"MAS Financial Services Limited
Q1 FY 24 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. SHUBHRANSHU MISHRA – PHILLIPCAPITAL (INDIA) PRIVATE LIMITED.**

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Moderator: Ladies and gentlemen, good day, and welcome to the MAS Financial Services Limited Q1 FY '24 Earnings Conference Call hosted by PhillipCapital India Private 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 and then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Shubhranshu Mishra – PhillipCapital (India) Private Limited. Thank you, and over to you, sir.

Shubhranshu Mishra: Thanks, Darwin. Good afternoon, everyone. We've got Mr. Kamlesh Gandhi, Chairman and Managing Director of MAS Financial Services; Mrs. Darshana Pandya, Director and CEO of MAS Financial Services; and Mr. Ankit Jain and other senior management team from MAS Financial Services to take us through the first quarter FY '24 earnings. Over to you, sir.

Kamlesh Gandhi: Thank you, Shubhranshu, and good evening to all of you, and I'm very happy to welcome you all of you to this earnings call. I'm very happy to share that it was a very robust quarter for the company. As shared with all of you through our presentation and press release, we had a very strong growth of 25% plus and to be precise 26.23% on a consolidated basis on AUM and around 25.38% in profit after taxes. So, friends, this is our 113th quarter of a very consistent and a robust growth backed up by very strong fundamentals as far as the asset quality is concerned and capital adequacy is concerned.

If I talk about asset quality, we are at around less than 1.5% on our net Stage 3 asset as I talk to you and with a very strong capital adequacy of more than 25% making us more confident and giving us enough room for a sustained growth going forward.

We're very happy to share that we have strengthened our distribution also. In terms of distribution, we have now more than 10,000 centers in our reach along with our partnership with more than 150 NBFCs of the country. This not only gives us a pan-India presence but also a very effective and efficient distribution which is evident from the asset growth accompanied by the asset quality also.

In our housing finance, the subsidiary of the parent group, that company also grew very strongly. We registered a close to 32% growth in AUM, currently at a smaller AUM of around INR450 crores is well poised to touch INR1,000 crores within the next two years and we start contributing very meaningfully to the overall growth of the company.

In our housing finance company, we are also very well placed as far as capital adequacy is concerned of close to 40% and once again, the next stage 3 asset there is around 0.50%. So overall, a very strong growth for the quarter accompanied by very strong asset quality and a strong profitability and with a strong fundamental of a very strong capital base.

If I take you through a few other important aspects during the quarter, we are now 2,900 people team along with our housing finance company and we are increasing and we are a very strong team which is contributing very meaningfully and which is contributing very efficiently to the overall growth of the company.

In terms of digitization, we are well aware of the necessity of digitization, and we are continuously in process of digitizing our processes, be it our loan origination system, loan management system and we are also moving towards our BRE projects whereby it will add value on credit decisioning and all these things are added by our services through various APIs and account aggregators which numbers more than 25 in number.

So, all in all, a very strong quarter and as we have demonstrated over six quarters now, post-COVID, a continuous growth of 20% - 25% plus while maintaining a very, very strong balance sheet and very strong asset quality. We are very confident that going forward, we'll be able to maintain this growth and as far as this year is concerned, , we are poised to cross a very important milestone of crossing INR10,000 crores maybe by Q3 or Q4. That will be a very important milestone in the journey of this company, and I think we are a striking distance away from it.

So with this remarks, I will hand over to my colleague, Darshanaben, who will take you through the detailing of the numbers while numbers are before you and also my colleague, Ankit Jain, who will take you through the liability management. As you know that we have one of the strongest liability management with a sufficient liquidity always available with us and with capabilities to raise the liability at will and demonstrated our capabilities to raise that in competitive rates throughout last year. With the increase in MCLR, we also saw a rise in the rate, which will be elaborated by Ankit in detail, but nonetheless, we could maintain our NIMs and the ROAs. So, with this remark, I will pass on this to Darshanaben to take it forward on, to take you on the detailing on numbers.

Darshana Pandya: Thank you, sir. Good evening, everyone. I'm happy once again to connect to all of you. As I mentioned that we had completed the last year with robust numbers, and we continue to move ahead in Q1 FY '24 also. So if we look at the AUM as on 30th June, we stand at around INR 8,418 crores as compared to INR 6,684 crores, which is 25.94% growth in AUM. And if you look at the configuration, around 12% portfolio share is from other wheels products i.e., 2-wheelers and commercial vehicles, 84% is MSME loans and 4% is now salaried personal loans.

And if we look at the growth numbers for each product, MEL loans have grown by 16.14% from INR3,462 crores to INR4,021 crores. SME loan, there is a growth of 25.85% from INR2,443 crores to INR3,075 crores. Two-wheeler loans has shown a robust growth of 47.73% from INR386 crores to INR571 crores. Commercial vehicle loans have grown by 34.87% from INR332 crores to INR448 crores and salaried personal loan which was introduced during the last June 22 quarter, the portfolio as on June 23 is INR302 crores and last year, it was INR59 crores.

If we look at the profitability numbers, total income has grown by 41.60% as compared to Q1 '23, which is INR280 crores from INR198 crores. Profit before tax has grown by 22.83% from INR61.71 crores to INR75.80 crores. Profit after tax has also grown by 24.16% YoY from INR46 crores to INR57 crores. Portfolio quality also remained stable which was 2.15% gross Stage 3 and net Stage 3 was 1.52% as on 31st March 23. This quarter, it is 2.13%, gross stage 3 and net stage 3 is 1.47%. And we continue to carry a management overlay of around INR21.46 crores as on 30th June '23.

Now coming to our housing numbers. Here also, we can see the robust growth. So assets under management portfolio has grown by 31.91% from INR341 crores to INR450 crores. Total income, there is a growth of 55.08% from INR8.78 crores INR13.61 crores. PBT increased by 51.97% from INR1.33 crores to INR2.02 crores. Profit after tax, there is an increment of 57.98% from INR1 crores to INR1.6 crores.

If we look at the quality here also, we could maintain the quality of the portfolio. So as of 30th June '23, our Stage 3 as it is 0.71%, and net stage 3 is 0.50% as compared to 0.70% and 0.52%, respectively as of 31st March 2023. Here also, we are maintaining around INR3.12 crores of management overlay as a buffer. So, this was all about the key numbers. Now I request Ankit to take you through the liability management.

Ankit Jain: Yes. Thank you, ma'am. So, to further elaborate on the liability management, we through the efficient liability management was able to maintain cash and cash equivalents of around INR700 crores during the quarter and unutilized cash credit facility of around INR375 crores. In addition, we had sanction on hand to the tune of more than INR775 crores in the form of term loan, direct assignment, and co-lending.

In the last quarter, company did around INR605 crores direct assignment transaction. The company has more than INR500 crores sanction on hand, which we will utilize during the next quarter. The company's off-book portfolio through DA and co-lending stands at around 21% of the total AUM. We as a strategy aim to maintain around 20% to 25% of AUM as off-book through direct assignment and co-lending transactions.

The company has available working capital facility of around INR1690 crores, out of which we maintain average utilization of 65% to 70% and rest portion is kept as liquidity buffer. We successfully rolled over around INR1,350 crores as short-term working capital loans, which are sub-limit to the working capital facility.

In the last quarter, we raised around INR375 crores term loan, which has further help us to strengthen the asset liability maturity pattern.

We have assessed the structural liquidity for the period, and based on the assessment, there is no negative impact on liquidity, and the cash flow in all the cumulative buckets remain positive.

We remain strong on the capital adequacy whereby the capital adequacy for the quarter was 25.31% with Tier 1 capital of 21.11% and the debt equity of 3.79 times. The cost of borrowing for the quarter was at 9.65%. Similarly, for the last June quarter was 8.77% and March quarter was 9.26%. The increase is majorly because of, as you know, because of the increase in the repo rate and the MCLR reset happening in the current quarter. We envisage that the cost of borrowing to settle around 9.75% to 9.85% in the current year.

Kamlesh Gandhi: Thank you, Ankit. And now we are open to take the questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Sumit Rathi from Centrum PMS. Please go ahead.

Sumit Rathi: Hello. Thank you for this opportunity. Sir, a couple of questions. First, I wanted to understand, how much of our total book is secured and how much is unsecured and what kind of collateral do we take in our 85% odd kind of book of SME and micro-lending?

Kamlesh Gandhi: So, in terms of our MSME portfolio, when we talk about MEL and when we talk about SME, these are the two products, where we give working capital loans to the entrepreneurs. We take current assets as hypothecation, and it is cash flow-based assessment and we do not take any other collateral other than the current assets.

So, in terms of the unsecured portfolio must be around 25% of the total book, where there is no hypothecation of current assets. Whereas we must be having 75% of secured portfolio comprising of hypothecation of current assets, two wheelers and commercial vehicles.

Sumit Rathi: Great. Sir, as compared to historical numbers, I guess, it has been a conscious strategy to reduce our dependence on our partners and probably, we are working on low leverage. Are there any perspectives, you'd like to give on a long-term basis, how leverage can improve our ROE going forward or what's our perspective, how much off-book we would like to have, any colours on that? That would be my last question.

Kamlesh Gandhi: So in terms of distribution, I've been sharing with all of you since a few quarters that, we are very happy with both the distribution, our direct distribution and our distribution through NBFCs. But our direct distribution is increasing at a faster pace as compared to our distribution with NBFCs. So if I give a medium term view, our direct distribution will consist of anywhere between 70% to 75% will be direct distribution.

And around 25% to 30% will be distribution through NBFC as I say it right now. In terms of leverage, we are right now at 3.79. On scale post INR10,000 crores, we see ourselves maintaining anywhere between 4.25x to 4.5x of debt equity.

Sumit Rathi: Great. Thank you, sir. Thanks for this.

Moderator: Thank you. The next question is from the line of Divyansh Gupta from Latent Advisors. Please go ahead.

Divyansh Gupta: Yes, I was looking at the personal loan portfolio. While let's say on a year-on-year basis, the personal loan book has grown about 6x, but on a quarter-on-quarter basis, it's actually either static or gone down by a couple of million rupees. So can you tell about what happened? Why isn't the book growing on a quarter-on-quarter basis?

Kamlesh Gandhi: So, when we start any new product, we don't have a quarter-to-quarter target. It is on a yearly basis. And we see personal loan contributing around 5% to 7% of our total AUM on the yearly basis. The fluctuation of quarter to quarter is due to number of fronts maybe because of the number of people on-street working, the number of rejections versus log-in, and other factors that might be responsible for a lower disbursement. But we don't focus on a quarter to quarter growth as far as our new products are concerned. And as I shared with you, personal loan will constitute around between 5% to 7% of total AUM, going forward.

Divyansh Gupta: Got it. Is there any stress that you were seeing in the personal loan portfolio due to which let's say, a tightening was done for the book or something like that or?

Kamlesh Gandhi: We are not seeing any stress, but adopting to various credit screen from time to time is a very continuous process, depending upon the portfolio analysis, we do. And as I said, this being a new product, we will be very cautious on any of the changes, we make in our credit screens and any of the changes we see in the portfolio.

Divyansh Gupta: Got it. And one more question with respect, or rather one request. In the presentation, I could not find the asset liability maturity profile. If I can request you to include it next time, because it also gives us sense of, what kind of duration you are borrowing and what is the asset profile looking like? If that can be added, that will be very helpful to understand the...

Kamlesh Gandhi: That can be added and you can request offline also, will be provided.

Divyansh Gupta: Got it. And one last question. I was seeing, let's say from either on a sequential basis or on a year-on-year basis, your 1 DPD to 30 DPD is actually on a higher AUM book has increased from 1.09 to almost 1.91. And on a combined basis also, if I look till 60 DPD, the book has these on a, year-on-year basis actually gone up and on a sequential basis almost flat. So anything, which is driving, let's say a higher 1 DPD to 30 DPD for the quarter sequentially?

Ankit Jain: It has improved. If you compare with March, because you have to compare from March quarter to June quarter…

Divyansh Gupta: Yes, I am looking at only, so 1.8 to 1.9?

Ankit Jain: If you see, at 31 to 60, March quarter was 1.13, which has decreased to 0.86 in this quarter. So, rather it has improved.

Divyansh Gupta: So, there has been some rollback from the higher bucket….

Ankit Jain: Yes. So, therefore, it has improved.

Divyansh Gupta: Got it. And overall NPAs have reduced. So, from which sector or which line of business was there more recovery, if you can give a flavour of that?

Kamlesh Gandhi: So that is major contribution from the majority of the portfolio that we own, that is from micro, small and medium enterprises loans, because that is 82% of our portfolio. So better performance there results into a better quality of assets.

Moderator: Thank you. The next question is from the line of Shubhranshu Mishra from PhillipCapital India Private Limited. Please go ahead.

Shubhranshu Mishra: Good afternoon, sir. If you can please explain the percentage contribution from our NBFC partners and what that accrues in our AUM now? And what is the plan three to five years from now? What will be the number going forward? Also, if we can speak on the write-offs and which all segments contributed to those write-offs? And how do we look at the micro enterprise lending going forward? And what are the risk control measures we likely to take in that specific segment? Thanks.

Kamlesh Gandhi: So as I said earlier, our NBFC distribution currently stands at around 37%, which in the medium term, say within the next three years, we should see that settling anywhere between around 30%. And in long term, it can be anywhere between 25% to 30%. So NBFC distribution will contribute around 25% to 30% on a five-year horizon.

In terms of our microenterprise loans, as you see in our MSME portfolio, we are more focused on SME. While our focus on MEL continues, but SME will contribute more because of the ticket size and the tenure as compared to MEL. So within the configuration of our MSME portfolio, where within the medium term we will see a 70-30 or 60-40 ratio between SME and MEL in favour of SME going forward.

And in terms of write-off, I think we should share the numbers.

Darshana Pandya: Yes, so total write-off for the period for Q1 is INR10.47 crores. Out of that INR7.63 crores is from MSME, SPL being the new product, there is zero write-off. SME loans is INR1.07 crores, two-wheelers is INR91 lakhs and SRTO is INR86 lakhs.

Shubhranshu Mishra: Understood. And when we look at the salaried personal loans what kind of companies are we catering to are these CAT C, CAT B companies and what proportion of these loans will be less than -- what proportion of this book will be less than INR50,000 ticket size?

Kamlesh Gandhi: If you see, average ticket size is around INR2 lakhs and under companies which we cater to are the ones, we do categorize them. So in terms of the parameters of being listed or size, you can call them the B or C category companies. But we are circumspect to the fact that those companies financial health is good. And moreover, we look into that the employees' credentials in terms of their skill sets, and in terms of their vintage with the company, and their overall experience. These are the basic criteria which we look at while extending the loans to them. And our experience so far over a year has been encouraging to take this portfolio anywhere to around between 5% to 10% of our AUM.

Shubhranshu Mishra: Understood, sir. And how do we look at the vehicle finance portfolio, the CV portfolio, mostly for LCV, what kind of growth are we looking at going forward?

Kamlesh Gandhi: So with the economy coming back on track, I think you will agree with me that CV portfolio is directly related to the growth in the economy. So with the economy coming back to normal of around 6%-plus growth, I think we will also see a good growth and a good asset quality going forward as far as commercial vehicles are concerned. Because in past few years, we were not finding a good risk-adjusted return as far as commercial vehicle financing was concerned and hence not much capital was allocated to that. But presuming that this is going to be a consistent growth going forward, I see commercial vehicle portfolio going anywhere between 25% to 30% for us.

Shubhranshu Mishra: And what kind of yields do we get in CV financing sir?

Kamlesh Gandhi: The average yield ranges depending upon the products and the customer profile. The average yield ranges between 16% to 19%.

Shubhranshu Mishra: Understood, sir. And what will be the average yield in personal loan sir?

Kamlesh Gandhi: The average yield in personal loan will be between 19% to 21%.

Shubhranshu Mishra: Understood, sir. And if we can also speak on the liabilities sir, what are we looking at in terms of the repricing going forward in the next two quarters? What kind of cost are we going to incur in onboarding newer liabilities? How are we looking at the securitization market going forward? So if we can speak on that, sir, thanks.

Kamlesh Gandhi: See, on the liability side, if I give the configuration, we are well-capitalized at around 25%. We would like to assign anywhere between 20% to 25%. We are close to 15% to 20% of cash credit limit. Because of the maturity profile of our assets, we do not find any asset liability mismatch even using cash credits, but it helps us to reduce the cost due to converting those cash credit into WCDL limits whereby we get at a lesser rate. And the rest will be around 35% to 40% contribution is from term loans and around 12% to 15% we see coming from capital market in terms of bond placement. I think this will be the broader configuration.

And as far as we are concerned, we have a lot of traction on assignment transactions given our portfolio being qualified as priority sector lending and retail lending for the bank. But as a good diversification mix, we like to limit those assignments to anywhere between 20% to 25% so as to have the right diversified resource mix.

In terms of the borrowing cost, as Ankit shared, we see this has been peaked out maybe 5 basis point, 10 basis point here or there. But I think the majority of the MCLR reset has happened for us. And going forward, if we expect a status quo in the repo rates and going forward after a good benign situation, as far as the macros are concerned. And when the rates start going down, we can also see some reduction in the rates. But currently we see this cost of funds almost peaking out at current levels.

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

Abhijit Tibrewal: Yes, good evening, everyone. So again, this is a continuation of what you answered before this wherein you suggested that MCLR resets have already happened in majority of our bank term loans. So this – cost of borrowing increase from current levels of 9.65 and what Ankit said earlier 9.75, 9.85. We wanted to understand from where are these going to come from? This will be in the nature of again some more MCLR resets that will happen or this will be more in the nature of some debt capital market borrowings running down and which have to be replaced with higher cost borrowings. That is the first question that I wanted to understand.

The other question is, I don't know if I heard you right, but please correct me if I'm wrong. I mean, somewhere I heard that you're guiding that, that means we will be able to maintain our margins. So underlying that, I mean, this is the belief that we will be able to kind of continue to take yield increases from here. This is that the thought process to maintain the margins?

Kamlesh Gandhi: So to answer the liability front, I think when we talk about the cost settling at anywhere between 9.65 to 9.85, it will be a combination of reset of rates across all the sources of funds. Maybe the new loans which we take will be at the MCLR what is already we are taking right now because there is a rate pause and I see banks maintaining their MCLR plus whatever premium they want to maintain. So that will stabilize. Our capital market borrowing will also come at a renewed rate as compared to what we had done last year.

Further that MLD tax benefit has also been withdrawn. So debt rate will also be recalibrated to the newer rate. So all the sources of funds will have a recalibrated rates so to speak and that will take our borrowing now to anywhere between 9.65% to 9.85% currently until there is a reset of MCLR or borrowing rates going down.

In terms of maintaining our NIM, yes, we could pass on this rate hike to the borrower successfully and we think that this type of rate hike to be passed on to the borrower is possible for us given the segment where we work in. And we see that our NIM should be maintained anywhere between 6.75% to 7% and that we demonstrated this quarter also whereby our NIM settles anywhere at around 6.8% this quarter despite of the rise. So we will be in a position to maintain the NIMs going forward.

Abhijit Tibrewal: It's just one more question here in the context of so much that is being discussed in terms of this first loss default guarantee, FLDG guidelines up to 5% that has been allowed. So just wanted to understand, I mean, two things here. One is in terms of, I mean, few digital partners that we recently started working with have had the commercial arrangements evolved to now factor in these FLDG arrangements.

And secondly, sir, when you work with your NBFC partners, I don't want to call it an FLDG, but what are the terms like with regards to when you work with these NBFC partners, are the risks entirely on your balance sheet or given that, I mean, there is some, at least in terms of digital partners, some FLDG being allowed, then there also, partners have started favourably looking at giving some FLDGs?

Kamlesh Gandhi: The underlying principle working with the partners is that we understand this partnership brings about individual expertise to the fore, whereby the originator will originate service and will provide the delinquencies to a part where they can be shared and so will be the revenue shared. So in terms of our FinTech partnership where the digital lending due to digital lending guidelines, where it is limited to 5%, I think if you see last quarter, we had reduced our disbursement to FinTech partners whereby we had more FLDGs because of our loss anticipation.

Now with the partners whom we contemplate to work, we are going to have renewed rates charged to them in order to cover the risk envisaged. So for many of the partners, the rate might increase by 1% or 2% depending upon the portfolio quality that we have seen or we have witnessed during their working over the past few quarters. So that will put us at an equilibrium in terms of our NIMs because whatever more losses may be expected will be recouped from the yield. And in terms of our NBFC partners where there are yet to be any clear-cut guidelines on non-digital lenders, there are various type of arrangements from a complete recourse to them to a partial recourse to them, which is then built up in a various type of pricing, thus maintaining our NIMs the way we would like to maintain.

Moderator: We have the next question from the line of Anuj Sharma from M3 Investment.

Anuj Sharma: So our operating expense ratio has been controlled and partly because of the growth in the AUM. But where do we see it in terms of going ahead when you get benchmarked with the loan code we are seeing? And how optimized it is right now and where do we see it three to five years down the line?

Kamlesh Gandhi: If I understood your question correctly, the operational expenditure has been slightly less because of the denominator impact, as you rightly understood. But as we increase our retail distribution, we see our operating expenditure anywhere between 2% to 2.5%. But how we look at it is that on the overall unit dynamics, on our direct retail distribution, the yield will also improve.

So ultimately, our ROAs will be maintained anywhere between 2.75% to 3%. So our focus is to say to that that we maintain ROAs between 2.75% to 3%, which is a result of the yields we get, the cost of fund, the operational cost and the credit cost for each product. So if you see only from the standpoint of operational expenditure, it has the potentiality to settle anywhere between 2% to 2.5%.

Moderator: The next question is from the line of Yash Soni from AK Capital. As there's no response from the current participant, we will move to the next question, which is from the line of Ojasvi Khicha from PGIM India Mutual Fund.

Ojasvi Khicha: If you can guide, what is your guidance for FY '24 on credit cost and if I have to look at the long-term given direct distribution mix going up, I mean historically we have seen credit cost of 1.82% also. So given higher mix for direct distribution, could it reach both levels over medium term?

Kamlesh Gandhi: Currently our credit cost has been around 1%. The credit cost for the quarter was around 0.95% to 1%. And as we increase our direct distribution, the unit dynamics will come into play. And currently of the credit cost, partial of the credit cost is absorbed by the partners to the extent we share the revenue. So when the direct distribution increases, that credit cost will come on the books. But at the same time, our users also increase maintaining our ROAs anywhere between 2.75% to 3%. So, what looks like around 1% credit cost, on a higher distribution of around 70%, it might look at around 1.5% to 1.7% of a credit cost. But at the end of the day, the ROAs will be maintained because of the higher yields, which is currently being absorbed by the partners.

Moderator: **Thank you.** As there are no further questions, I would now like to hand the conference over to the management for closing comments. Over to you, sir.

Kamlesh Gandhi: So thank you so much everyone for joining this con call. And let me reiterate the commitment of team MAS of excellence through endeavours. And we are very confident of going forward to achieve the growth of anywhere between 20% to 25%, which results into doubling our AUM every three to four years, accompanied by a robust asset quality and profitability. Thank you.

Moderator: On behalf of PhillipCapital India Private Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.