



*Purpose Led.
Progress Driven.*

“MAS Financial Services Limited Q2 FY '26 Earnings Conference Call”

November 06, 2025

E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on November 06, 2025, will prevail



*Purpose Led.
Progress Driven.*



MANAGEMENT: **MR. KAMLESH GANDHI – CHAIRMAN AND MANAGING DIRECTOR – MAS FINANCIAL SERVICES LIMITED**
MRS. DARSHANA PANDYA – DIRECTOR AND CHIEF EXECUTIVE OFFICER – MAS FINANCIAL SERVICES LIMITED
MR. DHVANIL GANDHI – EXECUTIVE DIRECTOR – MAS FINANCIAL SERVICES LIMITED
MR. ANKIT JAIN – CHIEF FINANCIAL OFFICER – MAS FINANCIAL SERVICES LIMITED

MODERATOR: **MR. SANKET CHHEDA – DAM CAPITAL ADVISORS LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to MAS Financial Services Limited Q2 and FY '26 Earnings Conference Call, hosted by DAM Capital Advisors 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 star then zero on a touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Sanket Chheda from DAM Capital. Thank you, and over to you.

Sanket Chheda: Thanks, and a very good afternoon to all of you. We welcome you to MAS Financial Q2 conference call. We are accompanied with the entire management team with us today. Mr. Kamlesh Gandhi, who is the Chairman and MD; Mrs. Darshana Pandya, who is Executive Director and CEO; Mr. Dhvanil Gandhi, Executive Director; and Mr. Ankit Jain, who is the CFO.

Without further ado, I'll hand the call over to Mr. Kamlesh Gandhi for his opening remarks. We'll follow that up with question-and-answers. Over to you, sir.

Kamlesh Gandhi: Thank you so much, Sanket, and good afternoon to all of you. Very happy to connect once again to discuss the Q2 results of the company. I hope that you have the numbers in front of you, but just to give you the brief on the numbers, this was our 122nd quarter of a very robust financial performance and a very consistent performance that we have been demonstrating over the last 30 years now. Just to take into numbers, it was around 18.5% growth in AUM and profitability on a consolidated basis.

As you know, that given the scenario, this was a very robust financial performance given the profitability and the asset quality, what we could maintain at around 1.69% of net Stage 3 assets. According to me, team MAS has done a commendable job this quarter, while maintaining a very decent growth trajectory and at the same time, focusing on the profitability and also the quality of the assets.

This was the brief on the numbers, while my colleague will take you on the asset-wise growth, but I will take you through the strategic intent of the company. On MRHMFL side also, we grew a strong 24% in terms of our asset growth, 26% in profitability and our Stage 3 assets remains at around 0.66%.

Once again, it is worth noting that to maintain the asset quality of this nature requires a lot of concentrated effort and a very strong strategic intent and that we have been following since last three decades.

I was just wondering before talking to you that while we can always talk about quarter-to-quarter and in a sense, it keeps you well on track and well on tracking what exactly you are doing and

the direction where you are going. When we took our guards in May this year when we completed 30 years, we had a medium-term vision that we are not going to talk and think only about a quarter. We are not going to get bogged down or get overexcited by a quarter's headwind or a tailwind or a few years headwinds or tailwinds. We had dedicated ourselves on the purpose of taking this organization to INR1 lakh crore AUM within a decade. That is what drives each and every of our decision while taking into account one link of a change at a time.

If your strategic intent is strong and if the purpose is well defined and if you have learned that art of not getting bogged down due to headwinds and getting overexcited by the tailwinds, you are bound to achieve the results.

That I can substantiate by some numbers. I got some numbers pulled out by my colleague that in 2015, if I take a decade from 2015 to 2025, and suffice to tell that what has not happened in this decade, including COVID. I'm not trying to take out those COVID years also out of the equation where for a year, we chose to degrow. If I put the numbers in perspective, we were close to INR2,100 crores in 2015, and in 2025, we are close to INR13,000 crores. That translates into a 20% CAGR. In terms of profitability, we were around INR41 crores in 2015, and in 2025, we were close to INR314 crores. That is a 22% CAGR, including COVID. We would have calibrated this as 8-year performance and projected as 25% also, but decade is a long thing and is a long period and anything can happen.

What gives us the confidence that once your strategic intent is clear, and you are dedicated to the purpose, you can achieve the goals. Once again, as we very consistently write in our presentation, that consistently and steadily is the fastest way to reach your destination.

This is what I wanted to share with all of you that MAS, while is aware of the fact that we need to be on track every quarter, and we love to do that to have -- to keep ourselves on foot and to be on the right track, but the reason remains for a decade. For MAS, decade is a medium-term vision, and we are creating this business is not for quarters or decades, but for generations. This is what I wanted to share with you.

Now coming to the very important portion of how we manage and where are we in terms of our asset liability and operations on the strategic intent, as I shared the numbers will be shared with you. On asset side, once again, we have chosen to be a diversified asset company, and we are in that process. If you see that every quarter, the diversification inches up. As I talked to you, our MSME contributes around 75%, other products contributes around 25%. On a INR20,000 crores mark, might be around 65 to 70 MSME and 30 to 35 other products. I think we all agree that diversification is a natural risk management, so that is one of the strategic intents on our asset management.

In terms of distribution also, we are diversified. We ourselves, I'm happy to share with you that we have now 15,000 pin codes touch base. We have touched base 15,000 pin codes, and now it is for us to get the maximum out of each of the pin codes where we have established our distribution channels. It will be a few years while we can really get the best out of all these

distribution channels, but 15,000 touch base points in terms of distribution, while we also work in a very efficient way with our partner NBFCs, which are close to 200 in numbers. All the intermediary NBFCs, majority of them, even during in this trying times had performed exceedingly well and have proven to be a very quality intermediary in the ecosystem, especially the mid-sized NBFCs, while they face a lot of challenges, have demonstrated their resilience, have demonstrated their place in the value chain, which is very important for the economy to grow at a certain rate because credit dispensation is best done to the underserved by this middle and small-scale NBFCs.

We continue to partner with those NBFCs, so this is the diversification in distribution, which we have pursued now. It will be an 14 years old model where around 35% of our business comes through that distribution. As I always shared that as our direct distribution increases, the share we see will be anywhere between, say, the contribution will be anywhere between 70%, 75% in favor of direct distribution over the next 2 to 3 years.

In terms of operations, as I have always shared with whoever I met that lending business is not only about capital and debt. It is more about operations. When it comes to operations, I'm happy to share that we have been increasing our efficiencies every quarter in terms of what we should do and in terms of adoption of technology. Let me tell you, when we talk about bringing about efficiencies in operations, besides a trained and the purposeful training of the HR, technology plays a very, very important role. At MAS, we have now 100 people tech team, and we have an in-house tech stack built up across our products. We are on track for LOS for each and every of our product and BRE is up and running. As you know that it is never a task completed. It is always a task we worked on as far as BRE and machine learning is concerned, but we are well on track to handle volumes as we grow in our retail asset numbers.

Other thing in operations is that we are trying to see to that how we are more efficient in customer services also because the aspiration of the customers right now is no longer as that they are just as the borrower and they are at the mercy of the lender. They choose and pick the lenders, they choose and pick the products they want. Hence, our customer-centric approach is most required, and that is at the center of our strategic intent also.

If I talk about the HR management, we have always pursued the dictum of succeeding and failing together. That dictum has worked very well for us in last 30 years. We have one of the most stable team in the industry at the top and the middle level, more than 500 to 600 people working with us for more than 5 years, and we are learning together, and we are excelling together.

We are a team of close to 5,000 now, and we will increase as per the requirement. We are very happy to share that we'll be also increasing, and we are also focusing on the efficiencies of each and every of the MAS stakeholder in terms of who serves the company as an employee.

In terms of liability, starting from capital adequacy, we are very strongly placed at close to 24% capital adequacy with majority coming from Tier 1. As you are aware that this capital adequacy and this capital is mainly contributed by internal accruals over all these years.

Once again, let me share with you that we have adopted to do all the hard thing first. We did not raise capital very aggressively when we were small and diluted disproportionately that it remains a question as to how we can dilute further and still manage the company and grow, which remains the question for so many of the promoters. You see in many of the lending firms where the promoters are more of investors because of the commercial design and less by purpose.

We have, right from the beginning, chosen a difficult part by choice that we would like to grow through internal accruals. As I talked to you that even at -- we will be close to, say, by the year-end on a concentrated basis, INR15,000 crores-plus, even at INR15,000 crores-plus, we'll be holding close to 67% of the company, enabling us to raise capital as and when required and thus realize our medium-term dream of INR11lakh crores by firmly having a substantial promoter stake. That is a testimony of growing through internal accruals.

We continue to be very comfortably managed on debt equity. If you ask me, we would like to increase this debt equity right now, we are at around 3 because I personally believe that the right business model in lending is an optimum leverage and an optimum ROA, with the risk of sounding immodest, with my 30 years of experience, I firmly believe that any lopsided approach of being very low leveraged and with high ROAs and using those 2 determinants for getting the desired ROE personally looks risky to me. We would always like to balance between the right sort of the debt equity and right sort of ROAs so as our expectations in terms of whom we should sell and the risk we should take is well balanced and well calibrated.

With that dictum in mind, we are close to around 2.85% in ROAs where the efforts are very earnestly made to reach around 3%-plus. That is what I internally have set the standards as far as the return on asset is concerned and with a reasonable debt to equity of anywhere between around 4% to 4.5% should give us ROEs ranging from 15% to 17%, which should be the right expectation in the long term from a lending business at our size.

In terms of the debt raise and all, while Ankit will take you in detail, we are very comfortably placed. We have already tied up for the year and more. The liability is freely available. The focus remains on reducing the rate of interest. Still, the transmission is the work-in-progress. We wish that within this quarter and the next quarter, the transmission should happen, and that should benefit us and the borrowers too.

I'm also happy to share that we got the final approval from IRDAI for our insurance broking business. That company is named as MASFin Insurance Broking, a subsidiary of MAS Financial Services Limited, which will be initially focused on captive business. As and when we get the opportunity, the open market operations will also be done. This is a linear expansion in terms of our activity besides what we do in our 2 main companies that is MFSL and the housing finance company.

With this, before I hand over to my colleague, let me give you the overview at the marketplace. The overview, as we know that since last more than 4 quarters, it has been very challenging for the MSME sector, especially I personally believe that while there can be many factors, but it

was more of the lenders own doing that we faced all the problems, whatever we have faced mainly because of the overleverage and that is settling now.

That is settling now because of 2 distinct things because as we define a cycle, we are at the end of that cycle where indiscrete funding was done, overleverage was substantially there, that is slowly coming to a logical end. Secondly, the lenders have learned the lessons. I personally believe and hope that the lessons learned stays with all of us for a longer period of time. That will ensure more stability to the sector and more confidence in the sector.

Because as we enter an era where we talk about Viksit Bharat and India growing at 7%-plus, which is obviously much below our potential and much below our requirement to generate required employment, credit dispensation plays a very important role. In that case, NBFC plays a more important role.

I cannot help but sharing the meeting we had with honourable Finance Ministers a few months back, where she was very clear in her intent and thought that NBFC should take up substantial part of credit dispensation and they should not be treated as banks or NBFCs, it should be bank and NBFCs and all other institutions, whereby NBFC brings on the table the nimble footness and the demographic understanding for the right sort of credit dispensation. This recognition comes with its own responsibility. I think all the NBFCs are aware of this. We see a good quarters coming ahead. We see that, say, for example, our Q2 growth on Q1 was around 4%. The Q3 growth on Q2 can be anywhere between 5% to 7% and will increase gradually, thereby, once again, getting to our original stride of being anywhere between 20% to 25%, pick up a mean of around 22.5% to 23% in near term. That is the confidence we are getting from the marketplace. Hopefully, this sustains and survives, and we are very hopeful for the same. This was about the market overview.

While as I shared with you, we, over the 30 years, have learned not to get bogged down during the times where it is challenging not to get overexcited when there are a lot of tailwinds in any form, maybe from the point of view of regulatory recognition, a lot of money available or a lot of capital available or a lot of eligible demand around because it is all about management of risk.

Consistent to our belief and consistent to what we have been doing over all these years, we'll continue to carry this forward towards our medium-term vision, as I shared that a few quarters or years here or there, but MAS as a team is dedicated towards this mission, the medium-term vision of reaching INR1 lakh crore AUM, which I see a very distinct possibility. I demonstrated the same on that working numbers from 2015 to 2025. That is where our confidence stands out.

With this, I'd like to hand over to my colleague, Darshana Ben to take you through the numbers, and then we will talk again during - the Q&A session. Thank you.

Darshana Pandya:

Good afternoon, everyone. While sir has covered everything, I'll quickly take you through the key numbers. If we look at the consolidated numbers, our AUM stands at INR13,821 crores and profit after tax is INR91.43 crores as on 30, September 2025 as compared to INR11,681 crores

and INR77.62 crores, respectively, for the quarter ended 30, September '24, which is a growth of 18.32% in AUM and 17.79% in PAT.

Now coming to the standalone numbers of the parent company. Our AUM stands at INR12,999 crores and PAT is INR89.70 crores as on September '25 as compared to INR11,016.65 crores and INR76.57 crores PAT as on September '24, which is a growth of 18% in AUM and 17.15% in PAT over the corresponding quarter of the previous year.

Now coming to the income and profit. For the quarter, total income grew by 25.09% from INR366.62 crores to INR458.61, Profit before tax grew by 17.79% from INR102 crores to INR120 crores and Profit after tax, there is a growth of 17.15% from INR76.57 crores to INR89.70 crores.

If you look at the half yearly numbers, the growth in total income is 26.48% from INR713 crores to INR902 crores. Profit before tax, there is a growth of 18.43% from INR196 crores to INR233 crores and profit after tax, there is a growth of 18.10% from INR147 crores to INR174 crores.

Now coming to the configuration of the asset on YoY basis, Micro enterprise loan, there was a growth of 9.78% INR4,745 crores to INR5,210 crores. SME loans there is a growth of 16.58% from INR3,974 crores to INR4,633 crores. 2-wheeler loans increased by 29.83% from INR712 crores to INR924 crores. Commercial vehicle growth is 17.63% from INR900 crores to INR1,059 crores and salaried person loan grew by 71% from INR684 crores to INR1,173 crores.

Coming to the asset quality, I shared that it was quite stable. Our Stage 3 gross Stage 3 asset is 2.53% and net Stage 3 asset is 1.69% as compared to 2.49% and 1.63% net assets as on 30, June 2025. We continue to carry a management overlay of INR17.60 crores as on September 25, which is 0.17% of our on book assets.

If you look at our housing finance numbers, our asset under management of housing finance is INR821.70 crores and profit after tax is INR2.99 crores as compared to INR664 crores asset and INR2.37 crores of PAT as on September '24, which is a growth of 23.65% in AUM and 25.90% in PAT. Total income growth is 25.39% from around INR20 crores to INR25 crores. Profit before tax, there is a growth of 28.13% from INR3 crores to INR3.90 crores. Profit after tax grew by 25.90% from INR2.37 crores to INR2.99 crores.

If we look at the half yearly numbers, there is a similar growth, 24.43% growth in total income from INR38.51 crores to INR48 crores, 27.18% growth in profit before tax from INR5.84 crores to INR7.43 crores, and profit after tax, there's a growth of 26.45%, which is from INR4.54 crores to INR5.75 crores.

Here also, we could maintain the quality of the portfolio. Stage 3 asset as on September '25 is 0.94% and net Stage 3 is 0.66% as against 0.92% gross Stage 3 and 0.64% net Stage 3 asset as on 30, June 2025. This was about the performance of both the companies. Now I'll request Ankit to take it forward.

Ankit Jain:

Thank you, ma'am. Good afternoon to all. To further elaborate on the liability management, this quarter, we maintained an average cash and cash equivalents balance of approximately INR1,000 crores, along with unutilized cash credit facility of INR250 crores. As of September 30, the company also holds sanction facility totalling INR2,300 crores, comprising of various instruments like term loan, NCD, direct assignment and co-lending.

During the last quarter, the company executed direct assignment transaction amounting to INR900 crores and have further sanctions of approximately INR1,600 crores, which will be utilized in the coming next 2 quarters. The strategic goal of the company is to maintain 20% to 25% of assets under management as off book through direct assignment and co-lending. Currently, it stands at around 21%.

We have cash credit facility of approximately INR1,400 crores, of which around 70%, 75% is utilized on an ongoing basis and rest is kept as a liquidity buffer.

In terms of long-term borrowings, the company raised INR900 crores through term loans during the quarter, having an average maturity of 3 to 5 years. We also have sanctioned term loan of approximately INR400 crores. Additionally, INR450 crores was raised through non-convertible debenture during the quarter, which was subscribed mainly by HDFC mutual fund and HSBC Mutual Fund and other by retail investors.

We are strongly positioned in terms of structured liquidity and our liquidity position remains adequate with positive cash flows across all cumulative time buckets. Our capital adequacy ratio remains strong at 24.57% with Tier 1 capital at 22.7% and debt-to-equity ratio of 3.39x. The average cost of borrowing for the quarter stood at 9.62%, which is 21 basis points lower than the similar quarter a year ahead with the incremental borrowing cost at around 9.25%.

As communicated in the last quarter call, in our journey of achieving an AUM of INR20,000 crores, we remain focused to diversify our resource mix by enhancing our presence through in capital markets and raising funds through ECBs, foreign DFIs and other instruments and thereby diversifying our resource mix and to raise these funds at competitive cost. This is on the liability management. Now we are open for Q&A round. Thank you.

Moderator:

The first question is from the line of Aryamaan Agarwal from Money Stories Asset Management.

Aryamaan Agarwal:

Congrats on quarter. I have always been impressed by our asset quality management. In the last few quarters, it looks like there's a slow increase in the duration asset quality. Just wondering if it is due to the change in the product mix or is there a particular reason behind it?

Kamlesh Gandhi:

See, the asset quality in this class will always remain range bound. We have always talked about a net NPA anywhere between 1.5% to 2% and gross NPA between 2.5% to 2.75% has been maintained by and large. Secondly, if we digest it very minutely, the impact is because of the current scenario, which we have seen in the sectors where we have served.

If you take into account the type of the borrowers whom we have been serving over all these years, according to us, this accounts to be one of the most tight performance, while there is always room for improvement. We feel that this will remain range bound, and we remain vigilant but not that concerned.

Aryamaan Agarwal: This has nothing to do with the wheels and the personnel salaries?

Kamlesh Gandhi: No. Because if you see any of the product which we get into, we get into that gradually in terms of absolute amount, while the numbers on a relative terms might look higher on growth or if you see the actual amount, we do it in a way where we can manage it properly. Nothing of that sort.

Aryamaan Agarwal: Just the second question was on the opex ratio. This time, there has been an increase in the operating costs. What is that coming from?

Kamlesh Gandhi: See, opex is a combination of a few things, lesser-than-expected disbursement, as I shared that we always, every quarter, try and go out in the market to get the maximum eligible borrowers in our fold. With the current scenario, the rejection ratios are very high. One of the reasons for the opex was that as I shared with you that the 15,000 distribution points, it has to be staffed properly. We had an increase in the employee cost also that reflects in the fees and commission because those have to be confirmed the same is taken into fees and commission. Third is our working with fintech, we work with a few of the fintechs in personal loans, whereby we move the loans at the full rate and the interest difference over a period of time is given to them the interest spread is given to them as a commission. That all adds up to the operational cost. These are the various contributors to the operational cost.

In terms of going forward, we presume that our operational cost will remain anywhere between 2% to 3% and between 35% to 38% of interest income. This will be our endeavor, maybe a few percentage points here or then during the journey. Ultimately, that should not affect our ROAs and NPLs because that will be offset by better yields also. This is how we view this.

Aryamaan Agarwal: Looking forward to journey towards INR1 lakh crores AUM.

Kamlesh Gandhi: Thank you so much. We require of wishes and this is what we visualize. I've been doing this since very long. When I started with INR1 lakh in 1988, I used to think about how I can work in crores. When we reached our first crores, we are talking about INR100 crores. I very dearly miss my co-founder in this journey. Thank you so much.

Moderator: The next question is from the line of Aditya Doshi from M3 Investment Private Limited.

Aditya Doshi: Sir, our DPD over the last 2 years have increased by almost 200 basis points. Although, our asset quality is rebound, what is causing this increase? Is it geography specific? Or is it product specific? Could you give some color? How is this trending in October, November onwards? How do you -- where do you think this should settle on a steady state?

Kamlesh Gandhi: See, on a steady state, I'm starting my last question on a steady-state basis, under normal situation, we see that anywhere between 92% to 95% on zero DPD because the type of the borrowers we serve, zero DPD will be at that point. Just to add to that, zero DPD is not the index in our case on the quality of the portfolio, because the borrowers whom we serve, tend to pay even once they enter some DPD. It will be anywhere between 92% to 95%, that is what we aspire.

As you know, that last few quarters has been extremely trying. Despite of that, this performance, I reckon is well within control. Going forward, necessary steps are being taken right from credit dispensation to better collection. We personally believe that credit dispensation is 80%, 20% is your collection effort, and that is where we have been very constantly working.

Secondly, over the last 2 years, gradually, we are increasing our retail asset portion also directly that we are now -- the use of NBFC as an intermediary relatively is on decline, maybe by a percentage or so. That will also reflect in the DPDs where we manage the portfolio directly where we don't have the cushion of NBFC bearing those, but that reflects on the higher yields.

As I shared earlier that the distribution model changing to more on retail will change our yields and NPAs, but will not change our ROA as the numbers have withstood that. All-in-all, it is well within control, but we are not unduly worried and concerned. While as I shared earlier, we are quite vigilant and it's a very continuous process to see to that. If you ask me, I would be happy at 95%, but we are hovering around 93%. Hopefully, let us see how we can do it in future.

Aditya Doshi: Sir, second on the growth side of especially MEL and MSME, where you alluded that eligibility of the borrowers remain. Do you see that improving from last quarter? How is it currently going?

Kamlesh Gandhi: Yes. What I shared in the opening remarks that every cycle has a logical conclusion. This challenging cycle is also we see coming to an end gradually. That is where we are getting the confidence that the number of eligible borrowers, we have started seeing that in something in September and very distinctly in October also.

That is what gives us the confidence, as I told you that our Q2 growth over Q1 was 4%. Our Q3 will be definitely higher than that. Gradually, by doing that, we will be coming into that group of around between 20% to 25%, pick up the need of around 23%.

Moderator: The next question is from the line of Hardik Doshi from White Whale.

Hardik Doshi: Just following up on the previous participant's question, while I understand there's a zero DPD can be volatile given the profile of the customer. Even if I look at the 30-day bucket, the 60-day bucket, I mean, it's kind of been increasing, at least quarter-on-quarter. Just wanted to understand how this trend compares to your overall commentary that the worst is behind and you even accelerate growth? What are you seeing that's giving you that comfort then?

Kamlesh Gandhi: As I told you -- as I shared earlier that the real analysis metrics be reversed around 90 DPD-plus. In such times, the volatility in less than 90 DPD is expected and it is on those lines. When we

talk about not really accelerating growth, but coming back to normal on growth trajectory, which we have always targeted, it will not be done at the cost of any of the -- overseeing credit parameters.

As you know that we better opt to grow less than overseeing the credit or ignoring the credit parameters. As I always share that we will discover the growth from the marketplace, and we are not going to determine it. From the experience what we have since last 2 months, we see that the eligible demand will increase. When we mean by eligible demand that the people fall within the parameters of the credit which we have set for ourselves. To summarize, it will not be done at the credit quality.

Hardik Doshi: Basically, what you're saying is that on the ground, you're finding more creditworthy customers. Is that a function of an improvement in macro demand? Is it a function of other NBFCs becoming more risk averse and curtailing back? What do you think is the reason for that?

Kamlesh Gandhi: Combination of everything. You learn best from your own experience, the lenders have learned from that experience so as the borrowers because borrowers can also not leave peacefully while defaulting. They also know that while money is available, we should borrow only if they can repay. That has been -- that has also drawn upon the borrowers. Obviously, the lenders had no choice but to be prudent. A combination of both these 2 things will increase the eligibility for the borrowers to borrow for the right type of borrowers.

Hardik Doshi: The other question I had was on your opex ratio. opex ratio as a percentage of assets is at about 2.81%. I think it's pretty much close to an all-time high. I know you mentioned a few of the reasons for this before. Also you're moving towards 75% direct lending, so that could also be the reason, but when things stabilize and as our AUM and scale improves and we move more towards the secured lending book, I mean, shouldn't it average down to below 2.5%? I think you mentioned 2.5% is a long-term goal.

Kamlesh Gandhi: Difficult to give that number. It all depends upon the product configuration from time-to-time. How we see the yield metrics of the ROA tree is that it starts from what we intend strategically on ROAs. As I said, we strategically intend on ROAs anywhere between 2.75% to 3%. If you ask me internally, it is more of 3%. Then the product is designed depending upon the credit cost and the operational costs involved in that product.

From time-to-time, the configuration of the products, the contribution of retail versus our indirect retail will determine the opex cost. opex cost should not be seen in isolation. Because if you see this time, our opex cost is 2.84%, but it is well compensated by our increase in yields. If you see that even though the opex cost has increased, our ROA has more or less remained stable. It is difficult to define a particular number to opex cost. Definitely, we would be concentrating on ROAs -- maintaining ROAs between 2.75% to 3%. That will be the real litmus test of efficient operations.

Hardik Doshi: Just one last longer-term question. I think you mentioned that debt to equity or the leverage you are comfortable with is to 4.5, but as we go -- as our scale improves, again, our mix of secured

assets improves, credit rating improves, etc., I mean, why would you not be more comfortable at a higher level than that because this would limit you to about a 15% ROE?

Kamlesh Gandhi: See, while ROE should be the focus for any business, but it should be at the same time in the overall scheme of things because right now, the comfort level of the lenders may be the capital market lenders or the institutional lenders is anywhere between 4% to 4.5% of a debt equity, which translates into a leverage of around 5% to 5.5% and you multiply it by 2.85% to 3%, it can give you a distance close to a 17% return. Anything about that as of now, I don't see as a much acceptable proposition for the lenders as far as the comfort is concerned and to get better rates. That is where our strategic intent revolves around that.

Hardik Doshi: I was actually talking more long term as you move towards a goal of INR1 lakh crore, this leverage inherently.

Kamlesh Gandhi: That will keep on changing because if you see that I always share that on terms of acceptance of debt equity by the rating agencies to lenders, there are 2 eras, pre-ILFS and post-ILFS. Pre-ILFS, all the NBFCs whenever asked about the debt equity, they have asked about the capital adequacy. Capital adequacy at 15% translates into a 6.6x leverage.

Post ILFS and for the right reasons at that time and that became the practice at the market that the higher leverage was not seen very comfortably. That is where we have to be seeing at the marketplace. Maybe over a period of time, the perception improves still and for better managed NBFCs, there is a room, we can revisit that. In near term, I consider this as the possible debt to equity what we'll target.

Moderator: The next question is from the line of Aditya from Securities Investment Management.

Aditya Khandelwal: Firstly, some clarification. Now when we give our loans to our NBFC partners, now when the loan gets delinquent, are there any sort of minimum guarantees which these NBFC partners provide to us?

Kamlesh Gandhi: When we talk about an indirect distribution through NBFC, we are talking about creating assets through them and thereby it comes with their complete guarantee. It is extended to them in various forms, like term loans to NBFCs to create the asset what we want. It comes with their corporate guarantee and over collateralization.

Aditya Khandelwal: If the loan gets delinquent, is some of FLDG type of guarantee which we see from fintechs?

Kamlesh Gandhi: It is different from that. That is -- the arrangement what we are having with the NBFCs is in terms of with recourse, all the loans given to NBFCs right now, what we call it as indirect retail and that indirect retail is with recourse to NBFCs. It is 100% recourse to them through corporate guarantees and through over collateralization.

Aditya Khandelwal: Sir, one would assume that the credit cost for this business would be pretty low, would be around 0% or 0.2% only. Would that be a fair assessment?

Kamlesh Gandhi: Yes.

Aditya Khandelwal: Sir, now, second question was on this subsidiary of ours. We hold around 63%, 64% of our subsidiary. Are there any plans to increase it to 100%? Secondly, if you could just help us understand your vision for the subsidiary. 3, 4 years out, do we have any aspirations to list the company separately? Or you want to achieve a certain kind of AUM profile before making a decision on that?

Kamlesh Gandhi: Our housing finance company is going to be value accretive for the parent to start with. On the details of it, yes, we would like to list this separately with the next 3 to 4 years or when we reach a critical mass of, say, anywhere around INR4,000 crores to INR5,000 crores AUM. We intend to grow this subsidiary at a rate of around 30%, 35%, depending upon the opportunity that we get from time-to-time.

This quarter was 25% because as we all know, the known fact that we work in the affordable segment where there is a lot of convergence between the borrowers who were under stress and the affordable segments, we were cautious, reflected from the asset quality.

In terms of holding, yes, the holding of the parent will increase gradually because the promoters will have very limited capabilities to infuse the way the company can infuse. What looks like around 60% to 63% will be close to around 70%, 75% by the time we can plan for listing it separately.

Moderator: The next question is from the line of Madhuchanda Dey from MC Grow.

Madhuchanda Dey: I have two questions. Sorry for harping on this whole issue of zero DPD. While the environment seems to be improving, as you alluded to, why is the DPD, zero DPD and across other maturities increasing? That is question number one. Secondly, you mentioned about your target of improving the ROA from 2.75% to 2.8% level to 3%. What is the road map? What will be the drivers? Just these 2 questions, please?

Kamlesh Gandhi: In terms of this equity is improving, it will take some time because the current equity reflects the loans already given. When we talk about an improving scenario is about the loans to be given now. It will take time for that to reflect in DPD because the proportion of the new loans to old loans will be still low as far as the new loans is concerned.

When we talk about an improving scenario, we are talking about that we are now confident to lend more. The old scenario where the borrowers has already taken loans and they are under some sort of stress might continue for a while.

In terms of ROA, I think it will come on a scale. It will come on reduction in interest rate once we get the benefit of the interest rate reduction transmission and also on improving the efficiencies. This will -- we have to work on so many areas to get this last leg done from, say, 2.85% to 3%, and I see this coming -- to be very honest, very difficult to give a time line.

Internally, if you ask me, my time line is from today. In order to give a time line when it will reflect on the paper, it will be very difficult to give a time line, but the efforts are continuously on and we should switch soon. We should see that sooner improving gradually.

Moderator: The line from Madhuchanda got disconnected. We will move on to the next one. The next question is from the line of Shreepal Doshi from Equirus.

Shreepal Doshi: My question was firstly on the SME portfolio. In that segment, are we seeing any impact of tariff-related updates on our portfolio around or on our incremental rejection rate? Any stress levels, if you could give us some update on that front because earlier we had highlighted some of the industries such as textile, FMCG, gems and jewelry are facing issues. If you could just give us some color on this particular book as well as how are you seeing things shaping up in the next couple of quarters?

Dhvanil Gandhi: What worked out well for us on the SME piece is that before the tariff piece came in, based on our internal analysis of our own portfolio, we had restricted incremental funding and we were proceeding with very, very high caution on some of the sectors. Textile was one sector which was already in our caution list before the tariff piece came in. We have not seen any more deterioration in that portfolio for us. That has not been a concern. We are still cautious on that segment and similarly on FMCG.

To answer the question, tariff-related pressures on our SME borrowers, we are not seeing that big an impact. Even if, say, at a micro level, some businesses are getting affected, but I think they are finding ways to manage the same. The outlook on the industry, more or less, no new additions in terms of caution industries for us.

The older ones still are in that list. We will relook at after the December quarter on whether to take -- we will take a fresh guard whether to open up slightly more or liberalize the policies a little more for FMCG, textile and 1 or 2 other industries that at that point of time that we have put in caution. We are still in wait and watch mode, but no new additions to any caution list for us.

Shreepal Doshi: Because this segment, if you look at the growth has been coming off in the last 4, 5 quarters on a Y-on-Y basis. I mean, maybe, let's say, in 2Q of FY '25, it was growing at 23%, 24%, whereas today, we are at 16%, 17%. Do you see this in the second half improving to our broader level of 20% sort of a number?

Dhvanil Gandhi: Yes. This will improve gradually. We expect that within a span of 2 to 3 quarters, we'll be able to be where we were earlier, the number that you alluded to of 20% to 23% kind of a growth. I think gradual improvement quarter-on-quarter quarter is being seen. I think we can assume the worst is behind us.

I think the eligibility ratio, the rejection ratio is also going down, eligibility ratio is also going higher. Those are improving gradually. We are not seeing an overnight jump on that, and we do

not expect that also. The overall direction is positive. We are hopeful of getting back to that kind of a growth soon.

Shreepal Doshi:

The second question was pertaining to the MEL portfolio. That portfolio, again, the share has come off from 45%, 46% to almost 40%, and the growth there also was in single digit for the last 3, 4 quarters, which has improved in this quarter. Is it fair to believe that the worst seems behind for this category also and overall, we should see the growth reviving in this category because these are the two large categories like be it SME or the MEL?

Dhvanil Gandhi:

Yes. I think similarly in MEL also, we are seeing that the quality has improved and the incremental borrower quality has improved for us. By design also, as we had communicated earlier that as a part of the overall midterm strategy, SME -- our push on SME growth will be slightly higher than MEL growth because we want to increase the ticket size as well.

We feel that MEL, even if growth starts coming back to normal, it will be range bound, but it will be slightly lesser than the average book growth. I think SME and the wheels business will contribute slightly higher growth than the MEL product. That is in a way by design.

What went down from 45% to 40% is also by design and moderation of growth over there, but compensation of that moderation through other products is also planned is a planned strategy, and that is how we see that going forward.

Shreepal Doshi:

Just the last question was pertaining to the variables. As Kamlesh sir, in his earlier commentary highlighted that 2 should be better with growth also reviving. Sir, what are the key variables that you are monitoring, which is giving you this indication or comfort apart from, let's say, the rejection rates coming off and the eligibility criteria of the lenders improving?

Dhvanil Gandhi:

At the ground level, we feel that during our analysis also, we look at the balance sheets and the shape and the balance sheets are pretty healthy at the ground level now at the borrower side because whatever overleverage would have been done would take anywhere between 4 to 6 quarters for them also to manage that and bring it down.

There are various factors, but number of inquiries that come in, the approval ratio, obviously, is one thing. At the micro level, the kind of financials that we see at the borrower level. All these 3, 4 things are the major combination, which gives us a positive feeling that things are improving.

Also gradually, we are increasing our team as well. If you see the team is also getting increased. As the manpower and the feet on street also increase, we'll be able to cater to a slightly wider area and population. Maybe not in terms of the branch network, but at least in terms of 2 things.

One is, efficiency increasing of the current manpower and also expansion of the manpower in the existing branches. Our ability to also now leverage on tech, which is much better than earlier. Our delivery time, our TAT and the products that we are able to introduce also on those lines. These are the few things which gives us a positive feeling for the second half of the year and going forward.

Moderator: The next question is from the line of Abhijit Tibrewal from Motilal Oswal.

Abhijit Tibrewal: Most of my questions have been answered, but just a couple of clarifications. All I was trying to say is, I mean, a couple of times in the call, you shared that we are now much bottom is behind. I was just trying to understand 2 things here. First thing is on the business momentum. If we see last maybe 3, 4 quarters, disbursements, especially quarterly disbursements have been in a certain range, maybe INR3,100 crores to INR3,200 crores. Can we now see this momentum improve, the business volumes improve in the coming quarters?

Secondly, this time around your asset quality performance, there was a positive surprise. I look at asset quality, which is commendable, largely maintained stable. Then credit costs also, as I can see right, were lower sequentially.

Why I'm saying this is we are not kind of seeing this some of the other NBFCs have reported until now. If you could just help us understand what is it that has helped us maintain such pristine asset quality as well as such lower credit cost? That was my second question.

Kamlesh Gandhi: As Dhvanil earlier shared that the confidence comes from the -- from the information that we -- the first information that we get from the ground. That makes us confident that we can come back to a normal strategy over a period of time. As I shared, that was what was 4% of growth of Q2 over Q1 can be in the range of 5% to 6% or 7% this quarter on the back of more eligible borrowers, which will be in a position to cater. That is what we feel as of now.

Second point on provisioning, if you see that provisioning coming down, one of the impact was of the ECL, the way ECL is calculated from time-to-time and because of more off book because we are not required to provide any provisioning on the books on the assets that we assign.

If you see that the off-book asset has increased to 21% this time has also helped us in slightly lesser provisioning. Obviously, the collection efforts and the collection from the write-offs, all those things has helped us to maintain the impairment cost this quarter.

Moderator: The last question is from the line of Sarvesh Gupta from Maximal Capital.

Sarvesh Gupta: Sir, first question is on the dilution that you are expecting. While you spoke about your medium-term and long-term goals and given that we had a fundraising last year. When are we -- I mean, this current level of equity is good for how many years? How much of a capital dilution will we need to sort of do to achieve the 10-year goal also that you mentioned?

Kamlesh Gandhi: As of now, this equity is good till say, INR20,000 crores internal accruals and the current healthy capitalization levels. That is what we understand INR20,000 crores, INR22,000 crores is a good level at which we would like to go once again. There will be equity raise every 3.5 to 4 years. What we have visualized right now cannot be predicted, but what we visualized right now that even within a 10 year period, there will not be a substantial dilution from the current level.

Difficult to accord a number to that, but there won't be substantial dilution because growing at around 20% to 25% with a buffer capital and then an internal accruals at the rate of, say, pick up a mean number of around 16% on ROEs, the difference will have to be settled through capital infusion. We don't see a substantial dilution over the next 10 years. As I said that the dilution will be such where the promoters will still continue to hold the majority of the company.

Sarvesh Gupta:

Why I'm asking you, sir, because our ROEs on an average in the last that you mentioned has been trending more around 14%, 15%. If you are talking about 22%, 23% growth, then the fear is that the dilution will take away a lot of value from the shareholders. Because even in the last decade that you spoke about, we have grown at 20% loans and everything, but the EPS is earnings per share.

Even if I take out the 2 years of COVID, then on the remaining 8 years, the EPS has compounded only at 9.5%. That's the fear that as you grow, if you are not able to increase your ROE, then the dilution would result into much lower growth for the shareholder value.

Kamlesh Gandhi:

In EPS, we have to take into account that share split, what you call it, bonus. The bonus you have to take into account. Because of that, 1: 3, the bonus was given. I don't know whether you normalize that or not. because I personally believe that if the profit has increased by 22% and only capital raise during the -- or 2 capital raise once we went to IPO and other was during QIP, should not bring it down from 22% to 9%.

We need to recheck on what you are telling about an EPS growth of 9%. That I'd like to recheck because the profit growth has been 22%. It was INR41 crores and it is now INR315 crores. Again, we need to check.

As I told that answering is the same that the dilution will be not that substantial. Difficult to give an exact number, but it will -- the growth will be mainly through internal accruals because of the current INR3,000 crores of -- close to INR2,800 crores of net worth what you are seeing, I think around INR1,800 crores, INR1,900 crores is through internal accruals only. That has been the track record of the company, and we should hold on to the EPS also in the coming time.

Sarvesh Gupta:

Sir, the other question is now, like in mortgage business, right, we are a very small player. While I agree that the involvement may not have been the best. Given our size, the kind of growth rate that we have posted is very low and especially compared to even our peers who are also showing great asset quality over a long tenure.\

Why are we not able to grow at a substantially higher pace despite the environment because given our size and given how our peers who have also got very good asset quality track record are growing.

Kamlesh Gandhi:

It is difficult for me to answer for peers. I'll take this opportunity to take you through how this housing finance has evolved over a period of time. When we started and we have been following certain fundamentals -- I can -- I don't want to risk it telling only we were following it up. We were following those. But there are certain fundamentals which are not compromised on, be it

on the liability side or be it on the asset side or be it on the quality of the titles of the assets and all.

Housing finance is a business whereby any aggressive lending will not show up in 2, 3, 4 years. The real delinquency starts after 5, 6 years-plus. That has been the trend of a housing finance company as far as the housing finance company is concerned. Unless you have done extremely badly, it will show up within 2 or 3 years, but you have been marginally lenient on credit side and marginally lenient in the way you dispense credit, which starts showing after certain years.

According to us, while maintaining all around the prudence, we had always concentrated on what best should be done, and this is what we discovered in terms of our growth because there also, if you put -- it's a small number, but even if you plot it on a CAGR, it is 30%-plus. At a smaller size, the number does not look better in absolute terms.

Now from the current close to INR800 crores, we are talking that if we can grow at around 30%, it can be around INR3,000 crores, INR4,000 crores in 5 years. From that point, at INR3,000 crores, INR4,000 crores, once again, we continue to grow at around at around 25%, the numbers will be visible.

We have our own way of understanding the markets and conducting the business. During that course, we have found this number to be achievable. Maybe there will be areas where we should improve. We are not -- we are never complacent, but that is constantly being done. At the end of the day, this is what we have achieved, and we are confident that this will be a good value accretion for the parent to in the medium to long term.

Moderator: As this was the last question, I would now like to hand the conference over to the management for closing comments. Over to you, sir.

Kamlesh Gandhi: Thank you, everyone, and we, Team MAS remains committed to its mission of excellence through endeavours, which we now call it as purpose-led progress-driven, and we will continue to give our best to create the value for all of us. Thank you so much and look forward to your continued support. Thank you.

Moderator: On behalf of DAM Capital Advisors, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.