# "MAS Financial Services Limited Q3 FY25 Earnings Conference Call"

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**Moderator:** Ladies and gentlemen, good day, and welcome to the Q3 FY '25 Earnings Conference Call of MAS Financial Services Limited hosted by Anand Rathi Share and Stock Brokers 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 touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Kaitav Shah from Anand Rathi Equities. Thank you, and over to you, sir.

**Kaitav Shah:** Thank you, Moderator. Good afternoon, everyone. On behalf of Anand Rathi Institutional Equities, it is my pleasure to welcome you all to the Q3 Earnings Conference Call of MAS Financial Services.

It is our privilege to have hosted Mr. Kamlesh Gandhi – Chairman and Managing Director, Mrs. Darshana Pandya – Director and CEO, Mr. Dhvanil Gandhi – Executive Director, Mr. Ankit Jain – CFO, MAS Financial Services Limited along with other top members of the Senior Management Team.

Without further ado, I now invite Mr. Kamlesh Gandhi –CMD, to share his “Opening Remarks”, post which we will open this floor for Q&A. Over to you, sir.

**Kamlesh Gandhi:** Thank you, Kaitav. And good afternoon to all of you. I am very happy to connect with all of you once again to review the Quarter 3 performance for the Financial Year '24-'25.

I think all of you must have gone through the results. And just to give you the overview while my colleagues will share the numbers in detail. We know that we were going through challenging times and despite of that, as demonstrated over the last more than 25 years, next year we will be completing 30 years now. We have demonstrated a very robust financial performance.

To start with the AUM on a consolidated basis, we are close to 21.17% in AUM growth, around 25% in profitability on consolidated basis, very importantly, while maintaining the quality of assets. We have seen some very negligible upticks, but that is quite understandable looking at the overall situation going on in the market, but happy to share with you that consistent to our belief and our endeavors of prioritizing risk management and profitability over just the numbers. And last time I shared with all of you that we might register a couple of percentage low growth, but that will be in favor of good quality and profitability. And happy to share that with the endeavors of the entire team, we could achieve the strategic intent for this quarter.

If I talk to you briefly, starting from assets, then taking you to liability operations and our distribution.

On the asset side, we continue to focus on MSME along with wheels and SPL. So, this is our endeavor in line with being a diversified asset Company. So, if you see that the contribution of wheels and PL is gradually increasing in the overall pie, and that is in alignment with our strategic intent. But still we continue to be majorly driven by our MSME portfolio where currently close to 77% of our portfolio contribution is from MSME with SME growing at a faster pace compared to our MEL portfolio. And that is as per the strategic intent designed by the Company and shared with all of you from time to time.

On the liability side, we are well capitalized with a capital adequacy of around 25%. As all of you know that we had raised QIP in June last year, which was our preparation for our next phase of growth from 10,000 to 20,000 crores, we are currently at close to 12,300 crores, and the way we are going, we see no reason that within the stipulated time period between three to four years why we should not be at 20,000 crores, and we are well capitalized up till that level.

We continue to attract debt as per the requirement. The challenge obviously for the entire economy is the rate of interest, but anyhow we were in a position to maintain the rates during this quarter while the endeavor and the bucket list is that how we can see a reduction in interest rates sooner than later.

On the distribution front, we continue to increase our direct distribution with around 200 branches, as I talked to you, and more than 14,000 pin codes we cater to, to over 200 branches, which works within the periphery of around 40 to 60 kilometers, depending upon the product, being served by a strong feet-on street with enabling hierarchy to help and monitor them and with enabling technology.

I am happy to share with you that our LOS for all products is at place. And the sandbox for BRE is also almost over. And by March we should be in a position to launch BRE-enabled LOS, which will further increase operational efficiencies, and which will add to better risk management going forward.

We continue to work with our NBFC partners. That will be 15 years old model now. We work across products. And the advantage what we get is deeper penetration, shielding the Company from unfavorable events like this which we are going through, because it is originated and guaranteed by the partners to an extent. So, it shields us from the cyclical shocks that the portfolio may suffer from time to time. So that has been a very satisfying and a very rewarding product as far as we are concerned on the asset side and on the distribution,we continue to strengthen that also.

On the operations, as I shared with you, technology plays a very important role. We have an in-house team, which is more than 100 now, and we are expanding our team there also. The ambition is that we don't only satisfy the needs across verticals, but we are ahead in giving them few things which are very important and necessary for them for their operational efficiencies and better risk management. So, that endeavor is at place, and we are very confident that will yield better results in the coming quarters.

On the HR front, including our Housing Finance subsidiary, we are a strong team of 4,000. And we have a very strong second line and a middle line, which can take the strategic intent of the Company forward from time to time, as demonstrated over the last more than 2.5 decades. And we have a good leadership pipeline also. While we have a very minimum attrition, we have a very good leadership pipeline for anybody to take over in case of any need, and that is the result of our constant endeavor on those lines, on building good leadership lines. So, that was on the HR front.

On the ground level, let me share with you that the situation is improving but still remains challenging. As a lender, we need to be more cautious and more circumspect. And why circumspect only during this time? Over the last 30 years, I have seen that the moment the lender is a little relaxed or is not circumspect, they have to bear the consequences. So, remaining circumspect and extending credit where it is due is the way of life for any lending institute if you want to have a sustained and a consistent quality growth. We continue to believe in that.

We will continue with the same fundamentals going forward and have demonstrated and are confident that our stated objective of attaining anywhere between 20% to 25% of growth without compromising on the quality of assets and profitability across cycles will stand true and will hold its ground for the coming years.

So, with this confidence, I would like to hand over this to Darshana Ben, who will take you through the detailed numbers. You can be brief because the numbers are already shared, followed by Ankit on the commentary on liability management.

Before I hand over, I would like to focus on two other things:

One is our housing finance subsidiary. There we grew at a very strong growth of 29%. We crossed the 700 crores mark there in our housing finance subsidiary with an asset quality of less than 1% of net Stage-3 assets well provided for including a buffer provision also.

There also we continue to pursue the same fundamentals of managing and prioritizing risk management profitability over just growth. And we see that Company also registering a strong growth anywhere between 25% to 30% going forward depending upon the situation and the opportunity we get from time to time. And within the next couple of years, we see housing finance subsidiary to be a value creator for the parent too.

In consonance to our policy of the dividend, we are declaring a dividend of 10% on the face value that amounts to Rs. 1 per share, taking into account the profitability for the nine months. So, usually, we decide an interim dividend in December once we get the direction and the sight of the year, profitability for the whole year. So, that will benefit the shareholders to that extent. And we have been a dividend paying Company since inception.

So, I would like to hand over now to Darshana Ben to take you through the basic numbers and then to Ankit, and then we will switch on to Q&A.

**Darshana Pandya:** Thank you, sir. Good afternoon, everyone. If we look at the numbers on a consolidated basis, so we have crossed the 12,000 crores mark this quarter. So, on a consolidated basis, our AUM stands at 12,379 crore as compared to 10,216 crore in the corresponding period. That is a growth of 21.17%. And if you look at the PAT on a consolidated basis, it is 80.40 crores as compared to 64.41 crore, which is around 25% growth in PAT.

If we look at the standalone numbers, our AUM grew by 21% from 9,672 crore to 11,667 crore. Our total income grew by 21% from 322 crore to 390 crore. Profit before tax, there is an increase of 24.36% from 85 crore to 105 crore. PAT has increased by 25% from 62 crore to 78 crore.

And if you look at the 9-month number, total income has increased by 23% from 898 crore to 1,103 crore. Profit before tax grew by 25.48% from 240 crore to 302 crore, and PAT has increased by 25% from 180 crore to 225 crore.

If you look at the configuration of the AUM, Microenterprise Loan is now 4,705 crores from 4,345 crores, which is 8.28% growth in MEL loan book. SME loan book has increased by 24% from 3,450 crores to 4,273 crores. Two-wheelers, there is a growth of around 21% from 671 crore to 809 crore. Commercial vehicle growth is of 47% from 662 crore to 969 crore now. Salaried personal loan, there is a growth of 69% from 544 crore to 922 crore.

As Kamlesh Sir has shared, we have maintained the quality of the portfolio. So, our Gross Stage-3 asset is 2.41% as compared to 2.36% in September quarter. And the Net Stage-3 asset is 1.62% as compared to 1.57% in the September quarter. So, this is without letting off the around 18 crore of management overlay.

Now coming to our Housing performance:

Here our AUM growth is of 29% from 544 crore to 701 crore. Total income is increased by 24% from 16 crore to 20 crore. Profit before tax has increased by 21% from 2.47 crore to 2.98 crore. Profit after tax has increased by 19% from 2 crore to 2 crore 39 lakhs. And for 9 months there is a growth of 31% in terms of total income from 45 crore to 59 crore. PBT has increased by around 27% from 7 crore to 9 crore and profit after tax has increased by 26% from 5 crore 50 lakhs to 6 crore 93 lakhs.

Here also we could maintain the quality of the portfolio. So, Gross Stage-3 asset is 0.96% as compared to 0.93% in September quarter and Net Stage-3 asset is 0.70% as compared to 0.68%.

So, this was about the performance for both the companies. Now I will request Ankit to give us a brief about liability management.

**Ankit Jain:** Thank you, ma'am. Good afternoon to all. With respect to liability management, in the December quarter, we were able to maintain the average cash and cash equivalents of around Rs. 850 crore along with unutilized cash credit facility of around 300 crore.

In addition, we have sanctions on hand to a tune of 3,000 crore in the form of term loan, direct assignment, co-lending and other instruments.

In December quarter, we did around 625 crores direct assignment transaction and co-lending. We further have around 2,100 crore sanctions on hand which will be utilized in the coming quarters. As a strategy, we aim to maintain around 20% to 25% of the AUM as out book through direct assignment and co-lending transactions.

The Company has available cash credit facility of around 1,500 crores, out of which utilization remains at 70% to 75% and rest is kept as a liquidity buffer.

In the December quarter, we raised around 675 crore through term loan with an average maturity of 3 to 5 years. We further have sanctions on hand of 800 crore, which will be utilized in the coming quarters. Further, in terms of NCD, we raised around 375 crores during the quarter.

As a strategy, we are very strongly placed in respect to structural liquidity of the period ended 31st December where the liquidity is adequate and the cash flow in all the cumulative bucket is positive.

In terms of capital, we remain strong at 25.34% with Tier-1 capital of 23.13% and great room to raise Tier-2 capital as and when required. Debt equity stands at 3.22x in the current quarter.

The cost of borrowing for the quarter was 9.84% vis-à-vis if you compare it from last year, the same quarter was 9.86%. So, the cost of borrowing has remained stable, and we expect it to remain stable going forward too.

So, this is on capital and liability management, and now we open for Q&A round. Thank you.

**Moderator:** Thank you sir. We will now begin the question-and-answer session. Anyone who wishes to ask the question may press star and one on their touchstone telephone. If you wish to remove 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 Abhijit Tibrewal from Motilal Oswal. Please go ahead.

**Abhijit Tibrewal:** Thank you so much, and good afternoon, everyone. Kamlesh Sir, I just wanted to understand, I mean, this quarter almost every lending institution has acknowledged this tough macroeconomic environment which you also acknowledge in your opening remarks. I am just trying to understand of all these four to five key products that we are in, which are those product segments, which are those customer segments, or geographies where we are seeing things to be a little tough? That is the first thing that I wanted to understand.

**Kamlesh Gandhi:** See, as we all know, Micro-Enterprise Loans where the borrowers are over-leveraged or are vulnerable to the slowdown, they are the ones where we are more circumspect and we find little more difficulty in maintaining the quality according to our standards, while overall we have maintained it. And that's why you must have seen that that portfolio has been grown in a very cautious manner by only 8% this quarter, followed by SME and two-wheeler and wheels have not seen that pressure.

And as far as our SPL portfolio is concerned, it is a 100% well assessment. And we are very strict in our assessment in our SPL also. So, if you are saying that this quarter we got a good opportunity to build that book, obviously within the overall limit of not exceeding 10%.

So, overall, to summarize, MEL, the micro enterprise loans, the small business class entrepreneurs are the ones which are facing more problems at the ground level.

**Abhijit Tibrewal:** Got it. Sir, is the problem just pronounced only in the small business entrepreneur, which is our MEL portfolio? Or are we seeing that some of these problems are also spilling over to the SME portfolio, where the ticket sizes are higher? We are talking about slightly larger enterprises. And for the related question, I mean, again, because we are there in CVs as well, I mean, vehicle financiers who reported until now have talked about some delinquencies inching up in particularly the used CV segment, I would say. So, what are we seeing in our SME and CV portfolio?

**Kamlesh Gandhi:** So, as you know, the stress is across. When I am talking about this, MEL is relatively higher stress as compared to other products. But as far as other products are concerned, we have more room for adequate assessment.

Say, for example, in SME, we have more room for adequate assessment in terms of their GST, in terms of banking. But still that portfolio also is seeing some stress in some pockets as compared to what we would have anticipated. But there the silver lining as I shared with you is that we can have proper guardrails at place through proper assessment because we have got better documentation there.

And on the asset-backed front, our commercial vehicle portfolio is still very small to experience any such type of large amount of stress. But since we are rebuilding that portfolio and we want to have a good contribution from wheels portfolio, we are more circumspect there. But overall, the stress is across the sector, across the borrowers, but relatively MEL has more stress.

**Abhijit Tibrewal:** Got it. Thank you. And sir, the second question that I had was on the liability side. Ankit said earlier that we have managed to keep our cost of borrowing stable in the quarter and we expect the same going forward as the stability and cost of borrowing should continue. So, just trying to understand given that, I mean, next month we will have again the MPC meeting and there are again expectations that there could be a rate cut. So, if you would just explain how are our asset side and the liability side positioned in case there is a rate cut in the coming months?

**Kamlesh Gandhi:** See, the rate cut, there is a time lag in transmission because majority of our liability is MCLR backed. So, we can get the advantage or a disadvantage, whatever the case may be, on the MCLR reset.

So, if there is a rate cut, say in February, and followed by various dates of MCLR reset, we might get that advantage. And depending upon the market situation, the product, the competitive landscape and everything, if required, the same may be passed on to the borrowers if it really make some difference. Because the borrowers whom we sell, practically a rate reduction of 0.25% or something like that really does not matter.

And at times we build up some cushions if we get an advantage of whenever there is some rate cut. But eventually when there is a sustained rate cut, say for example from our 9.8% to it reduces to 9% over a sustained basis, that is where it starts trickling down to our borrowers also in terms of advantage.

So, if the rate cut is there, there will be a lag defect, and it depends upon what amount of rate cut is done and what really has to be passed on to the borrowers.

**Abhijit Tibrewal:** Got them. Just to follow up on that, sir. I mean, this was the liability side that you explained. On the asset side, I mean, most of it is on fixed rate.

**Kamlesh Gandhi:** So, they are fixed rate. Our tenure, average tenure is around 36 months. So, they are fixed rates.

**Abhijit Tibrewal:** Got it. This is useful. Thank you so much for taking my questions, and I wish you and your team the very best. Thank you so much.

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

**Ankit Gupta:** Thanks for the opportunity and congratulations for a very decent set of numbers in such a challenging environment. So, my first question was on, you know, in the past we have seen that whenever we have come across such challenging times, we have put some brakes on our growth in terms of AUM. So, given how the situation is looking like currently for FY '26 now, what kind of growth are we looking at then?

**Kamlesh Gandhi:** We continue to maintain the guidance that we will grow anywhere between 20 to 25%. That is a strategic intent, but not a hard-hammered rule. If the situations are favorable, it can be on the upper end of the spectrum. We can grow even at 25 and sometimes at 26, 27. And if the situations are not favorable and where one needs to exercise more prudence, it can be anywhere between 20, 21 as we have demonstrated right now.

But overall, on a medium term, we don't take a quarter or a year within our calculations. We take a minimum of three to five years. So, once again, we are confident that we were 10,000 crores in March '24. We should be touching 20,000 crores by March '28. That guidance stands.

**Ankit Gupta:** That is always good to know. Sir, one question on the salaried personal loan. You know, we have been reading about some stress developing on that side as well and other lenders have also been highlighting that on personal loans, there has been some stress developing. And even on credit cards we have seen the stress.

But however, if you look at our growth, we almost grow at almost 69% in this quarter on a Y-o-Y basis. So, can you highlight, you know, of course, we are due diligence and credit metrics are higher compared to other lenders, but you know, like what has been the reason for such a high growth despite challenging times across this segment as highlighted by other lenders?

**Kamlesh Gandhi:** Given our distribution of 200 branches, almost 9 states and the base as far as the PL is concerned, I think 69% can be reckoned as one mathematical number, but if you say in absolute terms, the AUM does not increase that exponentially. That is one.

Number second, we don't deviate from our fundamentals of discovering growth rather than just targeting growth. If we get an opportunity within our credit screens, within our understanding, within the parameters whereby we can maintain the asset quality, we would not mind allocating more capital there. And within overall strategic intent, if you say that we don't want to increase our salary personal loan for coming 2 to 3 years beyond 10% of our AUM.

Now we will be sticking to our mandate of sticking being below 10%. And within that trajectory, whenever we get an opportunity, maybe on a year odd basis, on a quarter-to-quarter basis, and if we discover good growth at the ground level on a smaller base, as the case is right now with us, then that might contribute accordingly.

**Ankit Gupta:** Sir, you did highlight about some challenges on the MEL side and of course, you know, microfinance companies have been going through a tough time over the past three to four quarters. Any views on, you know, when do you think this issue is expected to be stabilized and the industry is expected to if not return to growth point, but at least the delinquencies and all start seeing some stabilizations?

**Kamlesh Gandhi:** I wish I'd known this. But just according to whatever data we have, and data is dynamic, you know. So, the data what we have and the information what we have, I think we still have another quarter or two before the industry can work normally.

Because if you see classically, MFI loans are for 18 to 24 months, and when it is loans for 18 to 24 months, we are already in practically 3rd Quarter or you can tell it second quarter of stress. So, another one or two quarters can see the industry stabilizing because the majority of the lenders have tightened their belts on the credit screen. They understood maybe at a high cost that we should extend credit where it is due.

**Ankit Gupta:** And my last question was on the SME side. You know, any segment or any particular like loan size where we are seeing some stress here or the stress is across the segment?

**Kamlesh Gandhi:** So, we do our portfolio analysis from time to time and then discover a few of the sectors which we might for a quarter or two try to watch and then take further exposures. Maybe in our case currently we are more circumspect on textile and FMCG. Maybe that sector will go on changing as we go forward. But that is data driven and currently we see these two sectors being watched very closely.

**Ankit Gupta:** And so, these are just the sectors, it is not across the SME sector that you are seeing challenges.

**Kamlesh Gandhi:** No. As per our data analysis, these are the two areas which are showing some abnormal pressures.

**Ankit Gupta:** Okay. Thank you. Wish you all the best.

**Moderator:** Thank you. The next question is from the line of Aditya from Securities Investment Management. Please go ahead.

**Aditya:** Yes, hi, sir. Thanks for the opportunity. Sir, you mentioned that the environment is still challenging. So as an organization, what are we doing to navigate through this environment? So, have we tightened our FOIR ratios or any other risk parameters which would help us deliver better asset quality going forward?

**Kamlesh Gandhi:** See, as I told in my opening remark that as lender we have to be always cautious. And at MAS we believe with the risk of sounding contrary and not just managing the risk but to crush the risk as much as possible, that has been our policy. So, for us, we don't have to do anything much extraordinary because right from the inception we believe in working in a way whereby we can minimize risk.

But having said that, when the environment is so vitiated, despite of all your efforts, you might see all your policies not working according to your plans. So, we do the data analysis. We take the ground level information and from time to time still tighten our credit screen, tighten our origination, put breaks on the businesses which we think we should not do for certain quarters.

As I shared earlier, in SME we might be more circumspect on certain sectors like textiles and FMCG. Maybe in our two-wheeler or commercial vehicle business, we might be circumspect on certain branches and certain areas where we see early delinquencies. So, that is a continuous process. But we have been doing this all times. Maybe the situation is benign. We don't relax and extend credit very aggressively as demonstrated over all these years.

**Aditya:** So, sir, would it be fair to say our rejection rate would have seen an increase from the normal past history?

**Kamlesh Gandhi:** Yes, it has increased substantially.

**Aditya:** Understood, sir. And sir, if I look at your capital adequacy, so in June quarter it was around 28%, which has come down to 25% in the December quarter. So, this seems to be a sharp decrease in two quarters. So, while the loan growth has been good, but the capital consumption seems to be on the higher side. So, if you could explain what has led to this? Is it merely because of a higher growth in personal loans?

**Kamlesh Gandhi:** Not really, because if you see higher growth in personal loan is hardly 8% of our total AUM. I think we can share those granulated data offline. But if you see our capital adequacy is much more than what is required, and we have increased the AUM from time to time, and there are internal accruals also. If you would like to add on, Ankit, something to this.

**Ankit Jain:** So, what we have done is, because of the excess liquidity, because of the capital raise, what we have done is if you see our off book was 22% which is now 20% which we can always increase as per our requirement because we have a sanction on hand. So, strategically what we have done because of liquidity on hand, we have done off book lesser, and because of the higher on-book portfolio, it has resulted into a lower CAR.

**Aditya:** Understood.

**Ankit Jain:** But that will be managed going forward.

**Aditya:** Okay, and now sir, as we increase our direct distribution, so how should we look at PCR? Because it is currently around 33%, so should this number increase going forward?

**Kamlesh Gandhi:** Yes, because if the share of direct distribution is increasing and PCR, as you know that with the advent of ECL is 100% data driven based on the last 5 years performance of the portfolio. And we would see the PCR bearing according to the quality of the assets. And secondly, PCR is also the function in our case of the guarantees that we get in terms of CGTMSE and CGFMU from time to time. So, that is also factored in while calculating PCR.

**Aditya:** Understood. So, sir, those are my questions. Thank you, sir.

**Moderator:** Thank you. The next question is from the line of Sanket Chheda from DAM Capital. Please go ahead.

**Sanket Chheda:** Yes, Good afternoon. My question was again on the personal loans. So, it is about 8% of the AUM, but if we just see the AUM addition to this quarter, which is about 7,000, of that, 2,400 is the personal loans, which is around 30-35% of AUM addition has come from personal loans. So, just wanted to understand how much of it is direct and how much it is through the channel partners? And while the micro-enterprise is muted for the since last one year, is it that we are stretched on the growth and hence maybe we are stretching on the personal loans as well to our threshold which is now closer to 10%? So, just wanted to understand how much of it is direct and through channel partners, and how are we getting that comfort to be mentioned that it stayed in your guardrails and then only you grow that, but just a little bit more granularity on that would be helpful.

**Kamlesh Gandhi:** So, as you know, that we work with a few of the select FinTech partners of the country on the terms and conditions, and on the credit screens which we have mandated to them. We have been working with them since few quarters. And now the systems and operations with them have stabilized.

**Moderator:** Sorry to interrupt, sir, you are not quite audible. Please come closer to the microphone.

**Kamlesh Gandhi:** So, as I shared that we have been working with a few of the fintech partners to smooth line the processes. And personal loan is a product whereby fintech can play a very important role given the level of documentation that we can get through banking aggregators, and whereby we can assess their salary are credited on time or not, their FOIR through CIBIL scrubs and other means. So, our endeavors with this FinTech partners is paying off now. Around 55% to 60% of our business is through this FinTech partners.

And as far as we are concerned, we want to source PL on the digital way as much as we can, because this is the product among all our products whereby it is assessed 100% on documents. So, here we have a room to use digitalization to the maximum extent possible. And with the help of digital partners, we have the advantage of getting a security cover against guarantee also, against default also to the extent of 5%. So, that gives us the confidence to grow our credit screen, the quality of the portfolio we have created so far and then growing on a smaller base and that too within the limit of not more than 10%.

Coming to the question on having the growth between 20 to 25% and SPL replacing MEL, maybe on a quarter-to-quarter basis looks like in terms of number. But going forward, we have a very clear-cut strategic intent to focus on our MSME business, which should contribute around 60% of the business. 25% to 30% should come from wheels and the rest less than around 10% from unsecured personal loans.

So, we will continue our endeavors on the same lines. And given our distribution strength directly from 200 centers, 14,000 pin codes, and also the distribution through 190 NBFCs, we are confident to maintain the asset configuration going forward while maintaining the growth anywhere between 20% to 25%.

**Moderator:** Does that answer your question, Sanket?

**Sanket Chheda:** Yes, and if you could also maybe, if possible, highlight, it is 5% that you work on as far as the channel partner is concerned, but what would be the pricing they would be offering? Is it possible to make some sense on that?

**Darshana Pandya:** The net to the Company pricing offer to the borrowers is anywhere between 21% to 24%.

**Sanket Chheda:** Okay, sure. Thanks.

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

**Shreepal Doshi:** Hi, sir, good afternoon. Sir, just a couple of questions. Firstly, on the Micro Enterprise Loans. So, while you highlighted that, you know, that segment is going through some tough times, so just wanted to understand how is our portfolio with the NBFC partner within this segment shaping up, because in that segment of small NBFC, there are some solvency risks as well which are emerging. So, what is your assessment and how are we trying to protect ourselves? In fact, we have added some NBFC partners during the quarter. So, what sort of partners have we added in terms of being comfortable to have?

**Kamlesh Gandhi:** If I share with you the partners whom we are working, they are very strong on solvency for the very reason that irrespective of the macro environment, we have a system of assessment whereby we do a stress test of their portfolio and then work out the solvency and the liquidity risk.

So, under any stress position, they should be above the threshold of 15%. So, currently, all the NBFCs, I will not use the word majority, all the NBFCs whom we work with have no solvency risk irrespective of the fact that their delinquency might range from 2% to 6% depending upon the areas they are working or depending upon the products they have offered.

Secondly, we have very close control on the day-to-day operations also, and we work with the ones where we are more than satisfied to have any exposures. And if I share with you, the smaller NBFCs have proven their mettle across cycles. We have been working with them for more than 15 years. And we have seen that, be it demand, be it COVID, be it the liquidity crisis especially suffered by them, they have been in a position to show that they have not caused any systemic risk. And add to that, our due diligence is helping us to navigate through all these tough times.

**Shreepal Doshi:** Got it, sir. Got it. So, we are well protected in terms of, you know, our exposure to them, at least. So, yes. Got it.

**Kamlesh Gandhi:** Yes.

**Shreepal Doshi:** The second question was, yes, sorry, sir, you were saying something.

**Kamlesh Gandhi:** No, I was just acknowledging, yes, we are well protected.

**Shreepal Doshi:** All right. The second question was on the two-wheeler part. So, how are we seeing the stress in that segment? Because there would be an overlap of this MSE and MFI customer in the two-wheeler segment as well particularly for us as well because we are in more of Tier-2, 3, 4 geographies. So, how is that book in terms of, for us and for industry at large yours and on how is this book shaping up on the stress side?

**Kamlesh Gandhi:** So, as far as two-wheeler is concerned, you are right that we work in tier two and tier three geographies, wherever borrower constitutes up three types of profile. One is small businessman, second is agri, and third is salaried. So, that is more or less evenly spread.

Secondly, once again, if you see that despite of being one of the oldest two-wheeler financers, we have a very moderate book in two-wheelers for the very reason that we still follow the age-old practice of credit assessment even while extending loans on two-wheelers, which is not the market practice. Usually, market practice revolves around models and LTVs. We still are among the few NBFCs, or I cannot claim the only NBFCs, I am using this among the few NBFCs who insist a stability of own house even in two wheeler.

So, given our guardrails right from the beginning, we see a marginal uptake. While you are right that there will be overlapping of the borrowers between MEL and two-wheeler and that will affect us also. So, when there is such a large-scale pressure, you cannot be isolated. You can be protected to the extent of your credit delivery model, and that is what is happening to us.

So, we have sufficient guardrails at place while we do see certain uptick in certain areas, especially in rural, not also tier two and tier three, but especially in rural, whereby there is overlapping with the micro loan borrowers.

**Shreepal Doshi:** And sir, how will it be for the industry at large? Like, as you highlighted, we are following the old age practices, but how is industry when it comes to the stress levels?

**Kamlesh Gandhi:** I think industry, depending upon players to players, the industry has 90 DPD ranging from 4% to 8% depending upon the way they are working. So, the 90 DPD revolves around that number and then the capabilities to recover, repossess, resell. So, ultimately, the losses can anywhere between 3% to 6-7%.

**Shreepal Doshi:** Got it sir. Thank you, sir. Thank you so much for answering my question, and good luck for the next quarter.

**Kamlesh Gandhi:** Thank you.

**Moderator:** The next question is from the line of Manan Madlani from KamayaKya Wealth Management. Please go ahead.

**Manan Madlani:** Yes, hi, good afternoon, sir, and thanks for the opportunity. So, my first question was regarding the cost of borrowing. So, when do you see any upgrading of our rating happening?

**Kamlesh Gandhi:** Already our rating was upgraded in March, whereby we were upgraded by CARE from A plus to double A minus. And if you see on the relative sense whereby MCLR of banks or majority of the banks have increased from March till the date of around 30 to 35 basis point, if you see our cost of borrowing has remained stable. So, on relative sense if you see per se our cost of borrowing has remained stable despite of increasing the MCLR. This is immediately because of rating upgrade.

**Manan Madlani:** Okay. And the second question is on the OPEX side. So, I get it that we are going to the direct channel and probably that's why our OPEX is increasing. So, where do you see this stabilizing down the line?

**Kamlesh Gandhi:** As of now, as we see, OPEX from current 2.2%, 2.2%, right? 2.2 or 2.3% on a medium-term basis can be anywhere between 2.75% to 3%.

**Manan Madlani:** 2.7 to 3%.

**Kamlesh Gandhi:** But that will not affect the NIMs or the ROA because that will result into higher yields also.

**Manan Madlani:** Correct. Fair enough. And on the commercial vehicle side, how is the asset quality going on, like any updates particularly for that?

**Kamlesh Gandhi:** See, as far as commercial vehicle is concerned, I think our 90 DPD is around 5%, and that is in sync or as best as the industry can have. And going forward, we would like to maintain this level.

**Manan Madlani:** I just had one little request. If you could just provide the quality of assets individually by our segments, it would be great.

**Kamlesh Gandhi:** Point taken. Ankit?

**Ankit Jain:** Yes.

**Manan Madlani:** That's it from my side. Thank you.

**Moderator:** Thank you. The next question is from the line of Himanshu Upadhyay from BugleRock PMS. Please go ahead.

**Himanshu Upadhyay:** Yes, hi, good afternoon. My first question was the higher rejection ratio which we are seeing. Is it because of more leverage at the customer level or the income levels are under stress in the industry and hence the higher rejection ratios we are finding, or we are getting in MEL and SME category?

**Dhvanil Gandhi:** So, it is a combination of both the things. One is, we have tightened the credit screens, not there earlier. So, that is why more filters are put in. So, some of the proposals are filtered out in that. And second, the balance sheet numbers or the income numbers also for the customers are stagnated or deteriorated in some cases or the leverage has increased.

So, a combination of all of these two, three things result in higher rejections. We will not be able to pinpoint only to one specific reason, only leverage, but also the internal policy tightening as well.

**Himanshu Upadhyay:** And one more thing, how difficult is getting the funding for small NBFCs or microfinance institutions? And are we seeing more opportunity to grow the retail asset channel and better use in that channel just opportunistically for some quarters? Any thoughts on that would be helpful.

**Kamlesh Gandhi:** So, this is what we constantly ponder at association level also at FIDC, that small NBFCs should be given more access to capital and debt. And while the role of smaller NBFCs is recognized, it is yet to be recognized to the extent where they can get liability to the extent they should get.

So, to answer your question, they really struggle to get timely liquidity from time to time. And that is where we have played a very important role. It has been mutual. I will now use the word that we supported. But we have played a very important role working with smaller NBFCs right from 2011. And we have been working with smaller NBFCs from the very experience we had when we were small.

We were just 2 crores in 1995. We are 12300 crores as I talked to you. We have seen that journey very closely that despite of the best of the capabilities to manage assets, you might not get liability on time. And that is how we partner with number of NBFCs and have created a very good business model for us and has created a win-win situation.

So, while you are right, retail asset channels can be a good business, but like any other thing in life, it's a package deal. From the risk perspective, technically we would not like this business to be more than around 30%, 35%. So, as we grow, the percentage will remain between 30% to 35%. But that business will also grow continuously, and we hope to have more engagement with FinTechs through the smaller NBFCs.

**Himanshu Upadhyay:** No, sir, I agree to what was stated, and we have stated this historically also. My just question was for next few quarters when the situation is tight and we have a pretty good experience of working with many of these institutions, do you think we can grow this channel and get a better yield in the market or you see the yields for what we used to get historically are the same even in times like now? So, it won't make much significance

**Kamlesh Gandhi:** This is a relationship business and not a transaction business. Whenever we work with NBFC, it is a relationship business. So, we don't increase yields depending upon the situation in the market unless our cost of fund increases, and that is what has kept us in good stead in terms of relationships with all these NBFCs. So, strategically we would not be doing that.

**Himanshu Upadhyay:** And one last thing. At the customer level, are we seeing the yields improve in MEL and SME level, and are people moving out of also of that business market?

**Kamlesh Gandhi:** On the contrary, these are the time to calibrate everything because this is the time to tighten credit screens. When you tighten the credit screen, you get borrowers who are having better credit profile. The borrowers with a better credit profile will demand better rates. So, really not the time. If you want to create a quality portfolio, extend credit where it is due, not a time to get higher yields. On the contrary, you might see some compression on yields being offset by operational cost and credit cost.

**Himanshu Upadhyay:** Okay. Thanks for your insight. Yes, these were my questions.

**Moderator:** Thank you. Ladies and gentlemen, that brings us to the end of the question-and-answer session. I would now like to hand the conference over to Mr. Akshat Maniar from Anand Rathi Equities for the closing comments.

**Akshat Maniar:** On behalf of Anand Rathi Institutional Equities, I extend my heartfelt gratitude to the management of MAS Financial Services for their insights today. We appreciate everyone's participation, and we look forward to connecting again soon. Thank you.

**Moderator:** Thank you, ladies and gentlemen. On behalf of Anand Rathi Share and Stock Brokers Limited, that concludes this conference. You may now disconnect your lines.