"MAS Financial Services Limited

Q4 FY 22-23 Earnings Conference Call"

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MODERATOR: **MR. SAMEER BHISE – JM FINANCIAL SERVICES LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to MAS Financial Services Limited Q4 FY 2022-23 Earnings Conference Call, hosted by JM Financial Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the 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. Sameer Bhise from JM Financial. Thank you, and over to you, sir.

Sameer Bhise: Thank you, Neerav. Good evening, everyone, and welcome to the 4Q FY23 earnings conference call of MAS Financial Services Limited. First of all, I would like to thank the management of the company, Mr. Kamlesh Gandhi for giving us the opportunity to host this call. From the management side today, we have Mr. Kamlesh Gandhi, Chairman and Managing Director; Mrs. Darshana Pandya, Director and CEO; Mr. Ankit Jain, the Chief Financial Officer; and the entire senior management team of the company.

We will first begin with opening comments from Mr. Gandhi regarding the business environment, and then we proceed to the Q&A session. Over to you, sir. Thank you.

Kamlesh Gandhi: Thank you so much, and good evening, everybody. I'm happy to be connected again for sharing the Q4 performance of the company. As shared with all of you our press release and presentation have been uploaded on the website. The performance of the company was robust as in line with our 2 decades of performance, what we have demonstrated over all these 25 years of working.

This was the first full uninterrupted year of working post-COVID. Taking that into account, the performance of the company in terms of year-on-year growth of AUM and PAT stands at 29.55% in AUM and 27.55% in profit for the performance of the whole year. And if you see the quality of the assets has been pristine at net Stage 3 at around 1.52%.

One more achievement or one more milestone what we have crossed this year is crossing consolidated profit of INR200 crores. The consolidated profit is approximately INR206 crores of the company, which I consider is an important milestone. Also, we are just striking distance away from another important milestone, which we are very confident of achieving it this year is of reaching and crossing INR10,000 crores in AUM.

I recollect the first INR1,000 crores was done in 2012-13. And if you take the one year out of COVID. So, in a decade, we have grown this book 10x. So, if we were INR1,000 crores in 2012-13, and we are confident of crossing INR10,000 crores in 2023-24, which translates into almost a 25% CAGR over a long period of 10 years. And I think all of you will agree that this was a very eventful decade, starting if we take into account the various crisis in the financial sector and the last one, but not the least, the health crisis has devastated not only India but the whole world.

So, I'm very happy to share that despite of all these cycles, the company could demonstrate a 25% CAGR and a 10 times growth. And we have very strong enablers even going forward, in terms of high capital adequacy, in terms of the new expertise, in terms of prioritizing in the quality, profitability over just growth, giving us not the growth, but the development. And once again, INR10,000 crores will be a milestone, which I think will once again trade away the way INR1,000 crores traded away in memory. And as articulated in all our communications, but every time we reach a milestone, we feel we have just begun.

So, this was the achievement on the company as a whole while my colleague, Darshana and Ankit will take you in detail. But just on the strategic front if I come on the distribution side, the value creation of the asset. We continue to focus on the MSME segment, which constitutes more than 80% of our business. We have the potentiality to serve more than 9,000 centres across the country. And our focus will remain on MSME segment to our direct distribution and through our very robust NBFC distribution channel also.

The distribution model to NBFC also witnessed a very strong performance almost 12 years old model now with a cumulative disbursement of more than INR20,000 crores and loss given default of less than a percentage, has demonstrated a very high-quality intermediation. So, we will continue to strengthen our distribution for the asset creation on both these distribution networks. Having said that, our direct distribution network is fast increasing in terms of percentage and contribution. This year, it is contributing 63%, and will continue to contribute more going forward.

We all know that technology plays a very important role and at MAS, we are aware and working very hard on that. We through our internal team of more than around 35- 40 people are working hard to see to that how we abreast the technology that increases efficiency right from loan origination to disbursement, banking to transaction. And I think that will add to the efficiencies going forward.

I would like to inform all of you which was, I think, shared on our website also. But I'm very happy to inform that we have formed the Management Advisory Committee an Advisory Committee to the Board, consisting of 3 eminent people starting from Dr. Rajiv Kumar, who was the ex- Vice Chairman and a very renowned economist, recently being conferred upon one of the highest awards by the government of Japan for his contribution towards infrastructure during his tenure as a Vice Chairman. I think his insights will provide a lot of detail to the company for its next growth of INR10,000 crores and beyond.

The second eminent person is TT Srinivasaraghavan, the ex-MD of Sundaram Finance, he is known as the father of the NBFC industry, having demonstrated a very quality pristine growth over many years and a stalwart of the industry. And Mr. Paliwal, the ex-ED, and the current CEO of Small Finance Banks Association. So, I think I'm very thankful to all the 3 eminent personalities for having very readily agreeing to join the Advisory Board, and I'm confident that they will contribute very positively as this scale new heights and enter new horizon of INR10,000 crores and beyond.

So, on the HR side, we continue to remain a strong team of 2,500 people, and I'm very proud to share that there is a minimum attrition at the top and the medium level. As I've already shared that we have a very strong core team of more than 35 to 40 people since the inception. and we have failed and succeeded collectively. We have learned collectively. And that does put the company in a very good state. Along with our focus on lateral recruitment going forward. So that was on the HR side.

So, from me, just to reiterate that it was a very robust and a strong quarter. We see very strong enablers for us to continue our growth anywhere between 20% to 25% going forward and crossing an important milestone of INR10,000 crores this year with keeping fundamentals intact. If you were to look at our capital adequacy is more than 25% with 21% as Tier 1 capital. And it is very important to mention here that post our IPO, that is almost 5 years from close to INR3,000 crores will be almost INR10,000 crores this year, mainly through internal accruals.

And I understand all of you will agree that in the lending business where capital is the base and going through internal accruals, that too with strong capital adequacy ticks of the robustness of the operations and the asset creation. I'm happy to share that we have declared a dividend of 18.5%, the final dividend. That is the dividend for the whole year to 36.5%, which amounts to 10% of the payout of the current year, in line with our strategies, which has been followed since last few years.

So, with this, I would like to hand over to Darshana Ben to take you through the numbers in detail while the numbers are with you, but just to refresh, we'll take you through the numbers in detail, which are important for all of us to understand.

Darshana Pandya: Yes, sir. Thank you so much. Good afternoon, everyone. I'm happy to share the numbers for Q4 and the financial year 22-23. And as mentioned by Sir, post-COVID, this was the full year, which was without any abnormal situation. So, we could grow our book by 29.55% year on year. And if you look at the configuration of the portfolio, micro-enterprise loan is now at INR3,874 crores as compared to INR3,249 crores, which is 19.23% growth in book.

SME loans has grown by 31.29% from INR2,274 crores to INR3,000 crores. 2-wheeler loans have grown by 46.88%, which is now INR554 crores as compared to INR377 crores last year. Commercial vehicle loan has grown by 7.90% from INR345 crores to INR372 crores. As such, we have grown our retail book in our commercial vehicle loan portfolio, but there are a few instances of pre-closure in our NBFC book and hence it is 7.90% growth. For SPL loans, it's a new segment for this year. So, we don't have any comparative figures. The book size is now INR305 crores.

If we look at the total income on a quarterly basis, it has grown by 47.13% from INR183 crores to INR270 crores. Profit before tax has grown by 17.37% from INR60 crores to INR70 crores. Profit after tax on quarterly basis has grown by 23.44% from INR45 crores to INR55 crores. And if you look at the annual numbers, total income has grown by 44.44% from INR657 crores to INR949 crores. PBT has increased by 25.27% from INR211 crores to INR264 crores. And profit after tax has grown by 27.55% from INR157 crores to INR200 crores.

I'm happy to share that we could maintain the quality of the portfolio. So now our gross Stage 3 asset is 2.15%. Our net Stage 3 asset is 1.52% as compared to 2.23% gross Stage 3 and 1.60% net Stage 3 as on December '22. And we reported 0.31% of our total on book assets as management overlay.

Now coming to our housing portfolio performance. There also, our book has grown by 31.57% from INR314 crores to INR413 crores. Total income has grown by 34.33% from INR9 crores to INR12.40 crores. Profit before tax has grown has come down by 9.28% from INR1.87 crores to INR1.70 crores. That is mainly because of increase in other operating expenditure because we have expanded our branch network and accordingly, the number of employees has also increased. Profit after tax has come down by 8.62% to INR1.50 crores to INR1.37 crores.

And if you look at the annual numbers, total income has grown by 20.64% from INR36 crores to INR43 crores. PBT has increased by 30% from INR6 crores to INR8 crores. And PAT has increased by 29.66% from INR4.89 crores to INR6.34 crores.

So, this was regarding the performance of both the companies. Now I request Ankit to take you through the liability management.

Kamlesh Gandhi: So, before Ankit joins, I missed out on apprising all of you on housing finance. As I've always shared with you that housing finance is going to be one of the strong value accretions for the company going forward. And there also we have registered a 30% growth. And this year, we also anticipate a 30% to 35% growth. We see this company growing to INR1,000 crores in the next year or 2 years and generating value for the company going forward.

So, we are happy to share that we are confident about the growth in our housing finance company also. That remains well capitalized. The quality of the asset I shared remained at around 0.52% of net Stage 3 assets. And any growth capital can be contributed whenever required. So, with all the strong enablers of large market size, niche expertise being developed and gaining the traction in terms of business line, we are sure that the housing finance will register a robust growth this year.

With this, I'd like to hand over to Ankit Jain to apprise you on the liability side.

Ankit Jain: Yes. Thank you, sir, and ma'am. Hello to all. To update on the liability management. So, this quarter, we were able to maintain an average liquidity buffer of around INR650 crores to INR700 crores. And along with that, unutilized cash credit facility of around INR375 crores. In addition, the company has sanctioned on hand through various instrument of more than INR1250 crores.

In the last quarter, company did around INR555 crores direct assignment transactions with various banks. And we further have around INR1,000 crores sanction on hand, which we will be utilizing during the next 2 quarters. The last quarter company did around INR24 crores co-lending transactions. The company has tied up with 3 banks, and we are in discussions with few other banks for meaningful and sustainable co-lending tie-ups.

We aim to maintain around 20% to 25% of AUM as off book through direct assignment and co-lending transactions.

We have cash credit facility of around INR1,700 crores, out of which utilization generally remains around 65% to 70%, and that portion is always kept as a liquidity buffer. We successfully rolled over around INR1,450 crores of short-term working capital loans, which are sublimit of the cash sale limits.

We raised INR755 crores term loan during the quarter. These term loan is generally for a tenure of 3 to 5 years, which helps us to further strengthen the asset-liability maturity pattern. Our structural liquidity remains strong whereby there is no negative impact on liquidity and the cash flow in all the cumulative buckets were remained positive.

On the capital adequacy side, we have remained strong at 25.25%, with Tier 1 capital of 20.79% and debt-equity of around 4 times this year. In the March quarter, we raised around INR100 crores of subordinate debt which qualifies as Tier 2 capital and help us to further strengthen the base of capital structure.

The cost and borrowings for the quarter was around 9.26% and for the whole year it was around 9.02%. This is majorly because of our efforts towards cost reduction which we raised funds through various instrument and from various institutes as well as because of the lag effect of MCLR based borrowing. We see that this cost of borrowing to settle around 9.5% in the coming quarters. So, this is on the capital liability management, and we are open for the Q&A round. Thank you.

Moderator: The first question is from the line of Rahul Jain from Credence Wealth.

Rahul Jain: So, three questions. One, with the cost of funds having gone up, and also competition going up on the MSME side, which is one of the areas where our focus has been, and which has been doing great for us. So how do we see the scenario ahead both in terms of growth and also with terms of, okay, whether we will continue to grow aggressively in this particular segment, how do we look at this segment? That is question number one. Second is -- shall I ask all the questions, or shall I go one by one?

Kamlesh Gandhi: You can carry you on. You can ask all the questions.

Rahul Jain: Okay. Second is with regards to the NIMs, again, with the cost of now it's almost about 4 quarters for the fund, costs have gone up. And we have been able to pass on certain part of it, but how do we see the scenario going ahead in terms of maintaining our NIMs?

Lastly, the salaried personal loan segment, we have done exceptionally well in last 1 year, practically from -- I think we today have almost INR300 crores AUM in that particular segment. So, 2 things, do we still feel that the kind of aggressive growth which we have done in this segment will continue with that on this base of INR300 crores? And since this is our first experience with this segment, how do we see the asset quality for this particular asset class?

Kamlesh Gandhi: So, starting from the first question, I am clubbing 2 questions on rate, cost of funds and NIMs. So, if you see last year, as Ankit shared, that because of our immaculate track record with various lenders, we are in a position to negotiate to talk with them on the premium which they charge on MCLR. And hence, we are in a position to maintain NIMs during the most volatile period of close to 7%.

As we go forward, right from the last year, we had endeavoured to start repricing our assets accordingly. And now with the rate cycles being the hikes being paused. But nevertheless, being MCLR there will be some rate hikes being passed on to us. As Ankit told that from the marginal cost of 9.25%, we might see a 9.5% this quarter. But still with the repricing and with a better negotiation with the lenders, we are confident of maintaining NIMs anywhere between 6.75% to 7% as maintained over the years during this year also.

On the MSME growth, please let me share with you 2 basic things here that this is a very, very huge market to be served, one. So, the competitive landscape does not put that stress on the rate. It is not about you're getting the market size. If I talk about this is my market share in MSME, it will be difficult for me to give any number in an integer. It is a fraction and so less that can't be calculated.

So, the size of the market is so huge. And secondly, it is not rate considered to that extent at 0.5% or 1.5% will play a very important role in getting the assets the way we want. This has been our experience over all these years, and wherever we have seen the cycles of higher rate, higher inflation, or various other headwind, we have been in position to understand the segment and navigate through that. So that was on your MSME piece on the growth and the rate and the NIMs.

On the salaried personal loans, this a INR300 crores as a total of, close to INR8,100 crores of AUM is around 4% of our total AUM. And we would, as I say, remarked by you will grow cautiously. Any new products which will pick up, we don't grow very aggressively. But at the same time, we need some critical mass to assess the product performance. And we think that this was a critical mass we need to build up to get the product performance. And we'll be building up on this, depending upon our experience we have from time to time on the asset quality and the learnings and unlearning that we have to undertake.

But having said that, as a strategy, salaried personal loans will not be more than 5% to 7% of our total AUM for next few years, which is what I admitted right now unless it starts exiting excellent risk-adjusted returns. So, this is my response to all the 3 questions you asked.

Rahul Jain: Just a clarification or just anything to the overall MSME, SME and 2-wheelers, given the high interest rates today, you are comfortable at today's rates to lend and grow at around 25%? Because generally, our principles or we have always maintained that we will grow, but we will always grow profitably. So, given the high rate of interest, you will maintain that growth rate of around 25% in spite of maybe sometimes getting concerned about the asset quality?

Kamlesh Gandhi: See, our rate hike is what are we talking about? We are talking about a rate hike of around 0.25% or 0.3% to be passed down to the borrowers. I think that is not going to affect the quality. And secondly, let me tell you that we have passed through various cycles where the rates are much higher usually for the same segment. But still, we have managed the good asset quality within those rate brackets also. So, this marginal rate hike, I don't recon can have any impact on the asset quality.

At the same time, see, in lending rate whatever rate you lend, you have to be cautious, and you need to understand that you have to be very circumspect on the credit underwriting. So today only I shared with one of the channels that while we would like to determine growth, but at the same time, we don't mind discovering the growth at the ground level. So, I always give a range bound growth target between 20% to 25%. You might overshoot it is in fact a good opportunity as we did this year to register 29% growth.

Moderator: Next question is from the line of Jaiprakash Toshniwal from LIC Mutual Fund.

Jaiprakash Toshniwal: Sir, can you just more elaborate on the Corporate Advisory Committee in terms of what is the term of the committee? How many times it will meet up in the year and what is the scope?

Kamlesh Gandhi: So, the term of the committee will be renewed every year. And the scope is more on strategic in nature, understanding the company's strategic intent and looking at our all the execution parameters, advising us on what best can be done to align our execution in lines of strategic intent at the company administrators.

And secondly, they will be very helpful in understanding in giving their reasons that what exactly are we supposed to do as we grow in scale. And advising on any matter which is sought, which is referred to them in terms of increasing the efficiencies or in terms of any recovery phase during our execution. So, we have taken the committee members from the varied sources. That is one an economist and another person who has run the NBFC at a scale for a very long time and the one from the regulatory aspect.

So, when guiding us from the regulatory aspect will be useful by one of the committee members who happens to be the ex-Executive Director of RBI. So, it will meet 4 times a year. We will meet every quarter, post our results at the mutual convenience of the Board members and the committee members, but not limited to 4 times. It can increase on demand whenever it is required.

Jaiprakash Toshniwal: Okay. Interesting. The second question on the personal loan segment. You mentioned that you have reached through a critical mass at this point of time. So does it mean that you have some more data on the customer or how the product has performed, anything which you want to highlight on this product per se?

Kamlesh Gandhi: See, it's really early to know the trends because this was the first year of the critical mass. And as the time progresses, we'll be in a position to understand that. And hence, that is what I was referring to that we'll be watching the portfolio this year very closely. But as of now, the portfolio has been satisfactory, while we learn every month on what has to be amended in terms of our credit screens from the early bounces and all what we see. But currently, it's difficult to talk about the trend of the portfolio. But we are very circumspect at the initial and, we like to be there for as long as we have sufficient experience and data to scale up to a certain time.

So currently, the portfolio quality is good, and it is quite satisfactory. But going ahead, we'll have to see that have it the year over a period of time.

Jaiprakash Toshniwal: Okay. And sir, just last question we're planning to have our own feet on the street and on branches to cater to the MSME segment? So can you just elaborate more where are we on that journey? And how much -- what is the target for the FY '24 for that journey perspective?

Kamlesh Gandhi: So, I'll break this into 2. So, we are rather slightly shifting our focus to the SME piece, whereas micro-enterprise loans we have been doing it since many years, and this is being distributed through our NBFC partners also. But on the SME piece, we intend to have specialized branches in the country where thereby we will be having close to 50 branches in total, where they will be distributing only SME loans.

And there will be fleet on street being employed and will be close to around 350 to 400 guys working there in various capacities in the origination, credit and collections. That will be the total addition to this segment. And the ticket size will range anywhere between around INR22 lakhs to INR25 lakhs.

And secondly, in this part of the business, we are happy to share that because of the technological advancement, the credit assessment has relatively become more accurate. And at the same time the turnaround time has also reduced. If I give an example, we are in a position and we finance to the SME where we have access to direct GST data and their banking data and the credit score, we get from time to time. So, it helps us to gauge their cash flows, their income, their credit history.

And so far, our experience has been very good on early delinquencies as far as this segment is concerned. While we'll continue to do the other ways, we have been doing so far.

Moderator: Next question is from the line of Ankit Gupta from Bamboo Capital Partners.

Ankit Gupta: Congratulations for a good set of numbers for the entire year. So, sir, I wanted to ask about the measures that we are taking to improve our cost of borrowing. With our size growing and our direct presence also increasing, how do you think we can get a lower rate of borrowing? And I think that will also come from upgrading ratings as well. So, your views on reducing the cost of borrowing and measures you are taking to do that?

Kamlesh Gandhi: So, reducing cost of borrowing is a very continuous exercise. So we always try to get the liability of the cheapest available rates while keeping one eye on that amount we need to raise. So given our track record, let me tell you that we are rated A+ by CARE and AA minus by ACUITE. I can't predict for rating agencies. But fundamentally, we are almost there for our rating upgrade. But we just need to wait and watch the credit rating perspective.

So, we continuously try to see to that how we reduce the fund through a variety of resources and keeping the powder dry for at least 2x or 3x the amount we need. So, what happens in liability, your capabilities to reject an offer is very important for getting the right rate. And how far are you placed in terms of the timing. Let me share with you that we are always 2 to 3 quarters ahead in terms of sanctions. As Ankit told you already have more than INR1,200 crores of sanctions in various forms, which is more than sufficient for our Q1, and by Q1 we'll be having another sanction will be okay for us until Q3.

So being ahead of the curve in terms of requirements and having more sanctions on hand, having diversified source of funds in terms of say, for example, we have cash credit limit carved out to demand term loans. We have term loans. We have term loans from PSUs, private banks, developmental financial institutes, then we have capital market borrowings also up till now it was through MLD now it will be through NCDs. And we have assignments and PTC can also be drawn. So, the various sources of funds being ahead of the curve, keeping the powder dry for more amount and then choosing and taking the right offers is the key. So, it is all about execution.

Ankit Gupta: Sure. But just if you look at it, our bank borrowings largely term loan and cash credit, which consumed around 68% of our total borrowing. And last year also, if you look at it, as of March 31, 2022, the amount was around -- the proportion was around 68%. And so -- like do you think when we grow to, let's say, INR15,000 crores, INR20,000 crores kind of over the next 3 to 5 years. The proportion of bank borrowing will come down. And hopefully, by the time we will be upgraded to AA category are the proportions of NCDs and CPs and our ability to access the bond market will also increase? And like what are our plans for that.

Kamlesh Gandhi: Definitely. See once again it's a question of size. At a particular size, diversification beyond a particular extent is not possible. So, for example, I want a term loan and whereas State Bank of India telling me that, okay. I'm very happy that you are working, you will have to get a sanction from us of INR500 crores. There, I cannot go and tell that no I want a diversification and I'm not going to use this resource. So, to the maximum extent possible practically, we have diversified. And as we grow automatically, we'll get the room to diversify because what happens is that while we need money, even bankers have a target to lend to good companies and good parties.

So, if you see, during the quarter end, my finance team is hard pressurized for taking the disbursement of the various sanctions on hand. And it is difficult to convince all of them for it to delay to the next quarter or to some of them, we might have to dismiss them by not taking it. So, diversification will definitely happen, which will happen with size and as you rightly remarked, this increase in rating all sorts of diversified resources will be explored. And that will help to reduce the cost also.

Ankit Gupta: Really asking, let's say, if you have to access the bond market now for a 3- to 5-year kind of NCD plain vanilla NCDs, and compare that with a 3- to 5-year term loan, like what kind of cost advantage do we get when we access the bond market -- when we are accessing the bond market currently?

Kamlesh Gandhi: I think my understanding is that the bond market will be at least 0.5% to 0.7% higher as compared to the term loans we raised because of the various costs involved in raising those.

Ankit Gupta: Sure. Sure. And I think that difference will actually become negative, or bond market might become cheaper for you when you -- growing size and hopefully get a rating upgrade to double AA category?

Kamlesh Gandhi: Yes, yes, yes.

Ankit Gupta: Okay. Sir, my second question was on the branches. If you look at our branches that we have opened in last year, so the major branch expansion has come through our existing states where we had a larger presence of Gujarat, Rajasthan, Maharashtra and Madhya Pradesh. And some of the newer places like Karnataka, Tamil Nadu, Delhi and Chhattisgarh just entered. So those haven't seen much of expansion. So, what kind of opportunity size is a label in our existing areas, like 3, 4 states where we have larger presence? And what are plans for geographical expansions in the new states that we have entered? And any plans to enter further new states in FY '24 to '25?

Kamlesh Gandhi: See, it is all about the intention of the company to grow in a particular center where we have stated afresh. So, all the new branches will start gaining in disbursements over a period of time once we have the experience, the right team, the right understanding, demographic understanding, which only comes through working. So, with all our new branches being opened at various states, we'll start gaining in traction this year. And we would like to be ahead by around 2 to 3 quarters in terms of our requirement of assets when you open new branches.

So that is where I told you -- shared with all of you in the opening remarks that we contemplate to have more than around 175 branches this year, up from 150 branches. That is to say with our requirement not only for this year but up to Q1 or Q2 for the next year, as I see right now. Then later on during the year, as the year progresses, it can increase or decrease depending upon the asset what we can create. But at the same time, let me tell you that we are keen to expand our distribution, which can be done any time. But the distribution will be done in such a manner whereby the quality of the assets and the risk adjusted returns are maintained.

So keeping all these things, we'll be expanding to newer geographies, newer branches, which is always available to us.

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

Hardik Doshi: My first question was on the housing finance side, the gross NPAs for the stage 3 assets have been inching up over the last 4 quarters or so. Anything on the asset quality side that we should be aware of? Or how is the delinquency rate over the last few quarters?

Kamlesh Gandhi: See, it has to be a range bound. And as we grow, if I had it you on certain book size to keep delinquencies up to a certain level if possible. But as we grow, it will be range bound, but within acceptable levels. If I share with you the acceptable levels in affordable housing is anything less than 2%. But we are currently at around 0.62%. And as we grow, I think it will marginally increase. But it will be sync with our planning in the strategic intent on the price structure that is the ROE tree, what you call it. And currently, in the current portfolio, there is nothing which we should worry about.

Because if you see the performance in terms of the net Stage 3 assets, it's pretty robust as compared to the industry standard. So, we can expect a range bound the net Stage 3 assets, which should be less than a 1% up to the INR500 crores, INR1,000 crores, and it can do between 1% to 2% as we grow above that.

Hardik Doshi: Got it. Okay. And in terms of the loan book, you said it's up to INR5 million in residential and INR10 million in commercial. So, the profile of these customers, do they overlap a lot with our SME lenders? I mean, I'm just trying to understand how much of cross-selling opportunities there? Or is this a very independent base?

Kamlesh Gandhi: See, currently, it's a very independent base because while we might get an opportunity, the problem will be on the eligibility because as a lender, how I would like to go beyond an exposure on a particular party is very important. So, in our class of the borrowers, the loans usually are sequential in nature that you complete one loan and then takes another loan or has completed a major portion of the first loan and then goes for the second loan.

So, the cross-sell is always available to us. But once they complete one side of a loan or they complete one side of the loan substantially. So, it has to be looked from that aspect. And if I share with you currently, our cross-sell percentage is not that great. And that is only because of the limitations on the credit faces on extending more loans or fresh loans to them.

Hardik Doshi: Okay. Understood. And while we give loans of up to INR50 lakh, what is our average ticket size? And what is the mix between residential and commercial? And who are our main competitors out here? I'm guessing this we are doing mainly in Gujarat right now.

Kamlesh Gandhi: On housing, average ticket size is INR700,000 currently. And you are right that we doing in Gujarat. The next is Maharashtra. And we also started exploring Madhya Pradesh and Rajasthan. So, the ticket price will be around INR700,000.

Darshana Pandya: And our housing portfolio is around 82%.

Hardik Doshi: Okay. And the 18% commercial is mainly a LAP?

Darshana Pandya: So, 16% is commercial and around 3% is project funding. And the non-housing , commercial part is both LAP and loans to purchase the shops and our commercial property.

Hardik Doshi: Okay. And have a breakup between salaried and non-salaried?

Darshana Pandya: So right now, we are not having those numbers with us, we can share it offline.

Hardik Doshi: Got it. Okay. Just one last question on the main book. Our opex ratio had gone up significantly last year as we invested into the branches. But now it seems to have kind of it seems to be picking out. So, can we expect like some kind of leverage maybe next year as we get more efficiency and scale-up on the new branches that we started in FY '23?

Kamlesh Gandhi: Yes, definitely. But from the branches, which has already been opened this year or last year, will definitely gain on critical mass and we'll add on to reducing our opex. But at the same time, we will be opening up new branches. So as long as we are in that cycle of opening more and more branches, but I think opex might increase a little bit. But overall, on an AUM basis, what we will strive to do is that we'll try to keep the net ROA anywhere between 2.75% to 3% and plan our activities accordingly.

Moderator: The next question is from the line of Pratik from ICICI Bank.

Pratik: Yes, I wanted to understand what would the asset quality going forward? What's the guidance on that?

Kamlesh Gandhi: I think as of now, we are confident to maintain a sub-2% level as far as net stage-3 assets are concerned.

Pratik: And what about gross? How much would be the gross?

Kamlesh Gandhi: This is a range bond. Net will be anywhere between 1.5% to 2%. Gross can be in between 2.25% to 2.75%.

Moderator: The next follow-up question is from the line of Jaiprakash Toshniwal from LIC Mutual Fund.

Jaiprakash Toshniwal: Sir, on my earlier questions about SME branch, you mentioned that you're opening 50 branches. What is the timeframe for these 50 branches?

Kamlesh Gandhi: I think 50 will be in total. We already have around 20 branches at place. So out of that, 30 is opened. And I think most of them will be open this year or latest by Q1 next year.

Moderator: The next question is from the line of Sanjay Ladha from Bastion Research.

Sanjay Ladha: So, I have a couple of questions. First is our sourcing intermediaries which used to be 372 in CV and 312 in 2-wheeler in FY '22 have reduced to 268 and 242 in FY '23. How should we read this? And any color on that side?

Darshana Pandya: Number of partners you are talking about?

Sanjay Ladha: Yes. The sourcing intermediaries partner.

Kamlesh Gandhi: So that sourcing -- let me tell you who are the sourcing intermediary partners. When you talk about CV intermediary partners, we are mainly into dealing with brokers who have helped us to source, and they also have stock of new vehicles. So that is a very dynamic thing. As we grow, it can increase and decrease depending upon the assessment of the intermediaries we do from time to time.

Sanjay Ladha: Okay. And my next question would be about 31 to 60 DPD has increased quarter-on-quarter from 0.7% to 1.1%. And in this quarter, our credit cost has increased. So, what is the outlook for full year or any guidance on that side? And how should we look at?

Kamlesh Gandhi: If you see overall quality of the assets, what we concentrate is on maintaining at least 90% plus on current and then if you see the focus on the 90 DPD, which has been well maintained. Within the bucket, the percentage may vary, and it will vary as we go ahead. But in terms of the credit cost, as we said, our credit cost is anywhere close to 1% next year.

Moderator: Next question is from the line of Prit from Wealth Finvisor

Prit: One aspect I wanted to understand, Kamlesh bhai was related to the digitization that's going on and how that can be a threat to in terms of MAS in terms of how banks can go after the kind of segment that you are into say, similar to what happens with gold loans. So what is your sense on that? I understand the market is large, but at the same time, there will be a set of borrowers that you are interested in. Would increase in digitization make it easier for others to also get to that same set of borrowers?

Kamlesh Gandhi: Sir, just to answer your question in 2 parts. If it's digitization, we are also in the process of adopting and will adopt the digitization to the maximum level possible to serve our class of the borrowers. So, it will not be an added advantage to any other lenders, and we don't have that. And secondly, digitization has limitations in our type of borrowers if you want to control the credit cost. Because when you talk about digitization, let's say, take you to the 3 basic aspects of digitization mainly sourcing, the credit decisioning and transaction.

And most importantly, if you talk about MAS, we are already there in terms of sourcing internally because digitization is a two-way traffic, the borrower should also be well versed. And in terms of transaction right from day 1, we are a banking-based disbursement and banking-based collection. So, what it comes to the point and voice down to credit decisioning.

But on credit decisioning if you take digitization as aid to manual credit decisioning or as an alternative to manual credit decisioning is the point of debate. And when it comes to the point on credit decisioning is taken as an alternate to human credit decisioning, the portfolio quality for across the fintechs has not been that great. And I'm afraid that it's a very long-term journey.

If I talk about one of the quotes of Amazon Chairman, he said that digitization and AI, the overnight in AI is 10 years. So, to replace human intervention in credit decisioning altogether, I think, can be done, but it comes at a cost, which the lenders cannot afford as of now. So as an aid to credit decisioning, we're already using it. So, in terms of we have a number of apps with API provider. We have a number of API tie-ups; we use account aggregators.

So, to summarize, to drive the point of, we will not be working at a disadvantage position on digitization. So, we'll be at par as to what the best practices can be in terms of sourcing this and serving this sector.

Prit: Right. So, what I was trying to get to Kamlesh bhai is that the banks, for example, right, will also have the ability to do exactly what you guys are doing with more digitization available or more aggregators available. So, do you see any kind of increase in competition from them? Similar to say what happens in gold loans.

Kamlesh Gandhi: I think as far as the type of the segment we serve; it is concerned once again the huge market size. And number second is that it's not only one lender can satisfy the borrower's requirement. And not only one lender would like to take the complete risk on a singular borrower. So, competition from the bank has been since long, the customers who we are serving already have banking relationships with more than 1, 2, 3 banks. But every lender comes with its own expertise and every lender has a limited appetite for risk on a particular borrower.

So, with this practical aspect, every lender finds a place in the borrower's liability management. Provided you give better services, provided you understand this segment better. The problem in this segment is not how much asset you can create. The problem in this segment is that what quality of assets you can create, that is the biggest problem. So as long as you can focus on quality, the size of asset is never going to be a problem for any other members.

Prit: My second question is regarding –that you had mentioned in your past calls that you borrow at MCLR, right? Is my understanding correct?

Kamlesh Gandhi: We borrow at MCLR-based borrowing.

Ankit Jain: So usually when it is a long-term loan, it will be linked to 1-year MCLR.

Prit: That's correct. So, my question is that when the rate card -- when the rates start reversing, does that put us at a disadvantage?

Kamlesh Gandhi: Yes. So that is what Ankit was alluding to that marginal cost of borrowing 9.25% might increase to 9.5% as that reset happens. But at that point of time, we would have the advantage of having time to reprice our assets and also to negotiate hard with the bank on the premium they charge on MCLR. And that is where combination of our negotiation with the banks on lending rates and the negotiations with the borrowers on the lending rates and with the lenders on the borrowing rate, we think we will be in a position to maintain our NIMs as we demonstrated last year.

Moderator: Next question is from the line of Ankit Gupta from Bamboo Capital Partners.

Ankit Gupta: Kamlesh bhai, if you can give some guidance on how do you think -- how do you see the NIMs spanning out for us for FY '24? Hopefully, the interest rates have topped out. And by now, we shouldn't see further increase in the rates. So, what are your views on our NIM trajectory for FY '24?

Kamlesh Gandhi: I think it's time for anywhere between 6.75% to 7%. As you see this year, we maintained 7%, and we are confident of being very close to that.

Ankit Gupta: Sure. So, some concession that we have seen in Q3 and Q4 of this year, we think we should be able to reverse that hopefully by Q2, Q3 of next financial year?

Kamlesh Gandhi: When I talk about range 6.75% to 7%, this includes everything that initially might be a little lower and then we pick up as we go ahead. And we'll be working on repricing our assets also and at the same time we'll be working on how to be more efficient on operations.

Moderator: I now hand the conference over to Ms. Apurva Deshmukh for closing comments.

Apurva Deshmukh: On behalf of JM Financial, I would like to thank the entire senior management team of MAS Financial Services and all the participants for joining us on the call today, thank you, and goodbye.

Kamlesh Gandhi: Thank you, all. Thank you. Thank you.

Moderator: Thank you very much. On behalf of JM Financial Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.