# "MAS Financial Services Limited
# Q4 FY 24 Earnings Conference Call"
# April 25, 2024

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

**Moderator:** Ladies and gentlemen, good day and welcome to the MAS Financial Services Q4 FY24 Earnings Conference call hosted by Dam Capital Advisors Ltd. 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 call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Sanket Chheda from Dam Capital Advisors. Thank you and over to you, sir.

**Sanket Chheda:** Hi, very good afternoon to all of you and a warm welcome to the call to discuss MAS Financial Q4 results. We have with us entire senior management on the call today. Mr. Kamlesh Gandhi, who is the Chairman and Managing Director. Mrs. Darshana Pandya, who is Director and CEO. Mr. Ankit Jain, who is the CFO and other senior management team as well. So, without further ado, I'll hand the call over to Mr. Kamlesh Gandhi for the opening remarks, which we will follow up by questions and answers. Over to you, sir.

**Kamlesh Gandhi:** Thank you, Sanket and good afternoon to everyone. Happy to connect to all of you once again to discuss the 116th quarter of our consistent financial performance. So, friends, 116th quarter is a very long time and happy to share with you that we have been in a position to perform very consistently over all these years.

And God willing, we'll continue to do the same in the future also. Just to give you the information on a few of the important milestones that we crossed in this year. So, while you can never be satisfied, but we are quite happy to cross certain milestones. Namely, as shared with all of you, we crossed a very important milestone of crossing Rs 10,000 crores last year. We got our rating upgraded to AA- from CARE. As such, it was a little overdue. And at another important milestone, we crossed 250 crores in consolidated profit after tax. So, these are a few of the important milestones we crossed, which will lay a very strong foundation for the decade.

As all of you know that when we meet, I always share with all of you that at MAS for us, the decade is a medium-term view, and we never take a short-term view. And hence, we are in a position to concentrate on the fundamentals and have demonstrated this robust financial performance over all these years. While my colleagues will take you through the detailing in number, if I just take you through a few of the strategic things for this quarter, is that the growth translates to a 26.05% in AUM and 23.41% in PAT for FY2023-24 on consolidated business. On a standalone basis also, we grew at around close to 25.12% in AUM and 23.28% PAT for FY2023-24.

As far as our housing finance company is concerned, and I think all of you might remember that I have been giving the guidance that this company is now on cusp of delivering robust results. I'm very happy to share that we could grow this quarter at a very robust 44% in AUM this quarter. Having said that, we got good opportunity to grow at 44% this quarter, but the guidance remains in the range of 30% to 35% growth, which we'll try to surpass.

From the housing front also, we could register a very robust growth, a robust growth on AUM and profitability, very importantly on the quality of the assets. As I talked to you, our quality of assets in our parent company is a net stage 3 assets of around 1.51%, holding on a buffer provisioning of another 0.24%. In our housing finance company also, the quality of assets is very benign. That is the net Stage 3 of close to 0.66%.

On standalone basis, capital adequacy is at a very comfortable or at a very fundamentally strong level of close to 24.05% in capital adequacy with close to 20.33% in Tier 1 and the rest in Tier 2. Housing finance company also with a very robust capital adequacy of 38%, where we get the advantage of a lower risk weightage of being in the affordable space. The other way to look at it is the leverage. Leverage remains at a very comfortable leverage of around 4 in our parent company and the same in the case, less than 4 in our housing finance company.

All in all, the development for the entire year has been in sync with our understanding of all these years of running the business, of making a fundamentally strong business. If I talk about ROEs on a yearly basis is around 16.3%. The last quarter, we did an ROE of 16.98%. So we have been advocating that we are a company which will endeavor to grow anywhere between 20% to 25% and maintain ROEs in the range of 15% to 17%. A very strong self-propelling capital model.

Having said that, we have an enabling resolution to raise capital whenever we require. As I shared with you last time, we have an enabling resolution of upto INR 700 crores. I met a few investors in the last quarter. We'll be meeting a few investors this quarter also. But we would take our own time and we'll decide and select the right set of investors who can align with our objective of consistent performance. And in our belief that consistency and steadiness is the best way to reach your destination.

In terms of our distribution, I think we have concentrated on our direct distribution substantially. Our RSA distribution is also consolidated. While, as I shared a number of times, that our direct distribution will grow at a faster pace as compared to our indirect distribution. And hence, as I talked to you, we are at around 68-32 ratio in favor of our direct distribution. Moving forward, we see that settling anywhere between 70 to 75 in favor of our direct distribution. This is in line with the guidance we have been giving since few quarters. I'm very happy to share that we could achieve that guidance.

In terms of the assets we serve, we're still predominantly MSME funded. Around 80% of our business coming from MSME. And less than 6% coming from our SPL business and the rest coming from Wheels portfolio. Housing contributes a modest 6% currently. But going forward with the type of growth trajectory we are anticipating; housing should also contribute very meaningfully to the overall assets of the company.

On the liability side, as I shared and Ankit will share in detail, we are well capitalized. And as usual, we have a very strong deadline. Almost we have tied up for Q1 or to an extent for Q2 also, as I talked to you. And with rating upgrade, we'll have more opportunities to tap more avenues and also in the medium term, reduce our cost of borrowing.

On operations, we continue to embrace technology adequately. We are a company which is having our own technology team in-house. We have one of the strongest LMS as far as LMS is concerned. We have developed LOS for all of our systems. And we are embarking on core banking also. We have set up a team at MAS to look after core banking. And within a few quarters, I think we'll be in a position to share the progress on that also.

And our team remains a strong team of 3,700 people with a big team of collectors succeeding and failing together has held us in a good state with more than 550 people now with us for more than five years. And obviously, the co-owners of this company, the core team, which has been with the company ranging from 15 to 25 years. So that forms a very formidable second line of action, second line of team, with Dhvanil also from the promoters' group quite active. And he'll be completing his decade this July. He joined in 2014.

So, with these remarks, rather than taking much of your time on the commentary, which many of you know, I will hand over to my colleague, Darshana. She will take you through detail in number and then to Ankit. And then we will be open for Q&A. Thank you.

**Darshana Pandya:** Thank you, sir. Good afternoon, everyone. So, we are very happy to share that in the last quarter, we crossed a very important milestone of INR 10,000 crores on a consolidated basis. And this quarter, we have crossed this milestone on a standalone basis.

So first, we look at the consolidated numbers. Our consolidated AUM as of March 24 is now INR 10,722 crores as compared to INR 8,506 crores last year. And PAT for the year is INR 254 crores as compared to INR 205 crores, which is 26.05% growth in AUM and 23.41% growth in PAT.

If we look at the standalone numbers, starting with the breakup of the AUM, our MSME portfolio is contributing 80%, INR 4,385 crores is a micro-enterprise loan, SME loan is INR 3,734 crores. Wheels loans are contributing around 14%, INR 670 crores is two-wheeler loans and INR 748 crores is commercial vehicle loans. And salaried personal loan is INR 588 crores, which is 5.8% of the total AUM. So, growth in standalone AUM is 25.12% YoY.

If we look at the total income on quarterly basis, it is now INR 330 crores and last year, it was INR 268 crores. This is 23.04% increase in total income on quarterly basis. Profit before tax has increased by 29.37% on quarterly basis. Last quarter, Q4'23, it was INR 70.41 crores and this Q4'24, it is INR 91.09 crores. Profit after tax has increased by 22.50% from INR 56 crores to INR 68 crores this quarter.

If we look at the performance on annual basis, total income has increased by 30.29% from INR 940 crores to INR 1,225 crores. Profit before tax has increased by 25.21% from INR 265 crores to INR 331 crores. And profit after tax has increased by 23.28% from INR 201 crores to INR 248 crores. If we look at the portfolio quality as shared by sir, our gross Stage 3 is 2.25% and net Stage 3 is 1.51%. In December quarter, it was 2.23% gross Stage 3 and 1.48% net Stage 3.

Now coming to our housing finance performance. Now our portfolio in housing finance is INR 596 crores. That is 44.26% rise in AUM. Last year, it was INR 413 crores. Total income has increased by 42.58% on quarterly basis from INR 12.40 crores to INR 17.68 crores. Profit before tax has increased by 54.21% from INR 1.70 crores to INR 2.62 crores. Profit after tax is 51.55% rise from INR 1.37 crores to INR 2.08 crores. And if we look at the annual numbers, increase in income is 42.75% from INR 43.75 crores to INR 62.46 crores. PBT has increased by 18.31% from INR 8.09 crores to INR 9.58 crores. And PAT has increased by 19.48% from INR 6.34 crores to INR 7.58 crores. Here also, the portfolio quality is very stable. Gross Stage 3 asset is 0.90% and net Stage 3 asset is 0.66%. In the last quarter, it was 0.81% gross Stage 3 and 0.58% net Stage 3. So this was about the performance in our housing finance company.

Now, I will request Ankit to brief you about the liability management.

**Ankit Jain:** Thank you, ma'am. Good afternoon, all. To elaborate on the capital and liability management, the company through its efficient liability management was able to maintain an average liquidity of around INR 800 crores during the quarter and unutilized cash credit facility of INR 575 crores. In addition, the company has sanction on hand to the tune of around INR 1,100 crores which will fill up the requirement in the coming quarter.

In the March quarter, company did around INR 600 crores direct assignment transaction. The company further has around INR 1,000 crores sanction on hand which will be utilized during the quarter and next year. The off-book portfolio is around 22% of the total AUM. We as a strategy aims to maintain around 20%-25% of AUM as off book through direct assignment and around 5%-10% off book as co-lending. The company has available cash credit facility of around INR 1,700 crores, out of which we maintain utilization level of 70%-80%, rest portion is kept as liquidity buffer.

We raised around INR 890 crores of term loan during the quarter with the average maturity of three to five years. This helps us to further strengthen the asset liability maturity pattern. We are strongly placed with respect to structural liquidity for the period ended 31st March and whereby the liquidity is adequate and cash flow in all the cumulative bucket is positive.

In terms of capital adequacy, the Tier 1 capital is 20.33% with a total capital adequacy of 24.05%. Our debt equity is around 4 times. In terms of cost of borrowing, the cost of borrowing for the quarter was 9.82%. The cost of borrowing for March quarter last year was 9.34%. But the better part is the cost of borrowing has remained stable if we compare with the last quarter. We expect cost of borrowing to be around this level in the coming quarter also.

One achievement in terms of rating upgrade whereby the company's long-term bank facility and NCD rating has been upgraded to AA- from the A+. This upgrade in rating will help us to diversify our resource mix and that too at competitive pricing.

Thank you. Now we are open for Q&A round. Thank you.

**Moderator:** Thank you very much. We will now begin the question-and-answer session. The first question is from Hardik Doshi from White Whale Partners. Please go ahead.

**Hardik Doshi:** Hi, thanks for taking my question. I want to just understand on the operating expenses side, the operating expenses had gone up as a percentage of AUM and as a percentage of NII in FY'23 because we were investing more into branches, our people and moving more of the sourcing through our distribution. But since then, it was kind of gradually trending down, but it seems like in the fourth quarter, it has again kind of gone back up on a year-on-year basis. Can you just maybe talk a bit about, were there any particular investments or any one-offs?

**Kamlesh Gandhi:** See, on cost of operations, as I have been sharing since long, that the right way to look at it is maintaining our ROAs. So, the cost of operations, once we have our retail at around 70%-75%, in terms of percentage to AUM will still increase. But at the same time, it will be compensated by the yield, what we will get.

And hence, our ROAs will remain stable. If you see, our ROA has been stable at around 2.80%, reflecting on the fact that the overall ROA dynamics has not been disturbed. And in terms of operations to NII and cost of operations to AUM, I still believe that we are at quite an efficient stage, despite the fact that many of the branches are yet to pick up on volumes.

So once the branches pick up on volume, but at the same time, that efficiency to an extent will offset the opening of new branches, investment in technology, and all. So we see this operational cost at this level, or maybe a little higher, without affecting our ROAs.

**Hardik Doshi:** Okay. And so I guess that is also the reason why our NIMs have gone up, is related to this NIMS and opex are both going up proportionally, and ROAs are remaining stable?

**Kamlesh Gandhi:** Yes.

**Hardik Doshi:** Okay. The other question that I had was that we, you know, we are continuing to grow our salary personal loans very strongly. You know, how are you seeing the trends out there and the asset quality kind of indicators and any concerns? And the second part of that is how much of this is being done through our partnerships with FinTechs and how much is being done through our own distribution?

**Kamlesh Gandhi:** I would say salary personal loan is a new product, a very low base. We continue to maintain that this will be less than 10% of our total AUM going forward. We have maintained this even before the RBI raised the risk weightage for this particular unsecured personal loan. So we continue to maintain that it will be less than 10%. And in terms of our contribution from FinTechs, I think currently around 35% to 40% of the business in salaried personal loan comes through our FinTech partnerships.

**Hardik Doshi:** Sorry, 35% to 40% you mentioned?

**Kamlesh Gandhi:** Yes.

**Hardik Doshi:** Okay. And one last question is, you mentioned that we're looking to do the QIP and you had meetings last quarter, you will continue to have this quarter. But roughly, I mean, what is the timeline? Are we looking to do this QIP this quarter or is it open-ended?

**Kamlesh Gandhi:** It is absolutely open-ended because this is an exercise done very well in advance, not from the statutory requirement or not even from the gearing point of view. But in our next phase of growth, if you look at one link of chain at a time from INR 10,000 crores to INR 20,000 crores, we thought that some infusion of capital will further strengthen the balance sheet. So it is absolutely open-ended. We'll go on meeting investors quarter-on-quarter, look at the right set of valuations and the investors, and take our decision.

**Hardik Doshi:** Okay. Thank you.

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

**Shreepal Doshi:** Hi, sir. Good evening and congrats on a great set of numbers.

**Kamlesh Gandhi:** Good evening.

**Shreepal Doshi:** So, my first question was pertaining to the credit rating upgrades, so congrats on that as well. So how do you see that, benefiting us on the COF side going ahead? And while there was this, risk weights increase by the RBI, while that doesn't impact us significantly, but with this, point number one, that impact, and point number two, this benefit, how should we see, you know, the COF going ahead because of these two reasons playing out?

**Kamlesh Gandhi:** So, credit rating upgrade will definitely help us in the medium term. Majority of our loans are MCLR-backed. So, we will take this opportunity to renegotiate loans with all our lenders as and when there is a MCLR reset, including our negotiation on rates when we take a new borrowing.

So that will kick in right from this quarter. But the overall impact on the cost of fund will take around a few quarters to be reflected in the balance sheet. In terms of credit squeeze, I think if you take it in the right perspective, RBI for companies like us who are mainly into MSME funding and growing cautiously, is not against lending to companies like us.

Even if you see banks, they are more than happy to lend to the companies who are very consistent in their approach and growing in a calibrated manner. And secondly, all the business what we do falls under the priority sector lending as far as the bank is concerned. So, for us, there was no impact of any of the liquidity. So, there was no liquidity squeeze or credit squeeze and there was no impact on the RBI commentary from time to time on NBFC.

Secondly, with our credit rating upgrade, we will look at diversification of resources. We might like to have more of capital market participation going forward so as to decrease our dependence only on banks. So within a few years, I think capital market, which is currently around 8% to 10%, can be anywhere between 15% to 20% depending upon the overall market situation. But that will give us an opportunity to have multiple sources of funding.

**Shreepal Doshi:** Funding, right. Got it. So, point number two was I was looking at the number of NBFC types that we've added during this quarter. While we continue to add organic branches, so we've added some eight-nine branches, we have been proactive on adding NBFC partners as well. But if you look at the split of this NBFC partner-driven book has come off or has been coming off, so is it fair to assume that our organic lending is at a relatively higher ticket size versus the NBFC partner-driven business?

**Kamlesh Gandhi:** Not at a higher ticket size. Our organic lending in absolute amount, as I shared, which is now 67%, 33%, or 68%, 32%, will be around 70% to 75% within the next few years. And we, as I've told a number of times, that we have a fantastic experience with our NBFC lending partners too.

So we don't mind adding on to new lending NBFC partners as we go forward because in absolute terms, that amount will increase. Relatively, the percentage is a shift from our indirect retail to direct retail. But in absolute terms, the amount has to increase. So it is a cautious decision on the part of the company to have more and more partnerships, to have limited exposure on each one of them and have a well-diversified asset base there also.

**Shreepal Doshi:** Got it. The organic business that you're building or which we've already done a commendable job on, is the average ticket size relatively higher than the partner-driven business? Is it fair to assume that way?

**Kamlesh Gandhi:** Yes. In certain products, it is. For example, in products like MEL, in products like SME, it will be higher. In terms of two-wheeler and SRTO, it will be almost the same.

**Shreepal Doshi:** Got it. And if you look at the last couple of quarters, the calculated yields have come off. So, what explains that?

**Kamlesh Gandhi:** I think you have to go on a product-wise basis because the average calculated yield will not always give the right picture because of so many variations and so many dynamics in that. But if we talk on an overall basis, I think on a consolidated basis, we maintain a NIM of 7% at an overall yield, combined yield of around close to 16%. And then we are left after the credit cost and the operational cost, we are left with around 3.75% to 3.80% of profit before tax and 2.8% after tax.

**Shreepal Doshi:** Right. Got it. Thank you so much for answering all my questions. And good luck for the next quarter.

**Kamlesh Gandhi:** Thank you.

**Moderator:** Thank you. Next question is from the line of Shubhranshu Mishra from Philip Capital. Please go ahead.

**Shubhranshu Mishra:** Thank you for the opportunity to be here and congrats on your set of numbers. My first question is partly answered. Just want to understand the NBFC partner sourcing. We've always focused on sourcing MEL and two wheelers. And I thought that we sourced most of our SME loans on our own. We just wanted that clarity as to how we have structured the NBFC partner sourcing now in each of the products?

And if we are doing higher ticket sizes organically, what would be the credit risk and risk management on our own versus a partner sourcing? That's my first. I'll come to the second after this…

**Kamlesh Gandhi:** So in terms of our NBFC partnership, I think they contribute very meaningfully as far as MEL is concerned to the extent of say, around 40% to 45%. In SME, they contribute anywhere around say around 25% to 30% and in two-wheeler and SRTO in line with our overall mix of anywhere between 25% to 30%, but for MEL they more or less contribute equally.

In terms of going on our organic growth and in terms of the risk management, as you know that we have been a company who have believed in growing very cautiously, putting the credit risk and the profitability before just the growth. So, if you see our SME portfolio whereby we have increased our ticket size to an average of INR 20 lakhs the quality of the portfolio has been maintained in the most satisfactory manner.

And as and when we increase our ticket size that will be the endeavor to see to that, that how the credit quality is maintained and then go on the growth part on those higher ticket sizes. So that fundamentals will be observed as far as the operations are concerned.

**Shubhranshu Mishra:** Understood, sir. And in terms of our borrowing mix we still have a significant portion of cash credit or overdraft which comes in as an expensive way of borrowing. Of course, we might be keeping that to roll over various loans or maybe for working capital. But with this rating upgrade, would we want to retire some of this cash credit overdraft and then in lieu of that have more of CPs and NCDs, more of money market instruments than cash credit?

**Kamlesh Gandhi:** So practically, if I share with you cash credit for us is going to be the most cost-effective borrowing as of now because with the latest our guideline before a few years where cash credit has to be halved off into 60% WCDL limit which are rolled over every 90 days to 120 days depending upon our relationships with the bank. And we get the rates depending upon the rollover tenure that is 90 days to 120 days. So in fact, the majority of our cash credit holds what we use is in terms of WCDL which is rolled over every 90 days to 120 days without putting any stress on ALM because that is a carve-out of our main cash credit.

Having said that, the other thing why over a period of time cash credit will remain constant is because of the fact that RBI and banks are of the opinion that NBFC should borrow less in terms of cash credit, but in our case even if we take cash credit only as a 1-year, tenure loan, we don't create any negative ALM.

So we will be in a position to maintain or in terms of percentage reduce this cash credit overall AUM because if you see this 1700 crores is constant since last 2 years, 3 years that is reducing the percentage of cash credit to overall borrowing. But that is because of the reason that it is more of a mandate that cash credit should be limited to a certain portion so as not to create ALM, but not from the point of view of borrowing disadvantage.

On the contrary, we have two advantages that in cash credit being a floating limit I can park my excess fund anytime in the cash credit account and use it. So I don't have any negative carry by investing outside the limit. And secondly, as I shared with you that I get the advantage of rolling over.

**Shubhranshu Mishra:** And the new geography, just last question. The new geography that we have entered what projects are we doing and what would be our aspiration to do future products which probably have not been added in the new geography?

**Kamlesh Gandhi:** We are a multi-product company and any new geographies which we explore, we see to that how is the potentiality of the various products we operate in. And then with the way we built up our team and the way we have the business plans, few of the products are introduced there. Say for example in South we opened Hyderabad with a new tool to cater to the SME borrowers first and then we will be introducing other products.

Maybe in North also we started with SME product and now we have slowly introduced commercial vehicle and will be doing two-wheeler also gradually. So whenever we open new geographies we see to that what is the potentiality of the various products we operate in and then we start with one or two of the products depending upon the team we have built. And then the intention is to introduce all the products gradually.

**Shubhranshu Mishra:** Understood, sir. I will come back in the queue, sir. Thank you so much. Best of luck.

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

**Ankit Gupta:** Thanks for the opportunity and congratulations for a good set of numbers. Sir, my question was on given the current environment where on the credit side we are seeing good growth and the environment is also pretty buoyant.

Do you think we can strive for higher growth in AUM by let's say 30%, 35% or we will continue to focus on 20%, 25% kind of growth over the next year or two?

**Kamlesh Gandhi:** As I told you, a 10-year is a medium-term view and just to share with you to do a 30%, 35% growth, there were so many enabling situations from the point of view of market size and macro headwinds from time to time. But being in the industry for more than 28 years now, I personally believe that even growing at around 20%, 25% is doubling your AUM every 3.5 years to 4 years. And that is a tall order in a lending business if you want to prioritize quality and profitability both.

And with companies like us who use a self-propelling capital requirement model, I think this is an ideal mix for us irrespective of the positive – who have got the positive environment. So what we have done over all these years is that we have not got overexcited by the headwinds nor have we bogged down substantially when there are challenges.

So a 20-25% growth augurs well for a company in my view especially in the lending space and that also is a tall order and a very decent growth you get by doubling your AUM and net worth every 3 years to 4 years.

**Ankit Gupta:** And sir on the rating upgrade given the rating has now been upgraded to AA-, so on the liability mix side, how do you see this shifting over the next 2 years. Currently, our term loan is around 54%, cash credit is around 10% and the direct assignment and the rest of the things. So how do you see this thing shifting over the next year or two? What ideal mix would you like to have on the liability profile and how is that expected to impact our cost of borrowing over the next year or two?

**Kamlesh Gandhi:** I think the rating upgrade the major advantage will be in terms of touching the capital market. So our borrowing from capital markets from currently around 10% to 12% should settle between 15% to 20% in the next 2 years 3 years depending upon the overall environment and the comparative rates we get and plus adding on other institutes where we now start qualifying, financial institutes now we start qualifying for getting credits from them.

So in short, the idea will be to be less dependent on banks, increase our capital market exposure, try and explore other financial institutes who can now take exposures they've given our credit upgrade accompanied by the reduction in rates. So very difficult to predict the exact configuration, but this is the line of the direction in which we'll be moving.

**Ankit Gupta:** On the bank loan side given our rating upgrade, how much reduction in our interest costs do you see on term loans whenever they come for renewals over the year?

**Ankit Jain:** So as per our bank loan is usually linked to 1-year MCLR and the spread of the renewal happens once in a year or when we ask for a fresh enhancement from them. So we see that the impact of the cost of borrowing, the reduction coming in the next 3 months to 6 months, depending on the impact of MCLR on the cost of fund of the banks.

**Ankit Gupta:** By how much do you expect?

**Ankit Jain:** So we expect our spread to be reduced between 15 basis points to 25 basis points in a 3 month to 6 month period.

**Ankit Gupta:** Sure. Thank you and wish you all the best.

**Moderator:** Thank you. The next question is from Rajiv Mehta from YES Securities. Please go ahead.

**Rajiv Mehta:** Hi. Good afternoon. Congratulations for strong numbers and thank you for giving me this opportunity. The first question is on the branch addition plan that we have and the target market and geography for FY '25? Second question is on if you can share separately the DPD buckets of salaried PL, as well as in the CV book that we have?

**Dhvanil Gandhi:** Hi. Dhvanil on this side. So if we talk about the geographical plan, so as we have communicated earlier that we are pretty strong on the western side with almost 60 branches in Gujarat and 40 each in MP, Rajasthan and around 30 branches in Maharashtra. So we'll be penetrating deeper into Maharashtra, Rajasthan, MP, number one. And number two, that we are planning, we have already started putting up our feet on the ground in north and south.

So we expect that the incremental 20, 30 branches that we are planning to add within next six to nine months, I think around 40%, 45% of them will be from the north and south. So, in south, Telangana, Karnataka, Tamil Nadu, these are the three states we are focusing upon and in north, Delhi NCR and geographies above that.

So going forward, I think incrementally you can expect on west MP, Rajasthan, Maharashtra and on south, three states and north, one or two states.

**Rajiv Mehta:** Got it. And on the DPD buckets in salaried PL and CV book?

**Darshana Pandya:** So salaried PL is around 2.70% stage three, 92% is stage one. And CV is 3.85% stage three and 91% is stage one portfolio.

**Rajiv Mehta:** Okay. Sure. And if I may just ask you, do you know the yields for CV book and salaried PL?

**Darshana Pandya:** SPL yield is around 21% and SRTO is also ranging from 19% to 21%.

**Rajiv Mehta:** Great. Thank you so much. Best of luck.

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

**Sarvesh Gupta:** Good evening, sir, and congratulations on a good set of numbers. So, on the housing finance side, we have seen a strong growth, but at the same time I think the NPA numbers have been going up steadily as well. So how do we see this sort of phenomenon to get normalized and at what levels we should sort of see stable numbers in stage three?

**Kamlesh Gandhi:** See, on a smaller portfolio and a less seasoned portfolio, we were around 0.5% and right now we are at around 0.6%. I think in the long run we will see net stage three as a portfolio season and especially in the borrowers whom we are working, serving, that is in the affordable space, we will see this housing finance NPAs to settle anywhere between 0.8% to 1.2% going forward. And that will be in sync with our expectation on this type of borrowers. And just to add to that, that in NPAs that does not necessarily mean credit loss as far as the housing is concerned because we operate at a very conservative LTV. So ultimately at credit cost we will be at sub 1% level in our housing finance company.

**Sarvesh Gupta:** And in this sort of a low-ticket lending in the affordable segment, while there is security but in terms of the capability to possess it back and sort of sell to recover your loan, is that on a practical basis? How does that work and do you see any sort of challenges on that front?

**Kamlesh Gandhi:** So there are two aspects to it. We do not work on any compromised titles. So the titles in our case are very clear. That is what I was sharing that we took some time to develop our housing finance business because we wanted to understand the title dynamics in each of the geographies we operate in.

So given that fact, the propensity to sell the property fast increases. But having said that, we never finance any of the properties with a view that we can repossess and sell it. So at the first instance the credit is quite conservative. Second is once we repossess it with clear title, it might take time, but we are in a position to sell it depending upon the geographies we work in. But quite sellable.

**Sarvesh Gupta:** Okay. And on this expansion of the branches, so almost 40%, 45% was coming from your non-core sort of an area. Now increasingly as geography, I mean the economy is getting bigger every year because of the growth and everything. West itself seems to be a large enough market for you at your size to be able to generate that 20%, 25% growth.

So I mean what is leading us to sort of grow more in geographies is the current core geographies of let's say Maharashtra, Gujarat. Is that not enough to satisfy additional INR 1000 crores, INR 1500 crores that we need or sorry INR 2000 odd crores that we need for growth?

**Dhvanil Gandhi:** Hi, Dhvanil again here. So as you said, yes, I think West has good potential. Now I think we are working in good states in West, lucky to be present here. The strategy in expanding North and South is planning for the next three to four years. So, we take our own sweet time in terms of developing the geographies and penetrating them more deeper in terms of tier 2, tier 3 cities. We take our time.

If you look at our progression in say MP, Rajasthan three years ago versus now, you will see that majority of the branches three to four years ago, majority of the branches almost say around 50% of the branches would have opened up in last two to three years. But we were present in MP, Rajasthan since more than five years now.

So, this is preparation for next three to four years and we think that having a good diversified geographical mix also will help us going from INR 10,000 to INR 20,000 crores and trying to understand the demography, customer profile, business segments. So just readying ourselves for the future and that is the reason that we are trying to penetrate and expand more into unknown territories, potentially unknown territories for us where we have not operated earlier.

**Sarvesh Gupta:** Okay. On the rating upgrade, this 15-20 basis point that we may gain in terms of our cost of funds, my assumption is that you will be passing it on, right? So keeping your ROA guidance broadly in the same area. Is that true or is it going to be appropriated by us? So how should we look at your 2.75% to 3.25% ROA guidance? Will that see an upward revision with each rating upgrade? Because we are going to gain size with every few years and that can also lead to some more rating upgrades a few years down the line.

**Kamlesh Gandhi:** I think when I talk about 2.75% to 3.00% ROAs, all this thing is built in. So when we forecast the 2.75% at a particular phase and then we talk about 3.00% aspirational, the range bound ROAs, we built in all these aspects that the rating upgrade will happen, economies of scale will kick in, the direct distribution can add on to a few more percentage, a few basis points more in terms of ROAs. So you are writing your assumption that we will be concentrating our position between 2.75% to 3% ROAs rating upgrade.

**Sarvesh Gupta:** Okay. And finally, right now we are at a four times debt to equity broadly. While we may not have an immediate need of raising funds but given that our core engine is churning out 16% ROE plus there is some dividend and then we aspire for maybe around closer to 25% growth.

So to what leverage are we comfortable at a console level? So this four can max move out to what leverage level and hence by when we necessarily will need to raise funds? What will be the timeline?

**Kamlesh Gandhi:** So in terms of leverage, we will be comfortable at around between 4 to 4.5 or 4.6 in our parent company, which is well accepted given our track record in the market. And in the housing finance, it will be anywhere between 4.5% to 5%. And on the capital requirement with 16%, close to 16% ROAs derisking at around between 20% to 25% to assignment 5% to co-lending and all.

I think a growth of around 20% to 25%, take a mean of around 22.5% will be a self-propelling growth. But having said that, as I shared, we already have an enabling resolution and given an opportunity in terms of valuation and the right set of investors, we might infuse capital to further consolidate the balance sheet.

**Sarvesh Gupta:** Understood, sir. Thank you and all the best.

**Kamlesh Gandhi:** Thank you.

**Moderator:** Thank you. The next question is from Hardik Doshi from White Whale Partners. Please go ahead.

**Hardik Doshi:** Okay.

**Moderator:** Hardik Doshi from White Whale, you may go ahead with the question.

**Hardik Doshi:** Yes, just a quick follow-up to the previous question on geographic expansion. You mentioned you want to get into new areas because it takes a long time to understand the market. Similarly, are you looking at maybe entering any other newer products and trying them out, or these are the products that you're going to stick to for let's say the next three to five years?

**Dhvanil Gandhi:** So, as we have communicated earlier, I think a carve-out from our current Wheels portfolio will be the Used Car division. So Used Car is something that we are piloting with right now. And I think within next three, four quarters, it should start taking up shape and that will be one more product which gets added to our Wheels portfolio. We have already started deploying some team piloting and we are trying to understand the market. And slowly and gradually we'll scale it up once we have the confidence and the full understanding.

And as a subset of our SME business, so we can call it a sub-product, it will fall under the SME bracket, is the supply chain finance. So that is also a very good opportunity which we are seeing, both in our existing customers and acquisition of new customers as well. So supply chain as a subset, but it will get combined with our SME piece only, but those are the two pieces which we are working upon right now.

**Hardik Doshi:** Got it. And maybe from a geographic perspective, they say three to five years out, how big do you see the North and South as a percentage of our loan book?

**Dhvanil Gandhi:** So, I think in the next two, three years, I think it should contribute meaningfully at anywhere between 25% to 30%. That is what we anticipate within next two to three years.

**Hardik Doshi:** And this would mainly be our Rajasthan MP because that's where we entered first or you're talking outside of that?

**Dhvanil Gandhi:** I'm talking about South. I'm talking about South and North, 20% to 30% is the new geographies that we are currently working. That will contribute around 20% to 30% in terms of the overall in the next two to three years. West, I think Gujarat will lead the pack with around 40%. And Maharashtra MP, Rajasthan will be equally divided at around 10% to 12% each.

**Hardik Doshi:** So then that's a pretty meaningful growth in three years if you want to get to that level for just North and South which is outside of our core which is Gujarat, Rajasthan, and Madhya Pradesh and Maharashtra, right?

**Dhvanil Gandhi:** Yes. So I think that is why we are setting up early, getting our feet on the ground there. And we anticipate that the markets are good from our limited experience and from the peer reviews that we have done. And I think the markets are huge for the products that we are operating in. So we can't ignore those markets. And I think if our retail distribution keeps on growing at the pace which it is growing at right now, I think that number is achievable.

**Hardik Doshi:** Yes. Just asking the question that the previous participant asked in this context, right? Are you hitting any kind of constraints of growth in Gujarat, Madhya Pradesh? Because our size, I mean an INR 10,000 crores is nothing compared to the products that we are in. Right? So again, why not? You know the geographies. There is a very large market, addressable market. Why go into newer areas when there is so much room in our existing areas?

**Dhvanil Gandhi:** So, as you rightly said, there is good opportunity in the West and that is our expansion in the West is also happening at a good pace. So as I had earlier mentioned, the number of branches that we opened up in Western states other than Gujarat, the number has gone up sizably in the last two to three years. So we are not facing any constraint per se, but we are anticipating that the geographical diversification will be good and getting ready for it early will be helpful rather than, say, two years down the line, increasing the portfolio very rapidly in other states is something which has not been our way of working.

So we feel that going a little early and if you have noticed that we had very minor presence in South around five, six years now, but we were not growing it. So now we see that the opportunity is good, diversification of portfolio and also increasing these Western parts meaningfully in the next two to three years. We feel that this is a good strategy.

But per se, if you talk about constraints, we are not seeing any major constraints in terms of growth. The major contribution still for this year and next year will be from the Western part.

**Hardik Doshi:** Okay, got it. Thank you.

**Moderator:** Thank you very much. That was the last question in queue. I would now like to hand the conference back to the management team for closing comments.

**Kamlesh Gandhi:** So thank you, everyone. And as shared by me and the team, that we are very confident going forward and in consistence to our belief of - In consistence to our belief of growing fundamentally, we will continue to work on the same line and we'll be in touch. Thank you.

**Moderator:** Thank you very much. On behalf of DAM Capital Advisors Limited, that concludes this conference. Thank you for joining us, ladies and gentlemen. You may now disconnect your lines.