"MAS Financial Services Limited Q4 FY '25 Earnings Conference Call"

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

Moderator: Ladies and gentlemen, good day and welcome to MAS Financial Limited Q4 and FY '25 Earnings Conference Call hosted by Motilal Oswal Financial Services Limited.

As a reminder, all participants' 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 '*' then '0' 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 Financial Services. Thank you, and over to you, sir.

Abhijit Tibrewal: Yes, thank you, Manav. Good afternoon, everyone. I am Abhijit Tibrewal from Motilal Oswal. And it is a pleasure to welcome you all to this Earnings Call. Thank you very much for joining us for the MAS Financial Call to discuss the Q4 FY '25 Earnings.

To discuss the Company's earnings, I am pleased to welcome Mr. Kamlesh Gandhi – Chairman and Managing Director, Mrs. Darshana Pandya – Director and CEO, Mr. Dhvanil Gandhi – Executive Director, Mr. Ankit Jain – the CFO, and the rest of the Senior Management Team.

On behalf of Motilal Oswal, we thank the Senior Management of MAS Financial for giving us this opportunity to host you today.

I now invite Mr. Gandhi for his opening remarks. With that, over to you, sir.

Kamlesh Gandhi: Thank you, Abhijit, and good afternoon, everybody. I am very happy to connect to all of you once again. While you must be having the information on the numbers from the presentations and the press release but let me take you through some of the headline numbers while Darshana will take you through the detailing and then we will be open for question and answers.

So, friends, FY '24-'25 the year gone by, we could close at around Rs. 12,850 crores on a consolidated AUM. And I am very happy to share with you that we crossed an important milestone in profitability of more than Rs. 300 crores on a consolidated basis and also on a standalone basis. And this is an important milestone in the journey of MAS.

As you know that we have always believed in a fundamentally very strong growth. So, if you see from the point of view of the quality of the assets and be it from capital adequacy, the two of the very important marker for the strength of the balance sheet, the capital adequacy stands at around 24.72% with around Tier-1 capital of more than 22%. And in terms of Net Stage-3 Assets at around 1.62%, which is maintained as maintained in the last quarter. I must share here that Team MAS has endeavored very hard to get these results.

I will take you to asset liability operations HR briefly for you to understand the strategic intent of the Company going forward. While many of you are aware that we are a Company who have more than now close to 30 years of existence, we will be completing 30 years on 25th of May, that is this month only.

So, if you see the presentation, our 120 quarters of consistent performance across cycles and from a humble beginning of Rs. 2 crores, we are currently at this Rs. 12,850 crores. And at a very strategic inflection point, doing the same thing forward will take the Company to a very formidable size, but very importantly while maintaining the fundamentals of the Company. So, as you know, the capital adequacy is around 25%. Net Stage-3 is 1.62%. We have maintained this throughout the journey. And we will continue our endeavors on the same line.

In terms of the asset growth, we could register close to 20% growth on a standalone and consolidated basis. And on a consolidated basis, we could register an increase in PAT by close to 23%. And also on a standalone basis, on a yearly profit is more than around 23%.

On a standalone quarterly basis, we are close to around 19.5% in AUM and around 19% in profitability. I shared with all of you that the priority this year will be risk management and profitability rather than just the AUM growth. So, we are happy that we could execute on the lines of our strategic intent.

On the important assets, what we create, the loan assets, is the MSME, the MEL, SME, the wheels, two-wheeler and commercial vehicles, and also to an extent some portion of used cars, and also personal loans has been introduced since the last 1.5 to 2 years. So, we will continue to focus on these assets. All the asset class have performed satisfactorily. And we will continue to focus on all the assets with SME and this being the key driver for growth this year as we envisage.

And once again, we personally believe that this year we will be in a position to register growth anywhere between 20% to 25%. It's a range-bound guidance that we always do because we always believe that it is always prudent to discover growth rather than determine growth and grow at any cost. So, while the fundamentals will be maintained, the endeavors will be there to grow anywhere between 20% to 25%.

On the liability side, while Ankit will take you in detail, we as usual had more than adequate liability. If I share with you for the current year also, we are almost having a closer of Q1 and Q2. We are just awaiting, like everyone in the economy, that how the reduction in repo rates are passed on to the enterprises and to the user of the capital at large. We also await that and are very optimistic that we will also get the benefit of the same this year.

On the very important part, which I would like to share with you on our technology front, on technology, as shared with you earlier, we have already introduced BRE-enabled LOS and BRE-enabled credit processes. We operate on built and operate philosophy. We have a team of more than 100 people in our technology department. And that has worked very nicely for us, given the size and given the requirement, which is constantly dynamic in nature. The in-house technology team is really helping the Company to gain in efficiencies, scale and speed.

In terms of distribution, we could not add as many branches and that was a deliberate decision of the Company. Looking at the overall scenario and the stress going on in the economy, we thought it would be limited to 204 this year, that is in '24-'25. Going forward, presuming that things will be normalized within a quarter or two, we anticipate to add as close to 50 branches this year. And that will once again set our path for higher retail distribution as compared to our RAC distribution while our distribution through NBFC has held on excellently in terms of growth and in terms of asset quality both.

In terms of HR, we continue to be a strong 4,200 team. Once again, with a very stable top and middle level management, we have personally experienced and are of the view that a stable top and a middle level management adds a lot of value in realizing the strategic intent of the Company. We are fortunate to and by our policy of collective responsibility, as I always share that we fail and succeed together, success is not attributed, neither nor the failure attributed to one person or a few persons. We understand that we have to create the right ecosystem within the organization to succeed and to realize our strategic intent. So the HR philosophy on these lines will be carried forward and we intend to build up a team which will add value to all the stakeholders.

In terms of the Housing Finance Company, the subsidiary, we could register a very healthy growth of 29% in AUM and corresponding growth in PAT of close to 26% while maintaining a very benign asset of close to 0.7% in terms of our Net Stage-3 Asset despite of the fact that our average ticket size is sub 10 lakhs, and we serve the middle and the lower income group of the society. But once again, on the dictum of extending credit where it is due, we have been working in this Company also. And we are very confident that this year we will register a growth anywhere between 30% to 35%. Once again, a range-bound guidance, which will be decided from time to time as we go through the year in terms of asset quality and profitability.

Happy to share with you that we have declared a dividend, the final dividend, of Rs. 0.70 per share. That takes the total dividend to 17% on the face value of share. Rs. 1 was declared in the last quarter. And the total payout amounts to 10% in consonance to our policy of ploughing back 90% of the profit back in the Company and 10% being distributed as dividend.

Going forward, we maintain our growth guidance of anywhere between 20% to 25% while maintaining quality of assets, while maintaining ROAs anywhere between 2.75% to 3%. And we are confident to achieve that in the medium-to-long-term. I met many of you personally during our QIP raise. And I had shared with all of you our intent to be close to Rs. 20,000 crores in the next 3.5 to 4 years. We are well on track towards that growth with sufficient capital at place through internal accruals and already the capital raised last year.

So, this is a brief commentary from my side. I will request Darshana to very briefly take through the numbers, so we have sufficient time for the participants for their query. Thank you. Over to you, Darshana.

Darshana Pandya: Thank you, sir. Good afternoon, everyone.

So, as sir shared that we have crossed the milestone of Rs. 12,000 crore. And on a consolidated basis, our AUM stands at Rs. 12,868 crore. The PAT is Rs. 83.40 crore for the quarter ended 31st March as compared to Rs. 10,722 crore AUM and Rs. 70.10 crore of PAT, which is 20% growth in AUM and around 19% growth in PAT. For the year ended, for the complete year, PAT stands at Rs. 314 crore, which is growth of around 24% over the previous year.

If you look at the standalone numbers, our AUM is Rs. 12,100 crores and PAT is Rs. 80.82 crores for the quarter ended 31st March 25 as compared to Rs. 10,126 crores and Rs. 68.05 crores AUM and PAT respectively as on 31st March '24. So, if you look at the total income numbers, there is a growth of 26% from Rs. 331 crore to Rs. 417 crore of total income. Profit before tax grew by 19.52% from Rs. 91 crore to Rs. 109 crore. Profit after tax, there is a growth of around 19% from Rs. 68 crore to Rs. 81 crore. These are the numbers on a quarterly basis.

On a yearly basis, the total income grew by 23.69% from Rs. 1,229 crore to Rs. 1,520 crore. Profit before tax grew by 23.84% from Rs. 331 crore to Rs. 410 crore. Profit after tax grew by 23.48% from Rs. 248 crore to Rs. 306 crore.

If you look at the AUM breakups: Our Micro Enterprise Loan grew by 9.31%. So, it stands at Rs. 4,793 crores as compared to Rs. 4,385 crores in March '24. SME Loan Book is now Rs. 4,502 crores, which is 21% growth. The last year number was Rs. 3,734 crores. Two-wheeler loan book grew by 17% from Rs. 670 crore to Rs. 785 crore. Commercial vehicle loan book is Rs. 979 crore which was Rs. 748 crore last year, which is 31% growth in commercial vehicle loans. The salaried loan is from Rs. 589 crores to Rs. 1,040 crore. That is 77% growth in book. So this growth we can see on the lower base of AUM. So, it is a relatively new product for us.

Overall configuration: 77% book is of MSME, 15% is coming from our wheels portfolio, and 8% is our salaried personal loan. And if you look at the growth contribution, 60% growth contribution is from our MSME segment, while other products also contributed meaningfully.

Coming to the quality of the portfolio: Our gross Stage-3 Asset is 2.44% as compared to 2.41% in December '24. And Net Stage-3 Asset is 1.62% as compared to, it was 1.62% in December '24. And we still continue to carry management overlay of around Rs. 17.60 crore, which is 0.18% of our on-book asset.

Now, coming to the Housing Performance: Our growth in AUM in housing loan book is 29% from Rs. 596 crore to Rs. 768 crore. Total income on a quarterly basis grew by 26% from Rs. 17.68 lakhs to Rs. 22.24 crore. Profit before tax, there is a growth of 24.46% from Rs. 2.62 crore to Rs. 3.26 crore. Profit after tax grew by around 27% from Rs. 2.08 crore to Rs. 2.64 crore. These are the numbers on quarterly basis.

Now coming to the Yearly Numbers: Asset under management, it's Rs. 768 crores. Our total income grew by around 30% from Rs. 62 crore to Rs. 81 crore. Profit before tax grew by 26% from Rs. 9.58 crore to Rs. 12.09 crore. Profit after tax grew by 26% from Rs. 7.58 crores to Rs. 9.56 crores. Here also, our quality of the portfolio remains stable and strong. The gross Stage-3 Asset in our housing loan book is 0.94% as compared to 0.96% in December '24 and Net Stage-3 Asset is 0.65% as compared to 0.7% in December '24. Here also, we continue to carry the management overlay of Rs. 3.30 crore, which is 0.58% of our on-book assets. So, this was all about the numbers on performance.

Now I will request Ankit to take us through capital and liability management.

Ankit Jain: Yes, thank you, ma’am.

In terms of Capital Liability Management, our Company, through its efficient liability management, was able to maintain the average liquidity on balance sheet of around Rs. 900 crore and unutilized cash credit facility of around Rs. 350 crores. In addition, the Company, as on 31st March, has sanctions on hand to the tune of more than Rs. 3,000 crore in the form of various instruments like term loans, NCD, direct assignment and co-lending.

In the last quarter, the Company did around Rs. 725 crores direct assignment transactions. We further have around Rs. 1,700 crore in the form of direct assignment and co-lending sanctions which will be utilized in the coming next two quarters. The off-book percentage to the total AUM stands at around 20%. We as a Company aims to maintain 20% to 25% of AUM as off-book through direct assignment and co-lending.

The available cash credit facility is around Rs. 1,400 crores, out of which utilization level is generally maintained at 70-75%, and rest portion is kept as a liquidity buffer. We raised more than Rs. 1,000 crore term loan during the quarter with an average maturity of 3 to 5 years. Further, we have more than Rs. 1,400 crore sanction on hand in terms of term loan and NCD.

In terms of capital market, we raised Rs. 325 crore NCD during the quarter.

In terms of asset liability maturity pattern, we are well placed whereby there is a positive mismatch in all the cumulative buckets. And as told, liquidity is adequate.

The capital adequacy remains strong at 24.72% with Tier-1 capital of 22.58%. Debt equity of the Company is at 3.37 times. The cost of borrowing for the quarter was 9.81%. The incremental cost of borrowing during the quarter was 9.60%. We envisage that due to the recent rate cut by RBI and further expected rate cut, the cost of borrowing to come down between 25 to 35 basis points for the whole Financial Year '25-'26 .

To our journey towards AUM of Rs. 20,000 crore, our strive is to further diversify the sources of fund. We plan to raise funds through, external commercial borrowings, foreign DFIs, and increase capital market exposure at competitive cost.

So, this is on Capital Liability Management. And now, we are open for Q&A round. Thank you.

Moderator: Should we begin the question-and-answer session?

Abhijit Tibrewal: Yes, please.

Moderator: Thank you very much. We will now begin the question-and-answer session. We have our first question from the line of Shreepal Doshi from Equirus Securities. Please go ahead.

Shreepal Doshi: Hi, sir. Good afternoon and congrats on a decent set of numbers. Sir, my first question was on credit costs. So, while margins have expanded and even operating profit has been pretty good, the credit cost has also gone up for the quarter. And I think that is getting allocated to Stage-2 and Stage-3 PCR increasing. So, what is the thought process behind this? The reason behind this?

Kamlesh Gandhi: See, as you know that we follow ECL method during such time where the portfolios are under stress to a certain extent. In our case, it has been very marginal. It is reflected on the ECL calculations. So, basis the ECL calculations and taking a conservative view, we have increased our PCR by 2% this year even on the Stage-3 Assets. And Stage-1 and Stage-2 is as per the calculation, based out of ECL calculation, which is taken on the basis of last 5 years' average.

Darshana Pandya: Yes, sir. And forward-looking parameters are also there.

Kamlesh Gandhi: Including the forward-looking parameters.

Shreepal Doshi: So, sir, but if you look at our Stage-3, GS3 number is broadly stable. Even the bucket-wise details that we give 1 to 90 DPD, even if that is broadly stable. And however, last quarter you had highlighted that, you know, we are staying away from sectors like textile and FMCG. So, is it something that you envisage in our pool, in our portfolio already creating some issues and therefore we are increasing the buffer? And how do you see these two sectors incrementally doing for us? Have we seen some moderation in stress?

Kamlesh Gandhi: When we calculate ECL, there are macro factors also taken into account besides the portfolio quality. So, they are taking into various aspects of macro, and they are looking at the overall stress in the environment. The macro factors will contribute to the higher ECL provisioning, withstanding the fact that it might not be warranted for our portfolio only on the basis of the expected losses. But the expected losses also have the impact for future macro events. And the way the volatility is there right from the political front to the behavior of the portfolio, and we all know the areas of vulnerability. So, that is all taken into account in ECL. And that is what will increase that marginally.

And on your question of these two sectors of textiles, and what was the other one?

Shreepal Doshi: FMCG.

Dhvanil Gandhi: FMCG. So, as we have discussed earlier as well, that these two sectors were highlighted for us from the recent rate angle that here we should be cautious. So, incrementally, we have slowed down the business in this, and this decision was taken based on some stress that we were already seeing on the past portfolio that we had created. So, yes, incrementally we are very cautious on building these on these sectors, but on the past portfolio whatever stress will come is something that we will have to manage and take it forward. But incrementally we are going slow here.

Shreepal Doshi: Okay, so incrementally also we are going to be cautious in this segment. I thought there were some green shoots, so there is a thing of that nature is what you are highlighting.

Dhvanil Gandhi: We see that at least for next till June and we will review it again because we have to give it after the changes are done, we have to give it some time to see how the collection patterns are. If the collection improvement is there in the past portfolio and the overall macro is looking positive, then within one or two quarters, we can look at opening up a few of these sectors. But for Q1, they will be still under the watch.

Shreepal Doshi: Got it. Just two more questions. One is on the retail channel partner. So that, I mean, the thought process was to bring it down going ahead. However, if you look at this quarter or for the year end, it is closer to 36%. So, how do you see it moving in ‘26-'27 time period, the share of retail channel partner book?

Kamlesh Gandhi: So, that is as I shared in the opening comment, that this year we were cautious in opening new retail branches. So, we were around 189. we could add on...

Moderator: Ladies and gentlemen, please stay connected. The management line has dropped. We will reconnect them. Ladies and gentlemen, thank you for patiently waiting. We have the management back with us. Over to you, sir.

Kamlesh Gandhi: So, am I talking to Shreepal now?

Shreepal Doshi: Yes.

Moderator: Yes, sir, you are audible.

Kamlesh Gandhi: So, Shreepal, I was sharing with you that this year we could not open the branches as much as we would have wished to. And that was a very conscious decision on the part of the Company. While our medium-term and long-term objective remains that within the next two to three years, this will be anywhere around close to 30% or less. Maybe in a year or so, it might, it will not be very linear always. It can be sometimes up and down, but in medium to long term, it will be less than 30% because of the fact that our retail distribution will increase while this distribution has also behaved very nicely for us.

Shreepal Doshi: Sure. One last question was to Ankit. Just one question there on the term loans that we have raised during the quarter. So, what is the differential on the cost of borrowing versus, let's say, what you would have done in 2Q, 3Q time period?

Ankit Jain: So, as I told, so the cost of borrowing for the quarter was 9.81 and the incremental cost of borrowing was 9.6 around. So, whatever fresh term loans which we have raised is between 9.5% to 9.6%, whereby, vis-a-vis, if we compare last quarter, it was between 15 to 25 basis point more.

Shreepal Doshi: Got it. So, that is the benefit that we are seeing in the margins as well, right?

Ankit Jain: So, despite there has not been a MCLR cut, or very few banks have cut the MCLR last month, but they are able to pass it through spreads cut.

Shreepal Doshi: Okay. So, going like in, let's say, in 1Q, when we will have larger number of banks passing on the MCLR changes, so then how much more benefit do you see, sir?

Ankit Jain: See, the passage of MCLR cut will be on a large basis because the majority of the loans will be linked to one-year MCLR. So, as and when it is readjusted, then only this will pass though we are also negotiating with various banks for cutting the spread. And therefore, we have given guidance that for the whole year, we feel that despite 50 basis points already cut and further rate cut expected by the RBI, we envisage a 25 to 35 basis point overall cost of borrowing coming down for the whole year.

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

Ankit Jain: Okay, thank you.

Moderator: Thank you. We have our next question from the line of Hardik Doshi from White Whale Partners. Please go ahead.

Hardik Doshi: Hi. You know, I just want to ask her regarding the salary personal loan, you know, that is a segment that has obviously grown very quickly over the last few years. I remember a couple of years ago we were talking about capping this at about 10% of loan book and then re-evaluating. I just wanted to check what the thought process is now going forward on this segment.

Kamlesh Gandhi: It remains the same. In medium-term, we don't intend to increase it more than 10%. We will wait and watch as to how the portfolio behaves. Salaried personal loan was introduced because of two basic strategic intent. One is to be present on the consumption side also. So, as we increase our asset side, that can help us to build up assets. And second is we can get some alpha in ROAs. So, if it stands the litmus list of both, we will once again re-evaluate. But currently it stands at 10%.

Hardik Doshi: Okay. And how many FinTechs are we tied up with now? And how concentrated is our relationships on this Fintech side from a sourcing perspective?

Kamlesh Gandhi: We have tied up with around 4 to 5 FinTechs as we talk to you right now. And we are evaluating their performance from time to time. They are strictly supposed to originate the business as per the credit screens given to them. And that is closely monitored. So, currently there are around 4 to 5 FinTechs with whom we have tied up.

Hardik Doshi: And it would be fairly diversified among these 4 to 5 FinTechs, in the sense that not one person is accounting for more than 50%, let's say, of the...

Kamlesh Gandhi: Yes, they are well diversified. But it all depends upon the level of comfort we have with these FinTech, but well-diversified.

Hardik Doshi: Okay. And I think, in the last couple of quarters we have indicated that growth could kind of slow down because we were cautious in terms of the asset quality. Now it seems like you were for the next coming year, you are comfortable in the 20%-25% range. So, is there an improvement on the ground? You know, what are the trends you are seeing?

Kamlesh Gandhi: If I am optimistic, we might think that the majority of the problems behind us are still a quarter or two. We need to watch out very closely. So, we have demonstrated our capabilities to grow anywhere between 20% to 25% in the past, much on the higher side, that is anywhere between 23% to 25%. In situations like this, we remain at the lower end of the spectrum.

So, while it will still take around a quarter or two for us to gain that confidence to be on the higher end of the spectrum but let us keep our fingers crossed. If things improve fast, we can be at the higher end of the spectrum, but confident to be in range bound between 20% to 25%.

Hardik Doshi: Okay, got it. Thanks so much for your time.

Kamlesh Gandhi: Thank you.

Moderator: Thank you. We have our next question from the line of Ankit Gupta from Bamboo Capital. Please go ahead.

Ankit Gupta: Yes, thanks for the opportunity and congratulations for decent set of numbers in tough times. So, my first question was on the, you know, our channel partners, especially on the microfinance side. Now, you did allude to some challenges on the SME, and you will evaluate or reevaluate how the situation is by the end of Q1. So, on the microfinance side, the lending that we do through our channel partners, so, where do you see the cycle? Have we bottomed out in terms of delinquencies, and you are seeing some improvement in terms of collection efficiencies in all the channel partners?

Kamlesh Gandhi: So, in terms of channel partner and if we are talking about microfinance in particular, since 1.5 year, we have been very cautious on partnering with MFIs. So, if you see currently also our participation with MFI is very negligible because we were not very confident the way the credit was dispensed.

So, if we talk about our MFI channel partners, their contribution, I still see that will be very limited. We would like that sector to once again have the credit discipline, what we expect from them, and then the demonstration of the portfolio before we can really do some more business with them. But currently we are very cautious, and we are doing with very select few. And we don't see that going up in the next quarter or two.

Ankit Gupta: And have you seen some improvement on the ground with some of your lending partners?

Kamlesh Gandhi: The improvement is twofold. The portfolio, which was created very aggressively, the consequences of the same has to be borne by them through write-offs and just reducing the profit or bringing in more capital. But post their understanding of the ground level and post the tightening of the credit screens, the newer portfolio, now there is bifurcation the way it used to happen that the portfolio during COVID and portfolio after COVID. Here also it is portfolio before tightening and after tightening. So, the portfolio after tightening is behaving nice for them as per the information we have.

Ankit Gupta: Sir, on the credit cost side, you know, we have seen, we have cautiously taken some incremental provisioning on the higher provisioning. So, for FY '26, do you think this higher credit cost will continue, or it will taper down a bit, maybe if not in the first half, then second half?

Kamlesh Gandhi: Difficult to assign some numbers to that, but if I share with you that the credit cost, as we always have shared with all of you, is that our commentary has been that it will be anywhere between 1% to 1.5%. It will be range bound. And I think that will be within that range only. So, here also, if you see the credit cost on the closing AUM, it is around 1.0%, 1.06%. If you average it out, it is 1.17% as compared to last year of close to 1.04%. So, we think this will be range-bound, but we will be conservative.

Ankit Gupta: Okay, thank you, and wish you all the best.

Kamlesh Gandhi: Thank you.

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

Sarvesh Gupta: Good afternoon, sir, and congratulations for a steady set of numbers. Sir, first question, on this growth guidance of 20% to 25%, that is excluding the Housing Finance Company, right?

Kamlesh Gandhi: Housing Finance, if you see that even I grow my housing finance at 35%, it is not going to move the needle much on the consolidated basis because of the scale. Because we are talking about housing finance reaching from, say, Rs. 800 odd crores to maybe Rs. 1,000-1,100 crores.

So, if we take a 30%, 35% growth, it will be anywhere between Rs. 1,000 to Rs. 1,100 crores against our total AUM on standalone going from Rs. 12,100 crores to close to Rs. 14,750 crores or so. So, it's not going to move much needle.

When we talk about 20% to 25%, it is more indicated at the standalone business and housing finance, we would endeavor very hard for growth between 30% to 35% in our Housing Finance Company. Both put together will be the same as the standalone numbers, very close to standalone numbers.

Sarvesh Gupta: Understood. And sir, this year the environment was a bit challenging, so you toned down your growth rates. But did you see some of that in your housing finance also? Because there also I think the AUM growth slowed down meaningfully from I think 44% in FY '24 to 28% last year. So, did you see some impact there or why did it slow down meaningfully in terms of the growth?

Kamlesh Gandhi: If you see be it our housing finance companies or the products across parent, the common thread is we serve to the lower income and the middle income group of society. And the challenge in question is the over-leveraging of this sector. So, that is percolated to the housing finance business also.

I personally believe that this is also not the right time to grow housing finance at a very brisk or an exponential pace. What 28% we could register was on a lower growth. Had I been say Rs. 10,000 crore here, I would have not grown more than 20% here also looking at the current situation. So, you are right in a sense. To gauge that, here also we were cautious in our growth.

Sarvesh Gupta: Okay. But overall, sir, how do we view the situation? So, we toned down the growth and the branch expansion last year, but do we see this getting incrementally better or is the situation the same? How do you assess that on the ground situation for the segment of the borrowers you are lending to?

Kamlesh Gandhi: So, if you see, over 30 years we have seen so many cycles. Cycle means that once something goes down, it has to go up, right? So, we have been down since last two years and by the tenure of the loans and because of the various factors and hopefully there are some positive factors like reduction of rate of interest, steady economic growth and all. We will see that we have all reasons to believe that within a quarter or two, we should see some normalization in the credit behavior of the borrowers. And that should give us confidence.

Lending is all about confidence. And the lesser you are wise in hindsight and the more you are wise in foresight, that safeguards the interest of all the stakeholders. That is what we are firmly believed in. So, I think that, as the name suggests, cycles, we will be at the end of the cycle within the next one or two quarters, things should start normalizing, giving us confidence and we being at the higher end of the spectrum of the range given of 20% to 25%.

Sarvesh Gupta: Okay. Now, sir, this quarter, I think you had some headroom in your NII because of the equity fund raise. So, given that we are also seeing, you know, high OPEX growth as well as credit cost growth, so these higher OPEX growth and credit cost growth, were they more discretionary in nature that you had some headroom in NII, so you sort of used it for doing more one-time investments in OPEX and higher provisioning? Or does it depict the picture of the requirement as it was for the business this year?

Kamlesh Gandhi: It's a combination of both. When we take into account our annual budget, when we know that we have some more money to spare and more money to invest for the future, that is done. And secondly, there are certain things which I could not have helped irrespective of whether I would raise capital or not. That is provisioning and the macro factors. And as I shared with the earlier caller also that the provisioning increases most of the macro factor taking into account as far as ECL is concerned rather than because of the behavior of our own portfolio. So, it's a combination of both.

Sarvesh Gupta: And sir, final question on the NIMs. So, when the rates were being raised, we did not see much of an impact on our NIMs because of the MCLR sort of a break up in our liability side as well as other things that we did. So, in our rate cut environment, do we see maybe one year, two years out, our NIMs to be better? Or do we see that it should remain the same given that we did not sort of have an impact when the rates are going up?

Kamlesh Gandhi: So, when the rates were going up, we had an opportunity to reprice the loans because of the shorter tenure of the loans was one of the factors where we could maintain our NIMs. Once again, just as the reduction does not happen immediately, the increase also does not happen immediately. It is MCLR linked. So, there is a lag defect.

So, in our case and the borrowers whom we serve, a 25-basis point reduction in my cost-of-fund does not necessarily mean that we are going to pass on that to the borrower. And it does not move the needle for them too. So, a 25-basis point, as Ankit alluded to in his earlier conversation, that presuming that there will be further rate cuts and there will be a lag effect during the year, we envisage that there can be a 25 to 30 basis point improvement in borrowing costs. And provided we preserve all those increased Nim and factor it into profitability, the NIMs will increase.

Sarvesh Gupta: But then in case of a large rate cut over, let's say, 3-4 times 25 basis point, then ultimately we will have to necessarily pass it on, right? Or do we expect some savings to be kept at our end only?

Kamlesh Gandhi: Also, when it is substantial, it has to be. But as I told you, that all the players are sailing in the same boat as we are. The majority of them are on MCLR-based borrowing. So, everybody will take their own time to implement the rate cuts. But if there is a sustained rate cut, say for example, the percentage that I have now, it has been passed down and transmitted to MCLR 100% and everybody is borrowing at a lesser rate, we will be happy to pass on to the borrowers.

Sarvesh Gupta: Okay. Thank you, and all the best.

Kamlesh Gandhi: Thank you.

Moderator: Thank you. We have our next question from the line of Shubhranshu Mishra from PhillipCapital. Please go ahead.

Shubhranshu Mishra: Kamlesh sir, good afternoon. Thank you for taking my questions. The first part is on micro enterprise loans. It's become a smaller part of the AUM as such, although it was our mother product. I understand we have been growing in SME, but how do we look at it going forward in '26-'27 and what proportion of our loans are we sourcing from our NBFC intermediaries?

The second part is personal loans. There has been an asset quality repose, especially with FinTech participation. So how are we hedging the asset quality going forward, especially with FinTech?

The third is, there is a new co-lending draft guidelines which are out. So, are we thinking about anything in co-lending in CLM-1 or CLM-2? How do we think about co-lending going forward?

Kamlesh Gandhi: Good afternoon, Subhanshu. On the first question, as we have said many times that we firmly believe that as there will be growth in AUM we would like to increase the ticket size, So, MEL will have the lesser share in the AUM. Then it will further reduce and it will be replaced by the SME portfolio, which we personally think is the right way for us as we increase our size.

On the second part, on the MEL, I think usually, as far as MEL is concerned, around 40% to 45% is contributed by the partners. And in terms of your question on SPL, we have been very cautious. If you see the SPL portfolio, forget about the percentage on a lower base. But we have been very cautious on two counts, that we are extending loans based on very strict credit vision.

And number second, we have kept for ourselves a guardrail that we are not going to have more than 10% of this business in medium term as we see right now. And through the FinTech partners, they have to operate as per our credit screen. We get an advantage of the DLG guidelines of having a cushion of 5%. So, we see to that that the credit screen so behaves that that is within our credit screens plus the losses built-in during the pricing plus 5% DLG makes us manage the risk in a more comprehensive manner. With a risk of sounding immodest, I can tell that we are crushing the risk there rather than managing the risk there.

And co-lending, I think it is once again the guidelines are work in progress. If I take you to the complete process of co-lending, it was only CLM-1 in the beginning. And then because of the operational problems, CLM-1 could not pick up and hence CLM-2 was introduced. Prima facie as it appears from the guidelines, they are more insisting on CLM-1. While there has been adequate representation from all of us that if this has to gain scale, CLM-2 is equally important. But let's see how it spans out. And we will be constantly endeavoring to have good partnership with the banks where we align strategically when we align operationally while we will not target for a particular amount to be raised through co-lending this year.

Shubhranshu Mishra: Just one follow-up question on the personal loan guardrails. What are the specific ticket sizes and FOIR that we operate in? And what is the ticket size below which we don't go or above which we don't go in personal loan and the FOIR as well? So, what are the ranges of FOIR and ticket sizes? And if we have specific negative geographies or negative pin codes, we have specified to the FinTech players.

Kamlesh Gandhi: So, starting from the last point. The pin codes are decided depending upon the early warning system that we get from time to time. And on terms of FOIR, we have a different way of calculating FOIR whereby we don't just see the fixed obligation to income ratio, but we also see the total expenditure depending upon the family size. And depending upon the income, the FOIR can range anywhere between 30% to 50% depending upon the size of the income. And the ticket size, our average ticket size is around 1,35,000.

Darshana Pandya: Rs. 1,35,000.

Kamlesh Gandhi: Rs. 1,35,000. And usually we are not comfortable going above Rs. 5 lakhs and below Rs. 75,000.

Shubhranshu Mishra: Understood, sir. Thank you so much, and best of luck, sir. I will come back in the queue.

Kamlesh Gandhi: Thank you.

Moderator: Thank you. We have our next question from the line of Aditya from Security Investment Management. Please go ahead.

Aditya: Hi, sir, thanks for the opportunity. Sir, we had slowed down the loan growth considering the tough credit environment prevailing. But sir, on the flip side, what factors would you be looking at when you decide to change the stance and press the pedal to accelerate growth? Some qualitative understanding, if you can give, that would be helpful.

Kamlesh Gandhi: I would like to share my views, not the right word if I use the word educate, but let me tell you that being in the landing business for 30 years, 20-25% loan growth results into doubling your AUM every 3 to 4 years. And that's a tall order.

So, if any of the Company, leave aside MAS, if any of the lending Company growing between 20% to 25% has to be understood in the right perspective, because just to share with you, to grow AUM is the easiest thing in lending business, but to complete the cycle of profitability and maintaining the assets is very important.

So, I would not quite agree that we have slowed it down. We have calibrated to a certain extent. If it is 19.5% or 20% or 22% or 2% here or there, it is not going to make any difference. And as I have shared earlier also that we are not going to get overexcited by any of the positive happenings in the market because after all we have to manage the portfolio for anywhere between 2 to 7 years. So, if the things are good right now, but I don't know what is going to happen 3 years hence, so my capabilities to handle the portfolio across cycle will be the guiding principle for my loan growth.

So, we continue to maintain that 20% to 25% for any lender, irrespective of what we do at MAS, is a very good number. I would request all of you to understand this in the right perspective. And as I have shared with the earlier callers also, that if we find the situation conducive, we will be at the higher end of the spectrum, if we are picking up 23 as the mean. If we think that the situation is still challenging, we will be at the lower end of the spectrum as we are right now. That is around 20%.

Aditya: Understood, sir. Secondly, now if I look at this line item gain from assignment, that has increased by more than 20% this year while I don't think our assignment book AUM has increased to the same extent. Sir, so if you can just help us understand why is that the case?

Ankit Jain: So, the gain on assignment is on the transaction done and not on the outstanding. And therefore, we can't match it with the outstanding of book. So, suppose last year we would have done a Rs.

2,000 crore direct assignment transaction , but this year we would do Rs. 2,500 crore. And therefore the gain of the assignment will differ.

Aditya: Got it. Understood.

Kamlesh Gandhi: And just to add to that, we are also circumspect of the fact that we bring the assignment income to that level which is very close to our amortized income. So, we don't get into any loop.

Aditya: Understood. But sir, are the assignment transactions which we are doing, are they now coming at a lower cost than those that we did previously?

Ankit Jain: So, right now not. But we see that as the MCLR reduces for majority of the transaction done with PSU banks, whereby the loans qualify as a private sector lending and retail lending for them, we see that as the MCLR comes down, the spread will improve.

Aditya: Understood. Got it. Sir, secondly on this OPEX course, which you mentioned briefly to one of the participants, sir, just wanted to understand, in spite of the lower branches being opened this year and the higher share from NBFC partners, our OPEX to AUM has still inched up from around 2.1-2.2% to 2.4-2.5% levels this year. So, I just wanted to understand what is leading to this higher cost and where do you see the OPEX to AUM ratio settling for us?

Kamlesh Gandhi: We can share the details with you offline, but nothing outlier in this. We invest in technology from time to time. We invest in personnel from time to time. The number of personnel have increased in numbers as compared to last year. So, there will be a number of factors which can cause a slight increase in the operational cost. But overall, on the yield metrics front, we are not worried on that being spiraling out, out of control.

Aditya: No, that I understand. But sir, do you expect the growth in OPEX costs to be higher than the AUM growth going forward as well? Or do you think both of them are converging?

Kamlesh Gandhi: No, it will be higher as we change our model more towards retail and as we invest more in technology and a few of the other factors. So, it will be slightly higher than the AUM growth.

Aditya: Understood. And sir, what was the write-off amount for this quarter and the PCR which we have increased this year? Do you expect PCR to increase going forward as well?

Kamlesh Gandhi: The detailed write-off amount will be shared. Ankit, you can share the detailed write-off amount for the benefit of others to get the chance.

And secondly, the PCR increase will be dependent on so many factors on the behavior of the portfolio, which we understand is under our control, but also as I shared earlier on the macro parameters, which is not under our control. So, this will be the two factors under which the PCR will be calculated under the ECL method, as mandatory under Ind AS.

Aditya: Understood, sir. Sure, sir. I will join back in the queue.

Moderator: Thank you. We have our next question from the line of Bhavik Dave from Nippon India Mutual Fund. Please go ahead.

Bhavik Dave: Yes, hi sir. Sir, one question is on the macro that you have been talking about. You mentioned that maybe 1H would be a bit more challenging and then things might improve. Just wanted to understand your thoughts on what data point are we looking at that makes us believe that maybe second half will be better than the first half. Anything that gives us confidence? Because in the first quarter we have added some provision to Stage-1, Stage-2, and we have seen an increase in 30-60 and 60-90 buckets. What exactly gives us the confidence or what are we tracking in terms of data points to show that maybe 1H will be the end of it and 2H will be better?

Kamlesh Gandhi: Macro contains so many aspects, but from the point of view of the customer behavior on the economy as a whole, the customers who are under stress will be completing the life cycles of the loan by H1. So, what all the stress had to happen, would have happened. What all provisioning and losses the companies would have taken would have taken. And the early green shoots are that the new loans which are generated with the prudence of extending credit where it is due, those are behaving nicely.

So, it is fair to assume that because of the aggressive lending, this class of the borrower across segments and across sectors registered a higher delinquency and that is what led to the situation what we are into right now. So, the new loans are behaving. So, if the prudence is maintained, we will get an advantage of an industry level stress being gauged at a lower rate. That will be one major macro factor.

Second is a continuous indication that the interest rates will reduce, whereby we had no such clue two quarters back, that the interest rate will reduce, maybe offset by few of the events worldwide, but internally we see that the interest rate will reduce.

And third is a lot of push of liquidity by the Reserve Bank of India with an intent that the growth should not suffer. With our continuous interaction with various regulators and government agencies, we have made to understand that there will be sufficient liquidity in the system so as to ensure that the growth is not suffered. It is incumbent on the lenders and various peers in the ecosystem to exercise prudence and do their work. So, these are the few of the positives which we think should give us a positive sign on macros.

Bhavik Dave: And that means that it's fair to assume that what we provided for Stage-1, Stage-2, from here on, even if they maybe slip to Stage-3, the credit costs that we took for this quarter should be broadly at the higher end. And then from here on, as we look into the first half and maybe one or two quarters, and then going into second half, that number should start trending downward. This is the fair assumption, right, on a percentage credit cost basis?

Kamlesh Gandhi: As I told you, yes, that the range bound will be 1% to 1.5% of credit cost as the envisage right now. And that will be maintained through cycles also. So, I think that should stand.

Bhavik Dave: Understood. And second question is, sir, on the margins you alluded to one of the previous participants, that you will be able to maybe improve your margins considering your cost of fund benefit. Your customer segment does not need maybe you might be able to hold on to your yields even in a falling interest rate environment. Considering the 75-100 basis point yield, sorry, the rate cut, do you still think that you will be able to maybe maintain our yields in some sense? Considering the competitive intensity in the market is reasonably high, even at our segment, do you think we can maintain margins in and around this range or you still think that an improvement in margins from here on, a 20-30 basis point improvement over the next 1-1.5 years is possible?

Kamlesh Gandhi: As far as the competition landscape is concerned, as I shared earlier, that each player will have a lag defect on a different way. But the maturity of the borrowing is done MCLR. MCLR has anywhere between 3 months, 6 months, 12 months basis reset MCLR. So, if anything, any repo rate cut right now, and if an MCLR is reduced today itself, the first impact I can get can be after 3 months or 6 months depending upon my reset tenures.

So, we can very safely presume this year that whatever rate cuts happen this year, the earliest what it can be transformed or transmitted to the borrowers can be in Q4, not earlier than that, because everybody will get the impact then. But in the meantime, if we have some cycles whereby there are MCLR reset happening in between can help us to increase our margins by maybe 0.25% or so.

Bhavik Dave: Understood. And last question, sir. We are at almost 2.8% ROA, and we have maintained a very fine balance around this range. Do you think that going into next like 2-3 years, is there a line item that you think that can be used to maybe improve our ROAs or do you think this 2.8 is a very optimal ROA and this is where we want to be?

Kamlesh Gandhi: I think we would always aspire to be at around 3, and we see that on economies of scale, on reduction in slight rate of interest or a substantial rate of interest, but that can be offset by passing on to the borrowers also. But with economies of scale and all, we firmly believe that as a team, we are putting pressure on ourselves to touch 3% maybe sooner than later. But our internal targets are 3% and we give a range-bound target of anywhere between 2.75% to 3.25%, presuming that there are a few things playing out which are very positive in terms of still reduced credit costs, reduced interest rates, and more penetration whereby we can charge higher yields also. So, a combination of many factors, if it is done at a full throttle, can be around 3.25%. 2.8% is optimum, 3% is the aspiration.

Bhavik Dave: Understood. This is very useful, sir. Thank you so much. All the best.

Kamlesh Gandhi: Thank you.

Moderator: Thank you. We have our last follow-up question from the line of Shreepal Doshi from Equirus Securities. Please go ahead.

Shreepal Doshi: Hi, sir. Just one question was on the LOS, LMS and the BRE that we had highlighted, and I think you also added in your opening remarks. So, just if you could update us, is it implemented across products for the BRE as well?

Dhvanil Gandhi: So, BRE except for I think one of the products we have implemented for all the products. We have started with MSME which was the major part. So, over there we are seeing good results of the BRE that we have implemented. Now BRE also is something that we have implemented for now, but we have to continuously work on finishing it. So that will be a constant work in progress. But one important, you know, psychologically also is that we have put it out there and whatever changes and whatever fine-tuning that we have to do, we will keep doing from time to time. But the implementation has been done.

Shreepal Doshi: Sorry.

Kamlesh Gandhi: Just to add to what Dhvanil told that BRE is also the function of learning. So, currently, all the BRE, all the rule engines are in place depending upon what we already know. But there will be constant changes. Say for example, we restrict pin codes very frequently where we are not comfortable. So, that all frequent changes will happen in BRE from the learnings. So, the BRE is already at place. The implementation and its efficacy, the way we want will be attained in due course of time.

Shreepal Doshi: Got it. Thank you so much, sir. Thank you.

Kamlesh Gandhi: Thank you.

Moderator: Thank you. This brings us to the end of the conversation. And I would like management, if they have any closing comments.

Kamlesh Gandhi: No, I thank all of you for joining this call. And as usual, Team MAS remains dedicated to its mission of excellence through endeavor. And we are very confident, as shared with all of you, to register a robust and fundamentally strong growth going ahead. Thank you.

Moderator: Thank you so much, sir. On behalf of Motilal Oswal Financial Services, that concludes this conference. Thank you for joining us, and you may now disconnect your line.