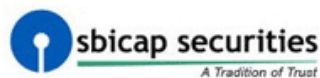




“Magma Fincorp Limited Q3FY16 Earnings Conference Call”

February 10, 2016



MANAGEMENT: **MR. SANJAY CHAMRIA –MANAGING DIRECTOR, MAGMA
FINCORP LIMITED**
 **MR. ATUL BANSAL – CHIEF FINANCIAL OFFICER, MAGMA
FINCORP LIMITED**
 **MR. KAILASH BAHETI – CHIEF STRATEGY OFFICER,
MAGMA FINCORP LIMITED**

MODERATOR: **MR. KAITAV SHAH – CFA, LEAD ANALYST - BANKING
SBICAP SECURITIES**

Moderator: Ladies and gentlemen, good day and welcome to the Magma Fincorp Limited Q3 FY16 Earnings Conference Call hosted by SBICAP Securities Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kaitav Shah from SBICAP Securities, thank you and over to you Mr. Shah.

Kaitav Shah: Thank you Margaret. Good morning everyone. I would like to extend a warm welcome to the management of Magma Fincorp led by Mr. Sanjay Chamria – Managing Director; Mr. Atul Bansal – Chief Financial Officer and Mr. Kailash Baheti – Chief Strategy Officer. Initially Mr. Chamria will take us through the quarterly highlights and then we can have a Q&A round. Over to you sir.

Sanjay Chamria: Thanks Kaitav. Good morning everyone, I welcome you all to the third quarter earnings call of Magma and thank you for taking time to join the call.

First my views about the economy in the sector where there are lot of actions being taken by the government to revive the economy, the trickle-down effect is yet to be seen and therefore there is a delayed recovery in the key economic indicators. However, the expected normal monsoon, the 7th Pay Commission and the implementation of the One Rank One Pension the consumption in the rural and semi-urban India should get a boost leading to more credit offtake. Further the revival of NREGA scheme and the promise of the release of higher subsidy amounts will also lead to better cash flows in the hands of common man in rural and semi-urban India. Financial markets have also been quite volatile with the changing demand pattern and varied performance of different products categories. The proliferation of technology in financial services, increased use of data analytics to understand the customer behavior and the entry of smaller payment banks will also lead to a new set of challenges and opportunities for the existing players and the ones with the nimble footed approach will benefit the most.

Now coming to Magma, over the last one year we have realigned our product mix in line with the expected risk adjusted returns and focused more on mortgages, SME, used assets and tractors while reducing weightage on CV and CE and it has resulted in a widening of spreads. Further we have now completed the rollout of major restructuring of the business model aimed at much superior customer service, challenge engagement and the deeper distribution presence. Deployment of technology has played a major role in improving the productivity and efficiency at field officers and supervisor's levels. As shared in the last quarterly call most favorable results of pilot done in large state we decided to go for a national rollout and launch the new model in the last quarter on 1st December 2015. So the key objectives of this model are deeper penetration at taluk and sub-district level which will help increase the coverage of the addressable market, improvement yields and provide better customer connect specially in the Tier towns. Superior understanding of local economic conditions leading to better decision by

the branch managers, quicker and local credit decisioning should improve late conversion ratios, lower the TAT and help in channel relationship management. Reduction in radius of area to be covered by field officers from 75 to 30 kms and resulting in higher density of customers leading to improved productivity. Improvement in process efficiency leading to lower operating expenses and finally the Superior Customer Connect leading to increased direct business with improved yields and better asset quality.

The first two months of the rollout which is December 15 and the January 16 have shown encouraging results in some of the areas and as the entire rollout stabilizes in next few months we expect to benefit lot more in our business performance. So what are these benefits that we have witnessed? First now we have 3,600 field officers serving for 8,000 channels for sourcing business and also servicing over 400,000 live customers operating at 30 kms radius. It has resulted in improvement in direct business going up from 16% to 25% in two months' time while in the pilot experience we have increased the direct business share from 18% to 45%. The gross yields have also improved by 24 bps in the two months' time while in the pilot state we have been able to improve the yields by over 40 bps. Our fee cover also improved by 25 bps in the last two months similar to the pilot experience. All the field activities have been automated right from origination of grades to processing of grade decision and the collection leading to increasing the customer experience.

Finally, we are in a significantly superior position to meet the expectations of OEMs to provide funding to their customers across all Tier towns and taluks, we expect to get into dedicated relations in the certain OEMs who have similar growth aspirations in Tier towns and it will lead to higher business volumes.

As the new process stabilizes over the next few months and the field officers and the branch managers settle down in their new role we expect a good traction in the business and improvement in the margins and deriving the operating leverage.

Before I get on to the financial results I would also like to share with what projections has been approved in the Board and getting concluded now. With a view to simplify the ownership structure of the Magma group entities, Magma is now buying the entire preference share capital of MASL which is Magma Advisors Services Ltd., the intermediate holding company that owns 100% of the equity capital of housing finance subsidiary which is Magma Housing Finance purchased from Celica which is the promoter entity and the related party for a total consideration of Rs. 249 crores is in accordance with the terms previously approved by the shareholders of Magma on 28th April 2015. The CCPS which is Compulsorily Convertible Preference Shares that subscribed by Celica to enable Magma to consummate the acquisition of housing business from GE Capital in February 2013 which is three years ago. Pursuing to the raising of Rs. 500 crores equity in May 2015 and the resultant substantial capital adequacy enhancement these outstanding CCPS are being acquired. This acquisition forms a core around which Magma built its housing finance business and thereafter scaled it to an AUM of Rs. 1838 crores which is at the housing finance subsidiary level and a PAT of Rs. 8.2 crores with ROA of 1.9% and ROE of 14.2% for the third quarter ended December 2015.

Now coming to the key highlights of our performance for the third quarter and its impact on our results, we continue to improve the share of used assets, tractors, SME and mortgage in our product portfolio and the share has now increased to 57% of the total loan book while disbursements in the quarter in these assets have contributed 68% of the total disbursements. In line with our earlier guidance and maintaining the right product mix we have maintained our loan book at Rs. 18,500 crores approximately with a marginal drop of 2% on QoQ and a 5% on YoY basis. We now expect to start growing the book with the new structure stabilizing and yielding much higher IRRs and superior quality. The NIMs have improved from 6.42% in Q3 of FY 15 to 7.18% in Q3 of FY 16, we have crossed 7% NIM threshold for the first time and today I can confidently state that the NIM improvement plan we have executed over the last three years has now been successful. The various initiatives implemented over the last one year comprising increased usage of technology, rationalization of structure, alignment of product geography focus has resulted in improvement in the OPEX to AUM ratio from 3.63% in Q3 of FY 15 to 3.46% in Q3 of FY 16 and the cost to income ratio which is OPEX to NII has also fallen from 56.6% to 48.2% during the similar period. We expect next round of benefits in the OPEX ratio to follow through from first quarter of next year with stabilization of the new business model. Our credit cost has increased by Rs. 20 crores YoY to Rs. 98 crores in the third quarter, on the 120 days past due recognition basis the GNPA has increased from 6.85% in Q2 to 8.02% in Q3 and NNPA has similarly increased from Rs. 5.46% to 6.35%. As we keep reiterating the company continues to be ahead of the RBI NPA guidelines and has made provisions on the basis of 120 DPD which makes us compliant with the requirements effective till FY 17. We have now been experiencing improvement in collections during the last two months which is December and January both due to gradual improvement in the market scenario as well as better efficiency of the new structure. In fact, after a long time we have achieved stabilization of NPAs during these two months and I hope this scenario will continue for the next few months and later with normal monsoon we will start experiencing reduction in NPAs. As a result of the higher NIMs, lower OPEX and higher credit losses the PBT has increased by 36% to 74 crores whereas the PAT has increased by 16% to 52 crores. We would expect better results with credit cost stabilizing before it starts going down as we have already addressed operating efficiencies and product mix resulting in higher yields.

Atul, Kailash and myself will now be happy to take any questions that you all may have. Thank you.

Moderator: Thank you very much. We will now begin their question and answer session. The first question is from the line of Ashwin Balasubramaniam from HSBC Asset Management Company. Please go ahead.

Ashwin Balasubramaniam: My first question is with regard to the NPAs, which are the segments which are contributing to increase in NPAs and simultaneously if you can get some color on what will be the approximate NPAs in each of the segments and what will be the rough kind of yields in each of these segments? The second question was related to your borrowing cost, if I am not wrong last quarter we had base rate cuts by many of the banks but the cost of borrowing does not seem to have come down so much?

Sanjay Chamria: The increase in the NPA has largely been contributed by, one, the tractors and, second, is the commercial vehicles and construction equipment and balance other portfolios of housing and used assets and SME and car is more or less stabilized, although on car also there is little bit of an increase in NPA this is so far as the contribution in the overall NPA increase is concerned. So far as the yields are concerned on an overall basis we are having a yield of about 16.3-16.4% so barring housing it is 16.5% and housing is about 14.02% and therefore on an average about 16.32-16.35%. So far as the funding cost is concerned we have actually now fallen below 10% and for the third quarter our overall borrowing cost has fallen to 9.78% whereas on an overall basis for the nine months it is 10.01%.

Ashwin Balasubramaniam: Last quarter what would have been the borrowing cost?

Sanjay Chamria: 9.78%

Ashwin Balasubramaniam: In Q2?

Sanjay Chamria: Q2 would be about 9.95%, so between Q2 and Q3 it has fallen by about 17 bps.

Ashwin Balasubramaniam: Also with regard to NPAs what will be the rough level of NPAs let us say the tractors and CV segment and secondly the NPAs which you recognized is on the on book assets, how would you provide for the securitized portion and what will be the rough kind of NPAs there. I guess the direct assignment there is no recourse so for that you need not provide but for the securitized book you would probably need to provide, so just wanted to understand what will be the NPAs there.

Sanjay Chamria: What I will do Ashwin I will give you a broad principle on this and the detailing Atul Bansal our CFO you can be separately in touch with him and he can give you a more figurative answer. We have a large part of the which is off book, the significant part of that is on DA basis and therefore as you rightly said it is on without recourse and only 10% what we retain in our books on that the NPAs are already factored into whatever we are reporting and so far as the 90% is concerned that is obviously we are paying a risk premium to the investor who is acquiring that from and therefore it is on non-recourse basis. So far as the securitization is concerned which is a much smaller part of the overall off book therein we take additional hit in the books by way of an EIS reversal on the delayed recoveries even though the portfolio is standard. What I mean to say is that the portfolio becomes NPA and we recognize on 120 DPD once it crosses 120 DPD however, as per the RBI guidelines effective August 2013 in case of PTC issuances under securitization if there is less than 100% collection efficiency to the extent there is a shortfall it is adjusted against your interest income and therefore you take immediate hit. That hit is netted out from the net interest income and so far as the own book is concerned of course the provisioning is made as per the usual which is interest reversal on 120 DPD and provisioning as per the rates prescribed by the RBI. In terms of detailing Atul would subsequently touch base with you and provide you.

Ashwin Balasubramaniam: Just one question if I can ask, with regard to the yields you said the housing had about 16.5%, right?

Sanjay Chamria: 14.02%, that is the non-housing which is the other five products on a blended basis and overall is about 16.32-16.35.

Ashwin Balasubramaniam: Your housing would be predominantly, large portion of it would be LAP I presume, are you seeing any pressure in terms of the yield because what we are hearing is the competitive intensities sort of increasing in that segment?

Sanjay Chamria: You are right, the competitive intensity has been growing of late in the housing business as a whole and in LAP particularly and this is largely witnessed in the top 50 to 70 cities in the country and the ticket size is about 50 lakhs and above. So what consciously we have done is and I shared in the last quarterly call that there were certain large accounts that which has turned delinquent which increased our NPAs in the housing book show from November 2014 we consciously stayed away from the large ticket size and we are not operating and getting much of a business from the top cities. So we are rather leveraging our distribution network in the Tier towns and even the LAP business we are getting from there. As a result of that we have not witnessed either delinquency trends in the last 15 months in the new portfolio or the pressure on the yields and our average ticket size as a result of that has fallen to 17 lakhs in the third quarter which used to be about 33-34 lakhs about 4-5 quarters ago.

Moderator: Thank you. The next question is from the line of Lalitabh Shrivastawa from Dalal & Broacha. Please go ahead.

Lalitabh Shrivastawa: Just wanted to have some more color on strategy that you mentioned of tie-ups with OEMs, which OEMs you have tied up with and what product or geographies that you would be targeting and some indication on any targets or milestones that you will be looking to achieve there?

Sanjay Chamria: We already have ongoing tie-ups with leading OEMs like Maruti or Mahindra so far as the passenger vehicles segment is concerned then we have with Mahindra and Escorts and ITL so far as the tractors are concerned. We have similar ongoing tie-ups with JCB and L&T Komatsu and Tata Hitachi so far as the construction equipment are concerned. However with the recent change that we have done where we have multiplied our foot prints to 3700 people across 1900 taluks or sub-districts in India that has also created a buzz and the OEMs feel that those especially who want to grow their distribution network in the Tier towns that Magma can be a good viable alternative for them to provide funding to the SENP type of customers with the informal sources of income and recently therefore Honda car companies has just tied up with Magma to provide funding to purchase of the entry level cars being made by Honda in the Tier towns because they are also now looking to expand their network beyond the top 150 towns in the country.

Lalitabh Shrivastawa: These are just operational tie-ups or you have certain milestones or targets also in that geography?

Sanjay Chamria: When you start, of course you start with an aspiration that you want to do a certain percentage of the business through their dealership network but I think after this has been announced there is a lot of heavy lifting that needs to be done at a regional level and at the dealership level. This has just been announced at about 15 days ago which is after 45 days of our launching the model. So what we are hopeful and confident that once we are able to deliver on the promise that we are making to the market and to the OEMs and once we start getting traction I am certain that even the other OEMs will follow suit and which is what I was trying to convey in my address.

Moderator: The next question is from the line of Anita Rangan from HSBC. Please go ahead.

Anita Rangan: My first question is can you outline what your provisioning policy is since you say that you are recognizing at 120 DPD and also just if you could throw some color on how the asset quality is expected to pan out as we are heading into Q4 as already one month has gone in Q4 and if you have some color on the same?

Sanjay Chamria: One, we follow the 120 days' norms for recognition of the NPA as opposed to 150 days' norms which has been mandated by RBI for FY 16 and as you know that RBI had specified a three-year window to migrate to the 90 DPD norm. So next year which is by FY 17 all the companies are required to migrate to 120 DPD, so this we had already migrated about two years ago so therefore we don't expect any overhang of migration from 150 to 120 next year. So far as the provisioning is concerned that we do as per the rates prescribed by RBI and in addition there what we do is in the event of repossession and sale of the asset usually we incur a loss but while we pursue the recovery through the legal means against the customer, guarantor and the other assets, but we do a complete write-off in the books in the very month in which the repo and sale has been accounted for, so this is in terms of the provisioning what we do in the books. So far as the outlook is concerned as I shared that post the launch of the new structure we have seen that first time after many months the NPAs have stabilized in both December and January and that definitely holds out a hope that it should sort of peak during the quarter if at all and then if that trend continues and with the hopeful of a normal monsoon we should start seeing the moderation in the NPA trends.

Anita Rangan: Since you are saying you are recognizing at 120 so you are not providing on 120 because you are saying you are providing as per RBI so you are providing like after 150 days, right? Although you are recognizing, I am not clear with the difference, that's why I am asking you.

Sanjay Chamria: We provide at 120.

Anita Rangan: That's what I am asking, between 120 and 150 what would be the provisioning because now RBI is now saying what is the provision policy for 150 DPD, right?

- Sanjay Chamria:** So this is what I think I shared in my call that on 150 it is 7.3% gross NPA whereas at 120 DPD I shared in my call that it is 8.03%. So basically the difference between 120 and 150 is 8.03 minus 7.3 which is 0.73 and we make a provisioning on the accounts which are also NPA between 120 and 150, hope that clarifies.
- Anita Rangan:** What would be that percentage?
- Sanjay Chamria:** I told you 0.7%, this is the additional NPA that we would have between 120 and 150.
- Anita Rangan:** On the housing bit, will you continue to hold housing as a subsidiary or will it become like a division of Magma after this acquisition?
- Sanjay Chamria:** Housing will remain a subsidiary because the home loans that we do these are booked in the housing subsidiary and the LAP that we are doing that is largely booked in the parent company but also to an extent it is booked in the housing company because housing subsidiary is registered with NHP and there are applicable norms of NHP on the constitution of the loan book that more than 50% of the loan book should be the home loans and less than 50% can be the builder loans or LAP or, etc. And two, you have the benefit of Sarfaesi in the HFC which till now has not come in the NBFC. But even then in the foreseeable future we would maintain the separate independent status of the housing finance subsidiary.
- Anita Rangan:** Coming back to the provisioning policy don't you think that your provisioning policy is a bit too aggressive because provision cover is about 21-22%, any thoughts on increasing the provision cover as such overall?
- Sanjay Chamria:** This is something which we have also discussed and debated internally in the company and at the Board level that right now the NPA situation has been increasing and we are cognizant of the PCR which is currently at this level. Although this PCR gets also helped by the EIS reversal which is not added to the provisioning coverage which is on account of the securitized book that we are having, but once this quarter as we hope the NPAs should stabilize and once it starts coming down and two – as the NPAs become more mature which is as they move into the higher bucket the provisioning coverage will automatically improve. So I think in the next few quarters we look to improve the coverage as well.
- Moderator:** The next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.
- Deepak Poddar:** My first question is relating to your AUM. We have been targeting a flat AUM growth in FY 16, so currently year-till-date it is about 5% lower, so will that be kind of made up in the last quarter?
- Sanjay Chamria:** No, it will not be made up in the last quarter and you are right originally in the year beginning we gave a guidance that we will maintain the same loan book and our efforts will be directed one towards improving the earning profile of this loan book and also improve the credit quality. So while we have been successful in improving the earnings profile, the credit quality has rather deteriorated than improved and then we have done the structure change and

therefore as I mentioned it will take another 3 to 4 months' time for the structure to stabilize because while you may draw all the plans but when you start executing with several thousand people operating in the field then there are lot of risks associated with that. So our first target was to make sure that the servicing of our existing 19,000 crore portfolio should be maintained and that should not get disturbed. And as I shared that both during December and January we have been highly successful in not only maintaining that it doesn't get disturbed but also we got additional benefit that the NPAs stabilized. So now from this month onwards we will also start scaling up our business so our first target would be to make sure that there is no further reduction in the AUM during the quarter and then from maybe next quarter onwards would also start looking to grow the AUM.

Deepak Poddar: So basically in your opening remarks as well as you said just now that we are looking to grow the book as our new model also stabilizes, so any kind of sense that you would want to share that how much percentage growth that you might be looking at for your AUM going into FY 17?

Sanjay Chamria: I think we will be in a better position to talk about it in the next two months' time once we have two more months passing by to see how the whole thing stabilizes. Today I am more confident in terms of the NPA situation looking at the performance of the last two months that in my view this has almost peaked and so therefore during this quarter if we can stabilize then from next quarter onwards we can look towards moderating it. So far as the AUM growth is concerned that is my next priority so we would like during this quarter we should at least make sure that it remains at the same levels and therefore from the next quarter we could look to increase. So we will see as to how do things pan out during February and March and then we will be in a position to comment.

Deepak Poddar: I understood on the AUM part now, as you mentioned on your credit cost or NPA that it has started showing a sign of stabilization in the current quarter and we would try to improve from 1Q FY 17, so basically an improvement in FY 17 in your credit cost or we might just assume that this quarter would be the peak in terms of your credit cost I think which is currently at about 2.2% on an annual basis?

Sanjay Chamria: That's right.

Deepak Poddar: My third question is on OPEX to AUM, we have been targeting I think 3.3% by this year end and we are quite close to that and below 3% over the next 2 to 3 years, so I was just wanting to understand how are you going to phase this improvement in your OPEX to AUM, will it happen over 2 years 150-200 bps improvement each year in FY 17-18, some color on that would be helpful.

Sanjay Chamria: This is something I shared about a year ago that we had done a product market and the customer alignment then key focus state strategy and as a result of that right from the first quarter of this year we have been achieving the targets in terms of the OPEX to AUM which is around 3.4% whereas it had peaked to about 3.8% in the Q4 of last year and overall for the

year it was 3.65%. Now with the latest change that we have done from December 1 onwards, as I mentioned also in my opening comments that this be lead to the next wave of OPEX reduction. So what is happening we have achieved the reduction in the OPEX on absolute amount basis more than the budget, however, because our loan book has de-grown by 5% so this 3.4 which is there ideally would have been 3.25% because after all it's also a question of the denominator, therefore I think what I am very confident is, once our loan book starts stabilizing during the current quarter and start growing from next year with the new model stabilizing, not only that we will have two benefits, one, the AUM starts increasing growing and two, my OPEX starts falling further. So therefore I would be hopeful that next year we should look at at-least another 15-20 basis points reduction in the OPEX so we could target about 320-325. And mind you, this is in the context that when all my peers during the current year have actually reported almost an increase of 10-20 bps in the OPEX due to the deteriorating asset quality environment.

Moderator: The next question is from the line of Vikas Garg from L&T Mutual Fund. Please go ahead.

Vikas Garg: I have got three questions I can question then one by one. So first is on the NPA side again. I understand that you have a confidence of maintaining a stable NPA going forward but if you could be more specific on two of the segments, your tractor financing and SME financing which I understand is unsecured in nature completely. What particular confidence is there in terms of these two segments that the NPAs may not shoot up?

Sanjay Chamria: So far as SME is concerned the confidence level is fairly high because we have seen the current cycle also and we have done almost now more than three cycles and even in the current cycle the behavior of the SME clientele, and we are operating in the ticket size of about 18-19 lakhs, that has been fairly stable and also in line with the times we have been tightening up the screens in terms of which are the type of customers that we can finance. So the trends have been quite encouraging so far as the SME is concerned. So far as tractor is concerned it is anybody's guess because this is really dependent upon how the cropping pattern would be which is in turn dependent upon the monsoon. So that is difficult projection to make. But what I have seen in our other product classes and one mortgage which is becoming a largest product in our entire range there we are fairly confident because last 15 months' book that we have originated the quality is fairly good and also some of the accounts which had booked into the NPA bucket, the higher accounts, they are also in the process of getting resolved. So I would see that one or two accounts getting resolved every quarter over the next 2-3 quarters we will see the moderation and reduction in the housing NPA and that I will be confident to see even in the current quarter. So far as the used assets and the CVC is concerned there also I am seeing that these are now peaking and moderating. So this is how the overall outlook on the NPA movement from now on is concerned.

Vikas Garg: Could you please give me the collection efficiency on a monthly basis for these two segments tractor and SME finance of past two months only.

- Sanjay Chamria:** I would not have it particularly for this may be Atul can provide you later but overall the collection efficiency has been in the range of 97-98%, on an overall basis during the last two months and which has been fairly high compared to what we have achieved in the earlier months.
- Vikas Garg:** Particularly tractor and SME could be tracking a low 90% kind of number?
- Sanjay Chamria:** SME is in the range of (+98%) whereas tractor depends upon when does the Bullet EMI fall due because there are six monthly EMI cases which coincide with the harvesting and the crop realization by the farmer and therefore they are not uniform, so there are two or three months in the year when this will fall due so it could be April-May, it could be October-November and so on. So for example in the fourth quarter there is no Bullet EMI so collection efficiency will be more than 100% in case of tractor because whatever customers who didn't pay in the month when the Bullet EMI fall due they pay in the next 4 to 6 months' time when the billing is not there so therefore the collection efficiency would be higher. So in case of tractor therefore we always advise that it is always better to look at on collection efficiency for the year or for the quarter or for the half-year rather than looking it on a monthly basis. But that is not to mention that it has been a tough year for the tractor second year in a row.
- Vikas Garg:** One thing puzzling over here is that though we may have a negative view on the tractor at least on a YoY basis the tractor portfolio at least has been holding stable whilst other portfolios where we have seen some kind of a problem like CV and CE has been declining by almost 25-30% on a YoY basis.
- Sanjay Chamria:** Even our tractor book, the contribution has grown. Tractor primary sales itself has grown by 30% in the last two years so all the financials in India have seen de-growth in the tractor finance and we have also seen it. But de-growth in the others is higher than tractor and therefore in the AUM the contribution of tractor is higher.
- Vikas Garg:** For tractor also we follow the same 120-day classification for the NPAs?
- Sanjay Chamria:** Yes, absolutely the same.
- Vikas Garg:** My second question is on various attempts which have been now made to put a new structure asset quality and also to reduce the OPEX side. So as a part of the whole exercise are you also withdrawing from some of the geographies that you would have been there earlier?
- Sanjay Chamria:** So this I shared, in fact from April itself we decided to focus on the key states, so there are 10 states which we have seen contribute to 70% of the volumes and that is there I think in one of the slides that we have in the investors PPT which give the zone wise and the state wise contribution. So there we found that to enable us to rationalize our cost structure, the states where the contribution is much less and we have seen also there is the inverse co-relation between lower business and the higher NPAs and therefore we decided to scale down our presence there and which is what has paid as dividend in terms of controlling the cost and

improving the margins. There is no point being such a fringe player then you get only the deals which are not being done by others. So there are one or two markets where we have de-scaled our presence and there are markets where we have decided to focus and grow our presence.

Vikas Garg: In collections in those areas continues to be done in house and not like outsourced to third party?

Sanjay Chamria: Not at all.

Vikas Garg: My third and last question is on the capital front, so I take that 250 crores of money would be used to buy back the preferential capital from the housing finance company. Two things over there, one is that is this being bought at par of the instrument? Second, what would be the impact on the Tier-1 capital of Magma Fincorp by itself when they were to buy this preferential capital?

Sanjay Chamria: The impact on the capital adequacy is very marginal. Magma's own capital adequacy is 14.1, Tier-1 is 14.8 as on December and overall is 19.1, so this would get impacted by about 25-30 bps. And this instrument is being bought over at the gap of three years so therefore the servicing cost has been added and then accordingly it has been bought over and when we did the capital raise of 500 crores that time itself we had set aside 250 crores because this instrument was to default you in February 2016 and May 2015 when we did the capital raise before that is in April 2015 we went to the shareholders and obtained the approval that with the new capital raise that we are doing we will retire these CCPS.

Moderator: The next question is from the line of Rajat Budhiraja from Banyan Capital. Please go ahead.

Rajat Budhiraja: My first question is on the OPEX. I just want to reconfirm in terms of absolute number we are having a 150 crores on a quarterly basis. So this 150 crores is going to stabilize here or reduce further next financial year, can you please throw some light on that, in absolute number?

Sanjay Chamria: As I mentioned, all the actions that we needed to take we have taken. So I don't see the OPEX in absolute amount going down any further. On the other hand, I would rather see a marginal increase on account of the inflationary rates. And the other part is with the current structure that we are operating we have a substantial higher capacity to underwrite business than what we are currently doing and that is what gives me the confidence that in the next 3 to 4 months' time after having already stabilized the collections in the last two months once we also scale up our disbursements then my OPEX should further go down as a percentage by another 20-25 bps which is in the context of answer to one of the questions by your predecessor. I said that we should expect that reduction but that is not to mean that the OPEX in absolute amount would go down rather it would marginally go up by way of inflationary pressure, if that answers your question Rajat.

Rajat Budhiraja: Yes definitely. My second question is on the interest expense as a percentage as such you have shown in one of the slides, it has gone down YoY so can you please throw some light on

whether it has gone down because of the change in borrowing profile or how much is contributed by that as compared to the cut in interest rates or something else?

Sanjay Chamria: So there are two things which have contributed to the reduction in the interest cost. One is, of course, there is a benign interest rate environment and by the reduction in the REPO rate by the RBI all the banks after nudging cut down their base rate, so that resulted in the reduction in the cost of funds. And second is due to the increase in the capital that we did last year that has also contributed to the reduction in the cost of funds, these are the two things which have contributed.

Rajat Budhiraja: How much we can say is contributed by the cut in interest rate?

Sanjay Chamria: 60 bps.

Moderator: The next question is from the line of Subir Sen from Birla Mutual Fund. Please go ahead.

Subir Sen: On the absolute numbers if you can give me a sense in Rupees crores gross NPA of Magma Fincorp versus the Housing Finance unit. And among the 4-5 verticals that you have in Magma Fincorp in which of the vertical you find incremental slippages?

Sanjay Chamria: The incremental slippages I shared in response to I think one of the first questions, is from tractor followed by commercial vehicle and construction equipment whereas we have seen stabilization in the SME and used assets as well as the mortgage, plus in car I said there was a bit of increment so far as the NPAs are concerned. And on an overall basis is about 1360 as a gross level. That is 7.3% on 18500 crores.

Subir Sen: And that is on consolidated basis?

Sanjay Chamria: Consolidated. So far as the housing is concerned I don't have it right now, maybe Atul can give you later on.

Subir Sen: What would be the corresponding NPA number against that 1360 crores what is the net NPA number?

Sanjay Chamria: 1030, 5.7%.

Moderator: The next question is from the line of Ashwini Agarwal from Ashmore India. Please go ahead.

Ashwini Agarwal: I just wanted to follow-up on various comments on net NPLs. One of the concerns that comes through from various analysts who track your stock is the fact that your coverage ratio at about 22% is among the lowest in the industry. How do you see this ratio moving as a result of some of the settlements that you are anticipating on your LAP book that you spoke about earlier on your call and would you keep your provisioning amount sufficiently high even though NPLs are stabilizing and hopefully will decline going ahead in order to bring up your coverage ratio over the next couple of years?

- Sanjay Chamria:** You are right Ashwini; there are two ways in which the provisioning would improve in the coming quarters. One is, whenever there is a settlement that happens and it is true of not only the LAP but also of all the other asset classes, so I think in response to a question by one of the participants I mentioned that whenever we repossess and sell there is a loss that we incur that is fully written off. So with that also the coverage ratio improves because that goes out of the gross and the net NPAs after the account has been closed and the amount is taken as a credit loss. Can you please repeat the second part of your question?
- Ashwini Agarwal:** The second part of the question is will you keep the provisioning amount.....
- Sanjay Chamria:** Yes, I understood. Which also I was saying that I am expecting the NPAs to sort of peak out during the quarter as I was sharing the experience of the last two months and then hoping for this to start going down, the other thing also why the percentage looks higher because my loan book is de-grown by 5% during the current year. The same thing in my loan book would have grown by 10% instead of de-grown by 5%; the percentage would have been lower. So one, I expect the gross amount of NPAs to start going down after peaking during the quarter. And two, the loan book growing, so the sum total of these two should result in the reduction of, one, the NPA percentages and, two, with that improvement in the PCR as well because we intend to keep the provisioning on even after the account is settled so that we can increase the coverage over a period of time.
- Moderator:** The next question is from the line of Ashwin Agarwal from Akash Ganga Investment. Please go ahead.
- Ashwin Agarwal:** Can you again give the provisioning coverage ratio, I just missed that number.
- Sanjay Chamria:** This is 24%.
- Ashwin Agarwal:** To elaborate, Mr. Chamria, on what you said some time back, in last four years our credit cost has increased from I think 2.5% to (+7%), so do you feel going ahead with growth coming and bad debts coming down or stabilizing this should also keep going down over a period of next three years?
- Sanjay Chamria:** I didn't not understand from where you are quoting this figure of credit cost going up from 2.5% to 7, can you just elaborate on that?
- Ashwin Agarwal:** I think somewhere in your presentation only I was looking at, maybe the numbers are wrong I was just glancing through it.
- Sanjay Chamria:** The credit cost rather is 2.1% in the third quarter which is the highest ever that we have experienced. In fact, four years ago.....
- Ashwin Agarwal:** I think it was 0.5%, I missed the number. From 0.5% it went up.

- Sanjay Chamria:** Now you are right. 0.5% it has gone up to 2.1%. What has happened that four years ago when my credit cost was 0.5 my NIMs were 4% and my OPEX was about 2.5% or 3%. So we have covered a lot of ground in the last 3-4 years in terms of altering the product mix and improved our earnings profile and diversified the loan book. However, given the last two years of tough economic environment a lot of good work that we did has been consumed by the increasing credit cost, so therefore once the credit cost sort of moderates in line with, one, the external environment improving and, two, the internal measures taken by the company. Like I said 4-5 quarters ago that we have implemented a huge collections project and improve the touch point and intensity of efforts with the customers and now with the next one that we have launched two months ago there again we have seen the next level of improvement due to the internal efficiencies. So with both of these helping the improvement in the collection and therefore the NPA percentages improving I would obviously budget for the credit cost to go down. However, I don't expect the credit cost to go back to 0.5% because now when I am doing the higher yielding assets like tractors, SME and the used assets, the credit cost will also be higher, so therefore my own comfort zone would be in the range of 1-1.25% over a sustainable period of time. But right now, of course, it is heightened because of the scenario.
- Moderator:** We will take one last question from the line of Nischint Chawathe from Kotak Securities. Please go ahead.
- Nischint Chawathe:** I joined late so maybe this is already discussed but can you share the GNPA number in cars?
- Sanjay Chamria:** At 120 DPD I mentioned my overall GNPA's are 8.02 whereas in passenger vehicle it is 6.2.
- Nischint Chawathe:** Last quarter this would be?
- Sanjay Chamria:** 5.3.
- Nischint Chawathe:** Just curious why would the number be so high, I believe somewhere in terms of most banks, etc., report a significantly lower numbers in cars.
- Sanjay Chamria:** One, the customer franchise that banks are dealing with and the franchise that we are dealing with is largely different. The reason for this kind of a performance, one, even my yields in the car business is about 15.5% and therefore it gives me a spread of about 5.5% and the NIMs would be more than 6%. And 40% of my total passenger vehicle portfolio is the utility vehicles which is used for commercial uses in the Tier towns and also significant part of my customers are also belonging to the Tier towns and which is part of the larger cash flow stress that they are facing due to which they are unable to pay me on time.
- Nischint Chawathe:** So the improvement in collections that we have seen over the last two months would this segment also be a part of that?
- Sanjay Chamria:** There is an all-around improvement in the collections that we have seen over the last two months and which is quite widespread across all the customer types and all the branches. Of course, I would not say that all the 230 branches have reported similar level of performance

but there has been an improvement over what they have achieved till September-October-November, both in the month of December and in the month of January. In fact, now all the 230 odd branch managers that we have they are running a target of maintaining that how do they achieve a handshake in the NPA and there we are recording it at (+90) not even (+120) and this is where we found that in the last two months we have stabilized at a company level while some branches have not achieved some branches have achieved. And this is what gives the confidence that maybe during the current quarter will peak and then start going down unless if there is some other problem that comes up in the economy. In our portfolio we have done lot of corrections.

Nischint Chawathe: Just one last question if I may and that is on loans securitization. The loans that you would have sold in the last nine months and I believe you said that these are more of bilateral transactions than securitization. What proportion of these loans would be non-PSL loans?

Sanjay Chamria: Maybe Atul can share with you later on, but there is a greater proportion of the direct assignment deals versus the PTC deals, that is for sure.

Moderator: Thank you. Ladies and gentlemen, due to time constraints that was the last question. I would now like to hand the floor over to Mr. Kaitav Shah for closing comments.

Kaitav Shah: I would like to thank the management of Magma and everybody on the call. Thank you so much. Have a good day.

Sanjay Chamria: Thank you. Bye.

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