"MAS Financial Services Limited
Q2 FY 25 Earnings Conference Call"
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Moderator: Ladies and gentlemen, good day, and welcome to MAS Financial Services Limited Q2 FY '25 Earnings Conference Call hosted by InCred Equities. As a reminder, all participant line will be in listen only mode, and there will be an opportunity for you to ask questions after the presentation conclude. Should you need assistance during the conference call, please signal an operator by pressing star than zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Jignesh Shial from InCred Equities. Thank you, and over to you, sir.

Jignesh Shial: Yes. Thank you, Nikita, and good evening, everyone. On behalf of InCred Equities, I welcome all to MAS Financial Services Limited 2Q FY '25 Earnings Conference Call. We have along with us Mr. Kamlesh Gandhi, Chairman and Managing Director; Ms. Darshana Pandya, Director and CEO; Mr. Dhvanil Gandhi, Executive Director; Mr. Ankit Jain, Chief Financial Officer. We are thankful to the management for allowing us this opportunity. I would now like to hand it over to Kamlesh Gandhi, Chairman and Managing Director of MAS Financial Services Limited for his opening remarks. Over to you, sir.

Kamlesh Gandhi: So, thank you, Jignesh, and good evening, everyone. I'm very happy to connect to all of you once again to apprise you for the working of this quarter, that is Q2 '25. I'll take you through the brief working of the company, followed by my colleagues taking this in detail, and then we'll be open for question and answers.

Friends, just to start with, we had once again a very stable and a consistent performance for this quarter, growing our assets at the rate of 22.35% year on year on a consolidated basis. Profitability more than 25% year on year on a consolidated basis. And on a standalone basis, in MFSL, we grew our AUM at 21% and profitability by 27% year on year on the back of the recent capital raise that we did in June last quarter. Even in the housing finance company that's registered a very robust performance with around 33% rise in AUM and 25% rise in profitability on year-on-year basis.

In consistence to working, the quality of the assets were maintained at 1.57% net Stage 3 asset and 0.68% net Stage 3 asset in the parent and the housing, respectively. So, the quality of the asset is maintained even during this challenging period.

If I take you through the products, we continue to focus on MSME, wheels and to an extent personal loans, whereas 80% of our contribution to the asset comes from the MSME sector and the rest 20% comes from wheels and PL at the rate of 15% approximately and 5% approximately, respectively. So, we will continue to focus on diversified asset mix. Going forward, as I said earlier also that we would like wheels contribute around 25%, housing to contribute around 10% going forward, PL to contribute less than 10% and the rest to be contributed by SME and then the MEL that is the small business loan portfolio.

And this will be on the back of a very strong distribution. Currently, we have 198 branches, which will be anywhere between 215 to 220 branches by the year end. The centers reach has increased to 13,000. As you know that we work on a hub-and-spoke model. Every branch will cover around 40 to 60-kilometer radius. So that enables us to sell all external financial services and all the centers within that radius. We'll continue to pursue that model. And so far, it has yielded very satisfactory result in terms of quality and efficient distribution.

In terms of our distribution through NBFC, that also remains very robust. The contribution of our NBFC the distribution contributes around 34% and 66% is through direct distribution. And as you all know that we are progressively increasing our direct distribution because of the fact that the speed of direct distribution outpaces the speed at what we do through our NBFC channel partners. So, within next 3 to 4 years, we see this to be settling anywhere around 70%, 75% in favor of our direct distribution.

In terms of liability, we have well-diversified liability. I'm very happy to share that we have been in a position to raise the liability at will, but we have taken up the challenge of raising it at competitive rates to the maximum extent possible and also go for diversification. Currently, we have around close to 12% as capital market model, which over a period of time.

And as you know, that our rating has been upgraded to AA- now since March. So progressively, we will have more exposure through capital markets. And within the next 3 years, we intend that to take to 20% as a mark of our diversification with some contribution coming from ECB also that will give us a very well-diversified liability mix, irrespective of the fact that we have very strong support domestically right now within our conventional means of funding, namely the private banks, public sector banks and the DIIs like SIDBI, NABARD, MUDRA and all.

So, we are well then placed on liability front, which Ankit our CFO, will take you through when he takes you through the details. Very important part, which I'd like to discuss here is on the HR front. We are -on a consolidated basis, we are close to now 4,000 persons working in the group. We continue to focus on getting higher efficiencies from them. And at the same time, the optimal use of technologies should increase the productivity of all the employees, reflective from the fact that we are in a position to maintain our operational cost by and large on the stated objective lines.

So as far as HR is concerned, we understand that it's a task to be worked upon and can be worked out. We are constantly endeavouring recruitment, maybe upscaling, training, engagement and creating an atmosphere whereby people get an opportunity to demonstrate their skills and as we have been doing since long, we value dedication and honestly above anything. And that has paid a good dividend for us with more than around 500 people working with us for more than 5 years and a very strong core team, which forms a very formidable second line.

As I shared earlier, the technology will play a very important role as an enabler for efficiency enhancement. We have an in-house team of close to 100 people working. We have updated a build and operate model rather than a SaaS-based model. And I'm very happy to share that we have loan origin system and LMS at place and loan origination system is a at place for all our products. And as a next step of development, we are trying to make it BRE-enabled. That process has started from April. Happy to share that within this quarter, we'll be in a position to launch BRE-enabled LOS across our products. While currently, it is on a trial run, but that will help us to increase our efficiencies tremendously because of the fact that the clients to whome we serve, the disbursement of log-in ratio is quite low. So, if we have BRE place that will improve efficiencies at all levels, be it at the originator and be it at the credit decisioning levels.

Talking about the current scenario. I think all of us here a lot of lot of news, and we have so much of information on our desk from time to time on especially on the credit quality, on the overleveraged borrowers and at the same time, the commentary is that still a few more quarters will look challenging.

While I would agree to all those facts at the ground level, but we are very confident to navigate through this situation given our fundamentals. If you see that we are a 28 years old company. We have navigated through such situation in the past having going through such cycles in lending business is very normal over a period of some years, and we have seen this and navigated in the past very successfully on the back of right approach to asset creation.

Our approach to asset creation always remain on the dictum of extending credit where it is due, while we are confident of a 20% to 25% growth and as we have demonstrated over 118 long quarters and that through the growth mainly through internal accruals demonstrates our capabilities to navigate through cycles and the operational efficiencies and the control on the credit cost.

But I would like to share here that while we have a medium to long-term objective of 20% to 25%, we would not mind a slightly lower growth in favor of a better asset quality or a sustained asset quality and sustained profitability, while it can always pick up in medium to long term, just not deviating from our medium to long-term objective.

We continue to be vigilant on the latest development at the marketplace. But as I shared that with fundamentals at place, lending can be a very complicated or an easy business, depending upon how you take it. And we have always followed up the dictum of extending credit where it is due, discovering growth rather than just targeting growth at any cost and that has really helped us.

And we all know that there is a lot of supervisory oversight in order to bring with an intention of the regulator to bring an orderly growth in the system, while it is a short-term pain, in the long term, it will bring about a more orderly growth, more importantly, because of the increasing role that is being played by NBFCs and even fintechs also entering this segment, which have a potentiality to grow big, but with a caveat what the regulator thinks that they should grow bit with a balanced approach on asset quality customer services.

So with an increased supervisory attention, we all, NBFCs should be cognizant of the fact that all the operations should be more compliant, and we are also working on the same lines that how the operations are progressively more compliant and how we are more sensitive towards the letter and spirit of the regulation. Over the years, we have added to that. We see no reason why we should not be in a position to do it.

Withstanding the fact that it is continuously adjusting your operations and at times even the business models, if required, will be the order of the day going forward. So all-in-all, it was a good quarter for us. We continue to have confidence in the coming quarters as we go ahead, as we have done over all these years across our product line and across our area of operations on all the aspects of the business.

I would like to hand over to Darshana Ben then to take you through the numbers in brief.

Darshana Pandya: Yes. Thank you so much. Good evening, everyone. So to start with the numbers on performance, I'll be first briefing you about consolidated numbers and then we'll take the standalone numbers. So as sir shared that it was a good quarter for us, there is a growth of 22.35% in AUM on a consolidated basis. That is from INR9,547 crores to INR11,681 crores. And as far as PAT is concerned, there is a growth of 25.31% from INR61.94 crores to INR77.62 crores.

Coming to the standalone numbers. Total income on -- if we compare the quarters, total income grew by 23.75% from INR297 crores to INR367 crores. Profit before tax, there is a growth of 27.56% from INR80 crores to INR102 crores. Profit after tax, it has increased by 27.60% from INR60 crores to INR76.57 crores.

If we compare the half yearly results, total it is in similarity with the quarterly numbers. Total income grew by 23.73% from INR577 crores to INR713 crores. Profit before tax grew by 26% from INR156 crores to INR196 crores. Profit after tax grew by around 25% from INR117 crores to INR147 crores.

If we look at the configuration of the portfolio over -- micro enterprise loans grew by 11.39% from INR4,260 crores to INR4,746 crores. SME loans grew by 22.92% from INR3,233 crores to INR3,974 crores. There is a growth of 14% in two-wheeler loan from INR624 crores to INR712 crores. Commercial vehicle loan growth is 62%, around INR557 crores to INR900 crores. And salaried personal loans has a growth of 84%, INR372 crores to INR685 crores. So you can see that in the overall growth percentage, MSME segment contributed around 62% if we compare the Y-on-Y AUM growth.

Talking to you about portfolio quality, it remained stable. That is INR2.36 crores gross Stage 3 asset as compared to INR2.29 crores gross Stage 3 asset in June quarter. And the next Stage 3 asset is 1.57% as compared to 1.52% as on June 2024.

Now coming to the housing numbers. The AUM stands at INR665 crores. That is a growth of 32.67% from INR501 crores to INR665 crores. On quarterly numbers, the total income, there is a growth of around 36% from INR15 crores to INR20 crores. Profit before tax grew by around 23% from INR2.47 crores to INR3 crores. Profit after tax, there is a growth of 24.63%, INR1.90 crores to INR2.37 crores.

And half yearly numbers, total income grew by around 35.83% from INR28 crores to INR38 crores. Profit before tax, there is a growth of 30.23% from INR4.48 crores to INR5.84 crores and profit after tax grew by 30%, INR3.49 crores to INR4.54 crores. Here also, the quality of the portfolio remains stable. That is gross Stage 3 asset is 0.93% as compared to 0.90% in June quarter and net Stage 3 asset is 0.68% as compared to 0.65% in June quarter. So this was about the performance for both the company.

Now I'll request Ankit take us through liability and capital management.

Ankit Jain: Yes. Thank you, ma'am. So good evening to all. To elaborate on the liability management, we through our efficient liability management was able to maintain average cash and cash equivalents of around INR950 crores even after this QIP raise and unutilized cash and facility of around INR300 crores. In addition to this, we have sanction on hand to the tune of more than INR2,000 crores in the form of term loan, direct assignment and co-lending.

In the September quarter, we did around INR600 crores direct assignment and co-lending transactions. We further have more than INR1,200 crores sanction on hand, which will be utilized during the year. We recently entered into a co-lending partnership with UCO Bank. This partnership will help us to further expand our clientele and provide credit to the sizeable and unserved & underserved MSME customer at affordable cost.

The company aims to maintain around 20% to 25% of AUM as off book through direct assignment and co-lending partnerships.

We have available cash credit facility of around INR1,500 crores, out of which utilization remains at around 70%, 75%, and rest portion kept as a liquidity buffer. And during the quarter, we raised around INR660 crores term loan which has average maturity of 3 to 5 years. Further, we have around INR800 crores term loan sanction on hand. Further, we raised INR150 crores NCD through private placement during the quarter.

In terms of asset liability maturity pattern, we are well placed whereby the liquidity is adequate and the cash flow in all the cumulative buckets is positive. The capital adequacy remains strong at 26.52%, the tier 1 capital at 23.76% and debt equity of 3.25 times. The cost of borrowing for the quarter was at 9.83%, the cost of borrowing for June quarter was 9.80%. The incremental borrowing which we did during the quarter is at around 9.75%. The cost of borrowing remains stable and we expect to remain at the same level in the coming quarter also. So that's from the liability management and now we are open for the Q&A round.

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

Ankit Gupta: Congratulations for a strong set of numbers in this challenging environment. So sir, my first question is on the asset quality. Now if you can talk about, are you seeing some signs of stress across your geographies and our assets, any signs of some stress across, let's say, if you look at all our product categories from SMEs to 2-wheelers and micro enterprises loan. So if you can talk about any signs of stress that you're seeing across all these product categories. And how do we see growth in these challenging times?

Kamlesh Gandhi: See, as submitted our gross stage-3 asset has increased slightly. So you can say that we have seen a slight stress across our product categories, which we offer, including 2-wheeler and commercial vehicle. SME had been benign for us. The marginal increase in 90 DPD has happened, so that has taken from 2.27% to 2.36% despite of utmost caution exercise. This is a slight increase in the delinquencies.

And going forward, we don't see any additional stress because what the way we have examined our portfolio and the way we do it from time to time. We don't see that increasing substantially, while it might be a range bound anywhere between 2.25% to 2.5% as we have always been maintaining. If you remember, we always talk about range bound gross Stage 3 asset from 2.25% to 2.5%, that is because of the very reason that each of the businesses we serve, go through cycle and then can be certain situations what we are going through right now.

So on the stress, we would be happy if we can be in a position to manage anywhere between 2.25%, 2.5% on GNPAs. And net NPA end there between 1.5% to 1.75%. That is our stated objective. In terms of growth, our medium-term to long-term growth guidance remains intact anywhere between 20% to 25%. We have always shared that we are not a quarter-to-quarter company. We don't mind a quarter of a lower growth in favor of a better quality and a sustained profitability. So we will take a call as this quarter process. And then we'll discover the right rate of growth. But it won't be substantially lower than what our long-term objective is.

Ankit Gupta: That's good to hear. Sir, on the micro enterprises loan side, on MFIs, we have been hearing quite a bit of stress. The results, which also have been reported in the segments for a lot of micro finance companies as well as SFBs do reflect the pain in the segment. So for us, now some of our companies where we lend to the micro enterprise line loans doing, so if you can comment on that, sir?

Kamlesh Gandhi: Since last 6 quarters or so, we have been progressively tapering our exposures on microfinance companies. As I talk to you currently, they form less than 5% of our total exposure on AUM for the on loans given to MFI. And we have been very selective on to whom we lend. And they are the ones who have gone through a rigorous test of liquidity and solvency and the accompanied by our strong on-site diligence, so we continue to be very vigilant on those front as far as they were working with our MFI NBFC partners are concerned.

Ankit Gupta: Sure. Just last question on the SME front. Like MFI, it seems pretty clear that from the statements from the RBI as well as the companies that there has been some issues on overleveraging and the sector itself going through a tough time. On SME side, sir, any signs that you are saying, of course, our numbers have been pretty good. But for the sector, on SME lending, if you can comment, are there any signs of stress in this area?

Dhvanil Gandhi: Dhvanil here. So on the SME side, as you rightly mentioned, and we also listed that the overall numbers have been stable. At the ground level, yes, we are seeing some over leverage in some of the pockets. One parameter, which helps us to look at this is that our rejection percentage has slightly gone up. So, our policies have been kept slightly tighter since some time.

So by over leverage, I mean we look at various parameters to come to that conclusion. But we are seeing that some of these SMEs have borrowed at a much faster pace. They are also growing. It's not that the growth is not coming. They are also growing equally fast, but on the back of additional borrowings. So this has to be monitored carefully. It doesn't mean that they will go bad. But because these are smaller enterprises, they have to be monitored carefully that the growth for them is sustained for them to service this debt continuously. So yes, slight stress on the overleverage front is being seen. Our rejections have gone up, but for the amount of business that we want to do, we are confident that we'll be able to bring out the good borrower and continue our growth on them.

Ankit Gupta: Okay. That's good to hear. Thank you and wish you all the best.

Moderator: Thank you. The next question is from the line of Shubhranshu Mishra from PhillipCapital. Please go ahead, sir.

Shubhranshu Mishra: Good afternoon. So two questions. The first one is around our NBFC partners. So have we changed any of our credit loss arrangements with any of our partners in the recent past. And if yes, what would be the number? How do we look at the proportion being sourced from NBFC partners in the next three to four years? What would that proportion be? The second question was around assignment. Assignment and securitization markets are scaling new highs. Is there any pricing issue that is coming because of the supply because there's a lot of bank portfolio also coming into the assignment securitization market now? Are we facing any issues in terms of pricing there? Thanks.

Kamlesh Gandhi: As I said earlier, in terms of our NBFC partners, we have been quite circumspect and the loss even because of the losses in our partnership business with NBFCs is under stated, it has not increased substantially. And it is within the FLDGs provided to us, and they are in a position to serve the portfolio as per their obligations. So that is not creating any stress as far as our books is concerned.

On the second question on the configuration. As I have shared that over the next three to four years, there's approximately 70/30 in favor of our retail distribution only because of the fact that the retail distribution will grow faster as compared to our NBFC distribution. And in terms of assignment, if I understood your question correctly, how we work as far as assignment is concerned that we have a steady line of sanctions from the banks, given our past track record.

They take our seasoned portfolio and then an ECL is worked out and basis that the pricing is done, and basis the quality of our portfolio, we are in a position to raise the assignment limits well within our acceptable interest rates, that is sub-10%. And as far as assignment is concerned, it is in par with any other source of funds that we raised through term loans or through capital markets. And currently, we have a very healthy line of sanctions on hand as far as assignment is concerned. Ankit, you would like to add something.

Ankit Jain: So this quarter I think you are coming from the point where the 21% of our book is DA but because we did QIP last quarter therefore we had a higher liquidity on hand. And therefore, our total fresh borrowing this quarter was lesser as compared to last quarter. And some part was also because we did a lesser DA. And this resulted into a 21% to 22% off book. As we told, we have been planned to have a 20% to 25% of our book going forward.

Shubhranshu Mishra: Understood. Thank you.

Moderator: Thank you. The next question is from the line of Abhijit Tibrewal from Motilal Oswal. Please go ahead.

Abhijit Tibrewal: Yes. Thank you. Good evening, everyone. Sir, just one question. While you have articulated what the current scenario is like and how we are not seeing as much stress as some of our peers are seeing. One thing that I was trying to understand is, where the past cycles that we've seen and successfully navigated back then, the proportion of loans, which are sourced from NBFC partners and to that extent.The FLDGs that we had in our portfolio for maybe higher or significantly different versus our loan mix today where a large part of the loan book today is sourced through your retail distribution, where you might not necessarily have FLDGs in place. So in what we are seeing today in terms of the asset quality environment, how would that impact the scheme of things? So to be more precise how could credit costs be different this time around versus what we have seen in the prior stress cycles?

Kamlesh Gandhi: So in this thing what happens is that, when we are going to directly through a direct distribution, whether we talk about manageable stress, we talk about the risk-adjusted returns that is the loss that we anticipated, they are within those lines. So the numbers might look more as we progressively increase towards our direct distribution, but that will be offsetted by the higher yields, and that is well within our yield metrics.

So whenever we were doing through our partners also, let me share here that while we were doing with our partners also, we are very circumspect on the fact that the mirror image of the portfolio should also be maintained, and we always had an idea that we don't want to benefit at the cost of the partners' losses.

So the conduct as far as the credit screening is concerned and as far as the approach to asset creation is concerned, has always been as if it is on our books only. So we are not finding anything new to adapt to the change in configuration when we talk about direct being increased as compared to indirect.

And when we talk about the anticipated losses, I think that will be well within the risk-adjusted return anticipation as we see right now, and we are confident that it will be within that parameter given our credit underwriting. And that is why I shared that we won't mind. We would like to discover growth rather than just determine growth. And depending upon the market situation, we will be growing. And that will give us a lot of comfort in terms of asset quality.

Abhijit Tibrewal: Got it, sir. Sir, the second one is more of a clarification question. You did articulate that our medium-term loan growth guidance remains intact anywhere between 20% to 25%. And in the short term, right? I mean we will not shy away from taking decisions because of which maybe growth could remain a little lower than the long-term guidance Then, I mean, fair to conclude that, maybe this year, we are potentially looking at somewhere between 15% to 20%?

Kamlesh Gandhi: Difficult to assign any number, but it will not be that wide in range. And will see quarter-to-quarter. It will be difficult for me to assign any numbers right now but suffice to say that priority will be asset quality, profitability and growth. While our endeavour will be to maintain anywhere between 20% to 25% has demonstrated. But what I was sharing was that we would not mind a slightly lower growth in favor of matter quality and profitability. So, it will not be around 15% to 20% range, but maybe a few percentages here or there.

Abhijit Tibrewal: And sir, just one last question, if I may ask. during COVID, you really demonstrated that you indeed do not shy away from slowing down when need to be, at least at this point in time, looking at the current environment, you're not seeing anything like that, right, which will prompt you to really start going slow on business growth.

Kamlesh Gandhi: As you very rightly pointed out, we will not shy away anytime, be it COVID or be it a situation where there are other triggers causing quality issues where lenders have to be cautious. So in past also, we have maintained that we will not shy away from our stated objective of quality, profitability and growth. So we will take that call as and when the time comes and on a quarter-to-quarter basis. But as I say right now, as you say, in Q2, we could see a decent growth of 22% in Q3, maybe from a range of 20% to 25%, a few percentage here or there, if needed.

Moderator The next question is from the line of Shreepal Doshi from Equirus.

Shreepal Doshi My first question was on the NBFC MFI portfolio that we had, which contributes closer to 5%, 6% of the total AUM, so how is that book shaping in terms of asset quality? And then have there been any slippages there? Or how is the asset quality trend there, particularly?

Kamlesh Gandhi: Just having 5% to 6% speaks of our stringent quality parameters that we apply by on-boarding or any of the NBFC MFIs, and the stringent quality parameters has resulted into a satisfactory performance of all those MFIs. So we are very confident on all the few MFIs in we are working with, and the natural risk hedges as a percentage of the portfolio constituting by lending to NBFC MFIs reduced prices significantly to less than 5%. And we think those -- because of the stringent checks, we are quite satisfied with the way they are doing.

Shreepal Doshi: And sir, since you highlighted in your comment that you see that there are some -- there is some stress in the on-ground conversations or aspects that you tracked. So just wanted to understand what are the key indicators that you are tracking at company level, which is leading to the -- which is leading to the conclusion that you were coming to?

Kamlesh Gandhi: Yes. As Dhvanil told, one of the striking parameters is that our logging to disbursement ratios, our rejection ratios. And based on that, we come to know about the ground level situations of the borrower. And depending upon the information that we collect through various sources through our local credit through credit scrubs from time-to-time through the behaviour of our portfolio, the early delinquency signals.

We decide our credit parameters from time-to-time, and that is what leads us to believe in what we believe that for a particular product, we need to tighten the screens of a particular product, the things are benign. And depending upon the reach and depending upon the product, that is the decision taken on a very continuous basis, by credit, credit risk origination and collection in tandem. And those are very dynamic processes.

Shreepal Doshi: And then you also highlighted that BRE-enabled LOS would be implemented across all products. So is it already getting implemented? Or is it still pilot level?

Kamlesh Gandhi: We are doing the side box of the same. And the results are quite satisfactory. And I think by this quarter end we'll be in a position to implement a maturity of the product. But any new application is adopted, it takes its own time for full-fledged results. So I think within this quarter, it will be implemented. And within the next quarter, it will be yielding full-fledged results. And on BRE, as I told earlier also that - we will be using BRE for no-go in order to reduce stress on the system, be it the originators or be it the decision takers.

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

Hardik Doshi: In terms of the constituents within the loan book, right, we've always been growing the micro enterprises on slower than the rest for a few quarters now. So when you talk about a potential deterioration, I assume that would mainly be coming from this segment, while the other ones will continue to grow at the current trajectory?

Kamlesh Gandhi: See, we have stated this earlier also that as we grow our balance sheet size, we would like to move more towards SME and more towards higher ticket size rather than just sticking to the lower ticket size. If you see our MEL average ticket size is around INR60,000 individual loans, which are banking-based assessment and banking-based disbursement and banking base collections only.

But this has been our strategy since last 6 to 8 quarters, if you see since last 2 years, our SME book is growing at a faster pace as compared to our MEL space despite of the fact that there was no evidence stress in the system as far as MEL is concerned. So this is more out of our strategic intent to move towards a little higher ticket size grow along with the borrower.

And while MEL will play an important, but its growth on a larger base will be less not because of the credit quality issues alone, but because of our strategic intent to move towards higher ticket size.

Hardik Doshi: But is it fair to say that the incremental stress that you're talking about in the system, is it mainly in the micro enterprise loan? Or are you seeing it in other segments as well?

Kamlesh Gandhi: It's evident in the other segments also. The slight increase what we saw this time is evident from MEL 2-wheeler, commercial vehicle across segments because more or less, we start with the informal and the middle income and the lower income group of the society. And whatever they are affected by various factors that plays across both. So it is across-board whatever the slight increase is across our products.

Hardik Doshi: The other question I had is, while on the micro enterprise loan, I know that the small sub-segment of that is MFI and that is also through your partners. But if you look at the total number of customers or the profile of the customers that you have, how many of them would be in the same category where you would have given them an individual loan, but they would pretty much be also participating in the MFI loans.

Kamlesh Gandhi: Our MEL loans are individual loans and around 1 or 2 notches above MFI. But even then, say, for example, they have a male member we don't insist on only women borrowers. So male member might have taken alone and so as the women borrowers joins us JLG group. So I think there can be an intersection of close to 25% to 30% of such borrowers.

Hardik Doshi: And on the MEL loan, what has been your loss given default because these are collateralized loans, right?

Kamlesh Gandhi: Which loans? MEL? MEL loans are not collateralized.

Hardik Doshi: Okay. So there is -- so what is the overall loss given default on this historically?

Kamlesh Gandhi: Historically LGDs revolves around 40% as far as this class of the borrowers are concerned. Because what happens is that as per the extant RBI guidelines, we have to mark them NPA on a daily basis, but the borrowers will be served once they go 90, does not necessarily mean that they will not pay. The only thing is that we have to follow them up and get the payment. So according to our historical data we have been getting -- we have been losing close to 40%. So LGDs stands at around 40%to 42%.

Hardik Doshi: Got it. And just one last clarification. So from what I understand, if things were to get worse, you would not shy away from slowing down the loan book growth, but as things stand in today's scenario, you're saying it is 20% to 25% kind of loan book growth with maybe a couple -- maybe a few percentage points up and down, right?

Kamlesh Gandhi: Let us take a medium- to long-term view. So as we have always shared, we are not a quarter-to-quarter company. We don't judge things on a quarter-to-quarter basis. So medium to long term, 20% to 25% stands. But in some of the quarters, if you have to navigate very tightly through the situation it might be a couple of percentage here or there. That is what I was trying to trying to convey.

Hardik Doshi: Yes. Yes. All right. Thank you so much.

Kamlesh Gandhi: Thank you.

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

Sarvesh: Good afternoon, sir. Sir, just a few questions. One is for your HFC I have seen some slowdown in terms of the growth rates that we were doing? And also the NPA levels which are, of course, small as of now, but they have been sort of consistently inching up. So any comments on these two and are you seeing this stress also in the affordable housing space, what you alluded to in MFI?

Kamlesh Gandhi: See, if you see your earlier commentary, we always mentioned it will grow anywhere between 30% to 35%. So this time, we have demonstrated a growth of 33% on a Y-o-Y basis. So that is in line with our stated objective. In terms of the asset quality, that will be range bound because we serve the informal class of the society and we have always given a range bound target. So if you say it is still at the lower end if you come back to industry standards, it a net NPA of 0.64% after providing on a gross NPA of 0.96%.

I think that is well within control, and we see this range to continue. We see that on -- as the portfolio matures and as the size increases the GNPAs will range anywhere between 1% to 1.5% and NNPA can be anywhere between 0.5% to 1% that is well built in the field metrics.

Sarvesh: No. So GNPA is, of course, range bound. So, I mean, we don't see any reflects from that, but it has been inching up consistently. So do you see -- I mean, if you look at your gross Stage 3 I think that has been inching up consistently. So, do you see any trend there or is it -- I mean, what is causing it to increase consistently, although it was at a very low base earlier?

Kamlesh Gandhi: That is characteristic of housing finance that as the portfolio matures, some of the stress can start crystallizing over a period of time. So this is the impact of maturing of the portfolio from time-to-time. So we started from a gross NPA of 0.5% to right now as the portfolio matures every quarter, we are seeing some increase in the -- in the GNPA levels, that is well within the anticipated – on the anticipated lines. The reason is the portfolio maturing and the stress crystallizing.

Sarvesh: Understood. And sir, one question pertaining to a previous participant's question. So now as we are moving more from the wholesale business to doing it on our own, so earlier these were sort of built in the interest rates that you were getting, which were lower. And probably, we would have also seen that the interest rates that we were getting subtracting for the possible losses. Is possibly that difference was higher than what our normalized losses were. So was that also a reason to move more towards our own business?

Kamlesh Gandhi: In fact, working through intermediaries is, to be very honest, gave us an edge during the stressful time, whereby the intermediates used to bear the losses. When we do directly, we have to be more circumspect while we -- as I said earlier, we were circumspect also when we are working through our partners on the mirror imaging of the portfolio. We never wanted to profit from a partner's loss.

But as I have told many times that the reason for the recalibration in the configuration of direct versus indirect is the result of the direct growing at a faster pace as compared to our indirect distribution. We were 90-odd branches. We are now 198 branches and we'll be doubling our branches within the next 3.5 years. I don't see that sort of growth through our intermediary channels. While in absolute terms, the business will increase with them also. We have a fantastic experience with them so far and we would continue to do business through those channels also, but there will be a recalibration in the configuration of the business will do because of this reason.

Sarvesh: But net-net, sir, do you foresee any impact on our ROAs now that we are doing significantly more business through direct and wherein now all these losses will have to be bear by us, although we will get more interest. But net-net, do you see any benefit or is it going to be similar, especially given the challenging scenario?

Kamlesh Gandhi: So we have been cognizant of this fact at right from the word go. And we have designed our models, both the models in such a manner that one model does not cannibalize the profit of the other. So irrespective of the distribution channels, our ROAs will be range bound anywhere between say 2.8% to 3%. And whether we increase our direct distribution or whether it is more through our NBFC channel. So that is the pricing and the operations are planned accordingly.

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

Moderator: Thank you. The next question is from the line of Nikhil from SIMPL. Please go ahead.

Nikhil: Yes. Thanks for the opportunity. And congratulations on good set of numbers. Most of the questions have been answered. Just one question. Now in this scenario, I hope I'm audible?

Kamlesh Gandhi: Yes.

Moderator: Yes, you are audible.

Nikhil: Just one clarification or understanding. Now in this scenario, when there is some kind of a stress which overall at the sector level people are talking about. How do you -- how does our branch opening rate gets rationalized? So because we had one set of markets where we were always present and another set of markets they were trying to enter? So between these two segments how does the branch opening network rationalize and would -- how would it have an overall impact on our cost -- incremental costs?

Dhvanil Gandhi: So , Dhvanil here. So our branch network planning is done sometime in advance. So we already start our reiki a few quarters before we are planning to open up a branch or a center. So I think the overall branches that we have planned for the year will go ahead with those. We don't see much of a challenge there because our due diligence is already being done, the markets are there for us to enter and get the kind of business that we were anticipating.

Yes, the overall tightening wherever we do in the credit policy will be applicable to those locations as well. Anyways, whenever we start a new location, we go slightly slower anyways. So it's not that we'll be going very aggressively on those new locations. We'll try to understand. We'll be a little more careful. But at the same time, I think the -- as per the plan, we'll keep on opening the branches, which are planning to add around 10, 15 more branches in this financial year, and we'll go ahead with those.

So cost-wise, manpower for us is the major cost asset-wise, the branches are pretty asset light. So that is not that big of a cost factor for us. Manpower recruitment across all the products is something which is important. And I think that is already built in our overall planning.

Nikhil Upadhyay: And just a continuation here. So see, when you build a model of the branch turning profitable or breaking even. And because you've been operating over the last 12 years, and you've seen this cycle multiple times unlike what it was in COVID. How does the branch breakeven networks or periods get extended? Or generally, we are able to manage in the same period just from historical background, how does our assumption change?

Dhvanil Gandhi: So historically, we are a multiproduct company. So it depends on which product we introduce there first. but the average range for the branch to breakeven would range anywhere between 6 to 9 months that the branch would start breaking even in current scenario where maybe things at a macro level are slightly slow, these 9 months can extend to, say, 12 or 15 months.

So depending, again, it's very location specific. So might get slightly longer. But the core objective with which we started that branch, the way we want to penetrate that demography remains the same. So that, I think we don't have too many branches going on opening up on a parallel basis. So that is a cost that we can absorb even if few of the incremental branches take a little bit more time to turn profitable.

Moderator: Thank you. The next question is from the line of Shrishti Jagati from Ambit. Please go ahead.

Shrishti Jagati: Largely, my questions have been answered. One is on account of your experience in terms of going direct how has the experience been in largely if you could cover as to how slippages would be divided and credit costs should be divided between the 2 methods of doing the business? And secondly, sir, if you could talk a little bit about although the salary segment has grown well. The ticket size has been coming down average ticket size. If you could talk a little bit about the customer profile here and what all geographies, if you are seeing any stress, what geographies are under pressure.

Kamlesh Gandhi: On your first question on our experience of doing direct let me share with you that we have been a specialized retail company since decades. The only change we made post 2011 is where we saw a lot of scope working through NBFC as intermediary channel and thereby bringing about a very efficient last month delivery of credit. So we are not new to retail credit distribution.

So our experience and our learning is of years and decades together as far as retail distribution is concerned. The only thing is that we had shifted our -- we had planned our distribution through

NBFCs also since 2011. On the credit cost front, as I've shared earlier, that when you work through NBFCs, rates are so decided whereby their operational cost and credit costs are built in, in the rates we share that we charge from the borrower and whatever excess -- whatever they save is their excess gain and whatever higher losses is their contribution from the profits. So that is why it has worked so far.

When we do direct, we built in those losses in the risk-adjusted return metrics, so the yields are so designed and then monitor very closely on a quarterly basis to make necessary changes so that we remain steadfast within those metrics of risk-adjusted written. And this is how we tell that we will be evaluating the growth and we'll be prorating quality and profitability overgrowth. And what was the last question?

Shrishti Jagati: Sir, it was on the salary loans ticket times coming down and the customer profile there?

Kamlesh Gandhi: Salaries effect has talked about the customer profile, they are all salaried individuals earning anywhere between INR25,000 to INR1,50,000. The reduction in ticket size can be attributed to some tighter screening of -- as far as the credit is concerned. And as of now, we don't see any visible stress at any particular pocket. Having said that, that portfolio is very less. It is hardly 5% to 6% of our total AUM. But even there, we don't see any substantial stress or a noticeable stress in any of one of the regions.

Shrishti Jagati: Sir just a question on the new product launch. The last time around, you had mentioned that there was some working being done on used vehicles being launched and it was in the pilot phase. I would like to understand if there has been any progress? And how do you see this roll out, if at all, you do?

Kamlesh Gandhi: So, because of the lack of the desired man -- getting the desired manpower, I think we will be in a position to launch it in first Q4 because when Q3 will be building up the team. We tried building up the team in the last 2 quarters but could not succeed the way we wanted to do it, which suits our culture, and which suits our way of working. So we are rebuilding those -- that team. And I think we will start booking business as a special vertical from Q4, hopefully.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to Mr. Kamlesh Gandhi for closing comments.

Kamlesh Gandhi: So, thank you so much, everybody. The team InCred and all and thank you to all the participants. I hope that the answers would have satisfied you. And please feel free to -- for any of the queries to be addressed to our IR department. And as a closing comment, we remain confident of our quality and a consistent growth going forward. As I've shared that on the medium to long-term view, we hold on to our confidence of 20% to 25%, while we would take a quarter-to-quarter view as required. Thank you so much.

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