"MAS Financial Services Limited
Q2 FY '23 Earnings Conference Call"
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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. ANKIT JAIN – CHIEF FINANCIAL OFFICER – MAS FINANCIAL SERVICES LIMITED

MODERATOR: **MR. ABHIJIT TIBREWAL – MOTILAL OSWAL FINANCIAL SERVICES LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the MAS Financial Q2 and H1 FY '23 Earnings Conference Call, hosted by Motilal Oswal Financial Services Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touch-screen phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Abhijit Tibrewal from Motilal Oswal Financial Services Limited. Thank you and over to you sir.

Abhijit Tibrewal: Yes, thanks Stephen. Good afternoon everyone. Welcome to the Q2 FY '23 earnings call of MAS Financial Services Limited. We have with us today the management team represented by; Mr. Kamlesh Gandhi, Chairman and Managing Director; Mrs. Darshana Pandya, Director and CEO and Mr. Ankit Jain, Chief Financial Officer and other members of the senior management team. On behalf of Motilal Oswal, we thank the management for giving us this opportunity to host their earnings call today.

Let me now hand over the virtual mic to Mr. Gandhi. Post the opening remarks, he will open up the floor for Q&A. Thank you and over to you, sir.

Kamlesh Gandhi: Thank you Abhijit and good evening to all of you. I'm very happy to connect to all of you once again. And before we start, I wish all of you a very happy New Year. In Gujarat, post Diwali, there is the beginning of the New Year. So I wish all of you a very happy New Year, a happy, prosperous and a healthy new year.

While the results are in front of you and all of you must have gone through that, I'll just give you the heads up on what we did in Q2. As you are aware that we could register a very robust financial performance resulting into a 30% Y-o-Y growth in AUM in profitability, close to 27%, and maintaining the quality of the assets, high capital adequacy of 24% and a good liquidity. So all around, it was a performance which we are used to over all this 2.5 decade. If you plot our performance over the last 2.5 decade, we're barring the two COVID years, where we had a calibrated approach on growth and in the hindsight we all agree that rightly so. We have registered a growth of 25%-plus and this quarter was no different post the normalization.

So with this strong quarter, it gives us more confidence on the fundamentals, what we have followed over all these 2.5 decades, that we focus on the quality, the asset quality, the dictum of extending credit when it is due, the understanding that the markets are there, will be there, it is very important for us to be very strong and to be there. And the consistent and the strong performance overall these 2.5 decades is a function of this basic – following this basic fundamentals.

If you see the growth, it was across all the product lines we operate. While Darshana Ben, will do the numbers going forward for you, but across all the product lines that is MEL, SME, two-wheeler, commercial-vehicle loan, and we are testing the salaried personal loan also, which is a very wide segment to be served. All those segments registered a good growth this quarter, resulting into an overall disbursement growth of 53% Y-o-Y and AUM growth of close to 30.13% this year.

On the distribution front, we continue to expand our distribution, which is close to around 150 branches and more than 6,250 centers, and also with our strong network of NBFCs, more than 150 of them. They contributed very positively and efficiently during the quarter, with the mix between 60% of the portfolio being through our direct retail distribution and the 40% through our NBFC distribution, which is also working very-very efficiently. And as I always said, that this shift in mix of direct versus the retail asset channel is a function of the growth in our retail asset distribution. And we have very high regards and we have very high confidence in that distribution channel through our NBFCs also.

On the technology front, I think it is very important to share with you that we are in an advanced stage of digitizing our processes within next quarter or two. We'll be seeing all the products being digitized, processing, bringing about more efficiencies and will bring about better customer services and at the same time will help us to have a better control on the assets we create along with our tie up with the few of the fintechs of the country. That gives us the complete understanding of working of the technology and how we should, from time-to-time, adapt and adopt the same.

In terms of the team, which forms an integral part of any organization, as you know that we have a very strong and a solid top and the middle management team accompanied by close to 500 people working with us for more than five years, that as I talked to you, the team currently is in excess of 2,200 and it will get further strengthened as we grow from quarter-to-quarter.

If I talk about the housing finance subsidiary, this quarter, I'm happy to report a growth of AUM by 28%, 27% on a Y-o-Y basis. As I have always exhibited, the confidence that this company will also contribute very meaningfully going forward, and we see this company growing anywhere between 25% to 30% during the coming quarters. So all in all, we are back on the track post our calibrated approach post-COVID, if you see right from Q3 last year, we started growing, and now we are at full fledge growth while maintaining the fundamentals of asset quality capitalization level. Currently, we are at around more than 24% of capital adequacy. And it is very important to note that the high level of capital adequacy is based on a non-dilutive growth, whereby the contribution to the capital has been mainly through internal accruals. And as we completed five years of our capital raise through IPO. We have doubled, we have more than doubled our AUM profitability and all the important parameters, but it has been fueled through internal accruals.

And with the current business model, we are very confident that we'll be in a position to grow anywhere between 20% to 25% going forward, if there is an opportunity, the way we could do it in Q1 and Q2, it can be even more. But we have very strong enablers and our conviction is based on those enablers. Namely, the self-propelling capital model, the niche expertise, the large market, and last but not the least, the attitude and the aptitude of the team of being a learning organization and be confident but never be complacent.

So all in all, we are happy to report this number, and we are seeing very strong traction for the coming quarter also, and we are very confident of a very strong performance in the coming quarter too. With this, I would like to hand over to Darshana Ben and to provide the numbers are in front of you, but if we can give the headline numbers for the benefit of the ones who can once again refresh those numbers. Over to you, Darshana Ben.

Darshana Pandya: Yes, sure, sir. Thank you. Good evening, everyone. I'm happy to connect with all of you once again. To start with, as shared by Kamlesh sir that we can see the growth across the products. So if you look at the AUM, overall AUM has increased by 30.13%, and if we look at the product configuration, micro enterprise loans has increased by 24.07% that is from INR 2,893 Crores to INR 3,590 Crores. SME loans have increased by 33.40% from INR 2,002 Crores to INR 2,672 Crores. Two-Wheeler loan has increased by 30.16% from INR 361 Crores to INR 470 Crores. Commercial vehicle loan where is the growth of 19.91% from INR 228 Crores to INR 273 Crores as salaried personal loan is a new segment. So in the portfolio as on September ‘22 is INR 133 Crores.

If you look at the income and PBT, PAT figures, total income on Q-on-Q basis has increased by 46.73% from INR 156 Crores to INR 230 Crores. PBT has increased by 27%, that is from INR 52 Crores to INR 65.43 Crores. PAT has increased by 28% from INR 38.32 Crores to INR 49.07 Crores. If you look at the half yearly figures, half yearly performance, income has increased by 40.33% from INR 305 Crores to INR 428 Crores. PBT has increased by 26.35% from INR 101 Crores to INR 127 Crores. And PAT has increased by 27.20% from INR 75 Crores to INR 95.59 Crores.

Regarding the quality of the assets, we could maintain the quality during this quarter, also gross Stage 3 asset is 2.26% and net Stage 3 asset as on September is 1.60%, as compared to 2.27% at gross Stage 3 and 1.63% net Stage 3 as on June ‘22, and we still hold around 0.37% of our on-book assets, as our management overlay.

So this was regarding the parent company. Now coming to the housing finance performance. AUM has increased by a share -- it has increased by 27.38% from INR 300 Crores to INR 382 Crores. Total income has increased on a quarterly basis, it has increased by 13.87% from INR 9.22 Crores to INR 10.50 Crores. Profit before tax has increased by 13% from INR 1.89 Crores to INR 2.13 Crores. PAT has increased by 13.47% from INR 1.48 Crores to INR 1.68 Crores. On a half yearly basis, the numbers are -- total income has increased by 7.07% from INR 18 Crores to INR 19.39 Crores. PBT has increased by 20% that is from INR 2.95 Crores to INR 3.54 Crores. PAT has increased by 19.62% from INR 2.31Croresto INR 2.75 Crores.

Here also the silver line is the quality of the portfolio. As on September, our gross Stage 3 asset at 0.59% and net Stage 3 asset is 0.42% as compared to 0.54% gross Stage 3 and 0.38% net Stage 3 as on June ‘22. And here also, we hold around 0.98% of our on-book asset as a management overlay. This was , regarding the performance of both the company.

Now I'll request Ankit to take you through the capital and liability management during the quarter.

Ankit Jain: Good afternoon all. To elaborate on the liability management of the company through its efficient liability management was able to maintain the average liquidity buffer of around INR 600 Crores this quarter, and unutilized cash credit facility of around INR 500 Crores. In addition, the company has sanctions on hand to the tune of INR 2,000 Crores with under various facilities in the form of term loans, the direct assignment, co-lending etc..

In the last quarter, the company did around INR 255 Crores direct assignment transaction. The company has more than INR 1,100 Crores sanction on hand, which will be utilized during the coming quarters. The company aims to maintain around 20% to 25% of AUM, as off-book through direct assignment transaction and co-lending.

In the last quarter, company did around INR 75 Crores co-lending transaction. The company has tied-up with three banks namely Bank of India, Bank of Maharashtra and recently South Indian Bank. Further, we are in process of co-lending tie-up with few other banks, which we see as a win-win proposition for both the entities.

Company has cash credit facility of around INR 1825 Crores, out of which company-maintained utilization level of 65% to 70%, and that proportion is kept as liquidity buffer. We successfully rolled over around INR 1,250 Crores short-term working capital this quarter, which is sub limit to cash credit limit.

We raised around INR 722 Crores of term loan during the quarter, this helped us to further strengthen the asset-liability maturity pattern. We further have more than INR 700 Crores sanction on hand, which we will utilize during the current year.

Also, we have assessed the structural liquidity for the r period ended 30th, September 2022, and based on the assessment, there is no negative impact on the liquidity and the cash flow in all the cumulative buckets remains positive.

The capital adequacy ratio remains strong at 24.14% with Tier 1 capital of 21.24% and debt to equity of 4.28-times. Also to add on we raised around 25 Crores subordinate debt during the quarter. This qualifies as Tier 2 capital for the company and thereby further strengthening the capital structure.

Lastly, the cost of borrowing for the quarter has remained stable at 8.83%. In the current increasing rate scenario, we are trying our best to hold on it at a comfortable level.

So this was the brief on the capital and liability management. And I give the call back to Kamlesh Sir for closing remarks and then we can open for Q&A.

Kamlesh Gandhi: Thank you, Ankit. And now, we are open for taking questions for better understanding.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Participants who wish to ask a question, may kindly press star one on your touch-screen telephone. If you wish to withdraw yourself from the question queue, you may press star and two. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Hardik Doshi from White Whale Partners. Kindly proceed.

Hardik Doshi: Yes. Thank you. Congratulations on good sets of numbers. I just wanted to ask about the operating expense ratio, right? It's gone from 1.5% to 2.4%. And I understand part of this is the expansion of the branches and the employees, et-cetera. How much of this movement of almost 90 basis points, right? How much of it is timing and will be gradually absorbed over a period of time? And how much of it is like maybe permanent in nature, given that you want to move more of the assets on-book versus the off-book and also the tie-ups with fintechs etcetera.

Kamlesh Gandhi: So on that Hardik, we always maintained that our focus has been on ROA, which is a function of the yield we take and then the cost of the funds and the cost of operations and the credit cost. The cost of operations will depend upon the growth in various product segments what we are into and also the form of distribution. So as I shared in the beginning that we increased our branches, we increased our distribution to more than 6,200 centers. But at the same time, that increases our yield when we work directly as compared to our NBFC distribution channel.

So the right way to answer your question is that our focus will be to maintain ROA is anywhere between 2.75% to 3.25%. And the operational costs will depend upon the growth in the various products and the distribution model, as we pursue going forward. So the ROA will reflect the real intention of the company to maintain a certain yield and a certain operational cost.

Hardik Doshi: So basically, you're saying that the increase in NIM is being offset by the increase in the opex, as a percentage of AUM into on a blended basis, PPOP as a percent of AUM and NIM.

Kamlesh Gandhi: All right.

Hardik Doshi: Okay. And then this INR 133 Crores of AUM that is on the salary personal loan. Is that all entirely with the relationships with Fintech? Or you doing it through our branches as well can you just? And also, like can you give a profile of the salaried employee that they're getting to, a little bit more color?

Kamlesh Gandhi: It's a combination of both. Because if I take you through fundamentals introducing this product that we were already into the major segment of the economy, be it SME, micro enterprise loans, wheels including two-wheelers, commercial vehicles, and we are also working hard to gain some momentum in used cars. This was the customer segment, which we are missing since long according to us. So we are trying to take baby steps there. So the portfolio, what you see is a combination of both through our tie-ups with Fintech and through our branches.

Hardik Doshi: Got it. And then these are salaried private sector salary personal loans?

Management: We have shared that in brief in our presentation that basically, these are the employees belonging to the approved companies having a permanent domicile. And based on the repaying capacity, the loans are extended.

Hardik Doshi: Thank you so much and congratulations.

Management: Thank you.

Moderator: Thank you. The next question is from the line of Rahul Jain from Credence Wealth. Kindly proceed.

Rahul Jain: Hello. Am I audible?

Management: Yes, sir, we can hear you.

Rahul Jain: Sure. Congratulations on a good performance and thanks for the opportunity. Sir, just to understand this salary part more in details, you have mentioned in your PPT about approved companies. So typically, two things, where are these loans going in terms of approved companies would mean what? And this is for what purpose? And secondly, how do you plan to grow this book over the next 12 months to 24 months? How do you plan to grow this book further?

Kamlesh Gandhi: To answer your second question first, as I told, we are taking the smaller step as usual the way we do for any product. So we have not pegged a percentage or contribution of this product towards total AUM. We'd like to discover that. We've not pegged it. So it all depends upon what is the portfolio quality we get and what is the opportunity we get in the market. On the approved companies, there are certain parameters on which we will approve our company such as their revenue, the size of the organization in terms of the employees, employed, their compliance, their vintage, their compliance on the basic parameters. So we have a few five, seven basic parameters on which we would approve our company. I mean those companies, the employees working in those companies only will be extended this loan.

Rahul Jain: And these are typically small ticket because the average ticket size is roughly around INR 24,000?

Management: So this will start like that only. As I told that when we start, we start in a very calibrated manner. So the ticket size will also increase over a period of time as we gain the confidence and better understanding. But as of now, the ticket size will gradually increase. And the current ticket size is also the function of sourcing our business through certain Fintechs, where the ticket size is small.

Rahul Jain: And sir, out of the AUM of INR 7,500 Crores today, how much of it is through the Fintech?

Management: Last quarter, we did a disbursement of close to INR 240 Crores, right?

Darshana Pandya: INR 230 crore

Kamlesh Gandhi: INR 235 Crores through Fintech and cumulative in terms of AUM, Fintech contributes less than 10%. It is around 7% to 8% of the total AUM.

Rahul Jain: Sure. One last question on the AUM segment. So two-wheelers have done exceedingly well in the current quarter. But the CVs continues to lag behind. Anything specific to read into both of these particular things, that two-wheelers is doing very well and CVs do not or continue to not to do well?

Management: I think they are two different products altogether. So if two-wheeler grows, CV has to grow is not given. It all depends upon the opportunity we get at the ground level. And our team and origination team and systems and operations and the confidence we get in various market to extend more loans. So it's a function of so many parameters. But going forward, just to give you our medium-term vision, we see that this which is contributing around 10% to 11% currently, should contribute around 20% going forward.

Rahul Jain: Sure. And just one last question, sir. In the growing interest rate scenario, how do we plan to -- or what is your confidence level on maintaining NIMs?

Management: There are two aspects to it, that our capabilities to get the borrowings at a competitive rate, despite of the fact that the rates have increased. And secondly, our capabilities to pass it to the borrowers. So, as I shared last time also that coming on the second point that we have 70% to 75% of the loans, where potentially we can pass on the interest rate hike to the borrower and in terms of our borrowing majority of our borrowing is MCLR linked, so we get a benefit of a lag despite increase in the rate. And also because of our very immaculate track record we can also bargain on the premiums that the bank charge over MCLR from time-to-time. So with all these factors and given the vintage and the track record and our capabilities to pass on to the borrowers. I think we are pretty confident of maintaining the NIMs in the medium to long-term.

Rahul Jain: Thank you so much, sir, and wish you all the best. Thank you so much.

Moderator: Thank you. The next question is from the line of Harshvardhan Agrawal from IDFC. Kindly proceed.

Harshvardhan Agrawal: So just wanted to understand, among the segments that we report, which segments have floating interest rate loans and which have fixed one, a connected question to that is how much interest rates we have increased in the floating book? And what's the frequency of repricing?

Kamlesh Gandhi: So when I talk about 70% is the potentiality to convert barring to higher rates as such practically barring, I think, two-wheelers.

Darshana Pandya: Two-wheelers, SPL and commercial-vehicles…

Kamlesh Gandhi: Barring our 10% to 15% of the portfolio, we have enabling agreement with the borrowers to increase the rates. So you can consider around consecutively, I'm talking about 70%, 75% of the borrowers where we can potentially have a floating rate. And from time-to-time, we have raised the rate which on an average basis, we've raised by 0.3%.

Harshvardhan: So this 30 basis point rate increase we have taken in the past three months or over the past six months?

Kamlesh Gandhi: Over the overall increase, there has been a repo rate rise of 1.9% from June onwards or May onwards. During those periods, we are compensating with the repo rate rise period, we have increased that

Harshvardhan: And sir, one last thing that I wanted to understand was how does the repricing occur? So let's just say you decide that for a particular loan, the interest rate would be increased today. So is it applicable for the next EMI, which is next month or it would be like after a quarter or some time period?

Kamlesh Gandhi: There is a cut-off date. So say, for example, last time when we increased it was effective 1st October. So on the loan outstanding from 1st October, those rates will increase.

Harshvardhan: So because 1st October is also started the quarter. So is it fair to assume that the cut-off dates are at the start of the quarter?

Kamlesh Gandhi: It all depends, our maximum effort is to absorb those rate and not pass it on. So it all depends upon what are the rates right we get in turn. So we don't fix the timing of a quarter or a month. It all depends upon how we fare on raising the liability and how we could manage not to get at the increased rate. If we could manage that, not to get it increase rate, we might absorb it for a longer period. But the effort is that how we can be stable on the interest rate to the borrower

Harshvardhan: Sure. And sir, just one last thing that I wanted to understand sir, we have taken a 30 basis point increase in interest rate over the last six months. So maybe from say, May or June onwards, we have taken 30 basis points? Is that correct?

Kamlesh Gandhi: yes.

Harshvardhan: So if I want to look at the calculated yield they have increased by a higher rate. So is it because of a function of our loan book growth into higher yielding segment, which is maybe salaried loans or something, I just wanted to understand what that yield increase initially more than 30 basis points

Kamlesh Gandhi: That 30 basis points was not at one go. It was at different point of time, depending upon the product segment and the borrower. So it will not be fair to extrapolate very simply. But overall, the average rise what we have given is 0.3%.

Moderator: The next question is from the line of Madhuchanda Dey from Money Control. Kindly proceed.

Madhuchanda Dey: Congratulations on very strong quarter. I have a couple of questions. The first one is as you shared the disbursement figure of INR 2,252 Crores of which you mentioned about INR 235 Crores through fintech. So if you could just elaborate on the other channels in this disbursement mix?

Darshana Pandya: So thorough our retail asset channels, through our NBFC partners, the total disbursement is an INR 882 Crores, and through our direct channel is INR 1,380 Crores.

Madhuchanda Dey: And the rest was…

Darshana Pandya: No. So this INR 230 Crores is a part of this INR 1,379 Crores.

Madhuchanda Dey: Okay. Got it, ma'am. My second question is a bit of a repetition, if my understanding is correct, you mentioned that, of course, the opex has increased now to a level of more than 2% of total assets. So is this the trajectory going to be for the foreseeable future given the businesses…

Kamlesh Gandhi: So that will be the trajectory. And once again, I'd like to reiterate that our focus will be on ROA. So just to you give the head up on trajectory, it will be in this range or even higher, but depending upon the retail assets we create, it will not impact our ROA.

Madhuchanda Dey: Okay. I got it. The focus will be to maintain the 2.75 to 3.25% ROA…

Kamlesh Gandhi: Right.

Madhuchanda Dey: Got it, sir. And sir, my third question is on the NIM. You have managed to maintain the NIM despite the rising cost of borrowing, and what are the levers which are available at your end, which gives you confidence that even should the interest rate rise from here on, you will be comfortable in maintaining the NIM at this level?

Kamlesh Gandhi: So if we take two sides of the balance sheet, that one is how we raise the fund. So majority of the funds we raised is MCLR backed. So we get a time lag impact of the MCLR triggers, whereby they can raise the rate, the very strong track record, whereby we can impress upon the banks to reduce the premiums, what they normally use to charge. So on the liability side, we'll try to be as efficient and we'd like to prolong those impact of the interest rate hike as much as possible. This is on the liability side.

And on the asset side, as I said, we have more than 70% of the portfolio, whereby in a situation where it is inevitable for us to raise the rate. To maintain the given NIMs. We are in a position to do that. And as I shared in the earlier query that we raised 0.3% from the duration of the first rate hikes of total 1.9%, in the repo rate. So these are the strong enablers on the asset and the liability side, which gives us a reasonable confidence to maintain the NIM, and we demonstrated that in Q1 and Q2 both.

Madhuchanda Dey: Sir, a very last question, it's a very general question a little long term. We are increasingly seeing banks penetrating deep into the so-called Bharat Banking and getting into the turf which originally a forte of NBFCs like you, so how do you comment on that? And how do you see your business shaping up in light of this competition?

Kamlesh Gandhi: See, we are blessed to be in a country which has enormous potentiality. When we talk about Bharat banking or rural banking or NBFCs or even the regional rural banks or the local area banks, whatever you call it in the current avatar. Altogether still are not at the scale to satisfy the massive exclusions that this country has. And when we are talking about extending credit in the segment where we work very actively. We all are talking about just the top 15% to 20% of the segment, we had 80% as to see the light of the day on the formal credit.

So what we have seen through our experience that more of the players, the better it is in terms of awareness and it helps us to expand the market size. And at the same time, the sensitivity of the dynamics of the business also increases among the lenders. So there are multiple advantages of more players being entering the area where the market size are huge. And having said that, we are a niche player over all these years. We have a high level of efficiencies. So we do have the wherewithal to stand the competition also.

But I think competition is still some years or a decade away when it will be just be played on the interest rates. Currently, it is all about how you identify the demography, how you identify your customers how you give them better services, and last but not the least, how you can maintain the quality of assets while extending the loans and bringing millions under financial inclusion. So my take on this is that more the players enter, better it is for companies like us.

Moderator: Thank you. We request participants to kindly restrict your questions to two per participant. The next question is from the line of Amarnath Bhakat from Ministry of Finance of Oman. Kindly proceed.

Amarnath Bhakat: Yes, first of all, thanks to performed better than what you have projected in the last two quarters. You always say 20%, 25%, but actuals are coming 30%, way above than what we projected before. I hope that continue. I have two set sub-questions. First of all, we know this Reserve Bank of India in the last few months, itself increased by -- cost increased by 1.9%. And you say, it is all your borrowing. Most of them are MCLR-based. Then how the FY '22, your cost of borrowing is around 8.75%, by end of Q2, it's just 8.83% and just a few basis point increase in your cost of borrowing. How is this actually happened?

Kamlesh Gandhi: See, as I shared, when we have MCLR-based borrowings that are reset dates. That it is 1-year MCLR borrowing, 6-month MCLR borrowing. So the rates are benchmarked to MCLR and the terms both. So with the recent rise, we have had the advantage, as I said in the earlier query also that we had an advantage to prolong those rising interest rate because of that period triggers. Say, for example, a majority of them have 1-year MCLR, so earliest they can raise the rate is after one year. So this is the advantage of having an MCLR-based borrowing. If this remains for a very sustained period of time, then our rates will also increase.

Amarnath Bhakat: Yes. That means -- am I understanding that this is at the moment is not reflecting because you've got this advantage. But over, say, two quarters down the line, which has been not increased. Now it will come to increase into the next one quarter or two quarter line-by-line and your cost of borrowing will proportionately increase more?

Kamlesh Gandhi: As I share, if there's a sustained increase, then definitely, we are also no exceptions from this cycle. So once the increases on a sustained basis, our rate will also go up, but during that period, we will have a lot of opportunities to streamline our liability and manage our liability more efficiently. So as to have the interest rate within the given target range.

Amarnath Bhakat: This is something very exceptional happened at your company compared to the similar size NBFC, what we have seen that result declared so far. Anyway, my second light of the question is, now the time gap between increase of your cost of borrowing and increase of your yield or the interest rate for your customers, is there is a gap that means your liability costs come at a later stage, whereas you increase the cost to the -- cost of your borrowing to the others at a faster pace and that gap generally give you a better need for the short period of time.

Kamlesh Gandhi: As I said, we have increased on an average basis, around 0.3% for our borrowers. So that is almost equivalent to the raise we got on the liability side. So as such, it is not a pleasant experience with the customers to raise at least in the retail segment to raise the rates often. So our endeavors are to have a very stable rates. But as I said, once we reach a situation whereby it is inevitable to raise the rate, we start raising the rates.

So to the extent it doesn't hamper our NIMs or if it is not beyond our capabilities to absorb that given our targets of NIM, we transfer those rates to the borrower. So we try to match the rise and raise the rise we get and the rise we do.

Amarnath Bhakat: And on the unsecured loan part, sir. I'm sure from the last two quarters, you've given focus on that particular part as well. Now as of today, what is the status means how much of your total percentage I am sure I missed you, how much of your total percentage is really an unsecured loan? And if you can give us some kind of an outlook that how you are seeing this unsecured part of your portfolio, is growing. Will it be growing faster than the growth of your other part of the portfolio? Or it will be at par with that?

Kamlesh Gandhi: The micro enterprise loans where the ticket size are less are majorly the unsecured loans. And the others are all secured. If it is SME secured, 2-wheelers as the name suggests against 2-wheeler, and commercial vehicle and used car against the asset. And what we do in home loans are also secured notes. So MEL, the micro enterprise loan forms approximately 30%, 35% of our AUM configuration. And going forward, we see this configuration to be maintained in the same proportion.

Amarnath Bhakat: This is the last – it is relating to that one only. So just want to know about this leverage part, which has been increased quite a bit compared to anything, compared to the previous part. Is there any intention to increase this leverage more than 4.2 because this 4.2 itself is last four years or three years, highest.

Kamlesh Gandhi: So we don't plan to increase more than that. And it might be highest, but it is well within the industry norms and it is looked from the angle of the capital adequacy we maintained. So at a capital adequacy of 24%, the lenders are more than comfortable with this leverage. So I think we'll be maintaining -- and as we grow our balance sheet size, it will not be possible for us to maintain low leverage towards that will not -- that will be hurting our ROE. So, I think this is an optimum leverage what we have reached, maybe something in the range of 4 to 4.5-times. And with capital adequacy of 24% more than 20%, we get good lender support.

Moderator: Participants are requested to kindly restrict your questions to two per participant. The next question is from the line of Shubhranshu Mishra from PhillipCapital. Kindly proceed.

Shubhranshu Mishra: Coming to the question Sir, the first one is on the contribution from our NBFC partners. We generally put this out on our PPT earlier, wanted to understand what proportion of our AUM are we generating from our NBFC partners? Also, I wanted to understand in the credit costs that we have seen this quarter what is the to be write-off proportion. Also, if you can talk a little bit more about our collection architecture for micro enterprise loans and SME. How many people are deployed in various geographies? What are the kind of incentives that are given, any collection agencies as they are deployed?

Management: Happy new year to you. So I'll not be answering the order of the questions, but the way it comes to my mind, in terms of the number of persons employed at various geography will be shared offline with you by Ankit. But just to give you the fundamentals that all our business is backed up by banking-based collections and banking base disbursement. So we just have to address the issues where there is dishonour of the RTGS or NACHs on time. And the number of people employed in-house and through agencies will be shared by you offline. The contribution, I think we have mentioned in our presentation around 40% is through NBFCs and 60% is to our direct agents.

Shubhranshu Mishra: Understood, sir. And going forward, this contribution will keep falling?

Management: Yes. Once again, I’d like to reiterate that we are very happy and satisfied with both the distribution models.

But the only thing is that since our retail distribution grows at a faster pace as compared to our NBFC distribution. The contribution looks more leaned towards the retail distribution. And as I see that I think on few quarter basis on a year or two basis as we will see this settling anywhere between 30% to 35% through NBFCs at 60% to 70% in favor of our retail distribution.

Shubhranshu Mishra: And just one clarification, sir, the credit cost that we see on the P&L. That’s only from our originations, not from our NBFC partner origination. Is that correct?

Management: Credit costs, you're asking about?

Shubhranshu Mishra: Yes, yes. The provision impairment on financial instruments, that's the credit cost. On the P&L

Management: That is on both because even we have to have a standard asset provisioning also. So when we talk about provisioning, it is for the complete on-book portfolio.

Shubhranshu Mishra: Right. So as for both our originations as well as our NBFC partner originations?

Kamlesh Gandhi Yes

Moderator: The next question is from the line of Deepak Sonawane from Haitong Securities. Kindly proceed.

Deepak Sonawane: My question on Fintech disbursement in the quarter. As we can see that currently, we disbursed around INR 235 crore as compared to last quarter of around INR 300 Crores, so we have seen kind of dip. Any specific reason behind this?

Management: There is a lot of regulatory overhang. If you say RBI supposed to come out with the guidelines. And then the guidelines coming, the interpretation of the guidelines and then how we have to structure our business in compliance with the guidelines was very important. So we took a cautious decision not to accelerate the disbursement unless we are clear on the guideline. So now the guidelines are pretty clear, there are guidelines and then queries and answered the by RBI. So now we are very clear on how we should conduct ourselves in terms of doing business with various fintechs.

Deepak Sonawane: Okay. And what is the average yield that we are offering to our customers through salaried personal loans?

Management: Salaried person loan rate, it ranges according to the customer profile. It ranges from 14% to 19%.

Deepak Sonawane: Okay. And the last question, just a data keeping question from my side. If you can give us the stage 3 asset percentage as of September for all the two-wheeler, CVs, microenterprise and SMEs, it'll be a great?

Management: That we will share it with you offline or if you can quickly give it to them.

Darshana Pandya: So 2-wheelers, Stage 3 asset percentages -- it's 1.68% MEL is 2.50%, SPL is 0.74% around And SME loan is 1.78% and SRTO was 3.92%.

Moderator: Thank you. The next question is from the line of Himanshu Upadhyay from O3 Capital. Kindly proceed

Himanshu Upadhyay: Yes. My questions have been replied, I don't have any further queries.

Moderator: Thank you. The next question is from the line of Sarvesh Gupta from Maximal Capital. Kindly proceed.

Sarvesh Gupta : Congratulations on a good set of numbers. So sir, one thing which I wanted to just clarify is against a repo rate rise of 1.9%, so we increased the rate by around 30 basis points only. So this is very different from other NBFCs, of course. So does it also lead us to getting a lot of balance transfer or something like that from our existing customers because they would have seen that your rates are much lower than what is being offered in the market because, obviously, for other NBFCs rates would have increased, especially in this period?

Kamlesh Gandhi: If you see the borrowers we deal with, for them, interest sensitivity is not that high. For them getting the loans at the right time and relationships is an important role. So, don't practically see a lot of balance transfer happening because of this. And at the same time, for the new borrowers, the rates have already increased. And what I'm talking about the rate rises of the existing borrowers.

For the existing borrowers, we try to maintain on an average. What I'm talking 0.3% is on an average for the whole AUM, there might be cases where we might have raised 0.5% some for some 0.6% depending upon the borrower profile and the basic interest rate, we used to charge to that. if the basic interest rate charge is less, we had more room to increase. So we could manage on an overall basis at 0.3%. And the new rates have already increased. This was for the legacy portfolio. So we practically we would not find such much of this opportunity in the market.

Sarvesh Gupta: Understood. And secondly sir, now that we are almost on a 30% sort of a growth trajectory versus our maybe ROE of around 15-odd percent. So we will be consuming capital quite fast. So are there any thoughts around the equity fund raise, if not this year, then next year?

Management: The 30% has been since last two quarters, we still stick on to our original target that as a company will target anywhere between 20% to 25%. But because of the COVID situation, we had got room in having extra capital as buffer. So we are seeing strong traction this year to grow at 25% plus, And with 25% plus growth rate, derisking it to the extent of 20%, 25% and ROAs between 2.75% to 3%. I think will fuel our growth for at least next two, three years at the same rate.

Moderator: The next question is from the line of Ankit Gupta from Bamboo Capital.

Ankit Gupta: Congratulations for a good set of numbers, .Sir, on the cost of borrowing and assuming the MCLR hasn't hit up as of now, the rate hikes, so assuming over the next three to four quarters, when this MCLR revision hits us, where do you see your cost of borrowing, let's say, in Q1 or Q2 of next year?

Kamlesh Gandhi: As I answered in earlier to an earlier question, that if it is on a very sustained basis, we are no exception that our rate will not increase. But we get time to create the assets accordingly. And ultimately, we will be in a position to maintain our NIM at the same level which we are operating right now. So this is what we visualize as of now. That since it is MCLR backed, we get some time to recalibrate our assets and liabilities both. So our rates might increase, but we'll be maybe in a position to maintain our NIMs. That is what we think.

Ankit Gupta: So sir, for the new customer acquisition or for the new loans that we are sanctioning, have we also taken the 30 bps hike? Or we are we are giving them loans at higher rate of interest.

Management: It is at higher rate. So we have to factor in that what the marginal cost of borrowing for us also will increase. So we have to factor in that. And depending upon the product and what best the market can absorb depending upon the product, those rates have increased.

Ankit Gupta: And sir, I think someone else also asked about capital adequacy ratio, we have pushed almost 24%. And we are targeting, let's say, INR 1,000, -- INR 10,000 Crores of AUM by by end of FY '24. Any plans of fundraising as of now?

Kamlesh Gandhi: The way we have designed our model for up to INR 10,000 Crores, we don't see any requirement of fundraising presuming the capital adequacy at around 20%-plus. And beyond that, it all depends upon the growth we pursue and the opportunities we get in terms of capital raise. So there's never say never to capital raise, but what point I'm trying to drive home is that to grow at 20%, 25%, it will not be imperative for us to raise capital to grow at those rates, because we derisk around 20% to 25%. And we already have a capital buffer currently. And we also have the potential to raise Tier 2 capital from time to time. So the combination of all those things will help us to keep around 20% of capital adequacy ratio and can grow anywhere between 20% to 25%.

Ankit Gupta: And just one last question, if I may. So last two quarters, we have also seen significant growth in our micro enterprises loan and although SME as you have guided earlier, continues to be the major growth driver for us. So given the current scenario, how do you see the growth in segments where that you lend to SMEs, MEL and wheels. So over the next year or two, how do you see the growth in all the segments panning out for us and our strategy for growth in this year?

Kamlesh Gandhi: All the small enterprises, the growth rate is pretty high. If you leave it as two years of COVID, and that is what I shared with all of you in my opening remarks that growing our AUM at around 25%-plus has been our style of working, the way of working over all these 2.5 decades. And the same was the function of the borrowers that we work with. So they grew in size and that gives an opportunity to lend to them, and we could also continuously grow at around 20%, 25% along with them. So I think with things normalizing, we see this enterprises growing, not for only a year or two, but for a very sustained period of time, we'll be in a position to register a very healthy growth rate. And at the same time, they will give us a good opportunity to grow along with them. This is what we have experienced over 25 years.

Ankit Gupta: And on the Wheels side, how do you see growth? CVs and two-wheelers?

Kamlesh Gandhi: If we have a stable GDP growth of anywhere around 6% to 7%, we see it is within next two to three years is contributing progressively from 12% to 15% to 20%. This is what our endeavours will be, maybe a few percentage here or there or a few quarters here or there, but in long term, we anticipate this to contribute around 15% to 20%.

Moderator: Ladies and gentlemen, that was the last question. I now hand the conference over to the management for any closing comments.

Kamlesh Gandhi: So thank you, all of you. I think we were in a position to answer your queries. And in case if you have further queries, you can be in touch with our IR Team, and you can get the reference of that And I wish you all the best, and thank you for patiently hearing to us.

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