Operator: Ladies and gentlemen, good day and welcome to the Q2 and H1 FY27 earnings call of MAS Financial Services Ltd, hosted by Equirus Securities. As a reminder, all participant lines will be in listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star and then zero on your touchtone phone. Please note that this conference is being recorded.

This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions, and expectations of the company as of the date of this call. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict.

I now hand the conference over to Mr. Shripal Doshi from Equirus Securities. Thank you, and over to you.

Shripal Doshi – Equirus Securities: Thank you, Steve. Good afternoon, everyone. We welcome you all to the earnings conference call of MAS Financial Services Ltd to discuss the Q2 and H1 FY27 performance of the company. To discuss the company's financial performance, we are pleased to welcome Mr. Kamlesh Gandhi, Chairman and Managing Director; Mrs. Darshana Pandya, Executive Director and CEO; Mr. Dhvanil Gandhi, Executive Director; Mr. Ankit Jain, Chief Financial Officer; and other senior management team members.

On behalf of Equirus, we would like to thank the management of MAS Financial Services Ltd for giving us the opportunity to host this call. I would now like to hand over the call to Mr. Kamlesh Gandhi, Chairman and Managing Director, for his opening remarks, after which we can open the floor for questions and answers. Over to you, sir.

Kamlesh Gandhi – Chairman and Managing Director: Thank you so much, Shripal. Good afternoon to all of you. I am very happy to connect with all of you once again. I will be briefing you about the 126th quarter result of this company. While we have already put the results out on our website and the bourses, I would like to give you a brief overview of how we performed this quarter and during the half year.

The AUM grew by 23%, and the profitability grew on a consolidated basis. I am talking about the consolidated basis first. The AUM grew by 23.31%. We crossed a very important milestone once again of 17,000 crores in consolidated AUM. We crossed 16,000 crores in consolidated AUM last quarter. It is 17,000 crores, or 17,042 to be precise, this quarter, which translates into almost 23.5% growth on a half-yearly basis.

This was followed by very robust profitability on a half-yearly basis of 225 crores, which is a growth of 26.54% over the corresponding period. If we look at the quarterly profitability, on a consolidated basis, it is 115 crores, which is close to 26% over the corresponding quarter. We consider this quality growth, where profitability is also robust along with AUM growth.

On a standalone basis, I am very pleased to share with all of you that our subsidiary, MAS Rural Housing and Mortgage Finance Limited, has also crossed a very important milestone of 1,000

Report is AI-generated and may contain inaccuracies.

crores this quarter. We are very optimistic about the subsidiary creating a lot of value in the near future once it gains traction in terms of further AUM. Our subsidiary registered very robust profitability growth of 55% over the corresponding quarter, with Stage 3 assets of less than 1%, at 0.8% to be precise.

Even in the parent company, the quality of the assets was maintained at 1.70% net GNPA and gross GNPA of around 2.62%, signifying very stable asset quality. In terms of standalone profitability, it is 110 crores, which is close to a 23% rise over the corresponding quarter. On a half-yearly basis, on a standalone basis, it is 214 crores.

So, friends, in short, the performance is in line with our expectations. We have always been sharing with all of you that this company will grow anywhere between 20% and 25%, depending upon the opportunities we get in the market from time to time, while prioritizing risk and profitability. We have adhered to that, and we have done this over the last 126 quarters. We will continue to do the same going forward.

A brief overview of how we conduct our business. Starting with what matters the most in the lending industry and lending business, which is capital adequacy, we have capital adequacy of more than 22%, giving us sufficient room to grow further. As we have always maintained, we are a self-propelling model and do not have to raise capital very frequently. We were at 12,000 crores when we last raised capital, and we are already at 17,000 crores. We do not see the need to raise capital in the near future.

Capital adequacy remains very strong. The quality of the assets remains very strong, consistent with our belief in extending credit where it is due. We continue to pursue the same assets. MSME remains our flagship business, that is MEL, or micro-enterprise loans. These are small loans of smaller ticket sizes to individual borrowers having small establishments, which we have been doing for many decades now. We also have SME loans, which are higher in ticket size, where we lend up to 5 crores along with collateral, and this also contributes very significantly to the overall assets.

We are also present in Wheels. As far as the Wheels portfolio is concerned, two-wheelers registered decent growth, while we continue to be very cautious about commercial vehicle growth. While the market opportunity grew at a brisk pace, we are in the process of setting up our own distribution and manpower at all the places where we operate, and we see this picking up in the next 2 to 3 quarters.

Regarding salaried personal loans, as we have shared earlier, we do not intend to have more than 10% of our total asset size in this segment. It is currently around 9%. This contributes to a diversified asset basket, along with our housing finance company, which has crossed more than 1,000 crores with very robust quality. That company has very strong capitalization of more than 35% capital adequacy as I speak to you.

So, this was on the asset side, friends. Quickly, on distribution, as you know, we are a multi-distribution company. The taste of the distribution [trails off]

Management: The result of any distribution is what it can produce for the company in terms of the quality of the assets and the profitability it can generate over a period of time. For the last 15 years,

Report is AI-generated and may contain inaccuracies.

we have been pursuing a dual distribution model. Our direct distribution is around 68% of our assets. Our distribution through NBFCs is around 32% of the assets, while maintaining very strong currents in both types of distribution.

We increased the number of centers reached this year by sweating our branches. If you have seen, we are not increasing our branches very rapidly because what we are doing is trying to expand the reach of each and every branch sufficiently before incurring additional expenditure. This is in line with the company's policy over the decades of not substantially front-loading expenditure for expansion.

Nevertheless, we have shown very robust growth in our assets under management of close to 23.5%, in line with our policy of growing anywhere between 20% and 25%.

Briefly on liabilities, while Ankit will take you through the details, because of our track record and very strong fundamentals, we have always been ahead of the curve in raising liabilities, or ahead of time, rather. It is no different this quarter either. We are almost tied up for the whole year. The only challenge is how we navigate through the various rate hikes.

So, that was on the liability side.

On the operations side, we continue to pursue the technology part of the business very vigorously. We are in the process of recruiting senior management for our digital transformation strategy. We have gained a lot of traction in our loan origination system, which is accompanied by BRE. This is helping us significantly with our internal customers, that is, FOS, and is providing better services to borrowers while reducing operating and origination costs. We will continue to focus on the same, and that should yield better results as we move ahead.

So, that was on the operational side. On the HR side, because of the use of technology, the headcount is reducing. Nonetheless, we consider HR to be one of the most important assets that creates the balance sheet. It might not show on the balance sheet, but it creates the balance sheet. We are aware of how to have the right set of talent, how to train them, and how to retain them. There is a constant effort to do the same, and we see ourselves building a team that can continuously contribute to the efficiencies of this organization.

Friends, as you know, we have a very strong second line and a core team that has been with the company for 18 to 20 years. At the same time, as we grow, we will require a lot of induction of lateral talent as well. This has been done in a calibrated manner so as not to increase costs, and at the same time, to ensure that the organization does not suffer because of a lack of expertise and experience. The right combination has been worked out, and that should start yielding results in promoting various products even at scale.

We are now within striking distance of 20,000 crores. As I speak to you, by the year-end we will be within striking distance of 20,000 crores. As we grow, there will be different types of challenges, and let me share with you that we are fully ready and prepared to face them very valiantly and successfully.

Report is AI-generated and may contain inaccuracies.

I think there might be questions pertaining to this, but I would like to cover this in the opening remarks. There are two major headwinds perceived to be present for lending, particularly in the lending industry. The first is how the rate hike cycle will work for us.

To give you some perspective, around 70% to 75% of our borrowings are either fixed-rate or MCLR-linked, with the majority being MCLR-linked for periods ranging from 6 to 12 months. Therefore, there will not be an immediate rise in borrowing costs on that portion of the borrowing.

Even for repo-based borrowings, the reset takes place every 3 months. Therefore, we also get some time to readjust those borrowings.

On the asset side, around 65% to 70% of our assets are fixed-rate, while the rest are at floating rates. The advantage we have on the fixed-rate assets, which we have experienced and demonstrated in the past, is that since the tenure is shorter, we get the opportunity to reprice them. The borrowers we serve are well aware of this and, at the same time, are not that sensitive to a rate change of 0.25% to 0.5% that might substantially affect our growth.

In short, it is very difficult to predict the exact implication and exact impact on profitability and NIMs. Suffice it to say that in the past, we have navigated this successfully without a substantial impact on NIMs and growth. We will endeavor to do the same this time, and we hope to achieve the same results as we have achieved in the past.

The second issue is the El Niño and drought impact. Let me share with you that, across all the states declared to be under drought, around 10% of our portfolio is present there, but with a very strong caveat that we do not lend directly to agriculture. Each of our borrowers has allied income. Direct agriculture is less than 1%, and this is accompanied by the stringent underwriting standards that I have always shared. If all of you remember, the worst time for any asset is the best time when it is going through that period. Being a 30-year-old company, we have understood that very thoroughly.

Given our stringent underwriting standards, the nature of the business we are in, and the amount of business that falls under the El Niño-affected states and areas, we do not foresee any substantial stress on asset quality. Going forward, as we usually do, we will factor in all this impact for our credit delivery and extend credit where it is due, while endeavoring to maintain 20% to 25% growth.

So, friends, this is an overall summary of what we did in H1 and what we intend to do going forward. Briefly, my colleagues Darshanaben and Ankit will take you through the details of the numbers, after which we will be open for your queries.

Over to you, Darshanaben.

Darshanaben: Thank you, sir. Good afternoon, everyone.

As sir covered in his opening comments, this quarter we crossed 3 more milestones in our AUM journey. The housing book crossed the 1,000 crore mark, the MFSL book crossed the 16,000 crore mark on a standalone basis, and on a consolidated basis, we crossed the 17,000 crore AUM mark. This resulted in robust AUM growth of 23%.

Report is AI-generated and may contain inaccuracies.

Accordingly, PAT has also grown by 26% on a consolidated basis, and it is 115 crores for the quarter.

On a standalone basis, there is portfolio growth of 23.17%, from 13,000 crores to 16,000 crores. Total income grew by around 22%, from 459 crores to 560 crores. Profit before tax grew by around 23%, from 120 crores to 147 crores. Profit after tax for the quarter grew by around 23%, from 89 crores to 110 crores.

This was regarding the quarter from Q2 '26 to Q2 '27. Now, coming to the half-yearly results, total income grew by around 21%, from 902 crores to 1,090 crores. Profit before tax grew by 24%, from 232 crores to 287 crores. Profit after tax grew by 24%, from 173 crores to 214 crores.

Here also, in MFSL, we have maintained the quality of the portfolio, as our focus is always first on portfolio quality. Gross Stage 3 assets are 2.63%, and net Stage 3 assets are 1.7%, compared to 2.58% gross Stage 3 assets and 1.70% net Stage 3 assets in the June quarter.

The management overlay of 17 crores has not been netted off from net Stage 3 assets.

Regarding MRHM Housing, there is portfolio growth of around 26%, from 821 crores to 1,031 crores. Total income grew by around 23%, from 25 crores to 30 crores 54 lakhs. Profit before tax grew by around 52%, from 3 crores 90 lakhs to 5 crores 94 lakhs. Profit after tax grew by 55%, from 2 crores 99 lakhs to 4 crores 62 lakhs.

Regarding the half year, total income grew by 26%, from 48 crores to 60 crores. Profit before tax grew by 57%, from 7 crores 43 lakhs to 11 crores 64 lakhs. Profit after tax also grew by 55%, from 5 crores 74 lakhs to 8 crores 89 lakhs.

Regarding the quality of the portfolio, it is below 1%. Gross Stage 3 assets are 0.99%, compared to 0.98% in the June quarter. Net Stage 3 assets are 0.70%, compared to 0.68% in the June quarter.

Here also, we are carrying 3 crores 69 lakhs as a management overlay, which has not been netted off from net Stage 3 assets.

We will continue to grow, as sir mentioned, at 20% to 25% going forward. With this positive note, I will now request Ankit to give us the details about liability management.

Ankit: Thank you, ma'am. Good afternoon to all.

To elaborate on capital and liability management during the current quarter, through our strong liquidity profile, we were able to maintain average liquidity on the balance sheet of around 1,000 crores.

As of September 30, we had already tied up funding for the whole year, and sanctions in hand were in excess of 2,500 crores.

During the quarter, we executed direct assignment transactions aggregating to approximately 850 crores. In addition, we have sanctions on hand of around 850 crores, which we expect to utilize during the current quarter.

Report is AI-generated and may contain inaccuracies.

Currently, the off-book composition is 17% to 83% in terms of off-book and on-book. Our strategic objective remains to maintain off-book assets between 20% and 25% through direct assignment and other off-book transactions.

We have a cash credit facility of approximately 1,500 crores spread across 13 banking partners. We maintained an average utilization level of around 80% to 85% during the quarter by keeping the unutilized portion as a liquidity buffer.

On the long-term borrowing front, we raised around 1,195 crores through term loans and {? CB and ECB ?} during the quarter, with an average maturity of 3 to 5 years.

Around 1,195 crores was through term loans, and 575 crores was through NCDs, which were placed with mutual funds, retail participants, and wealth houses.

We also raised an ECB of $25 million during the quarter.

Additionally, we have sanctioned borrowing lines of around 1,500 crores in terms of long-term borrowing.

As of September 30, the company remains well-positioned in terms of structured liquidity, with positive cumulative cash flows across all the liquidity buckets.

In terms of the capital adequacy ratio, we remain strong at 22.12%, with Tier 1 capital at 20.82% and a debt-to-equity ratio of 3.50x.

The average cost of borrowing during the quarter was 9.19%, reflecting a reduction of 43 basis points compared with the corresponding period last year. In the last quarter, it was 9.25%, which represents a reduction of 6 basis points.

With the current 25-basis-point increase in the repo rate by the RBI and an expected further increase of 25 basis points during the year, we expect the cost of borrowing to increase by 20 to 25 basis points.

In spite of this increase, we are confident enough to minimize the impact of this increase in the cost of borrowing on ROA and maintain it at the targeted level.

Overall, we remain adequately capitalized, well-funded, and comfortably positioned to support our business growth while maintaining prudent liquidity, comfortable leverage, and a diversified liquid liability profile.

So, this was on capital and liability management. Now—

Management: Now, we are open for Q&A. Thank you.

Operator: Thank you, sir. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press star and one on their touchtone telephone. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to use a handset while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

Report is AI-generated and may contain inaccuracies.

The first question comes from the line of Abhijit Tibrewal with Motilal Oswal. Please go ahead.

Abhijit Tibrewal – Motilal Oswal: Good afternoon, sir. Thank you for taking my question. Sir, a lot of things that are seen as headwinds for the NBFC sector have been covered in your opening remarks. However, one thing I wanted to understand from you is that we are living in a very evolving time. As you rightly said during your opening remarks, we are not directly lending to agriculture-income customers, or customers who have direct agricultural linkages.

What I am trying to understand is, at an industry level, are you seeing that this year, given that rainfall has been deficient, and by extension we have seen droughts in at least 5 or 6 states, those states where we are beginning to see some problems in the SME segment, such as cash flow mismatches?

Management: As far as our SME borrowers are concerned, we are not seeing any stress there because we continuously receive demand from them, and their financials are evaluated from time to time. As of now, we are not seeing any stress there.

Secondly, to answer your question at the industry level, it all depends upon the asset profile of the NBFCs. If you are working directly with agriculture-related borrowers, there can definitely be some stress. If the underwriting is somewhat flexible or aggressive, that can also create stress. That is what we have seen in the past as well.

A particular headwind has a different impact on different NBFCs. It is not symmetrical across the players. It will depend upon their operations and the type of assets they have created in terms of the income profile. All these things will determine the quality of the assets.

As far as we are concerned, as I shared, less than 1% of our borrowers are dependent only on agricultural income, while the overall portfolio in areas declared drought-hit is around 10%. Considering all these factors together, the impact will not be that substantial.

Abhijit Tibrewal – Motilal Oswal: Got it. Got it. That is useful, sir. The second thing is that in your opening remarks you mentioned that 75% of our borrowings are either fixed-rate or linked to MCLRs, where we are not expecting interest rates to go up immediately. Can you please bifurcate this into how much is fixed-rate, pure fixed-rate, and how much is MCLR-linked?

Ankit: Yes, this is Ankit. Around 20% is fixed-rate. Primarily, capital market borrowings and some of the term loans are fixed-rate. Apart from that, 50% will be MCLR-linked.

Abhijit Tibrewal – Motilal Oswal: Got it. And here, Ankit sir, are most of them in the nature of 6-month to 12-month MCLR, or are they at the shorter end?

Ankit: They are primarily linked to 1-year MCLR, but some of them will also be linked to 6-month MCLR.

Abhijit Tibrewal – Motilal Oswal: Got it. Got it. The last question I had is again related to your opening remarks. You shared that while there might be some margin headwinds, given that a good proportion of our book is fixed-rate in nature, and I remember Kamlesh sir sharing that even these are shorter-tenure products, so there is an ability to reprice them.

Report is AI-generated and may contain inaccuracies.

However, in the very near term, given that there can be some margin pressure, I think you also shared that we remain confident of maintaining the ROA guidance that we have given, and that ROA should remain around the current levels. What will be the key levers that can offset some of the margin headwinds and deliver ROAs that broadly remain at the same current levels?

Management: As shared with you, this is more structural. Our rates are not going to increase immediately. Even on repo-rate-linked borrowings, which are around 20% to 25%, we get 3 months if there is an increase.

Given our track record, we have an opportunity to bargain with banks on the spread they keep over the benchmark rates. We also have the capability to increase rates on some of the floating-rate assets, which constitute around 30%. There are also shorter-tenure loans where new disbursements can be made at marginally higher rates. The combination of all these factors together should keep our margin more or less intact.

Abhijit Tibrewal - Motilal Oswal: Got it, sir. One last question here is that in the past, we have seen that whenever there have been difficult times for the industry or some stress has started building up, we have typically gone a little slow rather than pursuing aggressive growth.

Suffice it to say that, sitting today towards the end of October, we are not seeing anything in the industry that would make us slow down. The kind of momentum we have seen in the first half should continue in the second half as well.

Management: Hopefully, yes. What has happened, Abhijit, is that credit demand still remains very strong. The only thing is how we conduct a forward-looking assessment of all these borrowers and how cautious we are in lending to them, given the current situation and the vulnerability buckets they fall into.

That might result in a lower sanction rate, which can be offset by higher credit demand. As I speak to you, I have reasons to believe that we will be in a position to maintain the momentum. Obviously, I cannot predict this. At the same time, as you know, we are open to reducing the rate of growth if we do not find sufficient good opportunities.

On an optimistic note, because of the credit demand available right now, we see this momentum continuing.

Abhijit Tibrewal - Motilal Oswal: Got it, sir. That is all from my side. Thank you so much, and I wish you and the team the very best.

Management: Thank you. Thank you so much.

Operator: Thank you. The next question comes from the line of Deep Vakil with Bandhan AMC. Please go ahead.

Mr. Deep, your line has been unmuted. Please go ahead with your question.

Deep Vakil - Bandhan AMC: Hello? Hello?

Operator: Yes, sir. Please go ahead.

Report is AI-generated and may contain inaccuracies.

Deep Vakil – Bandhan AMC: Sir, am I audible? Congratulations, Kamlesh ji and team, on a good set of numbers.

Sir, I know you do not directly guide on credit cost or unit economics, but you always adhere to your ROA guidance. The yields and other factors can be managed, but ROAs have broadly always remained in line with what you have guided.

Considering all your opening remarks and everything, over the last 12-odd quarters we have seen a consistent rise in our GNPA and NNPA numbers. I understand that we have been growing very rapidly, but do you have any guidance on where we expect GNPA of 2.63% to stabilize, or how we are navigating this?

Management: The very purpose for which we stick to the ultimate litmus test on profitability, or ROA, is because we are a multi-product company and a multi-distribution company. With a quarterly evaluation, no 2 quarters will be the same. It all depends upon which types of products performed well during a particular quarter and which did not perform as well, in terms of disbursement growth. That will impact yields and all the corresponding ratios.

At the end of the day, we plan our activities in such a manner that we can maintain ROAs between 2.75% and 3%.

Coming to your question on the steady rise in GNPA, there are 2 reasons. First, our retail portfolio is now seasoning. As you know, at one point we had a 40-60 combination, which we have brought down to 32-68. The seasoning of the retail portfolio, and the very nature of the retail portfolio, especially Wheels, which has high yields and high credit losses, ultimately results in the same ROAs.

These are the main reasons behind it, accompanied by some stress in MSME that we have seen over the last 1 to 1.5 years. We have been seeing continuous stress, which has stabilized somewhat over the last year or in the last 1 or 2 quarters.

I was talking to somebody in the morning about the industry we serve, where we serve the bottom of the pyramid and people with vulnerable incomes. A few basis points here and there are a natural way for the business to behave. A movement from 2.58% to 2.62% should not be considered a deterioration in quality, nor should a movement from 2.62% to 2.55% be considered an improvement in quality. That is because of the very nature of the business we are in.

As you rightly said, ultimately we focus on ROAs. This is what we call risk-adjusted returns. If you are taking a particular risk, if you are getting those yields, and if that compensates for the operational costs we incur, do we meet our objective of a 2.75% to 3% ROA?

We continue to remain very stringent in terms of credit delivery, and we will follow that in the future as well.

Deep Vakil – Bandhan AMC: Sure, sir. In the last conference call, you mentioned that in your housing finance subsidiary, you were targeting Tamil Nadu and Karnataka for growth and that recruitment was taking place. Is there any change in strategy, sir, considering the current dynamics in those states, or are we fully committed to those states in the housing finance arm?

Report is AI-generated and may contain inaccuracies.

Dhvanil: Yes, hi Deep, Dhvanil here. The plan stands, with no change because of the current macro environment. We anyway take a little more time to develop the states, so we want to enter these states with the right team, try to understand both the geography and the demography, and then slowly and gradually scale up the business there.

The plan stands, and from Q4 onwards we will start seeing some numbers coming up there. Eventually, for the next financial year, hopefully, we will be able to establish a foothold in some of those states.

Deep Vakil – Bandhan AMC: Sure, sir. All the best. Thank you.

Dhvanil: Thank you.

Operator: Thank you. Participants who wish to ask a question may press star and one. The next question comes from the line of Ishan Gupta with Choice Institutional Equities. Please go ahead.

Ishan Gupta – Choice Institutional Equities: Good afternoon. Congratulations on a good set of numbers. My first question is: where do we see the exit rate in terms of cost of funds, both on an incremental and overall basis, for FY27 and FY28?

Ankit: FY28 is a longer-term matter, and it will all depend on how the repo rate turns out. However, as I said, we expect that by this year there can be a 50-basis-point rate hike, including the current 25 basis points. As guided, we see a 20-25-basis-point increase in the cost of borrowing.

Ishan Gupta – Choice Institutional Equities: Is it expected to be in the range of 9.4% to 9.5%?

Ankit: Yes.

Ishan Gupta – Choice Institutional Equities: Similarly, this quarter we witnessed an approximate decline of 58 basis points in average yields on loans after an increase over the last 2 quarters. Was this trend driven by any particular segment, or where have we witnessed this compression?

Management: As I answered in the earlier question, we are a multi-product company. Depending upon the contribution of each product in terms of disbursements from time to time, yields might be a few basis points higher or lower. However, once again, we adhere to our ROA objective of maintaining ROAs anywhere between 2.75% and 3%.

Dhvanil: Ishan, we will also get back to you offline on the number because we are not able to tally the 58-basis-point figure. The decrease has not been to that level. I think currently we are at 16.08%, and in the last quarter, Q1, we were at 16.17%. Therefore, there has been an approximate 9-basis-point decrease attributable to the product mix. We will tally the number with you offline as well.

Ishan Gupta – Choice Institutional Equities: Understood. My second question is that we have observed an uptick in the 61-to-90 DPD and 91-to-120 DPD buckets, along with higher provisions. Was this broad-based or led by any particular segment?

Management: No, it was broad-based, led by our Wheels portfolio.

Report is AI-generated and may contain inaccuracies.

Ishan Gupta – Choice Institutional Equities: How do we see the trend going forward in terms of delinquencies?

Management: As far as 90 DPD is concerned, we continue to maintain that it will be anywhere between 2.5% and 2.75%. If things remain satisfactory, we might even reduce it in the coming quarters. Net NPA will be less than 2%.

Ishan Gupta – Choice Institutional Equities: Got it. Thank you. All the best for the next quarter.

Management: Thank you.

Operator: Thank you. The next question comes from the line of Aditya with Securities Investment Management. Please go ahead.

Aditya – Securities Investment Management: Hi, sir. Thanks for the opportunity. If I look at the last 4-5 years, we had set out to increase our share of business from our own branches. We have now reached 68% of our book coming from our own branches, whereas earlier it was less than 50%.

I wanted to understand whether we are satisfied with the quality of the book we have underwritten and the operating metrics of our branches, or whether you think there are still some improvements we need to make. This is now the second year in a row in which our new branch openings will be in single digits. Do you have any thoughts on this?

Management: As I shared in the opening remarks, our distribution should not be judged by the number of branches or the number of centers we increase. Our branch operates within a 40-to-60-kilometer range, depending upon the demography.

We are in the process of increasing our center reach rather than simply increasing the number of branches and then increasing infrastructure costs. In terms of improvement, as we scale up, there are many areas where we can improve, especially how we transform ourselves digitally to reduce operating costs, understand the demography better, and sweat the branches better in order to contain and curtail operating costs.

In our quest to increase retail, you must have seen that we have not increased our operating costs substantially or to an extent that could harm our ROAs. There is always room for improvement. We are working on it, and we are focused on creating quality retail assets as well. We are confident of doing so.

Aditya – Securities Investment Management: Understood, sir. Secondly, how are the operating metrics in our older geographies, such as Gujarat and Rajasthan, compared with the newer geographies? When we look to open newer branches, how are we viewing the mix between our core geographies and new geographies?

Management: The incremental percentage of business will come more from the new geographies, while our old geographies will also continue to grow. We have the potential to grow in our existing geographies across our products.

Report is AI-generated and may contain inaccuracies.

However, the incremental increase in percentage terms will be higher in the new geographies. For example, if I was at 100 crores in the South and it is now 150 crores, the percentage will look 50% higher. In percentage terms, the incremental geographies will contribute more, but in absolute numbers, the existing geographies will still dominate for a few quarters.

Aditya – Securities Investment Management: Got it. In the opening remarks, you mentioned lateral hiring. Could you talk a little about it? In which areas are you seeking lateral hires, and where can we improve further? How are you thinking about this?

Dhvanil: Hi, Dhvanil here. When we talk about lateral hiring, it is spread across the organization. It is more focused on sales, business development, and underwriting. We are getting some senior talent from peers and from the market who have operated at scale.

As we move from 17,000-18,000 crores toward a medium-term view of around 30,000-35,000 crores, we are trying to onboard people who have operated at scale, have seen this kind of scale, and have the wherewithal to scale the business further.

Business development, credit and operations, and technology are the 3 major areas where we are undertaking lateral hiring. We have also opened up slightly in terms of geography, creating certain hubs in Bombay and Delhi where lateral hires may be based and may not necessarily have to be based out of Ahmedabad, our head office. This helps us attract certain senior talent from the market. These are the changes we are making.

Aditya – Securities Investment Management: Would this also involve any new product?

Dhvanil: No, not any new product, but only within the existing product segments. Within a product segment, we may operate certain different sub-products and may bring in senior talent to run them. But there is no new product line per se. The focus is on MSME and Wheels only.

Aditya – Securities Investment Management: I had a couple of questions on our SME book. We were looking to increase the ticket size of our SME book and had increased it from the early twenties to about 30 lakhs. However, over the last 2-3 quarters we have seen a decrease. Do you have any thoughts on this?

Dhvanil: There is not much to read into that. It again depends on the product mix. If the inflow of business is at a certain ticket-size level, things can develop that way. If we have put restrictions on certain geographies or certain profiles up to a particular ticket size, that may also have an impact.

Broadly, over the next 6 to 12 quarters, you will see this ticket size stabilize. Currently, I think it is around 29 lakhs, and it may stabilize anywhere between 35 lakhs and 45 lakhs. That is where we expect to take it over a period of time.

However, we are happy with the ticket size currently. Even the change from 35 lakhs back to 29 lakhs is not something we are reading too much into or worrying about. That is in the normal course of business.

Aditya – Securities Investment Management: In the SME data book that you have shared this time, there is a sharp increase in GNPA for the SME book over the last 3-4 quarters. Could you help us

Report is AI-generated and may contain inaccuracies.

understand what is leading to this, or are these simply quarterly variations?

Dhvanil: As mentioned earlier, the book is now slightly maturing. If you look at the growth that has taken place in the SME book over the last 6-8 quarters, as the book matures, some stress or some buildup may emerge.

However, whatever the increase is, it remains within our parameters and within the metrics that we designed for the particular product. In terms of return on assets, it will hold up. There has been an increase, but it is attributable to the maturity of the product and related factors.

Aditya – Securities Investment Management: Lastly, on the Wheels business, in an environment where the end industry is doing quite well, we have seen fairly flat growth in the Wheels business. We had previously mentioned that we were facing some asset quality issues there. Could you help us understand what is leading to this and how we are trying to rectify it?

Management: As far as Wheels is concerned, to begin with, we are very optimistic in the long run. In the medium term, we are trying to develop the right team, the right processes, and the right technology to serve individual borrowers.

These are both TAT-sensitive and flexibility-sensitive businesses, so we need to create less friction for borrowers. Given the way credit is currently being dispensed by various lenders, there are various pockets where we may not be in sync with those types of operations.

Therefore, we are trying to find a middle path where customer service and TAT are not compromised, while the quality of the portfolio is maintained and volumes are also gained. Wheels will contribute meaningfully for us, but it will take some time before it translates into the numbers we want.

As we usually do, we do not chase numbers at any cost. We would like to set things right in a 360-degree manner, whereby the risk is properly assessed, the team is well aligned, and the processes are properly followed. It will take some time, but we are quite optimistic given the size of the market.

Aditya – Securities Investment Management: Lastly, the assignment book has now gone below 20%. Are we looking to increase the share of assignment?

Management: It will vary from quarter to quarter, depending upon the opportunities we get. As you know, we are sufficiently capitalized, and hence we choose and select the borrowing source we prefer.

If, in a particular quarter, the sanctions are not as per our preference, the share might reduce. However, strategically, as we move ahead, you will see it hovering anywhere between 20% and 22%.

Aditya – Securities Investment Management: Got it. All right, sir. Thanks for answering the questions.

Management: Thank you.

Report is AI-generated and may contain inaccuracies.

Operator: Thank you. Ladies and gentlemen, if you wish to ask a question, you may press star and one.

The next question comes from the line of Meghna Luthra with InCred Equities. Please go ahead.

Meghna Luthra – InCred Equities: Thank you for the opportunity, sir. Taking forward the previous answer, can you please highlight what restrictions in terms of ticket size or geographies were implemented during the quarter in the SME book?

Dhvanil: We are slightly cautious about businesses that deal in import- and export-related activities. We are also slightly cautious about transportation businesses, so we are somewhat cautious about logistics and transportation. We have also become slightly cautious about certain metal-related businesses because of volatility in prices and payment schedules.

There were no major changes during the quarter, but there were slight tweaks that we make from time to time, based on all the data that comes to us and our strong monitoring. No major industry was curtailed or stopped. We made small incremental changes from time to time.

Meghna Luthra – InCred Equities: This would largely be Gujarat-focused, correct? Is that fair to assume?

Dhvanil: No, it will be spread across geographies. We take a call on the geography based on the profile. It is possible that something is done in Maharashtra but not in Gujarat, and vice versa.

Some of these are national-level changes and some are regional-level changes. It depends on the geographical data.

Meghna Luthra – InCred Equities: As we expand the talent pool, is there any change in our branch addition strategy?

Dhvanil: The branch additions?

Meghna Luthra – InCred Equities: Yes, branch additions over the next few years. I think our branch additions have been slow during recent quarters.

Dhvanil: As we said, if you look at the data, we have increased the number of centers by almost 1,000 over the last 4-5 quarters. We are expanding our ground presence, which is not reflected in the branch network per se, but the ground presence is increasing.

The medium- to long-term guidance on the number of branches still stands. Over the next 2 years or so, we see the current number of 210 branches reaching around 300. The medium-term plan still stands. We also plan to expand in the North and South, as we have guided earlier.

Meghna Luthra – InCred Equities: Lastly, what could be the key lead indicators that we should watch for that could hinder our growth or ROA guidance at a broad level?

Dhvanil: Till now, we are not seeing anything of that sort that could trigger a concern. However, if we see early bouncing or early delinquencies coming in, or any material deterioration in certain segments, for example, during January-February or at the beginning of the year, if gas supply and

Report is AI-generated and may contain inaccuracies.

petrol supply and all were [trails off]

Management: ...taking a hit. Thankfully, it did not stay that way for long. If it had stayed that way for long, then we would have had to take some decisions across the board in terms of tightening the policy parameters.

Till now, we are not seeing anything that can derail the growth guidance. However, these are some of the early warning signals that we keep tracking in terms of {? D-logs ?} and—

Operator: An operator check request has been initiated. If you would like to cancel this request, please press star zero again.

Management: If we see any macro disruptions, such as logistics or energy disruptions, we may take a cautious stand in terms of growth.

Operator: Thank you, sir. Meghna ma'am, I am sorry to interrupt. I would request you to please come back into the queue for further questions. Thank you.

The next question comes from the line of Surat Singhania with Ratnatraya Capital. Please go ahead.

Surat Singhania – Ratnatraya Capital: Hi, sir. Thank you for the opportunity. Most of my questions have been answered. I have some data-related questions.

The first was on insurance commission. In our current P&L, do we earn any insurance commission from our customers? If yes, what would be its proportion?

Management: It is currently a very immaterial amount, the insurance income that we have. We had just started rolling out loan protection products, known as credit life insurance. We had just started work on that.

Earlier, the focus was on protecting the loan and covering the customer rather than generating fee-based income from it. The medium-term goal was to generate fee-based income. However, the first target was coverage. We are currently in that phase, and that is where this circular has come in.

It is still at the proposal stage and is still a consultation paper. There is nothing concrete, but there is no material impact on the P&L and no material premium income that could have an adverse impact.

Surat Singhania – Ratnatraya Capital: On the Wheels business, I wanted to understand from the company's perspective how we see the Wheels business shaping up as a proportion of our AUM in the medium term, say over a 3-to-5-year period.

Management: It will gradually increase. Currently, it is close to 8% to 9%. Ideally, it should increase by 2% to 3% incrementally every year.

Within the next 3 to 5 years, we should see this hovering anywhere between 15% and 20%, or around 15%. It is difficult to predict, but this is what we will endeavor to achieve.

Report is AI-generated and may contain inaccuracies.

Surat Singhania – Ratnatraya Capital: Thank you. One last question was on write-offs. Could you spell out what the write-off was this quarter and what the write-off was in the same quarter last year, that is, Q2 FY26?

Management: That will be shared offline. You can be in touch with Meet, and he will share it with you.

Surat Singhania – Ratnatraya Capital: Sure. Thank you.

Operator: Thank you. The next question comes from the line of Sanjana Shivrama with DAM Capital. Please go ahead.

Sanjana Shivrama – DAM Capital: Hi, am I audible?

Operator: Yes, ma'am.

Management: Yes.

Sanjana Shivrama – DAM Capital: Sir, thank you for taking my question. I wanted to get some color around credit cost. On a year-on-year basis, our asset quality looks much better or broadly stable, but based on our guidance and the numbers we are delivering, we seem to be at a much higher credit cost band.

Could you give us some color on why we are guiding higher or why we want to remain at a higher range? Is there a possibility of going back to the lower credit cost band?

Management: Typically, credit cost consists of both write-offs and provisioning. As a prudent measure, we have opted for more provisioning in Stage 2 and Stage 3 assets this year. If you remove that from the equation, credit cost would have been normalized or lower than it was year-on-year.

Besides ECL, management has room to provide forward-looking guidance in terms of the estimated credit loss that can occur. As a prudent practice, if we have sufficient profitability at our disposal, rather than showing extraordinary profits, we like to build buffers.

That is why, if you look at provisioning in Stage 2 and Stage 3 assets, we have increased it. This is contributing to a mathematically higher percentage of credit cost without disturbing our ROA metrics.

Sanjana Shivrama – DAM Capital: In a scenario where there could be some NIM pressure, would credit cost be a metric where we see some room for reduction? Would that be right?

Management: At that time, we might not use the buffer in the way we are using it right now. As I told you, it is management's discretion to create buffers.

If there are higher NIM pressures and the situation does not demand it, I want to be very clear on that. While we are very conscious of and focused on ROAs, at the same time we like to strengthen the balance sheet as well. We will not do anything at the cost of the strength of the balance sheet.

Report is AI-generated and may contain inaccuracies.

In a situation where conditions are absolutely normal, buffers are not required, and we did not create them to achieve the desired NIMs or desired ROAs, we might do away with them. However, if the situation warrants it, we will maintain them.

There may be some pressure on ROA, but so be it. These are temporary phenomena that one goes through during the course of business.

Sanjana Shivrama – DAM Capital: Right. Thank you, sir. That is all from me.

Management: Okay.

Operator: Thank you. Ladies and gentlemen, that was the last question for today. I now hand the conference over to the management for closing comments.

Management: Thank you, and I thank all of you for sparing your valuable time. As I shared in the opening remarks, we remain committed to quality growth, and we are very confident of achieving that.

As all of you know, and as we have been sharing very vocally, our aim is to reach 1 lakh crore in AUM by 2036. As of now, we appear to be well on track and are confident of achieving it. Thank you. Thank you so much.

Operator: Thank you, sir. On behalf of Equirus Securities, that concludes this conference. Thank you for joining us, and you may now disconnect your lines. Thank you.

Note: {? ... ?} indicates a figure or name where audio clarity was insufficient for confident transcription. Verify against the source audio or the company's published filings.

Report is AI-generated and may contain inaccuracies.