quality our buffer or the provisions that we are carrying in the balance sheet today is how much percentage of assets?

Kamlesh Gandhi: 1.66% of our on-book assets. That is only COVID provisioning and this is a special provisioning. The rest is different.

Bharat Shah: Could you repeat it Kamlesh Bhai?

Kamlesh Gandhi: The special provisioning is 1.66%.

Bharat Shah: Total provisions that we are carrying in the book today?

Kamlesh Gandhi: I think that will be another 1.25% of provisioning. We have close to 97 to 100 Crores of total provisioning standard assets and everything.

Bharat Shah: So that I suppose should take care of any worse kind of a contingency in this situation, given the generally what credit cost has been so much lower even after taking into account COVID situation plus the hit on account of the things about that Odisha NBFC it should take care of worse contingency I suppose.

Kamlesh Gandhi: I have always maintained that as a lender we are always very agile, we are very moderately leveraged, but as a lender institution, the characteristic of a lending institute of leveraging and delivering, return on capital employed is always good to create and capitalize on the chances whenever we get chances to create buffers and that is what we are following.

Moderator: Thank you. The next question is from the line of Dnyanada Vaidya from Axis Securities. Please go ahead.

Dnyanada Vaidya: I have couple of questions. I understand disbursement will slowly progressgoing into Q4 so, would it be good to assume that even if we could start businesses as usual from second half of FY2022 or could that be earlier, because in Q4 last year, we missed out on about 300-odd Crores of disbursements, so do you see that picking up earlier or how would you think about it?

Kamlesh Gandhi: On disbursements we are taking differential quarter-on-quarter targets, we were 800-1000 this quarter, we will limit ourselves targeting Q4 and that should be anywhere around 1200 Crores, 100 Crores here or there, but with a caveat that we will get the right type of opportunities. It is safe to assume that from 800 to 1000 to around 1200 Crores is a good number to assume for Q4.

Dnyanada Vaidya: Sir, earlier you mentioned that you had micro enterprise loans will be the ones to pick up faster; however, it was in the last quarter also and this quarter also we have seen the sharpest degrowth. So, how do we see your opportunities in those loans going ahead? If you could quantify what kind of pre-COVID levels have we borrowed in this category reached, also if these loans would be your key growth drivers going ahead?

Kamlesh Gandhi: Definitely small and medium enterprise loans have remained and will remain our key drivers for the growth. In terms of comparative figures as I remarked last year and this years are not comparable, so it will better if we see on a quarter-to-quarter sequential basis and on sequential basis we will definitely see an increase once again I will put a condition here that if we see the right type of opportunity in terms of the quality of the assets I think the key driver will remain MSME and it is just a matter of few quarters being the market being so wide, while we have tried very earnestly to see to that we identify the opportunities to reach that particular disbursement levels, but the disbursements targets will be based on quarter-to-quarter.

Dnyanada Vaidya: Lastly on the opex part, we have seen a sharp degrowth in opex especially on the employee expenses path. So, we are probably currently I think cost to income is around 16% or 17% for nine months. How do you see your cost to income shaping up going ahead when we exit FY2021 with a cost to income of 18%, 19% versus our usual run rate of 22% to 27% any guidance on that?

Kamlesh Gandhi: I think normalcy will restore the opex expenditure also because what happened in nine months, as you know that there are so many things happening and each and every company on the horizon were trying to see to that how they can reduce their costs and in that endeavor we had reduced it from the combination of 22% to 23% to 17% to 18% but on quarter-on-quarter basis it will grow and I think within the few quarters it can reach back to normal. Normalcy in opex is one of the sign of normalcy in disbursement too. So, it will gradually increase and will come back to that level.

Dnyanada Vaidya: Last question, any restructuring in this quarter?

Kamlesh Gandhi: We are into MSME, so we have time up till March. So, as I have already shared with all of you in earlier concalls also, we are not much in a hurry and we are taking the complete information, we are understanding the client profile and while we are open to help the people not to disturb the credit history with given the differentiation of restructuring it will be done very cautiously and as we envisage right now it can be around close to 1% of our total AUM.

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

Bhavesh Kanani: Sir, my question was on pro forma GNPA. Is the number that you have reported 1.32% GNPA, I guess that is after removing accounts where Supreme Court verdict is effective in terms of not recognizing NPAs. So, what would be the pro forma GNPA for us?

Kamlesh Gandhi: If we do not consider Supreme Court verdict GNPA is 1.7 and net NPA is 1.33 and if you apply Supreme Court advice of not recognizing those accounts as NPA it is 1.33% and 1% NNPA.

Bhavesh Kanani: So, against this 1.7% in an earlier response you had mentioned that we are carrying 1.66% as special provisions currently on pro forma as well.

Kamlesh Gandhi: Yes. That is a global provisioning because you can expect things coming from stage 2 to stage 3 and so on and we are talking about 1.66% on the onbook assets, but this is also a perspective that this is as good as our stage 3 net NPA.

Bhavesh Kanani: Any restructuring or any reschedulement being offered to any borrowers?

Kamlesh Gandhi: We will definitely offer for the ones whom we find merit that once restructured they can carry on their repayment successfully so as to not to disturb their credit history. So, the major intention of RBI of restructuring was to facilitate borrowers not to disturb their credit history and the future borrowings thereof. So, we will be going by that lines and as I shared with an earlier caller it can be around 1% of our AUM. This is what we see.

Bhavesh Kanani: Now taking Bharat Bhai's question further on growth aspect. You did mention that it makes sense to be little conservative even though for rest of the NBFCs and this growth seems to be kind of coming back. Now when I am looking at the micro enterprise loans or even SME which are the two largest products, I request you to share some specific concern we still have running in your mind, which is leading you to be cautious still. Is it that your credit filters arenot giving comfort or your credit filters have been tightened during the pandemic or the demand itself is not as strong as it was earlier.

Kamlesh Gandhi: There has been a lot of demand in the segment where we are working, MSME. The challenge lies in delivering quality credit. Which is in the interest of the borrowers and the lenders. So whenever we talk about a cautious disbursement it is more on the lines of we trying to assess the situation at the ground level, we are trying to understand their real cash flows, obviously post COVID and only around two, three months of working it is difficult to establish the consistencies of the cash flow, so these are all the issues, which comes to the fore when we try to assess their credit worthiness. So, it is more on the account of how to judge their cash flows, because this is cash flow based lending and I need sometime post COVID to understand the cash flows before we really come back to the normal trajectory growth.

Bhavesh Kanani: Lastly, any update on the Sambandh Finserv entity on which we had provided last quarter any further actions on that front?

Kamlesh Gandhi: The efforts are going on. Third party's administrator has been put on the company. The collections have all started and in one quarter they collected close to 15 Crores. We have very regular review with the administrator and the full efforts are being made to recover as much as they can. Difficult to tell how much we would, but we are looking at one link of the chain at a time. Currently, it was to appoint account administrator, appoint recovery agencies and we appointed a companywho can really work stepping in their shoes. That has been done and full-fledged efforts are done maybe on the recovery path on the legal site to set examples for other borrowers. So this is the latest update.

Bhavesh Kanani: Thank you. Thank you for your responses.

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

Madhuchanda Dey: I have a couple of questions; the first one which has been asked by quite a few other participants and I am sorry I am repeating it. I wanted to understand that the ground reality that you see as far as your borrowers are concerned, are they tad worse than what you had seen in the aftermath of demonetisation? Is that the reason for the caution or have you tightened the underwriting standards post COVID?

Kamlesh Gandhi: If I share, I will not compare this with demonetisation given the length of the crisis what we had gone through. So demonetisation was for a couple of months and then people adjusting on getting their currencies and so on, so this is not comparable to demonetisation. Secondly, as I shared with the other callers is that while we are seeing improved activities at the ground level and improved performance at the ground level, there will be some time to assess the consistencies of the cash flow. That is what we are trying to do with that we are trying to assess the consistencies of the cash flow post COVID and understanding the changes in the business model and their propensity to earn, borrow and pay. So, let us not compare it with demonetisation. This is something more severe than demonetisation in terms of the impact on the borrower's livelihood. They are slowly picking up. They are coming back to the normal. Smaller ones are coming back fast. We are witnessing around 70% to 80% of the recovery in their activities, but now we are waiting for the consistency in the cash flow and to understand whether there is linking in the business model or other dynamics. So, that is how we are trying to assess the cash flow of these borrowers and then lend to them.

Madhuchanda Dey: My second question is a little bit of a long-term question. Quite a few of this new age Fintech are trying to target the same customer segment that you cater to and one large consumer financing company has also decided to go big on Fintech. What is your thought on this whole thing, and do you think as a company you also want to walk that path at some future date?

Kamlesh Gandhi: We all know the size of this market and there are various segmentations in this market. So, the ones who really qualify for Fintech will be at least three or four notches above whom we are serving and to serve the customers whom we are serving only through Fintechs, if you have done exclusive research into a very high delinquencies, raising questions on the business model. So, this is to the customers whom we are serving is predominantly a field and assessed type of assessment whereby you can read out so many things at the ground level by visiting to them, by talking to them, understanding what are the things at the ground level thereby maintaining the delinquencies in the right perspective, you can source business through Fintech or through any other means but the taste of that sourcing is on how exactly it reflects on the quality of the assets. So, the ones who fall between the Fintech category will be three, four notches above. Secondly, we are not averse to using Fintech. We are also trying to develop systems whereby we can reduce manual intervention to the maximum extent possible, be it with interactions to the customers, be it the feedback on the customers, be it monitoring the field executive, and when we really think that these borrowers' have also come to that level whereby they can be served through Fintech, I think we will be ready by that time to serve through their platform also, but currently the class whom we are serving irrespective of the size it will take some time if we look at the what time to maybe adopt to the Fintech type of origination, if at all you want to limit your delinquencies within your current levels, because you might have seen that the Fintech companies who are into SME and we work with so many other Fintech companies and we have seen that their delinquencies levels are quite high as compared to the way we do conventionally. There is a long way to be covered by the Fintech companies to assess them the right perspective and given the quality of their document and the quality of the understanding of the borrowers. So, this is the ground level reality. Having said that we are quite abreast of the level of what is happening. We work closer with Fintech companies. We ourselves also as I told you trying to adopt and adapt as much as we can to be more efficient.

Moderator: Thank you. The next question is from the line of Bharat Shah from ASK Investment Managers. Please go ahead.

Bharat Shah: Kamlesh Bhai this is a general question. With the Supreme Court's standstill, they originally had indicated they wanted to come out with a quick conclusion with all the parties, Reserve Bank, government, etc., to submit all the information and decisions. So, that by October they were to come with the conclusion on the letter. Why is it taking this long? Why is this method not getting resolved?

Kamlesh Gandhi: There are two aspects to it. Once they decided that they will not have interest on interest and that is where we are all given subvention by Government of India that what all interest was charged on interest made by banks or made by NBFCs will be reimbursed so that decision has been taken. So that is the one which has gone through and it has been executed at the ground level with the State Bank of India being the nodal agency to do this. On standstill of NPA post August they are examining it. Difficult to answer why it is taking so much of time. I do not know where they stuck up but I think they have all the data now and it is between RBI, government, and Supreme

Court to iron out as to how they can really take forward in terms of identification or tagging and account NPA. Difficult to tell by what they will be in a position to come out with any guidelines, but as of now we are advised not to mark them as NPA as well as not to spoil their credit history but what usually the conclusion is that if they have their own assessment on the numbers and they act accordingly. So, we publish both the numbers that with Supreme Court dispensation and without Supreme Court dispensation, and our focus is on the original numbers without Supreme Court dispensation on interacting with the customers.

Bharat Shah: So while Supreme Court keeps the matter in a stake of suspended animation. Beyond taking or otherwise and beyond what is actually a damage which has occurred it cannot affect the business per se, right?

Kamlesh Gandhi: They will have to come out with some timeframe, and I think RBI and Government both are cognizant of the fact and this will come out sooner or later, but difficult to give a timeframe. I think they should settle in before March.

Bharat Shah: I mean second quarter is hard to understand a matter which is in the domain of the government and RBI and they both have concluded what they need to do. Why is Supreme Court is keeping it in animation is a mysterious thing actually. My other thing was as on December 31, how many number of loans outstanding we have and if we have some kind of average tenure of loan if you have the number for each category if one can get that.

Kamlesh Gandhi: For retail, I will share it. I will ask Ankit to share it offline, but the number of customers live customers is as close to around 700000.

Darshana Pandya: the loan accounts are 766000.

Bharat Shah: Loan account is 766000, which includes every kind of borrower.

Darshana Pandya: Yes.

Bharat Shah: Thank you.

Moderator: Thank you. Our next question is from the line of Sarvesh Gupta from Maximal Capital. Please go ahead.

Sarvesh Gupta: Sir, on the SME and MSME category would you be having a split of how many borrowers are now completely regular as a percentage of the borrowers in that particular segment?

Kamlesh Gandhi: Our overall current portfolio is around 94%. In MSME we have 93.77% who are online and in SME we have 94.88% of the borrowers who are current, no overdue. So, around 6% in both the categories, all into various categories with 1.51% in MSE, that is micro enterprise loans, in more than 90% and 1.74% in SME more than 90%.

Sarvesh Gupta: Because we have a lot of exposure to microfinance through our indirect lending, so if you can throw some light on with respect to microfinance in that geographies where you have lent indirectly to such borrowers, what are the signs that you are picking up especially given the more conservative steps that you have been having compared to the other lenders?

Kamlesh Gandhi: The MFIs whom we work with they have a repayment profile anywhere ranging from 70% to 85% and that is improving on a quarter-to-quarter basis and the underlying assets what we have through them, their performance of those underlying assets is also improving, while whatever underlying assets we create through them is with repose to the lending institute we create through. So, the MFIs are slowly showing good traction in terms of collection, whatever new lending they are doing is almost back to normal in terms of collections, what the arrears they had created during the time of COVID from that if you combine both those demands then they are anywhere between 80% and 85% on the industry as a whole, which differs from geography to geography and MFI to MFI.

Sarvesh Gupta: Now that all these firms are going to probably write off anywhere from maybe a very high single digit to lower double-digit sort of a portfolio they are already starting to write off, so that is not going to affect us because that completely lies on them?

Kamlesh Gandhi: Yes. If we work out the solvency ratios, by giving stress on the portfolio, right from 5% to 10% or 12% depending on the areas we are working on that is the stress scenario, while they definitely recover over a period of time, but we work with those who stand the test of solvency. So, we take care in lending to them on the solvency and the liquidity ratio.

Sarvesh Gupta: Sir, with respect to the very unfortunate demise of Mr. Mukesh Gandhi now are you seeing some organizational gaps, etc., which will need to be filled because obviously I think he had a major impact on a wide variety of functions leading them and successfully helping the firm to do very well in those areas especially on the liability side so, are we looking for some because earlier also I think there was discussion around seeking some talent from outside to strengthen the firm as it has reached a certain scale. So, are we looking in at that direction also?

Kamlesh Gandhi: As I shared in my opening remark the hallmark of a very efficient leader, Mukesh Bhai when he started concentrating more on health right from 2018, created a very robust second line for execution and from 2018 till this date that was the execution was carried on by that team under the supervision of the board, so that will continue. As far as the board is concerned, it is well populated with around four independent directors and two of us in the executive roles. Going forward, we might think of inducting on the board but at the execution level, we are fully equipped, and this has been going on since last two to two and a half years. So, to say I can say it has been a seamless transition.

Moderator: Thank you. We will take our next question from the line of Malhar Hemal Manek an individual investor. Please go ahead.

Malhar Hemal Manek: My first question is that during FY2014, 2015, 2016 the ROE of the company was around 30% but now it has come down to around 7% so by when can I expect this to go back to 30%.

Kamlesh Gandhi: The organization in its lifecycle goes through two things, the size and the leverage. So, if you see in FY2014, 2015 and 2016 with less than 2000 Crores the leverage was very high so that should be a suitable business model at every size. So, for us if you see once the post IPO, we have been maintaining anywhere close to around 18% to 20% of ROEs and going forward I think on a size we would settle anywhere between 16% and 20% of ROE depending upon the leverage we take from time to time. So, 30%,for a smaller size is okay, but it is not conducive for us as we grow in size, we need to basically leverage also. So, I think the guidance will be anywhere between 16% and 20%.

Malhar Hemal Manek: Regarding the ALM, assets liability mismatch, can you please provide the average duration or average tenure of the loans and the borrowing?

Ankit Jain: As I said, the loan, which we lend is between 18 and 24 months and average tenure borrowing which we do is anything will be borrowed with various sources of fund whereby the average maturity will be anything between 30 and 36 months.

Malhar Hemal Manek: Can you please provide the average ticket size of the loans?

Darshana Pandya: It depends on the product. In terms of two-wheelers, it is 50000 and SME is around 50 lakhs and in other MEL it is around 40000, SRTO is around 2.5 lakhs.

Malhar Hemal Manek: Being an NBFC for the credit risk assessment do you have any use of the big data analytics or anything?

Kamlesh Gandhi: We categorize the customers into various categories based on our credit spring and on that basis the credits are given.

Malhar Hemal Manek: So, is it possible for you to provide some elaboration on that?

Kamlesh Gandhi: It is very dynamic because it depends upon the quality of the portfolio, geographic impact from time to time, the competitive landscape scenario which is not only based on reclassification.

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

Prashant Shah: Thank you. I have a question, it is actually two questions, but basically that is focused on your asset quality. I just wanted to understand you mentioned that the collection efficiency for December quarter is around 96% but if you see the December 2020 pro forma gross NPA is around 1.7%. So broadly, I would say that this accounts for around 98% of your book. So, can you explain the gap of 2%? That is my first question. Second question was again related to the gross NPAs. If I see your March 2020 number was 1.42% and December 2020 number is 1.7%. So roughly around 50-basis points of increase in your gross NPA, but if I see for other competitors, they have gone up sharply. In some cases, they have gone up double in just quarter-on-quarter basis on a pro forma basis. So, what is that it has enabled you to control your asset quality at such fantastic levels where others are failing to do so? Other larger banks or larger NBFCs are failing to do so. Thank you.

Kamlesh Gandhi: In collection efficiency and NPAs these are not directly linked that this is collection efficiency, or this is the NPA. I will ask Ankit to share the dynamics of the same to have more clarity on that how the collection efficiencies and the NPA classification differ. On your question of how we are in a position to maintain this, if you see that this has been our tendency since last 25 years, if you can plot from our presentation that what type of asset quality we have been maintaining and the only reason has been a very calibrated growth from time to time and second is because of a business model whereby around 58% of the business of what we source is being sourced through intermediaries who were to back the delinquency impact and that has been unfronted in the cost. So, because of this business model whereby we are a very quality intermediaries working for us to absorb the losses where we upfront it in the cost and secondly because of the calibrated approach on the books has resulted into such type of GNPA and that is what I told you in the opening remarks that we prefer to contract our book by 15% but did not disburse it very aggressively. So, this is the combination of all the factors, experience of all these years, the business model and the way we disburse result into the growth in GNPA levels.

Prashant Shah: I get that. My question came basically from with respect to the kind of people; the clients that we lend to so those are also going to be in extreme stress right now. So, I was a little bit curious to see how you are able to manage the quality at such levels, considering the environment and the stresses that are there on the street, let us say?

Kamlesh Gandhi: As I shared with you, we have a very quality intermediates working for us where we upfront that credit cost that we offer them the margins. So, for example, I am working with an NBFC at a particular demography. We have a joint frame worked out with them and then we built in the delinquencies in that so that they do not have to pass on the delinquency to us. So, we have around 58.60% of our book coming through quality intermediaries where we ourselves used to work like this with various bankers, when were small. On our direct portfolio of 3500 centres the answer is same that we are very cautious, and you are right that it is a very tough task to maintain at 2% but you have to sacrifice the exponential growth for quality.

Prashant Shah: Are we seeing Q4 being similar to Q3 and Q2 or rather Q3 in terms of asset quality?

Kamlesh Gandhi: I think it is a range bound. The GNPAs can be anywhere between 1.5% and 2% and NNPAs can be around 1% to 1.5%, a few basis points here or there.

Prashant Shah: Do we have to do any write offs during the quarter?

Kamlesh Gandhi: That is a regular feature. We do write offs.

Prashant Shah: Out of ordinary that we do regularly, anything exceptional?

Kamlesh Gandhi: We do write off anywhere between around 0.8% and 1% on an annual basis.

Prashant Shah: Nothing specific during this quarter.

Kamlesh Gandhi: No, nothing specific.

Prashant Shah: Thank you very much.

Moderator: Thank you. Our next question is from the line of Vinod Makaria from Mohanlal Investments. Please go ahead.

Vinod Makaria: Kamlesh Bhai, first of all condolences for the loss because I have had the pleasure of meeting Mukesh Bhai many times, because I am an investor in a private equity fund and have had the pleasure of meeting him multiple times. First of all real condolences to all your family members.

Kamlesh Gandhi: It is really a massive loss.

Vinod Makaria: Geographically are you looking at expanding nibbling at more and having your book more out of Gujarat and in other areas as well. I mean any comment on geographical expansion?

Kamlesh Gandhi: Currently, while you are right, we are predominantly in Gujarat, but we also have presence in four other states that are Gujarat, Rajasthan, Maharasthra and MP and some presence in Tamil Nadu and Karnataka also. Going forward within the next three years we will see more business coming from the other states besides Gujarat with expansion of branches over there. If you see since last three years has been a very tough time for the industry as a whole where we had to be very cautious as part of the expansion, so once all those things cycles then we will definitely be looking at exploring those geographies where we are present since long. We have demographic understanding of the area. So given those aspects, we would see more business coming from those geographies.

Moderator: Thank you. Our next question is from the line of Bharat Shah from ASK Investments. Please go ahead.

Bharat Shah: Kamlesh Bhai apart from Sambandh for the other entities, NBFC entities to whom we have lent, we have no other difficulties, right and recurring lending to others has been 100%, so barring normal there is no difficulties, right?

Kamlesh Gandhi: As of December they are all good. The smaller ones might face some liquidities here and there, but the majority of them even they have paid during moratorium so we have a satisfactory portfolio.

Bharat Shah: Thank you.

Moderator: Thank you. Ladies and gentlemen that was the last question. I would now like to hand the floor back to Mr. Jigar Jani for closing comments. Over to you Sir!

Jigar Jani: Thank you. I will also take this opportunity to pass my condolences to the entire family of Mukesh Sir. Hope they will get the strength to bear this loss as this is a very huge loss. I would also like to thank the management for taking out the time to speak to us and giving us the opportunity to host the call. Thank you very much to all the participants as well for participating in the call. Thank you. We can close the call now.

Kamlesh Gandhi: Thank you everybody. Look forward to for the next interactions. Thank you.

Moderator: Thank you very much. Ladies and gentlemen on behalf of Edelweiss Broking and MAS Financial Services Limited that concludes the conference. Thank you all for joining us. Ladies and gentlemen, you may now disconnect your lines.