"MAS Financial Services Limited Q4 FY2021 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the MAS Financial Services Limited Q4 FY2021 Earnings Conference Call hosted by ICICI Securities. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing "*" then"0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Renish Bhuva from ICICI Securities. Thank you and over to you Sir!

Renish Bhuva: Thanks. Good afternoon everyone and welcome to the MAS Financial Q4 FY2021 Earnings Conference Call. From the management team, we have with us today Mr. Kamlesh Gandhi, Chairman & Managing Director and Mrs. Darshana Pandya, Director and CEO, Mr. Ankit Jain, CFO and also we have our senior management team of the MAS Financial. We will start with the opening remarks and then open the floor for Q&A. I thank the management for giving us the opportunity to host the call. I will now hand over the call to Mr. Kamlesh bhai for opening remarks. Over to you Sir!

Kamlesh Gandhi: Thank you Renish and good evening to all of you, and first of all I wish all of you are safe and in good health. As we all know that we all have been passing through a very turbulent and challenging time but as always we have been consistent towards our policy and will be focusing more on the possibilities than the problems, so we would like to magnify that.

So what we have been doing at MAS since inception and more precisely from last year is to strengthen the balance sheet size without being much bothered about the comparative figures on growth and profitability while we have done well on that front also.

So just to take you through the fundamentals of the company with a 27% of capital adequacy and our liquidity buffer of more than 1000 Crores, and our provisions which we have not dipped into, we have kept the provision constant at Rs. 56 Crores and after that having a net asset, net stage three asset at around 1.52% and ending with a yearly profitability of Rs. 143 Crores is what we have done over this year.

In terms of the quarterly performance, the profit stands at around Rs. 36 Crores for the quarter which is a slight jump over the last corresponding quarter which was around Rs. 34.5 Crores, and in terms of disbursement this last quarter that is the quarter from January to March 2021, we all were happy to see that the economy coming back to normal, and that was reflected in our working also where we could register a disbursement of close to Rs. 1300 Crores as compared to Rs. 1000 Crores the previous quarter that is the quarters ending December 2020.

In terms of the various assets under management and in terms of the various products what we have been dealing into, it has been around close to Rs. 3000 Crores in micro enterprise loans, SME loan contributed Rs. 1872 Crores, two-wheeler contributed Rs. 326 Crores and commercial, retail contributed around Rs. 202 Crores, and overall there was a dip of around close to 9.95% in the total AUM, but as I shared with you in the beginning that was not the area of focus.

The area of focus was to strengthen the balance sheet because being a practitioner for more than 25 years, we firmly believed that this phase shall also pass and then the economy returns to normal, the companies with the strong fundamentals will again have an opportunity to grow their balance sheet size and so our views are also confident that once things come back to normal, we will come back to trajectory of around 20%-25% growth and we have a very strong enablers of the same whereby the capital adequacy is more than sufficient we have grown mainly through internal accruals because of a very strong track record of the debt management where we are very confident to raise the debt at competitive rates and last but not least the vast market size which we serve that is MSME and our niche expertise. So this is how we have navigated through this crisis and over the last 25 years we have focused mainly on creating quality assets where I personally believe that every one of us are mandated to create quality rather than just the quantity.

In terms of just to appraise you on our housing finance numbers. The housing finance AUM stood stable at around Rs. 284 Crores and we could register a higher profitability in housing finance due to lesser provisioning this year anyhow we carry a provisioning of 1.25% of our on-book assets even in housing finance with net NPA around 0.26% which is once again stable as compared to the last year.

We have been at a stable AUM since many quarters in housing and we internally believe that we had valid reasons to be there because of the latest development in the market and then since last year 12 to 15 months due to COVID, but nevertheless let me assure you that this is going to contribute very meaningfully over the next three to five years because the way we have established ourselves in terms of systems, operations, in terms of managing the quality of the assets, and here also the capital adequacy is very strong with a very strong commitment of capital as and when required by the parent company and the promoter.

So while it has been a stable AUM in quarters we are very confident that this will contribute very meaningfully in coming three to five years. So that is why we had a very detailed presentation and also a very detailed press note and I won't take much time on the commentary so as to give you more opportunity for your queries.

I will request Ankit, if he wants to share something on the liability side and before that I think I have missed out on one or two points which I would like to share with you which you all must be interested is on the collection efficiencies.

As shared in the presentation we had around 95% collection efficiency in the last quarter, April 2021 has dipped slightly to 92% and we are yet to see what exactly the figures will be in May 2021 given a massive disruption in the economy. So we will be in a position to know that how it stands out within a week or so.

On the restructuring part as I had communicated last time also that it will be less than 1%, it is around 0.3% as on March 31, 2021. We have been very cautious in restructuring only to those who can repay and for them the credit history is not distorted so as to enable them to raise money from the other financial institutions we have granted restructuring so it has been around close to 0.3% on restructuring as on March 31, 2021.

Now I will hand it over to Ankit for his brief on the liability management.

Ankit Jain: Thank you Sir. To further elaborate on the liability management, the Company during the quarter through its efficient liability management was able to maintain liquidity buffer of around Rs. 1000 Crores and unutilized cash flow facility of around Rs. 325 Crores. In-addition to that the company has sanction on hand to the tune of Rs. 1000 Crores in the form of term loans and direct assignments. In the last quarter Company did around Rs. 190 Crores direct assignment transactions. The Company further has more than Rs. 800 Crores sanction on hand which will be utilized during the current year.

The Company has available cash credit facility of Rs. 1795 Crores out of which Company maintains the level 65% to 70% and rest portion is kept as a liquidity buffer.

During the quarter we successfully rolled over around Rs.1100 Crores short-term working capital loans which are sub-limit to the cash credit limit.

Company raised around Rs. 655 Crores term loan during the quarter this helps us to further strengthen the asset liability maturity pattern. The company further has around Rs. 150 Crores sanction on hand which we will utilize during the current quarter.

Just to add on the company raised Rs.200 Crores refinance from NABARD during the quarter. This was the first relationship with NABARD, and we wish to take it to a new heights going forward.

Company also raised the first MLD which is Market Linked Debentures of Rs. 65 Crores during the quarter. So it was a Rs. 50 Crores plus the green shoe option of Rs. 15 Crores. On the ALM, company also assessed its structural liquidity for the period ended March 31, 2021 and based on the assessment there is no negative impact on the liquidity and the cash flows in all the cumulative buckets remain positive.

The company's capital adequacy remains strong at 26.85% with Tier I of 24.81% resulting to debt equity of 3.12 times. Just to highlight the cost of borrowing for the quarter works out to be 8.75%, which was 9.10% for the December 2020 quarter, and for the whole year, it was 9.10% compared to last year which was 9.32%. So by the efforts of efficient liability management and because of reduction in MCLR by the banks we were able to reduce our cost of borrowing.

Thanks, I will hand over the call to Kamlesh Sir again.

Kamlesh Gandhi: Thank you Ankit and that is all from our side and we are open for the Q&A session.

Moderator: Thank you very much Sir. We will now begin the question-and-answer session. The first question is from the line of Malhar Hemal Manek from Manek Investments. Please go ahead.

Malhar Hemal Manek: Good evening Sir. Hope all is well and hope you are not impacted by the cyclone. Sir my first question is about Sambandh Finserve. I am aware that we have provided for our total exposure of Rs. 18.4 Crores in the second quarter itself but I want to understand why exactly this happened because in the letter written by the CFO they mentioned that they were cooking the book all the way up till FY2016 and another Ernst & Young report mentioned that the fraud has been going on for eight years. So I want to understand why were we unable to support it like is there any flaw or inadequacy in our due diligence process and what changes have we made to our due diligence systems or to make it more stringent and what is the likelihood of such an event occurring again in the future?

Kamlesh Gandhi: Thank you. We are good. The cyclone has not affected as it was anticipated and as we already discussed on Sambandh and has been shared it in the investor presentation many times. So I would not like to repeat it again but once again this is that one odd incident in our Rs. 14000 Crores of a cumulative disbursement and overall our NBFC portfolio is managed in such a manner that our net loss is less than 0.5% and which has been explained in our presentation and in the last concall also sufficiently enough to how we will strengthen. I will request you once again to go through our presentations is that at around 4 to 5 slides dedicated on how exactly we are strengthening and strengthening the systems and operation is a part of the credit process and we should understand that we are not in the business of avoiding risk but managing risk. Such type of incidents may happen, but it is only about how you take it, what the capacity of the company to absorb it is and what is the capacity of the company to learn and unlearn from time-to-time.

Malhar Hemal Manek: And sir my second question is that Daksha Madam is an Independent Director on our board as well as the Managing Director of another NBFC, Altura Financial Services and in October 2019 Altura had sold its microfinance portfolio to Centrum Micro Credit so it seems like Daksha Madam may be an interested party in Centrum Micro Credit and if I am not wrong as of June 2020 we had given a term loan of Rs.94.96 Crores to Centrum Micro Credit. So can you please clarify the reasons for this?

Kamlesh Gandhi: I will ask my Company Secretary to give you the reply on the conflict of the interest of Daksha Ben. It is not so. My Company Secretary will answer at length on this conflict of interest whatever you are telling us.

Malhar Hemal Manek: Sir just one quick question. In our NCD by private placement at 9% interest on June 16, 2020 I know that we had a PSU bank like Central Bank and Indian Bank that are interested, but which were the private sector banks that are interested?

Ankit Jain: So Malhar this was the NCD which are issued under the PCG guaranteed by the government and that was only allowed for PSU banks.

Malhar Hemal Manek: So there were no private sector banks in that.

Ankit Jain: It was not allowed by the government.

Malhar Hemal Manek: Sir lastly I have some suggestions for improving the due diligence process.

Kamlesh Gandhi: No this is not the right forum for suggestion, the same can be mailed and I receive your mails from time-to-time, so let it be limited to the financials and the queries because suggestions is an endless process. I am happy to see you interested at your age and I receive your mail very regularly. So let us keep suggestions not on these forums.

Malhar Hemal Manek: Thank you Sir.

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

Sarvesh Gupta: Sir just one small query so this March quarter was supposed to be I mean many financial firms have been able to land up at a gross NPA number which was similar to without dispensation figures of Q3 because March was a very strong quarter of business but for us there was some spike so this plus the trends that you are seeing in the last one and a half months, so if you would want to give some color on our overall gross NPA numbers as well as I think this time even for our assigned book we have disclosed some numbers of gross NPAs etc. So if you can throw some light on that as well. That is number one, secondly is a bookkeeping question I think the difference in the networth for the full year between FY2020 and 2021 was a much larger than the PAT net of dividend so if you can just explain the difference?

Kamlesh Gandhi: Coming on the quality of the portfolio we have always maintained that it will be range bound, so if you recollect we always told that our GNPA will remain between 1.5% to 2% and we have ended up at around 1.93% especially taking into account the class of the customers whom we serve to and secondly after provisioning it is around 1.53% so while efforts are continuously on for better credit due diligence and collection but this is in length of our expectation for the year. Going forward, looking at the current scenario it will be difficult for me to predict as of now so once the things open after say eight to ten days in phases at various places then I will be in a position to assess what exactly the situation is, we all know that this wave is different from the last wave, this wave has hurt more of the human resources also rather than just the businesses. So the capabilities to connect to them is also reduced since the month and that we are trying to reconnect to the various stakeholders especially the borrowers whom we are serving too but within the next 15 days to one month the things will unfold but I personally believe looking at our due diligence and the past experience that the provisions what we have and the way we do the credit due diligence once again GNPA would be range bound around 2% may be spiking of 0.25% to 0.5% temporarily but can come back to normal and LGDS will remain on the expected lines because the NPA necessarily does not mean loss given default in our cases where we show to the informal economy the chances of collections are very high. Ankit, can answer that the difference in the networth is due to OCI right?

Ankit Jain: Yes. So what happened because of the Ind AS provision which we do is added to the OCI and therefore the numbers will not match from the PAT directly.

Sarvesh Gupta: Thank you and all the best for the coming quarters.

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

Bhavesh Kanani: Thank you for the opportunity. My question is really on the provisions and how they connect with the asset quality existing as well as anticipated trends in the six months going forward. So as you mentioned our restructured pipeline is not that heavy, but given the second wave and as you mentioned the second wave appears to be little different in terms of impact, now how high can this restructured pool can go to and overall behavior of collection as you mentioned in appeal there has been a dip so putting all these things together your view for next six months the dip in provisions during this quarter was a little surprising are we in conclusion saying that the buffer provision we have for COVID as of now is sufficient to tied over the challenges that we may experience in next six months or we can resume a higher provisioning rate in the coming quarters?

Kamlesh Gandhi: See starting from the COVID provisioning as I shared in opening remarks we have not dipped into it at all so we have kept it constant so presuming that the COVID condition is prevailing. Now as we know that every time a new wave comes we see a different dynamic and dimension of the impact. Now the dimension and the dynamics of this impact will take around a month as I shared earlier, it will take around a month or so for us to really assess, but as of now as I talk to you I have 1.39% provisioning on book assets, on stage 3 assets it covers our stage 3 on-book assets completely and it covers around more than 60% to 65% of our stage 2 stage 3 assets so we have reasons to believe that the current provisions are sufficient but if the situations are still unpredictable and dynamic what we can do is that they can keep this provision stable and then create a new one also or write off progressively keeping this provision stable. Coming to the provision figure which has reduced now what has happened is that that we have covered under ECL that is Expected Credit Loss which is based on the past performance. Now basis the past performance and basis the write-off what the company has taken this was the number what we have arrived to in terms of credit impairment for the quarter and even though we had worked, we were endeavored with the auditors to have the maximum management overlay otherwise what has happened that what we have predicted at the time of COVID for COVID provisioning as such we had performed far more better than that but we used our management overlay to keep the COVID provisioning constant and that had to apply ECL to arrive at the provisioning figures.

Bhavesh Kanani: Sir you just touched upon the housing finance business a bit and you found it quite positive on the three-year, five-year prior horizon can you add more color to that business in terms of what are your plans how the experience has been during the COVID, the basic numbers you have shared are quite interesting and impressive, but if you can add more color on your view for around next three, five years?

Kamlesh Gandhi: See we basically serve to the rural and in the affordable space and I have shared this right from 2017 onwards and then we know that we have been facing a lot of challenges where we decided to focus on the fundamentals rather than growth. The basic model is to touch first the rural villages in Gujarat. Gujarat has 17700 villages and out of that even though we can have around 500 to 1000 villages with a Crores of portfolio outstanding, can give us a very good AUM from the rural places itself, having said that this is a task to be worked upon. It is not as simple as putting it on the excel sheet there you need a team, you need the processes, you need all the enablers to convert this potentiality into real business but we are very optimistic to do it maybe quarter here or there. In the affordable space what has happened is that when we started affordable housing there was a lot of problem on the supply side. Now supply has eased a lot with many of the developers moving towards affordable housing seeing more opportunity in affordable housing as compared to the high cost housing segment so the supply has improved and secondly since the supply has improved and the demand has not picked up so much the developers are also showing rationality in their pricing and secondly there has also been a tremendous attraction from the interest rate point of view formally whatever HFC of our size would have offered at a rate of anywhere between 13% and 15% now the same loans are available between 10% and 11% even to the informal and even to the low income group. So the combination of the demand, the combination of the supply and all these factors including the availability of funds and the rationality in the prices should contribute to transferring this potentiality into business and into the AUM we want over the next three to five years so this is what makes us very confident of that.

Bhavesh Kanani: Any broad numbers you would like to share or the guidance that we give for AUM growth over long-term 20%, 25% that includes the housing piece or that is in addition?

Kamlesh Gandhi: That is more on our when I talk about 20%, 25% is more on the standalone. Housing ideally at this place should they grow at 30%, 35% plus.

Bhavesh Kanani: Thanks a lot for answer Sir.

Moderator: Thank you. The next question is from the line of Srishtik Datta from SMS India Private Limited. Please go ahead.

Srishtik Datta: Sir I am a retail investor. As you understand that being a retail investor my interest is more on the part of how the share value is moving and also how your internal business is moving so I will just as a retail investor ask you as the management of the company how do you see the growth of the company in the next one year?

Kamlesh Gandhi: If you ask me, we always have a medium-to-long-term view because if you have a very short-term view, you have short-term actions. So over the years did you see the history of MAS in our investor presentation we have shown if I step in your shoes as a retail investor what am I going to look into that if you see the history of MAS starting from a Rs. 2 Crores asset size in 1995 it has registered a CAGR of 35% plus be it the AUM or be the profitability and 25 years is a very long period to judge a company through all thick and thin. Over a year very difficult to predict right now with the second wave, but the fundamentals of the company is to grow anywhere between 20% and 25% once the economy normalizes we will see no reason why we should not go at that rate with all the enablers of the very strong capital, very strong capabilities to raise debt and a very large market size we serve. As far as the prices are concerned I have no control on that. It is only about how we perform and we all know that investing is a business where you need to be patient and once you are patient and the companies like us who are generating a CAGR of 20%, 25% over a time horizon you will definitely get good returns.

Moderator: Thank you. The next question is from the line of Shreepal Doshi from Equirus. Please go ahead.

Shreepal Doshi: Good evening. Thank you for the opportunity. Sir I just have a few questions. Firstly Sir if we look at the disbursement number we have seen 25% quarter-on-quarter growth of course with a low base but if you look at on the loan book side the SME book has grown by 22% sequentially so fair to assume that most of the disbursement was towards this segment?

Kamlesh Gandhi: Yes, because we serve MSE, SME, two-wheeler and commercial vehicles and this was the area where we found good opportunity in the lines of our dictum of extending credit where it is due and because of our distribution model of working at 3500 places along with the NBFCs whom we are connected if they are more than 100 in numbers so that was a good opportunity this quarter to fund to them.

Shreepal Doshi: Is there anything that we have done on the ECLGS side for any of our customer segments like across the product category that we cater to?

Darshana Pandya: So far we have disbursed 19 Crores under ECLGS.

Shreepal Doshi: For the whole year is it or only for the 4Q?

Darshana Pandya: For the whole year. The disbursement started from the second half only.

Shreepal Doshi: Sir the next question was with respect to I mean, if we look at our say 1-30 DPD and the different buckets what would be the 31 to 60 DPD for each of the segments if you can give some color there like which segment would be having higher proportion of the 31 to 60 and 61 to 90 and above 90 DPD sort of, so you can just give some color on the products segment wise?

Kamlesh Gandhi: In that we are seeing stress on the two-wheeler portfolio followed by commercial vehicle and then MSME and SME in order.

Ankit Jain: The overall it is 1.22%.

Shreepal Doshi: Yes, overall the numbers like I have it but I was just thinking like as I have indicated at the highest.

Kamlesh Gandhi: That is what I shared with you that it is start with two-wheeler, SRTO, MSME and SME in that order.

Shreepal Doshi: Sir restructuring as a regulatory support is available so do you think we will be using that in the coming quarters because we are seeing the second wave impacting us or at system at large given so you think we will be using this tool in the coming quarters?

Kamlesh Gandhi: See we are more than happy to use this tool for the ones who really deserve. I said in my last commentary also that restructuring will depend upon the capabilities of the borrowers to pay once it is restructured. If we think that even after restructuring the cash flows are not sufficient to pay then it makes no sense to restructure. So we see at the merit of each case, the new cash flow post this COVID and all and when we see that this case is deserving then only it is restructured, otherwise we take it as the bucket it comes so at the end of the day we are not carrying any unknown stress of the portfolio in the balance sheet.

Shreepal Doshi: Right, that will be a prudent call actually. Sir one last question I mean what would be the collection efficiency. I mean I understand given that number at 95% but within the segment if you look at I understand you said that in two-wheeler the stress is high but what would that number look like for say for the month of February, March and sort of April for each of the segments?

Kamlesh Gandhi: When we talk about slippage is high in two-wheeler it implies that the collection efficiency was low there. So once again the collection efficiency challenges fall again the priority of two-wheeler, SRTO, MSE and SME.

Shreepal Doshi: Sir one last question was that you have raised Rs. 200 Crores through NABARD is that number right or I have got it wrong?

Kamlesh Gandhi: Yes, 200 Crores.

Shreepal Doshi: Then what rate were we able to raise that?

Ankit Jain: That would be all in 9% whereby the loan is for five years.

Shreepal Doshi: Long-term of 9%. Thank you so much sir and good luck for the next quarter.

Moderator: Thank you. The next question is from the line of Rahul Maheshwary from Ambit Asset Management. Please go ahead.

Rahul Maheshwary: Good evening Sir. Hope all is well at your end. Sir I had two questions. Going in last one year the management and every company, have sailed through the headwind what are the key learning's or in terms of your underwriting or what credit tightening which you have done or in terms of the employee productivity any three pointers or hard practices you would be following in FY2022. It would be very helpful in terms of to know how stringent you are making your credit practices.

Kamlesh Gandhi: As far as the credit dictum is concern of extending credit where it is due based on their liquidity, solvency, business model, past track record, are the fundamentals which are always followed during good times and during challenging times. Now how we changed your assessment technique is very important and that assessment techniques changing is a continuous process. Say for example right now the debtor cycle will be delayed for certain businesses or some other implications of delay in their order book or they are not getting the liquidity sufficiently they would like to raise from the other sources all those counts are taken into account and then the credit assessment is done and with a higher haircut or with a higher conservative approach and that is being revisited every month now so depending upon the product, depending upon the branch, depending upon the behavior of the portfolio and it is very dynamic in nature. In terms of employee productivity as we told as this was the time whereby we need to stand by them and we had utilized this time to engage with them more closely on the future path of the company to motivate them to identify their career and their working with the company's ideology and company's goals and interacting with them and getting the feedback from them from time-to-time as to how we can be more relevant at the marketplace while not compromising on the asset quality has been our prime objectives during this where we had less action on the ground.

Rahul Maheshwary: Sir in terms of as you told it is an ongoing process and definitely I agree with you Sir but in terms of India's business economic activity is down so what is the company's rejection rate if you can give in terms of range that in Q4 January till April how the rejection rate has been going through because you have to tighten this screw when the things are not good so that would be very helpful in terms of understanding them more tightening of the norms?

Kamlesh Gandhi: The rejection rate in the last quarter would be around 40% to 45% as against our normal rejection rate of around 20% to 25% so it almost has increased by 1.5 to 1.75 times.

Rahul Maheshwary: In April and May it has further increased or it is at 40%, 45% level?

Kamlesh Gandhi: April and May we are struggling to get the log-ins because there the majority of the area people are not interested in taking loans they are interested in taking Remdesivir and other drugs so the disbursement in April and May has been hardly 20%, 25% of what we used to do and to be honest we are also not focused on that because the welfare of the employees starting from the welfare of the family to employee to relatives had taken the precedence above everything.

Rahul Maheshwary: 100% Sir, and the second last question from my side as you told in last one, one and a half year at different times of calls or different points of meetings that MAS is evaluating on the co-lending a co-originating platform or having the tie-ups with the Fintech so if at all you can give some highlight that how the proceedings are going up what you are evaluating, want to transform yourself into though exact details about with whom is not required but how the transformation would be taking place that is more important what you are looking for.

Kamlesh Gandhi: My thought on Fintech is the ones who are tech has to learn Fin and the ones who are good at Fin have to learn tech and that is where Fintech will really work. So we are more on the Fin side being the conventional lender for so many years we are tied up with so many Fintech for origination, for co-lending and we are working on various filers whereby our contribution is on credit prudence and extending credit where it is due and their expertise comes on scale and speed. So we are very continuously engaging with all of them and it is a work-in-progress still which before we can zero down on this is the number what we are going to take or this is the target what we are going to achieve. So it is not on a target basis right now. It is more on the basis of understanding each other and having a common ground whereby we can scale up, we can be customers delight by using technology but at the same time, we do not end up with higher losses because at the end of the day if we end up with higher losses and do not make money all these things will not make sense. So on these fundamentals we have been tying up with almost all of them depending upon the merit, depending upon the product they are into but we are very sure that the tech part will play an important role and we are working very actively and consciously on that.

Rahul Maheshwary: Sir just a follow-up on this question if you are evaluating such kind of tie-up so can we assume that leaving apart the four segments where the company is, it can enter into fifth pillar of a consumer-based lending in terms of unsecured or it would be related to the existing segments only?

Kamlesh Gandhi: It will be limited to the existing segments plus we will be trying out some sort of personal loans as a pilot.

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

Ankit Gupta: Thanks Sir. Pretty commendable the way the company has here with us during these challenging times and hopes it continues next year as well. Sir, if you can talk about how has been the feedback from the microfinance customers and for the past months or so and how do you think that they are responding to this challenging time and especially the past one and a half months that has been pretty challenging time any views how their collection efficiency is pickup up and what are your expectations about this portfolio performance?

Kamlesh Gandhi: On the microfinance side till April end everything was up to normal so to say and from May as I shared with you it is not a time to take the exact feedback from them regularly but we have seen that this time the rural folks have also been affected so this will definitely have the impact on the collections of the microfinance NBFCs but having said that the ones whom we work with we work with an arrangement whereby they take the complete guarantee of what we fund through them and we work with those who are sufficient solvency and liquidity so that they can absorb that but stepping into the shoes of MFIs their collection efficiency which had stabilized in the range of around between 85% to 95% for various NBFCs in various areas will again see a drop. How much drops difficult to tell right now. So that sector once again we will have to cope up but the positive part is that once thing normalizes this is the one which recoups the fastest because they are into all basic activities the loan size is less the installment is less the requirement of continuous credit is there where they do not need to, they would not like to spoil their credit history so these are the strong enabler for those guys to recoup fast that is what we have seen in the first wave that the collection efficiency was increasing pretty fast as compared to other sectors.

Ankit Gupta: Sir are we currently providing support to these NBFC customers and extending credit to them or we are also being a bit more cautious and evaluating on a case-to-case basis or we have stopped disbursement to them for some time and see how the overall situation pans out in the next year.

Kamlesh Gandhi: It is not about stopping business in April and May but just to share with you there has been hardly any demand because further disbursements are not there and wherever there are demand we will get into it very thoroughly as to what are the opportunities for those people to create the portfolio the way we want and in the manner we want so that has been evaluated very closely and while evaluating this and the basis of demand we have found hardly any opportunity during this month.

Ankit Gupta: Thank you so much Sir and wish you all the best.

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

Bharat Shah: My apologies but I joined the call fairly late. So in case if a question is repeated please forgive me. My first question was on the expenses both staff expense and the other expenses. So staff expense I am seeing is virtually at about 7 Crores for last four quarters and it was about close to 13 Crores in March 2020 are we not keeping this too tight where on a long run it can affect our operations because if the staff expense is so curtailed will it not affect the long-term performance of our business?

Kamlesh Gandhi: No, let me share with you. The majority of the sacrifice has been done by the management team in terms of foregoing salaries or taking a salary cut because that charity should begin from home. So as far as the major impact is on that that account plus we have a structure of fixed plus variables. Obviously when the business is down the variable cost will also come down and in the terms of fixed cost also we are thankful to the complete team were very voluntarily we had not imposed that until March had taken the deductions varying from 25% to 5% to 10% depending upon their scale and we had just stabilized and restored that amount in March and again we are saying this and in April and May we have stick our neck out and we have not gone for any such adjustment so it is a combination of the management team sacrificing and also the complete team at MAS is responding to the call of taking the curtailment in their fix salaries and variable cost obviously as you know because of the loan business has reduced but let me assure you this is not at the cost of sacrificing any of the talent which we want let me tell you that in last not in the one year, in the last three years or maybe more than that but if we can tell within last three years we have hardly lost any of the senior guys who really matters.

Bharat Shah: But my question is to really to check that in order to improve our short-term performance it should not happen that we take a long-term…?

Kamlesh Gandhi: No, I absolutely understand and I agree that and as we never think we never have a short-term view because that we have been reporting on quarter post listing otherwise we always take a longer-term view and a medium-term view for me is 10 years so we never take a short-term view and it was a well informed decision taken as a team.

Bharat Shah: And I suppose with sufficient part of their heart in agreement on that

Bharat Shah: The other question was on the opex they are surprisingly I am seeing a huge degree of variability Rs. 10 Crores in March 2020 to Rs. 3.6 Crores in the first quarter then Rs. 5 Crores and Rs. 8 Crores and now Rs. 13 Crores so any reason why these expenses are behaving in an unpredictable way?

Kamlesh Gandhi: You are talking about other expenses right.

Bharat Shah: Yes.

Kamlesh Gandhi: Last five, starting from March 2020, Rs. 10 Crores, Rs. 3.5 Crores, Rs. 5 Crores, Rs. 8 Crores, and Rs. 13 Crores. In other expenses I am not getting that number right now but if I tell you the other expense portion on a sequential basis this year includes our Rs. 5 Crores close to Rs. 4 Cores of unspent CSR formally the CSR was to be charged against P&L on when you spend it so we already have projects identified on education and health and that project takes time to absorb the money the way we want to distribute from time-to-time. So by the recent guidelines for this quarter we had to account for around Rs. 4 Crores as CSR as other expense.

Bharat Shah: That is occurred in the March quarter.

Kamlesh Gandhi: Yes, that is only in one quarter so if you say on 31/12/2020 the other expense is Rs. 6.04 Crores whereas in 31/03/21 it is Rs. 11.74 Crores from Rs. 11.74 Crores if you deduct

Rs. 4 Crores it will be close to Rs. 7 Crores, Rs. 7.5 Crores which is under the normal business pattern.

Bharat Shah: The third aspect was on the asset quality, and I know that in general you have been very, very careful and very strongly focused on ensuring quality of the asset in a tight band, but I was a bit surprised that the credit cost which is being charged in the fourth quarter if you see the gross NPA that has moved from Rs. 67 Crores in the third quarter end to Rs. 104 Crores. Our net NPAs have moved up from Rs. 51 Crores to Rs. 82 Crores. So provision cover is more or less remain around 21%, 22% but gross NPA they have moved up, net NPAs have moved up but the provision credit cost that we have reflected in the fourth quarter has been relatively modest that are only Rs. 7.5 Crores so I hope to your mind it reflects the full reality and all that you need to charge in account for has been taken into account.

Kamlesh Gandhi: It is to start with understanding the numbers Rs. 104.30 Crores out of Rs. 104.35 Crores there is a Rs. 40 Crores of element which is assigned so we are not supposed to provide anything on that and this Rs. 40 Crores is because it is a cumulative figure over all these years because since it is assigned neither I know whether the banks have written-off or what they have done so we keep that figure as it is for more transparency of numbers. So out of that Rs. 40 Crores is that portion and Rs. 64.42 Cores is what belongs to us and this Rs. 40 Crores just for the sake of information is over a cumulative assignment of more than Rs. 10,000-12,000 Crores over last seven to eight years so this is the first thing which I would like to bring to your notice and secondly I think I discussed this with Bhavesh Bhai also that secondly we if you have noticed we have not dipped into our COVID provision at all we have captive status quo at Rs. 56 Crores despite of the fact that we have gone through a full year of a COVID impact and that we have used it as a management overlay. Now what happens under Ind AS we are supposed to provide as per the ECL/Expected Credit Losses in the future so basis the ECL this credit impairment is taken and the complete management overlay had it was on me or it was on the management to dip in into the COVID provisioning because the portfolio has behaved far more in a better way than what we have projected while creating the management overlay. So we use that management overlay and kept it as it is and the ECL was used to arrive at the credit impairment.

Bharat Shah: I fully appreciate. I know the conservative standards with which MAS operates. I just wanted to be sure that so essentially what we are saying is that whatever credit cost you could see and you believe is likely to be there is taken care of into the books and you are sitting on a healthy additional kind of a buffer of almost Rs. 60 Crores for any potential contingent.

Kamlesh Gandhi: Exactly right.

Bharat Shah: One last question from my side. This I have asked you before also and last year has been a very, very unusual and difficult period. Just when we thought that probably we are going to see this back of this monster once again it has created uncertainty but is it likely or has it happened that we have become a bit more defensive than we should be while clearly prudence MAS has always represented due desire and aspiration for superior growth, at the same time very careful assessment and tight credit quality which is the way lending business has to be but I am saying are we a little bit getting a bit too conservative and shrinking within ourselves or it is just that whatever has happened and is happening and in your opinion the way we are playing it a bit more conservatively is actually the best way to do.

Kamlesh Gandhi: Bharat Bhai we have kept it very simple over all these years at MAS that quality, profitability and the growth and with the market and the strong enablers what we have we strongly believe that we have all potentiality under normal circumstances to grow between 20% to 25%. If I just give an example in Q3 we have discussed Rs. 1000 Crores that Q4 was normal we could disburse 1300 Crores, Q3 was Rs. 5020 Crores in AUM and in Q4 it is Rs. 5300 Crores. So indicative of the fact that whenever we get opportunities we are keen to grow because as an organization which is not keen to grow practically it will be difficult for them to survive but as a practitioner I think that there is nothing wrong to be over defensive for a particular quarter or two because unless you get the complete things as to how the things are panning out and just going for a higher growth can be counterproductive at times but having said that we are inclined for a quality growth. We have demonstrated that whenever we get an opportunity we will do it. We are very confident a quarter here or there or six months here or there MAS will double its AUM every three to four years. If you see when we went to an IPO we have close to around Rs. 3000 Crores, Rs. 3500 Crores and I take the liberty to call this committed Rs. 6000 Crores so in the most difficult of the three years we have grown from Rs. 3500 Crores to Rs. 6000 Crores. So given an opportunity we are keen to grow we will grow it is just a matter of prudence at the right time so what you call in cricket timing, timing was very important.

Bharat Shah: I respect that Kamlesh bhai, your judgment on that obviously is the most important one when to be defensive and when to be on the front foot so I respect it. Thank you Kamlesh bhai.

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

Sagar Jethwani: Sir how many branches do we plan to add this year and next year and maybe if you can segregate it state wise and what will be the opex related to that? Thank you.

Kamlesh Gandhi: See currently with 100 branches if things are okay even for the remaining three quarters where we will like to take it to anywhere between 150 to 175 branches because we would like to penetrate deep now with sufficient experience in Maharashtra, Madhya Pradesh and Rajasthan, the way we have expanded ourselves in Gujarat. And opex will be based not only on the branch operation. Let me tell you that for a finance company the branch opening does not entail much of the opex. It is the product line which enters opex that if you are into a smaller ticket size the opex will be higher, if you are into a larger ticket size the opex will be higher so depending upon the products that we have at various branches the opex will be accordingly aligned. So difficult to give a complete number but depending upon the branch, depending upon the product they develop that will be the resultant opex.

Sagar Jethwani: Sir what is the emergency credit book stands at currently and what is the yield on that ECLGS?

Darshana Pandya: ECLGS that is 19 Crores.

Sagar Jethwani: Thank you so much.

Moderator: Thank you. Ladies and gentlemen due to time constraints that was the last question. I now have the conference over to Mr. Kamlesh Gandhi, Chairman and Managing Director for closing comments.

Kamlesh Gandhi: Thank you everybody. I wish all of you a very good health. Please take care of yourself, your family, your colleagues, and please stay safe and we at MAS we will do the same. Let me assure you that we will endeavor to accomplish and to walk and to work very hard on our mission of excellence to endeavor. Thank you for your support all the way and wish you all the best. Thank you.

Moderator: Thank you. On behalf of ICICI Securities that concludes this conference. Thank you for joining us. You may now disconnect your line.