"MAS Financial Services Limited

Q3 FY 24 Earnings Conference Call"

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MODERATOR: **MR. ABHIJIT TIBREWAL – MOTILAL OSWAL**

Moderator: Ladies and gentlemen, good day, and welcome to MAS Financial Services Limited Conference Call, hosted by Motilal Oswal. 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. Abhijit Tibrewal from Motilal Oswal. Thank you, and over to you.

Abhijit Tibrewal: Yes. Thanks, Yashasvi. Good afternoon, everyone. Once again, I welcome you all to the earnings call of MAS Financial. We have with us today the senior management team of MAS Financial, represented by Mr. Kamlesh Gandhi, Chairman and Managing Director; Mrs. Darshana Pandya, Director and CEO; and Mr. Ankit Jain, CFO, and other members from the senior management team of MAS Financial.

With this brief introduction, I will now hand over the mic to Mr. Kamlesh Gandhi and the management team for their opening remarks, post which we will open the floor for Q&A. Thank you, and over to you, sir.

Kamlesh Gandhi: So, thank you so much, Abhijit, and good afternoon to everyone who has joined on this call and thank you for joining. At the outset, I will start by thanking all the stakeholders for having supported us throughout our journey of 28 years as we cross a very important milestone of INR10,000 crores in AUM.

I think as you remember, last time, I have shared with all of you that we are striking distance away from our important milestone of INR10,000 crores and that we could complete it in December. On a consolidated basis, we were around INR10,200 crores, and we are very happy to share the same with all of you.

I'm happier to share that this growth has been on a very fundamentally strong balance sheet, with 25 years of experience, with capital adequacy of more than 24%, with asset quality well maintained, with a diversified asset, a diversified liability mix and add to that a very prudent business model, whereby we are adequately leveraged, at the same time, we generate good CAGR on growth, we generate good return on capital employed. And that is what I personally understand, being a practitioner for more than 30 years, are the ingredients for sustainability and scalability.

So, we differentiate ourselves here, whereby we are on a very strong footing, as far as the fundamentals are concerned. And we are going to enter the next phase of growth, we are very confident that with these fundamentals and with an attitude of always learning, unlearning and relearning, that is what I was sharing with Abhijit that at MAS, there is no sense of complacency. We understand that we have miles to go, and we have to improve on so many accounts, and we are continuously working on that.

So, we are on a very strong fundamental, have given a very strong result over all these 28 years translating into close to a 36% CAGR and a commensurating profitability also, having utilized the capital very judiciously. As you know, we had a nondilutive growth so far. And going forward, also the capital will be used very judiciously. As all of you are aware that we also have an enabling resolution to raise INR700 crores as and when required.

If you see, our capital adequacy is very strong. So, this enabling resolution is for the next phase of growth. And that, we will evaluate from time to time, the opportune time and opportune amount maybe in single or more tranches for the funds to be raised to further strengthen the balance sheet and further fuel the growth, that, too, in a very fundamentally strong manner.

Without taking much of a time, if I just focus on a few of the basic aspects of our business, so as I shared with you, on the asset side, we are more diversified. We're moving towards becoming a more diversified asset company. If you see the working of this quarter, we have grown our AUM by 27.63% and profitability by 24.15%. And if you see this around 28% growth, around 60% comes from our flagship product that is MSME, and the 40% product comes from other products. So, we are heading towards a more diversified asset base.

In terms of liabilities, we have a very strong record of more than 28 years on liability. With risk of sounding immodest, we always have a problem on how to satisfy the sanctions we have on hand rather than how to meet the liability target. But having said that, we are now more focusing with the new trends emerging in terms of diversification of liability as far as NBFCs are concerned. We are aware of the fact, and we are looking at diversifying our liability also. And within next 3 to 5 years, we'll see this as diversified as our assets.

In terms of operations, we are continuously always sharing to you that we are aware of the fact that technology plays a very important role in efficient operations, and we are working hard on that. And we have an internal team of more than 70 people working, including the business analysts' team. And we are, from time to time, launching various loan origination programs for various products progressively, accompanied by a very strong and a very time-tested LMS. So, we have enabling technology capabilities at place to commensurate the future growth. And nevertheless, there also, we are not complacent. We are trying to build a team, along with the help of the outside vendors from time to time.

Brief on the most important aspect of any organization, the human resources. We continue to enjoy the confidence of the core team and the team at a higher level at the top and the middle level, with approximately more than 500 people still with us for more than 5 years. The top core team with me since more than 25 years, testimony to the fact that we believe in growing together. And going forward, this is going to be one of the biggest enablers, as far as this company is concerned.

In terms of distribution of assets, I am happy to share that we are diversifying there also. We have 2 types of distribution. One is through our direct distribution of 181 branches, touching close to 11,000 touch points and with another more than 150 NBFCs. Both have worked very nicely for us. While our distribution through NBFCs has been very robust, NBFCs have proved themselves to be a very efficient intermediary. But as I've always said, our direct distribution is growing faster than the distribution through NBFC. And hence, we will see progressively our direct distribution to be settling anywhere close to 70% to 75% of AUM in the next 2 to 3 years.

I'm very happy to share that we had declared a dividend and a bonus both for rewarding the shareholders for their commitment towards the company. We, as Team MAS, remain committed to our goal of excellence through endeavours and enhancing the stakeholders' value.

We are in the process of strengthening all the aspects of the business as we enter the next phase of growth. And I'm sure that next decade will be very different on scale from what we are seeing at MAS during the last 28 years.

So, with this, I will request Darshana to take you through numbers quickly, and followed by Ankit talking about the liability performance during the quarter, and we will be keen to take your queries thereafter.

Over to you, Darshana Ben.

Darshana Pandya: Yes. Thank you, sir. Good afternoon, everyone. So we are, once again, very happy to present a robust number for Q3 of financial year 2024. As Kamlesh sir shared that we have crossed the milestone of INR10,000 crores of AUM on a consolidated basis. So as on 31st December '23, our AUM, on a consolidated basis, is INR10,216 crores as compared to INR8,005 crores as on December '22, which is 27.63% rise in AUM. As far as consolidated PAT is concerned, it is INR64.41 crores, as compared to INR51.88 crores as on December '22, which is 24.15% increase in PAT.

If we look at the portfolio configuration of the parent company, our AUM as on December '23 is INR9,672 crores, which is 27.16% increase in AUM on a standalone basis. So, it was INR7,606 crores in December '22. If we look at the configuration, MEL and SME contributes around 80%, Wheels is contributing 14%, and SPL is around 6%. So, MEL portfolio has grown by 15.03% from INR3,777 crores to INR4,345 crores. SME loan, there is a growth of 21.46% from INR2,841 crores to INR3,450 crores. Two-wheeler loan has grown by 34% from INR502 crores to INR671 crores. Commercial vehicle and salaried personal loan being the lower base, now CV portfolio is INR662 crores, it was INR292 crores as on December '22; and salaried personal loan is INR544 crores, it was INR195 crores as on December '22.

If we look at the income and profitability numbers on year-on-year basis, there is a growth of 29.55% growth in our total income from INR251.47 crores to INR325.77 crores. PBT, on quarterly basis, has increased by 25.05% from INR67.58 crores to INR84.51 crores. PAT has increased by 23.52% from INR50.55 crores to INR62.44 crores.

If we look at the 9-month numbers on year-on-year basis, income has increased by 33.17% from INR679 crores to INR904 crores. PBT has increased by 23.70% from INR194 crores to INR240 crores, and the PAT has increased by 23.58% from INR145 crores to INR179.70 crores.

And as sir mentioned that we could maintain the quality of the portfolio, our gross Stage 3 asset is 2.23% as compared to 2.17% as on September '23, and net Stage 3 is 1.48% as compared to

1.47% as on September '23. And we still hold around INR19 crores as a management overlay, which is 0.25% of our total on book asset.

Now coming to the housing performance.

Kamlesh Gandhi: I'm sorry, I missed out on sharing with you on the development on Housing, which is very important. And I'm very happy to share that we could grow the housing book by around 36%, as we had projected the last time. And I continue to share the confidence that this portfolio will grow by 30% to 35%, going forward, while maintaining the quality of the assets, strong capital adequacy and a very fundamentally strong balance sheet.

So housing, going forward, will play a very important role in the overall growth of the company and will be contributing anywhere between 10% to 20% within the next 3 years. And we are seeing very robust growth opportunities there.

And having said that, while Darshana Ben will share the detailed numbers, will give the idea of the core quality of the portfolio and all, but we have maintained an immaculate portfolio quality there also. So housing is going to be one of the big enablers for the overall growth of the group.

Sorry, Darshana Ben, please take over.

Darshana Pandya: Yes. So, our AUM in housing finances as on December '23, is INR544 crores as compared to INR399 crores in December ‘22, which is 36.50% growth in AUM. Total income on a YoY basis, it has increased by 50.57% from INR10.91 crores to INR16.42 crores. Profit before tax has increased by 37.05% YoY from INR1.80 crores to INR2.47 crores, and PAT has increased by 39.77% YoY from INR1.44 crores to INR2 crores.

If you look at the quality of the portfolio, the gross Stage 3 asset, as on December '23, is 0.81% as compared to 0.79% in September '23. And net Stage 3 is at 0.58% as compared to 0.55% as on September '23. Here also, we hold around INR3 crores as a management overlay, which is 0.72% of our total on book assets.

So, this was regarding the performance in our housing finance company. And now, I'll request Ankit to take you through the capital and liability management.

Ankit Jain: Yes. Thank you, ma'am, and good afternoon to all, with respect to liability management, during the quarter, we were able to maintain average liquidity of around INR800 crores with unutilized cash credit facility, which adds to the liquidity at around INR300 crores.

In addition, the company, as on 31st December, has sanctions on hand to the tune of INR2,000 crores through various instruments that is term loan, NCDs, direct assignment and co-lending. In the last quarter, company did around INR550 crores of direct assignment transactions with various banks. And the company further has more than INR900 crores sanctions on hand, which will be utilized during the quarter and next year. The company aims to maintain around 20% to 25% of AUM as off book through direct assignment and co-lending.

Company was able to maintain a pace with cash credit facility of INR1,715 crores, out of which the average utilization was 75% to 80%, and rest portion was kept as a liquidity buffer. We raised around INR670 crores term loan during the quarter, with average maturity of 3 to 5 years, thus further strengthening the asset liability maturity pattern of the company.

We are well placed or strongly placed with respect to structural liquidity for the period ended 31st December 2023 whereby liquidity is adequate and cash flow in all the cumulative buckets is positive. The capital adequacy remains strong at 24.47%, with Tier 1 capital of 20.59% and a debt equity of 3.99 times.

The cost of borrowing for the quarter was at 9.86%. The cost of borrowing for the September quarter was 9.32%, and this increase of 0.54% is majorly because of large effect of MCLR increase by banks.

As per the current sanction on hand through various instruments, we have already tied up for the fund requirement of the current year and part for the next financial year. And our efforts are focused towards further diversification of sources of funds and to maintain the cost of borrowing.

Thank you.

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

Moderator: Thank you very much. We will now begin the question-and-answer session. We have a first question from the line of Hardik Doshi from White Whale Partners.

Hardik Doshi: Firstly, I think, on the call, you mentioned that you will raise the capital as and when required and possibly in tranches. Any kind of particular timeline that you're looking at or you thought about? Would it be in the next quarter, next 6 months, next 1 year?

Kamlesh Gandhi: So, it will depend once we discuss this with the merchant bankers and we start meeting the investors. So, if we get the right valuation and the right set of investors, it can be done soon. Otherwise, we can wait for the opportune time because as you know that we are already well capitalized. And the idea to have this enabling resolution is to have sufficient time to choose and pick the right set of investors for us.

So, it all depends once it has been recently passed, so we'll have the interaction with the merchant bankers on that and then meet the investors and see what will be the right time and the valuations to raise.

Hardik Doshi: Okay. Okay. Just on that, you mentioned you are sufficiently capitalized and how Tier 1 is also well over 20%, so which is about the benchmark and quite comfortable through. Why don't we kind of wait for a little while longer before looking to raise this capital?

Kamlesh Gandhi: See, as I've shared a number of times that when we talk about capital adequacy, we usually talk on overall AUM. When we are talking about a 20% capital adequacy and the 24% in all, it is on the on-balance sheet assets. So we would like to maintain capital overall on AUM. And hence, we have taken this enabling resolution.

So once we say, for example, in next three, three and a half years, if we double the AUM, we will definitely require capital, if we have the fundamentals of raising and keeping the capital on total AUM. And hence, we took this resolution.

Hardik Doshi: Okay. But on the other side, if we look at it in terms of the total AUM and then our ROAs and the leverage, I mean, this fundamentally would kind of stop us from crossing above 20% in terms of ROE, right, just doing the math with the leverage and ROA. So is that something -- I mean, is that what we are comfortable with, in like having high-teens ROE?

Kamlesh Gandhi: Yes, yes. So I think let me share with you that with the recent regulatory changes and the dynamic regulatory changes that happens from time to time, it is always good to have some buffer in capital.

And secondly, with the leverage where the lenders are comfortable and where you get in competitive rate is anywhere between 4x to 4.5x, and then we –de-risk to the tune of 20%. So, I think we are looking at an ROE in medium to long term anywhere between 16% to 18%, as I look at now.

Hardik Doshi: Okay. Just two more questions. One is on our MSME, SME book. Overall, the growth is now less than 20%. And if you look at the MSME or the micro-SME, it's like even 15%. Is there any kind of concerns that you are seeing or any caution that is causing this simulation?

Kamlesh Gandhi: So as I told in my opening remarks that we would like to be a well-diversified asset company as we grow. And if you see that MEL and SME is growing at a very healthy pace, even on a very large scale, MEL is almost INR4,500 crores, SME is around INR3,500 crores and registering a 20% plus growth on SME and 15% growth in MEL, itself shows our confidence in the product.

So while we have sufficient confidence in the product, but at the same time, with economy entering a phase of a steady growth now, we see the wheels portfolio and the home loans portfolio also contributing meaningfully. So we would have our focus and allocation of capital both on diversification of assets and the risk-adjusted returns.

So taking all these things into account, I think we will see, as I shared, that around 10% to 15% in medium term will come from housing, at around 20%, 25% should come from wheels and the rest will come from MSME. And even in the last quarter of the total growth year on year, 60% of the growth has been contributed by MSME. So we continue to have the confidence in our flagship product, but at the same time, we would like to diversify the assets also.

Hardik Doshi: Okay. And just lastly, can you comment on MSME, SMEs have been seeing a pretty good asset quality cycle for the last couple of years now, and the economy is doing well. But just seeing some of the results coming out from lenders in this segment, it seems like, asset quality is bottoming out, maybe even inching up. What are you seeing on the ground? And how are trends for you?

Kamlesh Gandhi: I think not now, throughout the cycle and right now where the cycle looks very benign is the time where you have to be more circumspect. And MSME is a very huge market to be served.

So, the question is never about asset creation, but about the asset quality. And this asset quality is subjective. It cannot be good for all or bad for all.

So what we have seen as a practitioner over all these years, that if you extend credit where it is due, you don't face growth and you have a fundamental of not just determining growth but also discovering growth from time to time and holding on to the fundamentals of extending credit where it is due, I think you will have a good asset quality throughout the cycle.

So now, it's a very benign cycle going on since last atleast two years post-COVID for MSME. But the lenders have to be more circumspect right now of not looking the other way, as far as the credit filters are concerned. So, it will be different for different companies, going forward.

Hardik Doshi: Got it. Okay. Thanks so much.

Moderator: We have a next question from the line of Sarvesh Gupta from Maximal Capital. Please go ahead.

Sarvesh Gupta: Good afternoon, sir, and congratulations on a decent set of numbers. Sir, the first question is, so given this fund raise now, given that our ROEs are much lesser than the growth rates that we have been doing in the last many quarters, it would be -- and given your prudence, I think it is -- I mean, it's not very far away, right, I mean given where we stand in capital adequacy and where your ambitions are and given the growth rate? So it can't be more than one, two quarters away at the most.

Kamlesh Gandhi: Yes. So we would like to raise it, as I told, at an opportune time within this quarter, next quarter or maybe a quarter thereafter, If you think at the right -- I'll repeat, if we get the right set of investors and the valuations are acceptable, we would definitely like to add on to the capital and make the capital base strong because as a lender, we focus on making the balance sheet very fundamentally strong and raise capital ahead than what it is required. So you are right in a sense that it can be around the corner within a quarter or two.

Sarvesh Gupta: And secondly on this bonus issue, sir, what are the timelines for the same?

Kamlesh Gandhi: I think the record date is 22nd February.

Darshana Pandya: EGM is on 9th of Feb.

Kamlesh Gandhi: And the EGM is on the 9th of Feb.

Sarvesh Gupta: When will the bonus year be credited?

Darshana Pandya: So, within seven days after 22nd Feb.

Sarvesh Gupta: Okay.

Darshana Pandya: It should be by the end of February.

Sarvesh Gupta: Understood. Now sir, on the housing part, so we have been there for a very long time, but it was broadly sort of never contributing meaningfully to the overall sort of company's growth as such.

So what has changed now that you feel that it can be accelerated at a pace much higher than the other assets, thereby contributing to a larger share of the mix of the business? So is there any changes that you see in the environment? Or what has changed while now you are saying finally that, okay, we will now grow it at a much more aggressive pace?

Kamlesh Gandhi: It's all about our readiness from the operational point of view, from understanding the demography because while we know the demography is serving our foundation, housing is a different ballgame. And if you see that we always take time for the initial INR1,000 crores of assets to be reached because we don't believe in burning cash, we want to be profitable throughout. So, we need to be much cautious about the operational cost, about the credit cost.

So, we initially take time to understand demography, build up the teams who can understand our philosophy. And once that is done, we can really launch ourselves for the growth what we intend to. So, all these years, we were trying and we were in the face of understanding those things. And two years lost because of COVID, where it was not the right time to accelerate growth.

. I will say that markets were there, but now we are ready to increase our market share. And maybe at this size, market share is not really significant, but now we are ready for this type of growth. Opportunities are always there.

Sarvesh Gupta: So, it has got nothing to do with the change or somewhat upward movement that we are seeing in general in real estate and the business environment. It has more to do with your own internal factors why you feel that you are not ready to accelerate.

Kamlesh Gandhi: Correct.

Sarvesh Gupta: Understood, sir.

Kamlesh Gandhi: The market is too huge for our size.

Sarvesh Gupta: Yes. And sir, finally, what we have been seeing is your AUM is growing at a faster pace than your PAT. And one of the reasons might be higher provisioning because now the mix is being changed towards your own branches and all that. So by when do we see this to be getting stable, whereby we can grow both bottom line and AUM at the same pace?

Kamlesh Gandhi: Hardly any difference. And that is very difficult to match apple-to-apple. If it is 27% growth in AUM and 24% growth in profitability, I think that much lag will happen because of the operational cost getting ready for the next phase of growth, seeing a critical mass at every phase of investment in operations, technology, and other resources.

So, I think we are almost there. And there will always be some lag between the two, if we are getting ready for the future every quarter.

Sarvesh Gupta: Thank you, sir. All the best.

Moderator: Thank you. We have our next question from the line of Madhuchanda Dey from Mc Pro. Please go ahead.

Madhuchanda Dey: Hi. I have four questions. The first question is, there has been an increase in risk weightage on NBFC lending, and you have a substantial portion of your book from bank borrowing. But we have not seen that impacting your interest margin so far. I mean any colour that you can throw on the same?

Kamlesh Gandhi: If you read the circular, the increase in the risk weightage for on lending to NBFC is on loan other than priority sector lending. So, all the loans that bank lends to us is for on lending to priority sectors.

Madhuchanda Dey: Okay. Got it. Got it.

Kamlesh Gandhi: Priority sector lending, on lending to NBFC has been exempted. So as far as the banks are concerned, they have no reason to increase our rate of interest. But having said that, under the guise of overall increase, there is some 5, 10, 15 bps basis rise being contemplated here or there. But we are, in fact, technically and practically not affected by that circular.

Madhuchanda Dey: So, I mean there has been as per my calculation, there has been a slight uptick in NIM, sequentially. I mean, howis that correct, first of all?

Kamlesh Gandhi: Yes. Because as we move more towards retail, I think while we have seen over all these years that the direct and the indirect retail assets channel were almost close to each other in terms of NIM, but as we grow our retail portfolio, there will be a slight difference in the NIMs, going forward. So, it's very marginal uptick in the NIM.

Madhuchanda Dey: Which means, what you're trying to say is, in fact, the impact on the ROA will be seen, the NIM will be slightly higher, and the cost will also be slightly higher in your direct channel, is that the correct understanding?

Kamlesh Gandhi: Right, right, right.

Madhuchanda Dey: Okay. Okay. My other question is on your housing book. So I know that this is absolutely in the buildup phase, so we can't read much into that. But here, what we see is the growth in the loan book is much ahead of the growth in profit. So is it cost? Is it provision? Because those details we don't have in your presentation. And what is the sustainable steady-state ROA of this business?

Kamlesh Gandhi: So we will share that details with you. And just to give you a colour on that, the profit not catching up with the growth and lagging behind is only because of the operational costs being in the buildup phase. And on a steady-state basis, we see the ROAs in housing finance company at around between 2% to 2.5%.

Madhuchanda Dey: Okay. And I have a last question. In your prepared remarks, you mentioned that next decade will be very different on scale. If you can throw some more light, what is that you're trying to convey by saying it will be different on scale?

Kamlesh Gandhi: So, what I'm really trying to convey here is that we were INR1,000 crores in 2013 to INR10,000 crores in 2023, with all this hard work. As I said, we started with INR2 crores, so last 28 years was from INR2 crores to INR10,000 crores. But now next 10 years, if we do what we have done, maybe at a slighter slower pace on a scale, this INR10,000 crores will look substantially bigger..

So that is what I mean to say that it will be substantially bigger as compared to what we have done over all these years. Just to give you an example, we took 28 years to reach the first INR10,000 crores, but the next INR10,000 crores would be within next three to four years. So this is what I was trying to reflect upon.

Madhuchanda Dey: Got it. And sir, the very last question is, do you plan to introduce any other products beyond what you have now?

Kamlesh Gandhi: I think we are working hard to have our used car product take place. I think we are running a couple of quarters late in developing that product, but we are confident we might take a few more quarters to develop that. But we are confident, given the market size and given our understanding of the borrower because we'll scout the same middle-income group borrowers. So we would like to develop that product.

Right now, that is clubbed with CV because it is not substantially numbered to be hive off as a special product, but we will see used cars as a product.

Madhuchanda Dey: Thanks a lot for answering all my questions.

Kamlesh Gandhi: Thank you.

Moderator: Thank you. We have a next question from the line of Bhargav from Ambit Asset Management. Please go ahead.

Bhargav: Yes, good evening team. And thank you for the opportunity.

Moderator: Sir, you're not very clear. Can you use your handset mode, please?

Bhargav: Hello?

Moderator: Yes. Please, go ahead.

Bhargav: Yes. Sir, in your presentation, you mentioned that you want to increase the direct distribution to about 75-odd-percent. So in terms of number of branches, what could be the number which one can expect maybe in the next couple of years?

Kamlesh Gandhi: I think we are at, currently, around 181 branches. And I think within next two years, if we take around FY 24-25 and FY 25-26, we should be close to doubling our branches in these two years from 181 to close to 300 or 300-plus.

Bhargav: Okay. Okay. Understood. And as of now, if you look at your branches, 90% of branches are in four states. So, is it fair to say that the picture will be very different maybe at the end of the next two years?

Kamlesh Gandhi: Of course. So if I share with you our philosophy of penetration, is that once we enter a state, we concentrate on few of the centers, understand a demography and then spread our wings to the internal places in the hinterlands, Tier 2, and the Tier 3 places of that state. So the way we have developed Gujarat over a period of time, we'd like to develop all other states in a similar fashion.

Bhargav: Okay. So the share of four states, which is 90%, can reduce to what, sir, maybe in the next two years?

Kamlesh Gandhi: Four?

Bhargav: So you have about four states which are contributing to 90% of your branches, right? So will this mix remain the same or it will change substantially after two years?

Kamlesh Gandhi: No. Of course, , as we expand our branches at other centers, the shares will change. So it'd be difficult to exactly put the percentage to that, but maybe what is 90% right now can be around 60% to 70%. And then we would like to be more or less evenly spread, going forward, with Gujarat being slightly dominant.

Bhargav: Sure. And does this have a material impact on your opex? Or you think that with higher direct distribution NIMs will offset the impact in opex?

Kamlesh Gandhi: Yes. So our NIMs will improve, as well as our opex will increase, so will be the credit cost. But our ROAs and ROEs will be stable.

Bhargav: Okay. Great, sir. And all the very best. Thank you for answering.

Kamlesh Gandhi: Thank you. Thank you.

Moderator: Thank you. We have a next question from the line of Avinash from Brookefields Estate Private Limited. Please go ahead.

Avinash: Hello?

Moderator: Mr. Avinash, please use your handset mode.

Avinash: Hello?

Moderator: Yes. Please, go ahead.

Avinash: Hi, yes. Sir, my question is regarding the housing finance. In terms of AUM, where do you see the housing AUM to reach maybe in the next three to four years?

Kamlesh Gandhi: I think I would like to see this housing AUM within next three years to be anywhere between close to INR1,500 crores to INR2,000 crores. Because if we take a 35% growth or 30% to 35% growth and an optimistic number of 35%, I think we should be closer to INR2,000 crores within the next three years.

Avinash: And this is without further investment into the company? Or just, that organic growth is from the reserves? Just trying to understand.

Kamlesh Gandhi: The housing finance, currently, is getting the capital from the parent. And –if we visualize for the next 3 years; parent will be in a position to infuse the capital as and when it is required.

Avinash: No. So to get to INR1,500 crores -- what I'm trying to understand is to get to INR1,500 crores, how much capital would need to be infused?

Kamlesh Gandhi: I think for INR1,500 crores, roughly, if you consider in housing finance company, the leverage as well is anywhere between five to six. So accordingly, for INR1,500 crores, the capital required will be anywhere close to INR250 crores to INR300 crores. And we are currently at around INR100 crores of capital. So another INR150 crores to INR200 crores will be infused.

Avinash: Will be needed for development funds.

Kamlesh Gandhi: Yes.

Moderator: Thank you. We'll take our next question from the line of Aditya from Securities Investment Management. Please go ahead.

Aditya: Sir, we have been seeing strong growth in our salaried personal loan book. So if you could just throw some light how is this book behaving as compared to the other book?

Kamlesh Gandhi: See, as said in the opening remarks, the salaried personal loan is around 5% to 6% of our overall AUM. We intend to keep it well below 10%. And we are focusing on that basis due to caution on the quality of assets. And quality, and if you see the stage three in our salaried personal loan is 2.38%

Aditya: Got it. And sir, how is the sourcing being done for this, sir?

Kamlesh Gandhi: I think majority of the sourcing is done direct, and some of the sourcing is through DSA, but majority of the sourcing is done through the feet on the street dedicated for this particular product.

Aditya: Got it. Sir, my next question is RBI has come out with a circular of requiring banks and NBFCs to provide for those investments in AIF. So we had an investment of around INR30 crores to INR35 crores, as per financial year '23 annual report. So what have we done with that investment in AIF?

Kamlesh Gandhi: That has been liquidated. That is already liquidated before the due date.

Aditya: Got it. Got it. Thank you, sir.

Moderator: Thank you. We have a question from the line of Shrishti Jagati from Ambit. Please go ahead.

Shrishti Jagati: Congrats on a good set of numbers. Two questions. Sir, could you throw a bit more light on the capital raise that you have gotten approval for, the areas where this capital you possibly want to fuel growth for? One. And secondly, as to exactly when given the high liquidity that we already have on the balance sheet, exactly when do we anticipate the requirement of this capital to go through?

Kamlesh Gandhi: See, I think I shared this earlier that we have an enabling resolution of INR700 crores, and we can raise it technically anywhere over a year. But depending upon the advice and the interaction with the investors and from the merchant bankers, it can happen depending upon the right valuations and the right set of investors we get. And this is in preparation for our next phase of growth, if you look at one link of a chain at a time from INR10,000 crores to INR20,000 crores.

So difficult to give the exact timeline, but it can happen soon or it can happen in tranches afterwards. And on the usage of this capital will be for the further expansion of the business because the lending business, the capital forms the base for everything. So as we enter the next phase of growth, we would like to have sufficient capital with a good buffer also.

Shrishti Jagati Right. And sir, secondly, I wanted to ask, you mentioned diversifying the liability profile as well. So what sort of cost benefits are we trying to reap out of this?

Kamlesh Gandhi: So the diversification of liability profile will be more from an aspect of diversified resource rather than just on reducing the cost, which will happen over a period of time as we gain scale and as we improve on rating. But right now, the idea is to diversify the liability from the point of view of resources, where it is predominantly a bank-led liability to various other instruments like liability like capital market and so on.

Shrishti Jagati: Okay. And sir, just last question on cost income again. Given the branch expansion and the expansion that we are looking at in terms of diversifying our products as well to the retail portfolio, which comes at a higher cost, could you give us understanding as to how do we see the cost-to-income ratio move?

Kamlesh Gandhi: I think the right way to look at is the NPM and the ROA, which will drive our pricing and the operations. So whatever product, they have different origination cost and different credit costs. But at the end of the day, we intend to maintain around 7% NIM with around 2.75% to 3.25% ROAs and hence, the resultant return on capital employed.

So difficult to give a number to cost-to-income ratio because it depends upon which type of products and the product configuration from time to time. But at the end of the day, that cost-to-income ratio, ultimately, has the bearing on the ROAs. And that is where we would like to maintain anywhere between 2.75% to 3.25%.

Moderator: Thank you. We have a next question from the line of Sarvesh Gupta from Maximal Capital. Please go ahead.

Sarvesh Gupta: Sir, just two questions. In the HFC, you would ideally be having much higher leverage. So when we are talking about these ROA, ROE, this is for the stand-alone business, right? I mean, there, you can have much higher leverage?

Kamlesh Gandhi: Technically, yes. But practically, as I told earlier that banks or any of the lenders are post this DHFL and all, lenders are not very comfortable going beyond a certain leverage, irrespective of the statutory requirement, so the larger HFCs, if you see, nobody crosses about 5. So anywhere between 5 to 5.5 as compared to 4 to 4.5 for housing. It can be between 5 to 5.5, going forward.

Sarvesh Gupta: And that would be lower than 2.75% to 3.25% range ROA, right?

Kamlesh Gandhi: Yes. So, housingon a sustainable basis, housing return on capital employed is anywhere between what I foresee right now, can change and depending upon so many other situations. But as I foresee right now, it can be anywhere between 14% to 16%. And if more efficiency kicks in, thrn it can be around 17% as compared to 16% to 18% or 19% in the parent.

Sarvesh Gupta: Understood. And subsequent to this RBI norms on borrowings towards NBFCs from banks, so what kind of pressure, if any, are you seeing on the rates and the amounts that you are trying to raise from the banks?

Kamlesh Gandhi: See, as I told earlier, if you understand RBI circular correctly, they are not against the bank's funding NBFC for priority sector lending. They want to crop the lending to NBFCs, especially the indication is on large-scale lending to very large NBFCs, whereby that can be connected risk, going forward.

But given the government's intent of financial inclusion and especially at the micro enterprise level and the small and medium enterprise levels and income-generating activities, including housing, I think this falls in the priority sector, RBI is not against banks' lending to them.

But however, having said that, as we grow, we would like to diversify our liability progressively. But as of now, since majority of our assets falls under priority sector lending, we see no problems in raising funds. But at the same time, because of the overall situation and overall sentiment in the market, there can be a slight 10 to 15 bps increase in rate by the banks.

Sarvesh Gupta: Understood, sir.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over back to the management for any closing comments. Over to you.

Kamlesh Gandhi: So I would like to thank everybody and to everyone who joined this con call. And let me reiterate that we, the team MAS, are dedicated to our mission of excellence through endeavours. And we are now entering the next phase of growth, and I anticipate and expect all type of support from all the stakeholders, including all of you. Thank you.

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