"MAS Financial Services Limited Q4 FY2022 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Q4 FY2022 earnings conference call of MAS Financial Services Limited hosted by Elara Securities India Private Limited. As a reminder all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*"then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Shweta Daptardar from Elara Securities. Thank you and over to you Madam!

Shweta Daptardar: Thank you Steven. Good evening everyone. On behalf of Elara Capital we welcome you all to the earnings conference call of MAS Financial Services Limited to discuss the Q4 FY2022 performance. From the management we have with us today Mr. Kamlesh Gandhi, Chairman and Managing Director, Mrs. Darshana Pandya, Director and CEO, Mr. Ankit Jain, Chief Financial Officer and senior management team. Without taking much of the time I now hand over the call to Mr. Kamlesh Gandhi for his opening comments post which we can open the floor for Q&A. Thank you and over to you Sir.

Kamlesh Gandhi: Thank you Shweta and good evening everyone. I am very happy to connect to all of you once again. While we have the presentation and the press note already published, but just for a better understanding. I will take you through the basic strategic intent of the company with headline numbers. So as we all know that we pass through the most unprecedented time of our life through COVID pandemic and as I have shared with you all earlier also that the main focus of the company remains to strengthen the balance sheet as we have been doing it since last more than 25 years and while this was an unprecedented time but we have navigated such type of challenges in the past too, so that gave us a good insight on how to navigate through this and the net result is that we are once again on the growth trajectory as we were before the pandemic started and hopefully things being normal, we are once again on our normal growth trajectory of 20% to 25% while this quarter also we are very near to that with close to 17% growth in AUM corresponded by the 17% growth in profitability with the all-time high disbursement of close to Rs.1,950 Crores indicative of the fact that the businesses across all the segments we work have not only survived, but have now started growing gradually.

On the fundamentals, to take you through the fundamentals, we maintain a very strong capital adequacy of 26% out of which around 23% is tier 1, so once again that gives us the room to grow at the rate which we desire and aspire and as we all know that we have a very strong self-propelling capital model that even with the growth in AUM, the capital adequacy always stands very strong and the intention of the company to maintain anywhere about 20% going forward. In terms of distribution, we increased our distribution as I have shared with you in our earlier calls that we are actively working to increase our branches and distribution and in those lines, our distribution is now at around close to 5,000 centers which is reflected in rise of our retail assets whereby our direct distribution contributed 52% of the business as compared to 42% last March and our distribution through NBFC is 48% which was 58% last March. Having said that the value both the distribution equally but as time and again I have been reiterating that since the pace at which our distribution will increase will be much faster than at least the pace of tie up with NBFC will increase and hence this result and this shift which will be going this way I anticipate in this year also.

On the products, we continue to focus on our flagship products that is micro, small and medium enterprise loans which contributes more than 80% of the loans we give and two wheeler and commercial vehicle also contributes around 10% to 12% of the total AUM with the normalization of activities we presume that there will be increased contribution from those products also and within MEL also from next quarter we are trying for a better credit and risk assessment and exploring the possibility on small ticket size personal loans which are being used for the personal purposes, so that can be an addition to the product slowly and gradually.

In terms of technology, I think working on technology has become an integral part for all of us so updating the technology and advancing on the technology from time to time remains our main plan and that will help on to increase the efficiency. We are trying to adopt technology and we are trying to have the digital cycles, digitization in all our products cycles that should result into customer delight and better credit dispensation within our lines of an intention of extending credit where it is due. So just to give you a hint on that we have now close to 20 API integration which helps us in decision making and we are also increasing our reach on technology on origination and on boarding the clients as well as on the credit decisioning.

Now I will take you to the housing finance business. On housing we registered 11% to 12% growth, but once again I would like to reiterate that with a smaller size we will be in a position that is the growth trajectory of anywhere between 25% to 30% and we are seeing that possibilities right from Q4 and we are confident that business will also start contributing meaningfully. Very important to share is about the quality of the assets, the quality of the assets remains very strong at 1.7% net stage three of the AUM and in our parent company and at around 0.5% of our net stage 3 AUM in our housing finance company and still in our parent, we continue to hold a special buffer of 0.75% of our on book assets and in our housing finance business we continue to hold more than 1% as a special buffer on our on book assets, this is in line with what we think that the lender would like to seize on the opportunity whenever we get to create buffers which I think with normalization will also normalize going forward.

The way forward from here with around Rs.6,500 Crores of consolidated AUM we firmly believe that we are on track as this is sounding repetitive that we are on track of our normal trajectory of 20% -25% growth with strong enablers of a very strong capital adequacy, very strong liability management while Ankit and Darshana ben will take you through the numbers in detail, but if I just give you the heads up on the liability management, we already tied up for almost two to three quarters this year also, so these being a very strong enabler and along with a very strong team of more than 2,000, we are now a team of 2,000 increased from 1,450 which was last March and counting. So with all this strong enablers, with the vast market size which we serve we are confident that we are well on track for the growth which we have demonstrated over all these years.

I think I will be missing on a point if I do not talk about the current interest rate hikes. I think we all knew that it was around the corner, but this was little sudden and little more than what we anticipated but bearing last three to four years, rate hike has been a very regular feature in our journey so we have clue on how to manage such rate hikes ultimately as intermediaries our role is to pass on the money from the saver to the consumer so when the rate hikes as NBFC we do not use money for ourselves, it has been lend to the borrower so ultimately the borrowers will bear the rate hike whatever it happens, at the same time we will try to be as efficient as possible by calibrating and recalibrating our borrowing configuration so that we are in a position to get the minimum rate hikes and hence pass on the minimum rate hike.

In between during the duration whatever the transition will happen that will happen slowly for us because maturity almost all our lending is not EVR based lending but it is MCLR based lending, so it takes time for transmission so we will get sufficient time to adjust our moves accordingly and secondly our average book tenure being around 18 months gives us a further room to calibrate the rate with more than 75% of our assets under an arrangement whereby if the need be, we are legally competent to raise the rate if required so this is how we will be navigating this rate hikes anticipation without causing much stress on NIM and hence the ROA, so this is from my side. I will hand over to Darshana ben to take you through numbers for better information and then to Ankit on the liability management. Over to you Darshana ben.

Darshana Pandya: Thank you Sir. Good evening everybody. I welcome you all to this earning call for FY2022. So we started this year with the AUM of Rs.5,372 Crores and we all know that in Q1 there was a dip in AUM and then the three quarters went normalized and we closed Rs.6,246 Crores and if we look at the product wise configuration, our MSME portfolio is around 88% of the AUM which is Rs.5,524 Crores and wheels portfolio is 12% that is Rs.723 Crores. If we look at the growth numbers we grew our MEL portfolio by around 9.39%, SME loan portfolio there is an increase of 21.49%, two-wheeler loan portfolio grew by 15.52% and commercial vehicle loan grew by 70.14%. Here, the percentage looks high because the base is very small. If we look at the total income on Q-on-Q basis it has grown by 29.66%, last year it was Rs.139 Crores and this year we ended at Rs.180 Crores, profit before tax there is an increase of 13.55% on Q-on-Q basis, last year profit was Rs.50 Crores as compared to Rs.56 Crores this year. Profit after tax, there is an increase of 16.55% so this year it is Rs.42 Crores as compared to Rs.36 Crores last year. If you look at the Y-on-Y numbers, income grew by 10.70%, Rs.657 Crores this year as compared to Rs.593 Crores last year. Profit before tax grew by around 10% that is Rs.211 Crores this year as compared to Rs.193 Crores last year and the profit after tax grew by 10% that is Rs.157 Crores as compared to Rs.143 Crores last year. If you look at the quality of the portfolio, our gross stage 3 stands at 2.28% as compared to 2.35% in December 2021 and net stage 3 stands at 1.70% as compared to 1.76% in December 2021. Here I would like to mention that this is on real-time basis according to RBI guidelines. We still hold COVID provision of around Rs.38 Crores as on March 31, 2022, which is 0.74% of our total on book assets. So this was about the parent company. Now coming to the numbers of housing finance company. Our portfolio we closed at Rs.316 Crores as compared to Rs.285 Crores last year that is 11% growth in AUM, total income is Rs.8.86 crores as compared to Rs.8.57 crores last year that is 3.30% growth, PBT stands at Rs.1.5 Crores on Q-on-Q basis as compared to Rs.28 lakhs last year and the PAT is Rs.1.22 crore as compared to Rs.20 lakhs last year on quarterly basis, so last year there was an impact of Rs.76 lakhs of special COVID provisioning in the profitability, so hence this number. On yearly basis, our income grew by 1.58% that is Rs.35.83 Crores as compared to Rs.35.27 Crores last year and there is an increase in PBT by 52.64% that is Rs.5.78 Crores as compared to Rs.3.78 Crores last year and PAT stands at Rs.4.56 Crores as compared to Rs.2.89 Crores last year that is 58.16% increase in PBT. Coming to the portfolio quality, the gross stage 3 asset as on March 2022 is 0.53% and net stage 3 stands at 0.38% as compared to 0.69% and 0.49% in December 2021 and here also we hold COVID provision of Rs.3 Crores which is 1.19% of the total on book asset. So this was about the key numbers for both the companies. Now I will request Ankit to take you through our liability management.

Ankit Jain: Thank you madam. Good afternoon all. To further elaborate on the liability management, currently we have a liquidity buffer of around Rs.800 Crores and unutilized cash credit facility of around Rs.400 Crores. In addition to this, the company has sanction on hand to the tune of more than Rs.1600 Crores in the form of term loan, direct assignment and co-lending which will be sufficient or good for next two, three quarters. In the last quarter company did around Rs.350 Crores direct assignment transaction with various banks. The company further has more than Rs.1000 Crores sanctioned on hand which will be utilized during the current year. The company aims to maintain around 20%, 25% of AUM as off book through direct assignment and co-lending. In the last quarter, company did around Rs.50 Crores co-lending transaction, the company plans to do further tie-up and co-lending with banks which should be a win-win proposition for both the entities. Company has available cash credit facility of Rs.1,825 Crores out of which utilization level is of 65% to 70% and rest portion is kept as a liquidity buffer. We raised Rs.535 Crores term loan during the quarter with an average tenure of three to five years, it helps us to further strengthen the asset liability maturity pattern. We have sanction of Rs.600 Crores on hand which will be utilized during the year. We would like to highlight that in the recognition and acknowledgement of our business model of partnering of NBFCs and MFI, SIDBI has sanctioned us Rs.300 Crores which is under their double intermediation scheme, whereby they will be extending credit to us for on lending to our NBFCs and MFI partner. . On the structural liquidity if you see company has assessed structural liquidity for the period as on March 31, 2022, and based on the assessment there is no negative impact on liquidity and the cash flow remains positive in all the buckets. We have adequately capitalized whereby the total CAR is around 26.35% with a tier 1 capital of 23.08% and debt equity of 3.48x. The cost of borrowing for the quarter remains stable at 8.67%. Also, I would like to highlight the LCR that is the Liquidity Coverage Ratio stands at 193% as against the regulatory requirement of 50%, so this is on the capital and liability management and I hand over the mic to Kamlesh Sir for closing remarks.

Kamlesh Gandhi: That is all from our side on sharing the information and the strategic intent of the company. We will be happy to take the questions regarding our business.

Moderator: Thank you very much Sir. We will now begin the question and answer session. The first question is from the line of Ankit from Bamboo Capital. Please go ahead.

Ankit: Thanks for the opportunity and the congratulations for a very decent set of numbers and with the highest ever disbursement during the quarter. So my question was on the fees and commission income if we look at it despite such a sharp increase in disbursement and our focus towards lending through our own branches, we saw a dip in fees and commission income on Y-o-Y and Q-o-Q basis on the income side and subsequently while on the expenses there was a sharp increase on fees and commission expenses on a Y-o-Y basis so you can explain that?

Kamlesh Gandhi: As I shared last time also that we have changed the model with some our partners whereby first it was netted off and now what we do is that we collect the complete installment for better operational control and then the same is shared with them as fees and commission, so first of all it was a shared upfront but now we have a practice with many of the partners whom where we think it is necessary whereby we book it in our book first and then it has been given to them as fees for origination or for the activities they undertake for us.

Ankit: And the significant increase in fees and commission expenses?

Kamlesh Gandhi: That was for that that fees and commission has been given to our partners with whom we have the partnership arrangement for sourcing origination and what all arrangements what we have for them for creating the assets. As I shared first it was netted off and now what we do is that we collect the complete installment for better operational control, we are having the complete control in the cash flow and once we get everything we part with them so that is just the change in the business model.

Ankit: Okay and second question was on the FinTech lending tie-ups that we are doing, so how do you see this segment growing for us over the next two, three years and we do here about the risk associated with this if you can address that?

Kamlesh Gandhi: Are you talking about FinTech right?

Ankit: Yes, FinTech partnership and tie-up that we have done with our partners, so how do you see this segment expanding for us over the next two, three years and what are the key risks associated with this segment going forward?

Kamlesh Gandhi: As far as FinTech partners are concerned we are slowly and gradually increasing our partners, so we are working with various partners currently and in such a manner which aligns with our dictum of extending credit where it is due and within our area of operation and within our lines of products. We have our filters of screening where we use platform. They have a platform, the origination is done through them but complete filters, the credit filters and the assessments is done jointly by us. So I think in Q4 we did a disbursement of more than Rs.200 Crores through various FinTech and we see that increasing slowly and gradually as we find the opportunity working with them without compromising with the quality of the assets. The biggest thing while working with FinTech is to see the quality of the assets, because right now the arrangement is such that we are immune from any of the losses but having said that we are conscious of the fact that the portfolio as a whole should behave in such a manner that it creates a win-win situation both for FinTech and for us. We are very optimistic on this step, but the only caveat is that we will have to go with the ones who understand the importance of quality, irrespective of what capital they have and we are working closely with them to drive all the FinTech we work with us on those lines.

Ankit: I wish you all the best and that is it from my side. Thank you.

Moderator: Thank you. The next question is from the line of Harshvardhan Agrawal from IDFC Asset Management. Please go ahead.

Harshvardhan Agrawal: Good evening. Thanks for the opportunity. Sir I just wanted to understand if I were to look at the quarterly PPOP numbers for our company over the last five, six quarters that has been stagnated around Rs.60 Crores at PPOP level so if you can just throw some light as to why is that despite 20% growth in our AUM, PPOP numbers are not growing?

Kamlesh Gandhi: There are various reasons for that, now PPOP is a function of the operating environment also because if you see in the last three, four quarters the major thing is that we have been carrying an excess liquidity on the book, we have been very conscious on the credit we extend to various borrowers, so thereby the risk-taking capabilities were limited and hence there had been an impact on the yields that we got so these are the various factors which affects the pre-operating profit but going forward once thing stabilizes because not two years are comparable because last four quarters it was just the matter of getting the credit right and getting the liquidity right so carrying excess liquidity on the balance sheet and reducing the yield and trading off the yield with better quality of the assets is a key reason for PPOP being stagnant and secondly normalization of activities increasing the operational expenditure also because this year we expanded from close to 95 branches to 125 branches from 3500 centers to 5000 centers so these are the various reasons due to which we think that we are hovering around that number on pre-operating profits.

Harshvardhan Agrawal: Basically probably going forward our PPOP growth should more or less mimic the loan book growth right, is that an understanding correct?

Kamlesh Gandhi: It cannot be an apple to apple comparison but more or less it will be on those lines.

Harshvardhan Agrawal: Okay sure and sir another thing that I wanted to understand was the excess liquidity that we are carrying because if I am not wrong we have around Rs.800 Crores of liquidity buffer that we are carrying, so any thoughts or any plans to reduce liquidity buffer?

Kamlesh Gandhi: We will be happy with around Rs.400 Crores to Rs.500 Crores of those liquidity buffer, so within a quarter I think we should be there because once we create a buffer we cannot reduce it overnight, so we are gradually reducing it and we will see through that that it hovers around Rs.400 Crores. As such for many years we had managed only the unused the liquidity in the CC as the liquidity, but post that IL&FS crisis lesson learnt that even cash credit limits temporarily banks have the right to freeze and they might do it practically also so we have started keeping this liquidity buffer which will not be as high as Rs.800 Crores but would be close to around Rs.400 Crores or Rs.500 Crores which will sync with our disbursement and repayment plans and approximately it comes at around anywhere between 4% to 5% of our AUM.

Harshvardhan Agrawal: One last question on the FinTech piece if I heard you correctly you said the disbursements were at around Rs.200 Crores this quarter right?

Kamlesh Gandhi: Yes.

Harshvardhan Agrawal: But if I remember even in 3Q we had the same level of disbursement and at that time we mentioned that probably we will increase our disbursement run rate to somewhere around 20%, 25% of our total disbursements, so hypothetically let us just say we had around Rs.2000 Crores of disbursement this quarter, so maybe around Rs.500 Crores obviously it would not happen in a quarter or so, but just wanted to understand your thoughts as to are we seeing some issues with these tie ups because we are not rammed up on a sequential basis, this disbursement number?

Kamlesh Gandhi: We gave a guidance of 20% to 25% is on a yearly basis, so it all depends upon the opportunity we get with various FinTech to work and the way we tie-up, because the FinTech tie ups is a very operationally time consuming thing so we need to integrate our systems, we need to have common links and all those stuff so we would like to operate once we are through on the operational part of it, so maybe the operation part which the companies took more time so that would not have reflected the real intention, but we see the opportunity at 20% to 25% but at the same time we would not like to make ourselves accountable on a quarter-to-quarter basis, on a yearly basis I still see the opportunity of growing at around 20% to 25% once again with the condition if we are satisfied with the overall quality of the portfolio and we take our own time in synchronizing our operations with them.

Harshvardhan Agrawal: Thanks for answering. One last question on FinTech thing itself, you also mentioned that at the moment we are immune to any losses in this FinTech lending so do we have some FLDG tie-ups with the FinTech?

Kamlesh Gandhi: We work with the FinTech front-end NBFC model we are yet to scale up our model only where there are only FinTech and originating for us while we are exploring and understanding how they really work, but there has not been a sizable business done with a FinTech platform only, so we work with the FinTech company which is an NBFC front end model, so the complete technology, they use their technology and the first loss guarantee is given by their NBFC.

Harshvardhan Agrawal: If you can share what is the FLDG given?

Kamlesh Gandhi: It depends upon the product, but we insist anywhere between 10% to 20%.

Harshvardhan Agrawal: Thanks a lot. That is all from my side. Thanks again.

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

Madhuchanda Dey: I have couple of questions. The first is I am just harping on the interest margin question again. It seems like from a calculation that there was a slight dip in margin sequentially also in the fourth quarter, so any particular reason and I also wanted to get your views on RBI has already hiked the repo rate by 40-basis points yesterday and there are expectations that rate might go up by another anywhere between 75 to 100 basis points, so given this backdrop where do you see your NIM trajectory for the year, I have a couple of more questions after this.

Kamlesh Gandhi: We would endeavor to keep our NIM anywhere between 6.5% to 7% given normalization of our liquidity buffers, it should hover around between 6.5% to 7%. Now coming on the aspect of interest rate rise, so as I shared in the opening remark that almost all of our borrowing is MCLR based so we are not going to get the rise overnight and there are reset timings as far as interests are concerned so that will give us the room to calibrate our lending also accordingly and secondly on the asset side, around 75% of the assets are such whereby if there is an inevitable interest rise in between you can pass it on to the customers which will be very negligible for a small borrower in terms of what they have to pay extra, but for a company will be in a position to preserve our NIM between 6.5% to 7% that is what we foresee right now maybe there can be a small pressure for a temporary period of time, but having said that in past also we have navigated through such interest rates and we have done the same thing whereby we get some time there is a lag effect on the interest by that time we try to set the things right with our borrowers also. The new borrowing, the new lending will also factor in the interest rate hike and secondly our asset cycle is also 18 months so a combination of all such things on a yearly basis I presume that we should be in a position to preserve our NIM that is what currently it looks like.

Madhuchanda Dey: You said 75% you have pricing power some kind of a pricing clause is that right?

Kamlesh Gandhi: 75%?

Madhuchanda Dey: You said with 75% of the borrowers you have a clause to reprice is that correct?

Kamlesh Gandhi: That is correct.

Madhuchanda Dey: My second question is you also alluded to getting into unsecured lending so that is a completely new turf right you have not done unsecured so far why getting into this at this stage, what is the kind of the logic and basically I just wanted to understand the logic behind this kind of a diversification and that comes with usually a huge risk of asset quality especially for the kind of borrowers you usually target, so any comment on that?

Kamlesh Gandhi: My point was that the MEL loans which we gave and we all know that many of them used for that personal purpose also, so what we thought and what we have decided is better for better credit assessment and understanding, we are going to bifurcate the ones who are using for personal purposes so maybe if certain MEL what we are lending right now might be used for personal purpose, personal use might not be only for the businesses so that will be one bifurcation and secondly as you know that the way we venture into any new segment we are not going to go very one go on that, there will be a very gradual increase in the asset size of those type of loans, but having said that if I share with you that we have done this product in the past whereby we used to give personal loans to the small businessman and salary earners, but since our focus shifted only to MSME, we had shifted our focus mainly on creating an MSME portfolio, so slowly and gradually we will test the water, if we think that it can add on to our asset size without compromising with the quality of the assets because that is also a class which will need money from time to time because of the timing of the income or because of the shortfall in the income, but ultimately good borrowers to work with so we have the first-hand experience having done this product in the past and we will do that slowly and gradually without affecting our overall quality of the assets we can build up this product.

Madhuchanda Dey: Just a housekeeping question that is madam mention that this NPA has been computed as per the November 12, guidelines of RBI, am I correct?

Kamlesh Gandhi: Right.

Madhuchanda Dey: I have a slightly longer term question pretty macro question honestly that is about this whole NBFC model with a merger of one of the largest NBFC now with the bank, there is increasing question about the robustness of the NBFC model because bank with their cost of advantage and now they are getting into all the turfs which were previously like the forte of NBFC, beyond a certain size any NBFC would face those kind of headwinds so what is your planned strategy and how do you react to this kind of scenario?

Kamlesh Gandhi: We have a medium term vision of 10 years where we see ourselves growing at around 20% on an average what looks like around Rs.6,500 Crores can be close to around Rs.45,000 Crores -Rs.50,000 Crores and at that size we believe that this model has a lot of value to offer to the borrowers. In terms of the merger definitely getting merged with the bank has its own advantages, but I personally believe there are certain disadvantages also, so the class of the borrowers whom we serve has a huge credit gap along with the growth in the Indian economy I think we will need banks and NBFC both and both will find their specialty, the way it is doing right now done, so banks entering the NBFC space or NBFC is also now allowed to issue credit cards and all, I think India is the story of co-existence and not only of existence of few. Given the huge market size and given the strategic intent to add value to the borrowers and through operational excellence, I think for coming 10 years if I have a vision for 10 years I think at around Rs.45,000 Crores, Rs.50,000 Crores this model looks quite viable and value added and we can definitely take a call post that, but we are firmly aligned towards strategic intent of being in this format for at least a decade or so.

Madhuchanda Dey: That is a very valuable answer Sir. Okay I will come back to the queue. Thank you.

Moderator: Thank you. The next question is from the line of from Parag Jariwala from White Oak India. Please go ahead.

Parag Jariwala: Thank you. Can you give me the breakup of on lending to NBFC and our own generated book split maybe in percentage would be fine for the last quarter?

Kamlesh Gandhi: I think that is 48% is through NBFC and 52% is directly generated through us.

Parag Jariwala: Okay and how was this let us say previous quarter I mean third quarter?

Darshana Pandya: That was 58%.

Kamlesh Gandhi: That is March 2021.

Parag Jariwala: Maybe fourth quarter last year and maybe previous quarter or third quarter FY2022.

Kamlesh Gandhi: Fourth quarter last year was 58% through NBFC which is on March 21, March 2022, is now 48%.

Darshana Pandya: And in December 2021 it was 52%.

Kamlesh Gandhi: It was 52%.

Parag Jariwala: The ratio is changing very fast right, so where do you see the numbers let us say in 2023 end and in 2024 end?

Kamlesh Gandhi: To give a range bound number, our NBFC distribution will hover around 40% to 45% as it looks right now and our direct distribution will be close to 55% to 60%.

Parag Jariwala: Over one year?

Kamlesh Gandhi: Over next one year.

Parag Jariwala: Mainly the on book would be driven by MSME, SME portfolio which we are aggressively invested in previous few years right?

Kamlesh Gandhi: Yes, so we are aggressively increasing our distribution, this was the plan for last year kept on hold because of COVID so from 3500 centers we grew to 5000 centers and I think by the year end we will be covering close to 7000 centers to increase our reach to all the areas where we have potential to extend loans for the borrowers we serve.

Parag Jariwala: Thank you. That is what I wanted to ask.

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

Bhavesh Kanani: Thank you for taking my question. When I am looking at the AUM mix one of the largest segment for us micro enterprise loans, has been one of the last once we see growth effectively we ended FY2020 at 3600 odd and the current micro enterprise loan is still lower than that whereas other segments like SME which is sizable has grown at a healthy rate. Two other segments two wheeler and CV while small have still grown at healthy pace, so what exactly are the reasons which are still keeping us cautious on something that we consider to be our core business that is micro enterprise loans and incrementally for achieving the kind of growth we are looking at 25% kind of growth I would assume a micro enterprise loan segment will play important role in achieving that kind of growth, so if you can help us understand the slow growth currently and incrementally how you are looking at this particular segment?

Kamlesh Gandhi: This is in line with our strategy to grow our SME books how do you identify is MSME segment, so that is micro small and medium enterprise segments and we firmly believe that as we grow our balance sheet size our ticket sizes should also increase, so anything given less than 3 lakhs is identified as micro enterprise loans or anything about 3 lakhs is identified under small and medium enterprise loans, so our focus to increase our ticket size is leading a healthy growth in the SME space and relatively lower growth in the micro enterprise space so overall when we say on a Rs.10,000 Crores balance sheet size if we say that this is going to contribute around Rs.7,000 Crores, we would be happy to see 3,500 being contributed by each that is Rs.3,500 Crores by SME with Rs. 3,000-Rs.3,500 from micro enterprise loan. Having said that this is a very ballpark figure can vary depending upon the situation we come across and opportunity we come across but the basic idea is to increase the ticket size as we grow and opportunity we get to grow along with our own borrowers also, the borrower to whom we have funded Rs.2 lakhs is now qualified for Rs.3 lakhs or Rs.5 lakhs are going for a machinery loan or a very longer term loan will be our target customers, so this is in line with our intention of growing the ticket size.

Bhavesh Kanani: Is it right to assume that incremental growth will be more driven by SME loans than micro enterprise loans?

Kamlesh Gandhi: Yes.

Bhavesh Kanani: Okay and the implication of that what broadly would be the difference in yield that we charge on micro enterprise versus let us say SME?

Kamlesh Gandhi: Ultimately the target will be to maintain ROA around 2.75% to 3% because followed by the yield at the operational cost and credit cost looking at the dynamic of the operation and the credit costs, the yield will be decided but at the end of the day whether it is micro enterprise loans or MSME loans we will try to maintain the ROA anywhere between 2.75% to 3%.

Bhavesh Kanani: Thank you. That answers my question.

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

Sarvesh Gupta: Good evening Sir. First question on the liquidity buffer so right now did I hear it correctly that it is around Rs.800 Crores and you target to reduce it to Rs.400 Crores odd in the next few quarters?

Kamlesh Gandhi: Yes.

Sarvesh Gupta: Okay so that would add maybe around Rs.30 Crores odd in our PPOP right?

Kamlesh Gandhi: It will be done over a period of time, we have to do the calculation, I do not have back of mind the calculation on the same, but definitely it will have a positive impact on the pre-operating profit because we will be saving the amount of the negative carry.

Sarvesh Gupta: Understood Sir and now we have rapidly expanded the branches at least last year if I heard it right we increased it by 25% odd and obviously there will be some growth in the existing branches as well, so given that should not we be targeting a much higher growth than 20% to 25% for FY2023?

Kamlesh Gandhi: Any branch which we start will not yield results right from day one, it takes time, so in lines with the growing time which branch require and the strategies also is not to do a substantial business as soon as we start the business in a particular place so the strategy is to develop the branch for the long-term object and not just for a year, so combination of the strategy and the practical scenario we think that even after opening the branches we will be ending up at around 20% to 25% growth and we are capable from the capital and the liability management side that if you get an opportunity to grow more, we will do it, but the guidance what I would like to give to all of you is anywhere between 20% to 25%.

Sarvesh Gupta: You have also said that we are trying to do more on the technology side now given that at least the image of the company is that we were more on the older way of doing things and now there is a lot of stuff which is happening on the FinTech side, but at the same time we also have been believers of touch sort of a model so from an organizational perspective have we appointed a leader from outside is there a dedicated team which is looking at the technology and trying to integrate with the entire organization, so if you can give some more color on what exactly are the steps that you are taking to sort of change the pace at which we have been doing things on the technology side previously versus now I think that should be helpful.

Kamlesh Gandhi: When we talk about tying up with FinTech, it is an association between two organizations, where one is an expert in technology, other is expert in finance, so when we talk about our approach to financing, I will not term it as old or new but the approach to financing remains the same that extending credit where it is due so we see to that by using technology that is enhanced and not compromised, so what I have is FinTech definitely helped us to gain an edge on the technology front and we get that ready-made platform from those guys. Having said that we are strengthening our internal team also, we have a team of more than 30 people in analyst and the software team in order to tie up with various FinTech company, so as to be in sync with the market practices and also to improve our digital journey of the products we serve directly and along with that, we will be taking the help of the experts from outside, so we have a capable team within our organization who is managing this.

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

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

Rahul Maheshwary: Couple of questions. Thank you. First when we look at between the AUM and borrowing no doubt this year it has been much better managed but when you look at the borrowings as compared to the AUM growth, can you give some better color that the borrowing run rate on a Y-o-Y basis is 24%, 25% as a growth as compared to AUM group of 16% that is because of the higher liquidity perspective we have taken a higher borrowings this year can you provide some color, why there difference in growth between both?

Ankit Jain: Because of the on book and off book structure. Last year the off book was around 25% to 30% which is direct assignment book, which is not a part of borrowing, but now as we are growing towards Rs.10,000 Crores AUM what you have made an internal policy that assignments will not be more than 20%, 25% and therefore that ratio has changed which has led to on book borrowing increasing as compared to AUM.

Rahul Maheshwary: And borrowing which is entirely coming from MCLR basis nothing is coming from external benchmark or something.

Kamlesh Gandhi: Borrowing in MCLR.

Ankit Jain: Either it is fixed or MCLR base lending.

Rahul Maheshwary: Okay and second question as you mentioned in our presentation that your current leverage continues to be in the range of 3.5% to 3.8% and we said that going forward you would be at an optimum level, what is that optimum level it will remain at the same run rate where it is or where do you aspire to be.

Kamlesh Gandhi: We would like to hover around 4 so to say as of now.

Rahul Maheshwary: From next two, three years we can keep it as a 4 as a good leverage.

Kamlesh Gandhi: It is currently around 3.8 and going forward it can be around 4 to 4.25 this is what I can visualize currently.

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Rahul Maheshwary: Hope I am clear now, I just wanted to understand that though the two-wheeler segment is just contributing 5% to 6% of the overall portfolio, but we have seen across the NBFC's are struggling in this segment from an asset quality perspective, can you give some color that how MAS portfolio on two wheeler is completely different from there though the ticket size is a nominal, but still. Hope I was audible.

Kamlesh Gandhi: We have been one of the oldest two wheeler financing company and if you see the two wheeler portfolio has not grown to that size and the major reason being, being conscious on the quality, there are so many practices that are being adopted just to get the number which we have not adopted and as a result of which we are in a position to maintain the two wheeler quality portfolio which you are looking right now.

Rahul Maheshwary: Okay and Sir just last question just a feedback, entire industry in the housing loan is able to grow where MAS is not able to clock that run rate of growth, are we just in the investment phase and from here onwards we can expect this same kind of growth, it would be very helpful to understand why the growth on the traditional portfolio which we are growing at 15%, 20% is not reflected on housing loan?

Kamlesh Gandhi: As you know post IL&FS and post DHFL where so many things were unveiled and we were also not in a position to understand the market dynamics because of the various fundamentally flawed model operating in the market that was one, the demand opening up as you know that even pre-COVID also there was a slump in demand in affordable housing and third was that we were not ready to look the other way on the certain practices which has been adopted by maybe bigger housing finance companies or even the smaller housing finance companies, there are various such practices which while we do not approve of that so we took our own time because we thought that housing finance is a very long term business, it is a wafer thin margin business, we developed our distribution channels, we developed our team who can really understand us that is the way we work and that took us time and now since the things are doing positively, the flawed fundamentals are being corrected to a large extent by the experience what the housing finance companies had from various debacles they created, so all in all a conducive situation for companies like us who would not like to grow at any cost is there now for us to grow at anywhere between 20%, 25% maybe on a smaller base up to 30% but once again the priority will remain on the quality of the assets, profitability and growth.

Rahul Maheshwary: Absolutely. Thank you so much.

Moderator: Thank you. Ladies and gentlemen due to time constraint that was the last question. On behalf of Elara Securities Private Limited that concludes this conference. We thank you all for joining us and you may now disconnect your lines.