"MAS Financial Services Q4 FY20 Results Conference Call"

June 04, 2020

MANAGEMENT:	**MR. KAMLESH GANDHI – FOUNDER, CHAIRMAN AND MANAGING DIRECTOR, MAS FINANCIAL SERVICES LIMITED** **MR. MUKESH GANDHI – CO-FOUNDER, WHOLE-TIME DIRECTOR AND CFO, MAS FINANCIAL SERVICES LIMITED** **MS. DARSHANA PANDYA – DIRECTOR AND CEO, MAS FINANCIAL SERVICES LIMITED** **MR. ANKIT JAIN – CHIEF FINANCIAL OFFICER, MAS FINANCIAL SERVICES LIMITED**
MODERATOR:	**MR. ALPESH MEHTA – MOTILAL OSWAL FINANCIAL SERVICES LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the MAS Financial Services Limited (hereinafter refereed to as "MAS and/or Company") Q4 FY20 Results Conference Call hosted by Motilal Oswal Financial Services 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 touch one phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Alpesh Mehta from Motilal Oswal Financial Services Limited. Thank you and over to you, sir.

Alpesh Mehta: Thanks, Aisha. Good evening everyone and welcome to 4Q and FY20 earnings conference call of MAS Financial Services Limited to discuss the earnings and the business strategy. We have with us Mr. Kamlesh Gandhi – Founder, Chairman and Managing Director; Mr. Mukesh Gandhi – Co-Founder, Whole-time Director and CFO; Ms. Darshana Pandya – Director and CEO and other senior management from the company. Now without much ado, I hand over the call to Mr. Kamlesh Gandhi and post which we can have a Q&A session. Thanks and over to you, sir.

Kamlesh Gandhi: Thank you so much Alpesh and good evening to all of you. I would like to start on a positive note that this quarter we have completed 100 quarters and 25 years of operations and this is the ultimate testing time due to COVID -19 pandemic situation and may God forbid nothing more than this and we will be presenting you that how exactly we are navigating and what exactly the position is of the company amidst all this pandemic and all this challenging situation.

As you are aware, we have grown very steadily over the last 25 years. As mentioned in the presentation, we have followed our fundamentals and achieved the celebrated growth over these 25 years. I am aware that besides the performance for Q4 & FY 2020, the focus would be on how we are navigating the present crisis and what is our outlook going forward.

So I would start with how we are managing it. I am not going to much dwell on the various problems because I think there is an overdose of discussion of all those problems, so I would like to be very objective on how exactly we as a company understand this and how we are navigating this. While we are 25 years old company and have navigated various crises in the past, but this is unprecedented. Still, at the same time, we are confident that this phase shall also pass and that confidence comes from our 25 years of rich experience in the field and a few of the other aspects which I will discuss with you, which makes us confident and self reliant.

To start with, the first thing is the fundamentals of our Company on which we have been working so far.Further, the basic aspect for any of the lending business is the capital adequacy. Our company has around 28.87% of Tier-I capital and that puts us in a very good share to absorb any sort of crisis and shocks.Secondly, the very important and the most discussed point about this crisis, especially for NBFCs is liquidity aspect. As I talk to you, we have funds available close to Rs. 1,400 crores and sanctioned limit close to Rs. 1,000 crores on hand despite giving the moratorium to our customers and not taking it from our lenders. We have sufficient liquidity to serve the debt for more than a year and to cover our operational expenditures. The key differentiator as far as MAS is concerned is the robust portfolio quality coupled with ample liquidity. Despite serving to informal class and MSMEs, our net stage 3 assets stood at 1.14% and provisioning of 0.61% of the assets. So these are the basis on which we are going to magnify and assess the same on the business operation of the Company.

I have talked at various forums that we believe in magnifying the possibilities but at the same time, we should understand the problems. We are not going to dwell on the issues, but dwell on the possibilities and magnify the same. We are starting with a few of the basic things like portfolio quality, liquidity management, operational management, HR management, profitability, and then taking it forward.

We are close to Rs. 6,000 crores assets under management and we have missed around Rs. 325 crores of disbursement in March 2020. I was discussing with Alpesh before that we have forgotten another crisis amidst this pandemic is the Yes Bank issue. We extended the moratorium as early as the 6th of March, and as we all aware that in financial services, there is always a contingent effect and so right from March, we are very cautious about disbursements and liquidity on hand. We had learned from IL&FS crisis that sufficient liquidity on hand is very vital for NBFCs to survive and then, later on, to thrive and grow. Hence, since we lost at around Rs. 325 crores of disbursement, we took a very cautious approach of not doing any disbursements in April and May as there was no opportunity as we were in lockdown. During this month, we will take the various inputs from our borrowers and the other stakeholders as to how we can calibrate the credit screen, understand the customers in a better way, and restart the disbursement.

I would like to bring to kind notice and discuss a very important point, which is moratorium. We have been serving in this sector for the last 20 years. In our presentation, we have very clearly manifested what we understand on a moratorium. Especially the forbearance given to the MSMEs clients that is in terms of moratorium, it does not signify a significant credit prognosis. This is what we all need to understand because if I step in the shoes of any SME and if I am in this position, I will not think twice to take a moratorium irrespective of my liability position unless I am very comfortable paying it or I have a fair idea of new liability coming tome. With this, we are trying to manifest to the borrowers that we don't only extend the credit where it is due, but we also give all the facilities within our capabilities.

The very important point to be discussed on moratorium is not how many customers took moratorium facility Secondly, the most important point to worry is how many companies were in a position to give the moratorium given their liquidity position. So if we talk about MAS, we were in a position to provide the moratorium for the first 3 months and we will evaluate the situation for the next 3 months. Still, on a static liquidity analysis on a fresh flow basis also, we will be in a position to serve all our debt for the entire year, including our operational expenditure irrespective of whether we give moratorium or not. If we start receiving money, that will add on, and our liquidity will give us more room to disburse. Even though if we extend the moratorium for another three months, it is not going to affect our liquidity at all, and we will not have to approach to our lenders for granting us moratorium facility since we are giving the same to our borrowers . I think this is what having a vintage of 25 years is expected as far as I am concerned I expected this type of working from the company.

Giving you the data on a moratorium, we were more than happy to provide moratorium to everybody who wanted it. All the eligible borrowers were given the moratorium, and we were constantly with the customer engaging with them that if you have liquidity and if you are comfortable, you should pay the installments to save on interest cost, and that resulted into 49% and 45% recovery in April and May. I am not talking about March because there was only 4 or 5 days' loss in terms of recovery, whereby we had recovered more than 97% of the installments, so I am not factoring in that in the numbers as far as the receipt from the moratorium customers is concerned. About 51% of our customers by value in April have availed moratorium, and 55% of our customers in May have availed moratorium. I will repeat that we don't link the credit prognosis to the moratorium taken while there is a lot of discussion on it, there can be a lot of analysis but at the end of the day, the time is going to judge that how we should judge the customers whether they have taken the moratorium is a big credit prognosis or an average credit prognosis.

As I discussed at the beginning, we have made a special COVID provisioning of 0.61% of our total on-book asset of around Rs. 20 crores. So this was on the asset and the portfolio quality.

We have sufficient liquidity, sufficient sanctions on hand, we have put various stress flow analyses on our liquidity, and we continue to be in a very comfortable position, which makes us capable of extending the moratorium to our customers. As I discussed with you earlier, I would like to repeat that it is not about how many borrowers are taking moratorium, it is very important what are the competences and the capabilities of the financiers to give moratorium in the time where forbearance and giving liquidities of paramount importance.

Coming to operational management, out of the total 105 branches where we operate, 96 are operational currently with minimum staffing, which will be scaled up gradually. We have a 100% banking base platform for disbursement and collections. While you know that disbursements were not done in April and May but we were completely functional in terms of the collection as the banking based platform helped us a lot in collecting the amount from the customers who are willing to pay. As far as the cost is concerned, our operational cost around 1.6% or 1.7% is already very efficient. However, there will be lesser expenditure on travel, less marketing expenditure, and other than that company will endeavor to work on all the areas whereby we can save the cost, which will compensate for other credit costs so that our ROAs are not affected in the short term.

We use this opportunity to reskill our employees in the best possible manner. I am pleased to share with you that the management team at MAS worked harder than what they would have worked under normal circumstances. They were busier at home than they were busier at the office, and they deserve my heartiest thanks, and I am very proud of that.

On the profitability front, this year, we have maintained a post-COVID PAT of 17% on a year-to-year basis, and there was a contraction of 14% mainly because of the COVID provisioning being done in this quarter only. So the right way to judge will be pre-COVID PAT for the year and the quarter, which stands at around 27% and 22%. That is as per our normal work. We presume that ROAs in the short run might be affected, but we firmly believe that we should take a medium to long term view. So in the medium to long term view, I don't think that the ROAs will be much affected, but in the short run, it might be affected, but we will try our level best to maintain our ROAs in the range of 2.75 to 3.5%.

Going forward, we will continue to focus on extending credit where it is due. See the fundamentals you follow over all these years differentiates you in such type of crisis and that is what has happened to us that we were very comfortably placed on capital adequacy, very comfortably placed on liquidity, we don't foresee very high loss given default given our credit analysis and the credit underwriting during the regular times, so we will continue with our dictum of extending credit where it is due, and that translates automatically into our calibrated growth because you all understand that lending is a business of leveraging high, so there is a lot of takeoff other people who have given you the money, so right from the beginning, so all these 25 years, we are focused on the fundamentals. We will continue to do that, and I would refrain from giving a very short-term view because you have a very short-term view, your access will be short-term.

So once again, we have maintained right from the day we went to IPO that we would like to grow anywhere between 20% to 30%. Still, in situations like these, the growth will be a number derived after we get the opportunity of lending, maintaining the portfolio quality and the profitability intact. So the growth will be the numbers that are derived. So in the short-run, the growth might be 5%, 7%, 10%. I think we should not all be worried about the growth in the short run. In the medium to long term, we see that structurally nothing much has changed. The MSME will continue to play an important role that tough. To be optimistic is our best bet that the MSME will also strive with several schemes from the government to whatever extent they can help them. They will also strive at first to survive and then to grow and thrive. NBFCs are inevitable, especially for the efficient last-mile delivery of credit. The companies like us who have niche expertise will get the opportunity to grow in future, provided you have the patience, provided you have the wherewithal to go through this tough time, provided you don't have to take any urgent decisions based on the things which are out of your control. So I am delighted to share with you that all the fundamentals followed for all these 25 years having a calibrated growth, we started to share with you number of times there is a very humble beginning of 2 crores in 1995 to 25 years to reach Rs. 6000 crores, but it gives you satisfaction when under this prime times you can prove that okay you are 25 years old with the position you are in, especially in terms of liquidity, capital adequacy and the quality of assets.

This was from us in terms of the COVID provisioning presentation, and we are happy to take the questions. I would like to repeat once again that we are fundamentally firmly placed to face the situation. We are thankful to the borrowers that despite giving them the moratorium, more than 50% are paying. We anticipate the same thing to continue going forward in June, July, August. While we are more than happy to give moratorium to borrowers, we believe that moratorium will stabilize the liquidity position and does not necessarily signify a significant credit prognosis given our underwriting practices.

I will request Mukesh Bhai to join. I will just give you a very brief outline of the performance. Our AUM as of March 31^{st} stood at Rs. 6,000 crores with approximately 12% growth in AUM and about 17% growth in PAT. On a pre-COVID, it translates into 27% growth. Still, if you say pre-COVID, the profit has risen by 22% with stage 3 assets at 1.14%, which is stable, and the additional provisioning done is not netted off from these stage 3 assets. That is the floating COVID provisioning done by us, so we have not accounted for this 20 crores when we talk about 1.4% net stage 3 asset.

On the product-wise detailing, I will request Darshana Ben to take you and brief you on the performance. This is from my side that this is the 25th year of our Company and we stand very confident and very optimistic. At the same time, we know that these are unprecedented situation, but we think that we have the wherewithal to navigate through this and this shall also pass. I will request Mukesh Bhai to share his thoughts with all of you, and then I will request Darshana Ben and Ankit to take you through the detailing. Mukesh Bhai, if you can, please share your thoughts.

Mukesh Gandhi: Thank you, Kamlesh Bhai. Thank you all for participating in this analyst call. As Kamlesh Bhai already told you that we always follow our fundamentals, whether it is the asset side, liability side or liquidity side and because of our this approach, we could sail through all the difficult situations. When we were on 99 quarters, we were planning to celebrate this 25th year, but we never knew that it will be in a different way, so as Kamlesh Bhai told you that this shall also pass. Because of our fundamental approach, we have sailed through all these types of crises in the past, and this crisis, we will be through because of our strategy. We continue to pick our approach in the same session so that we will have moderate growth, but we will be really on the solid footing. I will now request Darshana Ben and Ankit to crunch the numbers. Thank you.

Darshana Pandya: Thank you, sir. If I take you through the numbers in detail, our asset under management has gone up by 11.76%. Last year, it was Rs. 5,338 crores, and this year we have closed at around Rs 5,966 crores. Our total income on a QoQ basis has gone up by 11.10%, and on a YoY basis, it has gone up by 19.30%. Profit before tax has almost remained almost the same on a YoY basis, and on a QoQ basis, it is contracted by 25.15%. If you look at a profit after tax on a year-on-year basis, it has gone up by 17.16%. On a QoQ basis, it has gone down by 14.24%. This is mainly because of the special provisioning of Rs, 20 crores, and if we look at the numbers before COVID provisioning, our PAT would have been gone up by 27.16% on a YoY basis and 22.32% on a QoQ basis.

Gross stage 3 asset stood at 1.42% compared to 1.39% last year. The net stage 3 assets stood at 1.14%. Last year it was the same. Regarding AUM, there is a growth of 8.12% in microenterprise loans. SME loan has gone up by 31.36%, and a two-wheeler loan has gone down by 14%, commercial vehicle loan has gone down by 2.23%, and the overall portfolio has gone up by 11.76%.

Regarding our housing finance company MAS Rural Housing and Mortgage Finance Limited, our AUM has grown by 6.03% to Rs. 286 crores. Last year it was Rs. 270 crores. Total income has gone up by 23.06% on a YoY basis, and by 7.01% on a QoQ basis. Profit before tax on a YoY basis has gone up by 0.16%, and on a QoQ basis, it has gone down by 91.79%, mainly because of special provisioning of Rs. 2 crores. Profit after tax on a year-on-year basis has gone up by 21.89%, and if we look at a profit without COVID provisioning, it would have gone up by 39.3% on a YoY basis and 94.4% on a QoQ basis. Gross stage 3 assets in our housing finance company are 0.34%, and net stage 3 are 0.25%. Last year, it was 0.36% gross stage 3 and 0.26% net stage 3. So this was all about the numbers. Now, I will request Ankit to take you through the liability management.

Ankit Jain: Thank you, ma'am. Good evening all. To further elaborate on the liability side, in the last quarter, the company did around 810 crores direct assignment transactions with various PSU banks, and the company also has Rs. 1200 crores sanctioned on hand, which we will be utilizing in the first and the second quarter. The company has available cash facility of around 1800 crores out of which we maintained the utilization level of 65% to 70%, and this portion is always kept as a liquidity buffer. We were able to roll over around Rs. 1250 crores short term working capital loans, which is a sub-limit to the cash flow limit in the last quarter. The company further raised Rs. 300 crores long-term loans in the quarter, including Rs. 25 crores of Sub debt. This helps the company to strengthen the asset-liability maturity pattern further, the unutilized sanction of long-term loans as on date is around Rs. 250 crores. So as on 31st May 2020, the company had liquidity buffer as cash on hand of about Rs.700 crores and unutilized CC sanction limit of around Rs. 700 crores, further sanction on hand of Rs. 1450 crores. The company has also applied for fresh sanctions from its existing lenders, the various scheme launched by RBI and government of India like refinance from SIDBI under the TLTRS scheme, and plans to raise funds on the PCG arrangement. The company is well placed with the capital adequacy of 30.96% with Tier-1 capital of 28.87 and a debt-equity of 3.01x. Thank you. So I hand over the call to Kamlesh sir.

Kamlesh Gandhi: Thank you, Ankit. Now we will open to take questions.

Moderator: Thank you very much. We will now begin the question and answer. The first question is from the line of Rahul Jain from Credence Wealth. Please go ahead.

Rahul Jain: I have a couple of questions. One is, sir, with regards to our customers, if you can give us some color in terms of what kind of businesses our borrowers are on the microenterprise loans and the SME loans in terms of whether a certain percentage of them are into essential services, essential goods if you can understand from that perspective? Secondly, with regards to, we have crossed almost two months. You have been all talking to most of your borrowers but any assessment with regards to the situation as we speak today, what kind of credit cost we can see for this year, and lastly, you did mention on the operating cost side in terms of reducing operating costs. If you could try to quantify what kind of reduction in operating cost is possible for this year? Could that be helpful?

Kamlesh Gandhi: Coming to the question of profile, 66% of our funding is to the various small entrepreneurs spread across more than 250 different business categories, so they are into basic activities like they may be pumping, plumbing, electricians, small petty shops of various kinds or they might be into manufacturing our services and where the ticket size is approximately Rs. 40,000 to Rs. 50,000. This constitutes 60% of our business profile. We understand that these are the ones who will require a minimum time to recapitulate and restart their businesses, and we are seeing all of them doing it right now in many of the places of our operation. In SME, we mainly work in 2-3 clusters like engineering, plastics, and so on. They are midsize companies, and they're also we think that they will take relatively more time than the micro-entrepreneurs to start. Still, once the lockdown is lifted, they will be in a position to start sooner than the ones who are in a big size manufacturing units. When we talk to our borrowers, this is a very evolving situation because it is challenging to judge for them also as to what will happen to their supply chain, what will happen to their businesses. As I told in our opening remarks when we extend credit under normal circumstances, we put a lot of stress under cash flows, under earnings and the businesses they do, the type of entrepreneur we deal with, I think that should help us during this period. While many of the businesses might face stress, there will be various time periods during which they can start and during which they can get their cash flow back. Still, ultimately they have the capabilities to recapitulate within the given period of time or within some period of time. We are confident about that. In terms of the credit cost, you see our credit cost ranges in the range of 1%-1.5%. It is tough to guess the number, but depending upon all the situation and knowing our underwriting practice, it might range between 1.5%-2%. In terms of operational costs, we might be in a position to reduce our operational expenditure on a static basis because the operational cost will be the function of the growth we take and at what part of the year we get the growth. We believe that in terms of the percentage we might be in a position to shrink our operational cost by 0.25%-0.35% while maintaining the NIM close to 7%. Right now we have a NIM of around 7.25%. If you take a ballpark figure of 7% NIM, we foresee return on assets after credit cost and operational cost to be in the range of 2.75% to 3.25% as against 3.34% currently.

Rahul Jain: Any challenge in tracking some of our microfinance borrowers, whether on the urban side or the smaller towns?

Kamlesh Gandhi: As we know, challenges will be there unless they work full fledge. They have their regular cash flow back, so challenges cannot be denied, so what we are talking about is about when they start operations, start doing their activities, and start getting their cash flow back. So, everybody, I think none in the economy is not facing challenges because lockdown is a stop lock, everybody has stopped working. Now, slowly they have started to work. Still, since they are into basic activities, my point is that they will be in a position to restart their activities faster than the ones who need a lot of support in terms of workforce and capital to restart.

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

Bharat Shah: You just now mentioned that your credit cost typically is ranged between 1% to 1.5%, post-COVID could be 1.5 to 2%. So it may increase by about 0.5%. You already have provided 0.61% of COVID provision, so are you saying in an addition to what is being provided in advance that would be further 0.5% of thereabouts increase in the credit cost or this is included in that?

Kamlesh Gandhi: The COVID provisioning what we have done is to be seen over a period of time because we see that this COVID effect and the effect on the portfolio can be lagged, so it all depends whether we use this provisioning during the next year depending upon the situation while we will like to use that provisioning very conservatively, so if we use that provision and you are right that you didn't come from that amount. Still, if we continue to maintain the COVID provisioning or floating provisioning on a conservative basis at the rate of what we are doing it right now, then it will be an additional cost. It all depends upon our situation evolve and how we think that what we should keep as provisioning. I will not like to use the COVID provisioning right in the first year, we would like to use the COVID provisioning over 1 or 2 years and account for new provisioning.

Bharat Shah: The COVID provision I suppose is a kind of macro provision, it is not a specific provision for that 20 crores which is identified name by name and account by account, I suppose that is a macro provision?

Kamlesh Gandhi: It is a floating provision, yes.

Bharat Shah: And you said it your ROA probably may range 2.75% to 3%, did I hear that right?

Kamlesh Gandhi: Yes.

Bharat Shah: One last thing, nothing to do with your business, but I will be kind of interested in hearing your comments on **y**ou might be aware that Supreme Court, there was some petition filed, whether during the moratorium period the interest should be charged. It should be waived, and there should be an interest that is supposed to fall due should not be charged. Supreme Court, in its wisdom, made some very daring remarks, I don't know how they make such remarks. Still, they are saying that should the economy be liability or the human angle, etc., that whether it is fair to charge interest or not. I know it is nothing to do with MAS, but I will be keen to hear your comments if you have any?

Kamlesh Gandhi: The comment made by Supreme Court has nothing to do with an implication or an application of law, it is overall what they feel. Secondly, it will be the endeavor of the government or Finance Ministry, and I think we had a statement by Mr. Uday Kotak, the newly appointed CII president, that we have to safeguard the interest of the depositor. This is a chain reaction. If I don't take an interest, I cannot safeguard the interest of the depositors. So I think while this, I call it an emotional feeling of the Supreme Court, but I don't believe commensally it is tenable and sustainable. All the stakeholders, including the government, the RBI, Finance Ministry, and all the concern will make their earnest endeavor to drive this point home to Supreme Court and less this is published better it is because we don't want people to misunderstand this. So my view is that if this is not tenable, they will understand, but this should not be published because we don't want confusion among the borrowers.

Bharat Shah: That is exactly what I intended because these three have utter confusion among borrowers. It kind of gives wings to the people to believe that they are not supposed to be liable to pay, which is essentially their liability to pay?

Kamlesh Gandhi: Bharat, if I share our experience with the borrowers, we have seen that over a period of time, even with the people whom we are working, informal and small scale borrowers might have a lot of information. Still, they are quite smart to understand the financial implication, so even when we talk to them on moratorium and repayment, and we give them metrics that this much interest would have to be paid more by them. Many of them will, by reflect, will say**,** I will pay off, I don't want the moratorium. So they are all businessmen, they also understand there is no free lunch, but at the same time the situation is already challenging, they don't want any more challenges currently at least from the highest authorities of the country.

Bharat Shah: Yes, that is my opinion there are no free lunches that is why it gets a little bit worrisome and insidious. One last question, typically half the book comes from the partner NBFC, and the other half is direct lending I presume that your record of zero NPA through partner NBFCs is expected to be maintained, therefore entire increase probable credit goes to your anticipating on account of the direct lending?

Kamlesh Gandhi: I think when we anticipate, we have anticipated from both the businesses because the situation is very unprecedented. Still, if I talk to you currently, the capitalization level of the NBFCs we work with, and the way we have exercised control, we don't foresee much of the losses coming from that business, it will be mostly from the individual borrowers we saw.

Bharat Shah: So there is supposed to be some small cost from the NBFC, but the more substantial part from the direct books?

Kamlesh Gandhi: Correct.

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

Ankit Gupta: Sir, I wanted to know since in the current month and in May, how has been the collection efficiency of our NBFC customers to whom we have lent. Most of them are in MFI, so if you can just share your experiences or what these companies are telling you about how has been their collections?

Kamlesh Gandhi: When this lockdown happened through MFIN, all MFIs have decided not to approach the customers and not to create confusion at the ground level. So they were not very active in a significant part of April. Still, the collection that they see is anywhere between the range of 5% to 30% now. They are engaging with the customers and telling them that while the moratorium is legally available, it is at the discretion of the lenders. As I told you, it is about the capability of the lender to give the moratorium, and secondly, it comes at a cost, so if the same trend continues from 5% to 30%, it might increase to around say, 50% in coming months. This is what the feedback we are getting, but it is different from company to company and geographies to geographies, but the range is like this.

Ankit Gupta: Because we have been reading few reports that in June in the past few days, the collections have picked up for MFI, so any such experience from your MFIs, what they will be sharing with you?

Kamlesh Gandhi: Same, so they are telling that it is picking up, and they are educating the customers, and now they are on the field and educating them.These are the ones who need liquidity. They need liquidity by fresh disbursals or by holding on the installments. Now all the NBFCs are telling them that it is prudent to pay our installments, be regular and avail a new loan rather than just going for forbearance continuously, and most of the MFIs branches have also started working in the range of 60 to 90%.

Ankit Gupta: Secondly, on the direct lending to SME and MSME segment that we have, what will be the moratorium availed by these customers? I think most of the moratorium or the customers that are paying you regularly would be from the NBFC space, so can you talk a bit about how has been the moratorium from your direct lending customer, especially in the MSME segment?

Kamlesh Gandhi: It has been the same, the smaller NBFCs whom we work with, we had a very detailed discussion with them that even though they have collected some amount from the ground or they have some liquidity, they need to preserve it for their operations. I had a very interesting discussion with one of the NBFC MFI. He told that I have this much amount, shall I pay you or keep it for my operations, if I pay you it will take care of one month of installment, if I keep it for operations it will safeguard your complete exposure because at the ground level they have to maintain so much of staff and the operational cost is high. So for the smaller ones, we have very voluntarily given them the moratorium. So it is roughly 50% among the class of customers that is our NBFCs whom we are lending to the customers whom we serve directly and to the individual customers.

Ankit Gupta: And sir, just on this MSME and SME segments, since you will also be talking to many promoters of these companies, any broad thinking, and any timelines when they expect that they will come back to a normal situation or almost, let us say, come back to 70-80% of the normal pre-COVID levels where they were operating in those, let us say a capacity utilization for manufacturing company or the normal operation for the rest of the companies?

Kamlesh Gandhi: It depends upon the clusters they are into and depending upon the geographies they work in. Different clusters and different geographies have different challenges. Let me tell you that every information that we get right now is pure assumption, and there is a psychological impact also. I was discussing with a few of my colleagues that all the surveys that we do, and then we derive and extrapolate it on the industry on a national basis are not right. This is an evolving situation, and it is very challenging to predict when it will be 70%, 80%, but let me tell you it is like that we are worried for our 5% to 10% exposure against the overall balance sheet. That person is worried, interested, and concerned for his complete balance sheet. So he is going to do everything at its disposal to restart. If it takes three months, it will not take three months and one day. That is the primary phase you need to have on them, and during that period, you have to understand them, not be unrealistic in your demand. That is where all the lenders know the capabilities of forbearance, and giving liquidity will navigate through it and will emerge stronger. Say, for example, your SME I said that okay I could be with you for another three months and when you restart your operations, I will reevaluate you, and I can fund you more because I trust you as an entrepreneur, I trust your business model, and your new cash flow can accommodate this much borrowing, I think that will be the right thing to do, and not many lenders will be in a position to do that. Still, the ones who are having strong fundamentals will emerge more stronger if they do this.

Moderator: Thank you. The next question is from the line of Shubhranshu Mishra from BOB Capital. Please go ahead.

Shubhranshu Mishra: I have a couple of questions. The first one is, the NBFCs that we on-lend to, how many of them have asked us for a moratorium, and have we taken any moratorium from the bank? This is the first question. The second-order question is we believe that the assignment volumes will come up drastically because of the moratorium in the present situation, a large part of our borrowing comes out of the direct assignment, so what is our sense on direct assignments going forward in FY21 and FY22 and if you can walk us through key line items where we think that the OPEX can come off drastically or the way you are guiding if you can give us some absolute numbers and line by line discussion sir? These are my three questions.

Kamlesh Gandhi: Around 60% of the NBFCs by value, we have given the moratorium. As I told you, we have not taken a moratorium from our lenders. We are paying our obligations on time, we have sufficient liquidity to serve for a year and more than that, and we have not availed moratorium. In terms of assignment, we have 1200 crores of assignment limit as Ankit told you on hand. While qualifying assets can be a problem when you give on a moratorium but since 50-60% of our book is on time, so we will have sufficient pool on hand to assign. At the same time, the credit off-take at the bank is an all-time low, the portfolio which we assign is in high demand that is MSME portfolio based that there is a lot of pressure on the banks from all the fronts to increase lending to this segment, so given all these things may be for a quarter or two, the assignment numbers might not match the last quarter. Still, I think overall, on a year to year basis, we will be in a position to maintain this assignment levels given our track record with various banks. We have a track record of more than 10,000-12,000 crores cumulatively with immaculate quality, and the banks are more than happy to buy our portfolio, so I don't see this is a problem for the year as a whole.

Shubhranshu Mishra: Are you 100% sure on this sir, because naked transactions like assignments should fall drastically, I think the industries would come up drastically in this particular environment for naked transactions like assignment, are you very sure of this assignment?

Kamlesh Gandhi: We do bilateral assignment transactions with public sector banks. It is a bilateral assignment transaction. It is not through securitization or PTC. It is a bilateral transaction where one bank will give us a sanction. We will be assigning the portfolio to them, so these are all bilateral transactions. This is what our gauge is currently and with the assignments on hands for two quarters and our track record and the segment whom we serve because for banks, there are a lot of limitations to create the portfolio directly that to within the given credit losses. If you see the SIBIL data that SME funding through NBFC has a credit loss of around, say 5 to 7% while banks have a credit loss of 18%. So they are more than happy to channelize this business through us, so I believe we should not find a problem with the amount that I want to do. May be on an industry as a whole from 2 lakh crores, it drops to 1 lakh crores, but I should not find dropping for my 2000-2500 crores. This is what I understand.

Shubhranshu Mishra: And on the OPEX, sir?

Kamlesh Gandhi: On the OPEX side, on a line by line, it will be challenging to give you that numbers but the understanding comes from the reduction in variable costs when the business is less, the variable cost will be less, such as fixed expenditures will be less, so there are various ways of reducing it as per changing the metrics of fixed and variable to more on a variable to fix. If you see, we don't have to work very hard because we have to reduce our operational cost marginally because beyond the point, you can't reduce it. We are at 1.61%, and we are talking about the reduction of around 0.25%, so the deducted amount is approximately 15 to 20% reduction. I think among all the constituents of expenditures, we can work on that and reduce it.

Shubhranshu Mishra: And just one data-keeping question, sir, what is the provisioning that we have done specifically for COVID-19 sir on the standalone book?

Kamlesh Gandhi: 20 crores.

Shubhranshu Mishra: And what will be the SME-2 number as of 31st March?

Kamlesh Gandhi: Must be close to 82 crores.

Shubhranshu Mishra: So that is roughly 25% of the SMA-2 book. That is the correct understanding, sir?

Kamlesh Gandhi: Yes.

Moderator: Thank you. The next question is from the line of Anil Desai from Turtle Capital. Please go ahead.

Anil Desai: Sir, my question is that as and when you start the new disbursement, how do you realign your credit assessment process, because a lot of parameters that we use for our analysis may not be very relevant or accurate at this point of time, so is there any kind of a realignment in your assessment process that you are discussing or thinking about? That is my first question and the second question is concerning the moratorium the people who have opted for a moratorium would have to pay back the amount which was accrued in this six months around with the compounded interest, so the capacity utilization for their businesses will ramp up gradually, so do you think that repayment for the moratorium due would be much more elongated process when the kind of paying it off after six months.

Kamlesh Gandhi: I take your first question on credit screen if I summarize it that we have ditto of extending credit where it is due which means that we are mainly into cash flow base assessment and the business model and assessment of the entrepreneur, so with the changing situation that will be evaluated depending upon the geography clusters and that will be once again recalibrated on all the levels. So that is the continuous process, be it COVID or no COVID, so we have a credit screen assessment done very regularly at very regular intervals depending upon the quality of the portfolio we have. So this would be a very continuous process across products, across geographies. In terms of the people who have taken moratorium, I think there are two ways of doing it that if they might increase their installments, they want to pay, if it is within their means to pay that increased installment, they will keep the tenure fixed or if they want to keep the installment fixed, they will increase the tenure. So we will give both the options within the regulations and within the permissions given by RBI, so it depends upon the borrower, we will give them options. Usually, we have given the option to increase the tenure, so as not to burden the borrower but if he wants to pay lesser interest and doesn't want to pay more interest over a period of time, he can pay more instalments over this tenure and don't increase the tenure. So this is what currently the things are. This is how things are.

Moderator: Thank you. The next question is from the line of Kaushik Agarwal from Haitong Securities. Please go ahead.

Kaushik Agarwal: Sir, I just have one question, on the slide number 51 of the presentation there is some assignment income reconciliation being shown for Q4 and the full year FY20, I just want to get the understanding on how this amount is being calculated plus is there any correlation between this slide and the slide number 42 where our off-book AUM has increased considerably which is now 44% as compared to 39% last year?

Kamlesh Gandhi: I think Ankit can answer this in greater detail. I think we like to take you to the concept. What we have done here that formally under IGAAP. We were not supposed to book the income upfront. Now since the introduction of Ind AS we are supposed to book the income upfront, so what we are trying to tell that what is the income upfronted versus what would have been the normal income, so that is what we are trying to project, so the increase in the assignment does not necessarily mean that increase in income because my earlier income is being reversed, so I think Ankit will be in a position to take you through the numbers and explain you as to how it has been done. Ankit, if you can explain how it has been done.

Ankit Jain: So if you see the first point that is upfront spread, so on Ind AS what we have to do is, what all interest income which we will be generating over the years, usually in IGAAP we used to amortize it**,** but on Ind AS we have to upfront it and that too upfront on the present value. So this amount is an upfront income book at the present value, which amounts to 107 crores. So suppose this year total we would have done around 2500 crores assignment transaction, on that the upfront profit is about 107 crores. Now, the cost we do present value, there is a gap between the actual value and the present value. So suppose the income which we would have earned is Rs. 100, and the present value appears to be Rs. 90, then there is an asset created of Rs. 10 on which we again have to, we will be booking the interest every month as per the income received, so that is the second item because, in the end, the interest should tally. The third is that if we would have gone as per the IGAAP model, because now since the income is upfronted, but we are showing AUM off the book is around 2500-2600 core, on that we have to reverse the income from my interest income. So that amount is 107 crores, and the net is the net gain which we have earned over this year.

Kaushik Agarwal: So just one followup question on this, the reference rate which you used for computing the present value of the loan asset, what is that reference rate which you use?

Ankit Jain: The reference is the rate in which we have done the deal, so suppose we have done the deal at 8% or 8.5% or 9%, that reference rate is used for the present value.

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

Sarvesh Gupta: Now, coming to the question, sir one thing, if you can help me, is that we can see there is a clear movement in the asset category in favor of the SMEs over the micro SMEs, so what particular outputs that you are getting from your model which is leading you to do this wherein you are favoring more of SME loans over MSME loans, so since you are mentioning about financial screens which are being continuously changing with respect to whatever the feedback that you are getting if you can throw some light on that?

Kamlesh Gandhi: Historically, we have been working with the informal class and the advantage what we get is to grow along with the customer whom we serve, so over the years we have a vast base of the entrepreneurs whom we have served on a lower ticket size, so we continuously engage with them and see to that how we can increase the ticket size going forward. As they grow, we also grow with them, and secondly, we do not have a very concentrated effort within MSME to increase a particular portfolio. It is all about the opportunity we get from time to time, which passes a litmus test of credit and risk-adjusted returns. So some times in some quarters, we might see a growth in the micro entrepreneur's loans or sometimes growth in the small and medium entrepreneur's loan. So these are the two factors that guide us, a number first is with source the litmus test in terms of risk-adjusted returns and the basic credit screen and number second, we get an advantage to grow along with the borrowers because as we grow in our AUM, we also intend to increase our ticket size with the customers whom we have a long experience in terms of their operations and their relationships with us as a borrower. So these are the two factors that will guide our product configuration within the MSME space.

Sarvesh Gupta: And in terms of your overall book, if you can help me some split between your rural, semi-urban and urban exposure, your split of the kind of industries or type of services that they are exposed to and if you can also tell us what is the difference in collection efficiency or any other numbers that you see when you dissect this portfolio?

Kamlesh Gandhi: Rural and semi-urban forms around 65% of our assets. We have been working in class B, C centers where we see we had value in terms of last month delivery of credit, and credit dispensation required that. Around 65% is from semi-urban and rural, and the rest 35% is from urban. I think I will share precisely the repayment pattern based on rural, semi-urban, and urban with you in detail. Still, as I understand that it will be skew towards the rural and semi-urban because they were less affected, so it might be in the portion of around 60% in semi-urban and rural and 40% in urban because urban is more affected. This is what I understand, but we will have to do, I will share with you the numbers on that.

Sarvesh Gupta: And sir, if you can help us with the split in terms of the industries or the nature of the work that your ultimate end borrower is focused with and one more split was the split between your red, orange and green zones if you have that?

Kamlesh Gandhi: We can share the data point but just to share with you more than 250 categories of customers whom we serve, so I will ask my team to share that with you, and red, orange, and green is evolving. What is red will be orange tomorrow and what is orange can be red today, so we also don't go strictly by red, orange and green but I can share with you on a given date that as on 31st March or as on 31st May the color of the city is red, orange or green. Still, it is evolving depending upon the cases and all, and now just to share with you, it is not a micro-containment. It is not on red, green and yellow. If Ahmedabad is red, but we are working because all the places where we are not in micro-containment, we can work, so now the approach of unlocking one is micro-containment. In Ahmedabad, there are 17 pin codes that are under micro-containment, so they cannot work. The rest of the 60 can work. So it is not about the city being colored red, green or yellow, it is about the micro-containment within the city. So that is more relevant.

Sarvesh Gupta: So, I will get the data offline.

Kamlesh Gandhi: You can be in touch with Ankit offline.

Sarvesh Gupta: Sir, just one final question if I may, you are saying that net-net you feel that given the things where they stand as of now, your ROA can likely be between 2.75 to 3% as supposed to around 3.34% for the year which means about and given the situation may be our loan book growth, if you can help me with that, so this is if you can help me with AUM growth or degrowth expectation for this year?

Kamlesh Gandhi: I think none of you are stepping your shoes and understand that giving a loan growth projection right now will not be fair to receive because it is an evolving situation. I can give you several situations if things are okay by September if the things are okay by October, so for a lending institute, I think the right thing will be to derive the growth number rather than decide the growth number. Derive the growth number by virtue of opportunity you get withstands the litmus test of credit and risk-adjusted return, so I will not like to decide it, we will derive it. This is what we have done over all these 25 years. We are never afraid to say 5% growth, and we are never scared to do 25% growth, provided we get the opportunity, so I think this is how the interest of the investors, lenders, all the stakeholders if this is the approach.

Sarvesh Gupta: That is alright, but are you disbursing right now, what are your disbursements right now, if any?

Kamlesh Gandhi: No disbursements currently, I think I shared in the opening remarks, we will be planning to do it from June onwards.

Sarvesh Gupta: So you have started on the 1st of June, sir?

Kamlesh Gandhi: We will start, we have not drawn it, but this month it will begin to. The things are at place, policies are being framed, understanding the situation, all the senior team is working on it, so we are very hopeful that we will be positioned to do something in June.

Moderator: Thank you. I now hand the conference over to the management for closing comments.

Kamlesh Gandhi: Thank you so much everybody and as discussed earlier, we will continue to, as we complete our 25th year, we are at a very strategic inflection point. I have shared this number of times whenever I met you personally that now we are at a strategic inflection point, steady growth from here over the next 5-10 years as we are evolving on greater asset size as far as AUM is concerned. We remain committed to our vision of excellence to endeavor. Thank you so much. Thank you, everybody.

Moderator: Thank you. On behalf of Motilal Oswal Financial Services Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.