



**“Magma Fincorp Limited
Q4 FY 2016 Earnings Conference Call”**

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Moderator: Ladies and gentlemen, good day and welcome to the Magma Fincorp Limited Q4 FY 2016 Earnings Conference Call hosted by Emkay Global Financial Services. We have with us today Mr. Sanjay Chamria, Vice-Chairman & Managing Director, Mr. Atul Bansal, Chief Financial Officer, and Mr. Kailash Baheti, Chief Strategy Officer. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. 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. Umang Shah of Emkay Global. Thank you and over to you Mr. Shah!

Umang Shah: Good morning everyone and thank you Margaret. I would like to welcome the management of Magma Fincorp and I would like to thank them for giving us an opportunity to host this call. Without much ado I would like to hand over the conference to Mr. Sanjay Chamria for his opening remarks. Over to you Sir!

Sanjay Chamria: Thanks Umang. Thank you, good morning everyone I welcome you all to the fourth quarter FY 2016 Earnings Call of Magma and thank you for taking time to join the call.

First I would like to share my views on the economy. The budget this year has emphasized the need for spending in rural India and has increased the allocation to road, housing and irrigation projects. This indicates the government's focus would be on Bharat, the semi urban and rural India, and the regions where Magma operates in. Further 20% increase in MNREGA and 6% increase in the Rabi crop MSP compared to 2% in earlier years are the key positive steps taken by the government for rural markets. Forecast of a normal monsoon after two consecutive years of shortfall will further boost the rural economy. The spending by the government on various initiatives that I just mentioned together with the prospect of a normal monsoon will have a positive effect, the benefits of which will be seen in the fiscal year FY 2017. At the start of the fiscal year under review that is FY 2016 we had indicated that our focus would be on a steady loan book which the objective of achieving a profitable growth so that we can deliver sustainable ROE across the business cycles. We had mentioned that we would be realigning our product mix to generate better margins, improve our fee income profile and focus on lowering our operating cost ratio and credit cost by getting closer to the customer. We at Magma over the last one year have realigned our product mix in line with the expected risk adjusted return, and focus more on mortgages, SME, used assets, and tractors. These products now contribute 58% of our loan book and 67% of disbursements. We are pleased to inform that our strategy has started to pay dividend as NIMs have improved to 7% in FY 2016 from 6.2% in FY 2015. Our investment in the technology upgradation

along with process simplification and focus on improving productivity and efficiency was directed at bringing down our operating cost in line with the competition. Our opex for the year has come down from 3.7% to 3.4% last year. Our opex to NII has improved from 60% in FY 2015 to 48% in FY 2016. We intended to reduce our credit cost with judicious management of product customer and geography mix, however given the weak economic environment in rural areas due to deficient monsoon for two consecutive years, and lack of government spending in rural India we have recorded higher credit cost in FY 2016. Despite the higher credit cost, the NIM expansion coupled with cost efficiency has improved our ROA from 1.3% to 1.4% in FY 2016. As we have shared in the earlier quarterly calls, we were looking at doing the organizational restructuring and we rolled out the new structure from December 2015, now it has been completed the roll out and which we named as project smart. The first five months from December 2015 to April 2016 have shown encouraging results. The process has now stabilized and there is now a scale up time for us in Magma. We expect good traction in the business and further improvement in the margins, as we are more in the interiors and closer to the customers.

As outlined in our strategy we will continue to focus on growing our business in mortgage SME used assets and tractors. With increase in contribution of these products in the overall product mix we will continue to witness sustained improvement in our profitability matrix in the coming years.

Our principal customer segment is dependent on rural economy. Due to the stress in the rural markets we made course corrections with stricter underwriting and structural change in the business model. We believe our structure has stabilized and therefore we expect both disbursement and the loan book growth to improve significantly in the next couple of years.

In the asset backed financing business which includes tractors, used vehicles as our focus product, the growth will be driven by newer branch additions, focused channel activation and increased cross sell.

As our new business model is stabilized, we have shifted our focus on increasing branch strength by going deeper and opening branches in talukas. We plan to add 50 more branches at taluka level in FY 2017 of which 15 to 20 to be added by June, further with the adoption of the new model in the existing branches are currently operating at 65% capacity hence we can grow the business with no additional cost and manpower, mind you even the increase in the number of branches will be effected without any increase in the manpower. So the congested branches will get decongested and the manpower will be shifted there. The benefits of operating leverage would be visible in the latter half of the year.

In the mortgage business we continue to focus on the lower ticket size home loans and loan against properties. Our style of growing this business is by leveraging on our existing distribution at marginal cost, lending at higher rates with low intermediation, cross sell to own customers and direct origination of the business would also result in better asset quality and reduced cost. Our housing finance subsidiary will be more like affordable housing finance focused on Tier II, Tier III locations, self-employed nonprofessional customers with an average ticket size of less than 15 lakhs and as stated earlier bulk of this business will be originated by our own employees.

Our SME business again focuses on the lower ticket size loans, the average ticket size of Rs.20 lakhs will be highest ROA product amongst the focus products increasingly leveraged on the existing branch network by expanding SME business from the current 40 locations to 80 branches would double the loan book size in a couple of years, further use of analytics cross sell to the existing customers will lead to better risk management and a strong profitable growth in the SME business. Geographically for all the products we will continue to focus on the top ten states where we have dominant presence. These states will contribute to over 70% of our business. This also allows us to have deeper understanding of the markets, stronger relationships and focused approach to service the customers.

Weak monsoon over the last two years impacted our asset quality thus leading to a higher credit cost in FY 2016, however as mentioned earlier with the forecast of a normal monsoon and the government renewed efforts in reviving the economy with structural change should result in improvement in collection from the existing overdue customers and the MPA customers and continued collections from performing loans.

I will now turn over to Atul to take us through the fourth quarter performance and the impact on the results.

Atul Bansal:

Thank you Sanjay. We continue to improve the share of used assets tractors, SME and mortgages in our product portfolio and their shares has now increased to 58% of the loan book, while the disbursals during the quarter and these assets have contributed to 69% of total disbursals. In line with our earlier guidance and maintaining the right product mix, we have maintained our loan book at about 18200 Crores with a marginal drop on a quarter-on-quarter basis and about a 7% on a year-on-year basis. We now expect to start growing the book as Sanjay mentioned with the new structure stabilizing.

The NIMs have improved from 6.4% in quarter four last year to 7.5% in quarter four 2016. The various initiatives implemented over last one year comprising increased use of

technology, rationalization of structure, alignment of the product geography mix has resulted in improvement in the opex AUM ratio from 3.9% to 3.1% and the opex NII ratio from 61% in quarter four 2015 to 42% now.

Our credit costs have remained unchanged at 99 Crores quarter-on-quarter. On a 120 day DPD recognition basis both the GNPA and NNPA are largely unchanged at 8.1% and 6.4% respectively. 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 coming effective FY 2017.

On the collection side we have now been experiencing improvements during December to March both due to gradual improvement in market scenario as well as better efficiency of the new structure. As mentioned earlier we have achieved stabilization of NPAs during this period and we hope that the scenarios will change with the spending in rural India and with a normal monsoon we should start experiencing reduction in the NPAs.

As a result of the higher NIMs lower opex offset by higher credit cost on a year-on-year basis the PBT has increased by 45% from about 70 Crores to 101 Crores, while the PAT has increased by 22% from 54 Crores to 65.9 Crores. We expect better results with credit costs stabilizing before it starts going down as we have already addressed operating efficiencies and product mix resulting in higher yields. Sanjay, Kailash and I would be happy to take any questions that you may have.

Moderator: Thank you very much. We will now begin with the question-and-answer session. The first question is from the line of Anita Rangan from HSBC Asset Management. Please go ahead.

Anita Rangan: Just wanted to know in your portfolio how much will be the repossessed asset stock as of March 31, 2016.

Atul Bansal: Our repossessed asset stock is about 45 days of stock lying with us at the end of March.

Anita Rangan: Which would be like in terms of value how much would that be?

Sanjay Chamria: It would be about 60 odd Crores and when Atul mentioned about 45 days the last year the disposal of the repo stocks efficiency has improved, so earlier we use to repo about 700 assets a month and March 2015 it was around 2000 now we are repossessing about 1100 assets a month and the stock is about 1700 which is roughly about 45 days of repossession. So post repossession, one, we have seen that the release has improved and the assets where

they are not released the sales have improved. As a result of that the hedging of the repo stock is down now from almost about 75, 80 days to 45 days.

Anita Rangan: What is the kind of growth you are anticipating next year and in terms of capital what is your thoughts on raising capital for next year?

Atul Bansal: In terms of growth we see disbursement is growing by about 30% to 35% and the book reflecting the same. In terms of capital we raised money in March 2015 and we do not see any need for capital in the current year.

Anita Rangan: And going forward what kind of options would you consider in terms of capital.

Atul Bansal: Right now we are saying we do not need capital as we have raised capital in the last 12 months and as we see growth we will look at it as and when we see the need for it.

Anita Rangan: One last question, in terms of your housing portfolio would you look at developer finance going forward or are you already looking at it.

Sanjay Chamria: Sorry what is your question can you repeat?

Anita Rangan: In terms of the housing has developer finance as an asset would you look at it going forward.

Sanjay Chamria: Development finance.

Anita Rangan: Developer finance, real estate finance.

Sanjay Chamria: That is a very small part of our overall book, our overall book is 3200 odd Crores and in that the total construction finance as we call as developer finance would be less than 300 Crores.

Anita Rangan: Would you look to like scale that up going forward or would you plan to keep it at like 10% of the overall book.

Sanjay Chamria: See the segment in which we are operating is basically tier 2 to tier 3 towns and there you do not have very high quality developers so I do not really see this portfolio going up in the next couple of years.

- Moderator:** Thank you. The next question is from the line of Sarvesh Gupta from Trivantage Capital. Please go ahead.
- Sarvesh Gupta:** We now hear that you have been focusing on the four product segments which constitute around 58% of your loan book as of now, so if we continue the focus on these areas what is the expected product mix, loan book mix going forward at least in the next one to two years and what will be the ROA improvement because of focus in these supposedly higher margin product segments?
- Atul Bansal:** We expect over the next couple of years that these four products will have about 70% of our loans and ROAs we hope will be closer to 1.8% to 2%.
- Sarvesh Gupta:** And this 1.4% which you have achieved in FY 2016 moving to 1.8% to 2% is mostly on account of better yields or is it because of lower provisions because of decrease in the rural stress.
- Atul Bansal:** To answer your question it will be combination of multiple things it will be increased yields, management of efficiency and productivity and the credit cost.
- Sarvesh Gupta:** So this NPA levels of around 7.4% which is on a 150 DPD basis so if you go to around 120 days guideline by the RBI then what it would be at 120 days or 90 days?
- Atul Bansal:** We are already on 120 days and as I mentioned to you we are at 8.1%.
- Sarvesh Gupta:** And if you go down to 90 days then what it would be?
- Atul Bansal:** See we first of all have to go to 90 days only in FY 2018 and therefore if you take the net effect may be about 1% and 1.5% more hence today as you see the economy improvement change we should see the benefits of that as well.
- Sarvesh Gupta:** If we have an assumption of a good monsoon then what will be your commentary on these NPA levels, which have spiked up a lot since last year? Do you expect a lot of this to come down or how do you see this, or do you see that because two years have been in stress so despite good monsoon we might still see stickiness in terms of NPA levels?
- Sanjay Chamria:** The two years of bad monsoon and three crop failures have actually resulted in a spike in the NPA over the last two years, so this year with the good monsoon approaching we would expect two developments, one, the gross NPA amounts to come down and we are also looking at a cleanup of the older age NPAs and therefore repossess if the parties are not able

to pay but if they are able to pay then bring it down and slower accretion from the standard book to the NPA book so this is one effect that we expect, the other effect that we expect is the growth in the overall loan book so like last year our loan book degrew by 7%, this year we are looking at 10% to 12% growth in the loan book while in terms of disbursement we are expecting a growth of about 35% so the impact of these two will be a significant improvement in the NPA ratios both at a gross level and a net level.

- Sarvesh Gupta:** 8.1% can come down to what number according to you if we assume a normal monsoon?
- Sanjay Chamria:** See I take it this way because 15% growth in the loan book and the NPA remaining static that itself should come down to less than 7% and if there are resolution in the higher age NPAs then it can bring it down further so I think it is more like conjecturizing as to what is the number but our strategy will be to resolve the older NPA accounts and grow the loan book so therefore you have the twin effects.
- Moderator:** Thank you. The next question is from the line of Ashwin Balasubramaniam from HSBC Asset Management. Please go ahead.
- Ashwin B.:** I have a couple of questions, first is on the operating expenses, it has come down fairly significantly year-on-year but if I look at listing FY basis or branch based at while that has also come down it has not come down to same extent so just wanted to understand what is driving it, part of it is also linked to the fact that disbursements have come down as a result of brokerage and commission expenses and those kind of things coming down and a follow up to that is that is it sustainable when the disbursement growth actually picks up. Second question is on asset quality, this quarter generally tends to be reasonably good quarter for NBFCs so just wanted to understand while our asset quality has more or less remained on where it was in Q3 so just wanted to understand which are the segments, which are still sort of facing significantly highest stress?
- Atul Bansal:** Just to answer your question as we rolled out the new structure in December we saw decline in the number of people itself. In addition, as mentioned earlier, the utilization rates were close to 65% resulting in low variable payouts. As the structure stabilizes and the disbursements increase we should see some increase in the variable components and therefore these will be levels at which we think we can sustain as a percentage of the total book. In terms of the asset quality as we mentioned to you earlier also we had put in this plan only in December we feel that the benefits of this were that we saw stabilization in the GNPA level and now going forward with the rural economy and the monsoon happening we should see positive signs.

- Ashwin B.:** Which are the segments where you have seen some improvement already happening in terms of asset quality and which are the segments where you have seen quite a bit of stress continuing?
- Sanjay Chamria:** Asset quality we have seen improvement in the commercial vehicle construction equipment and tractors, while the used assets, SME and housing have been performing pretty alright it is only the passenger vehicle segment which is yet to show the sign of improvement, but broadly it is more secular and widespread.
- Ashwin B.:** So the passenger vehicle segments this will largely be new vehicles?
- Sanjay Chamria:** Yes these are new vehicles that I am talking about.
- Ashwin B.:** Will this basically have to do with tier II tier III kind of cities?
- Sanjay Chamria:** Yes and about one third of that is utility vehicles, which are used in the passenger transportation in the tier towns.
- Ashwin B.:** Just one last question, if I look at your net worth, it has come down quarter-on-quarter, is it due to redemption of some preference shares, what is the reason for reduction in net worth?
- Atul Bansal:** There are two things, one there is a redemption of the pref share, which has happened as per the original terms of reduction and the second one is we have an intermediate SPV holding through which we hold 100% housing finance subsidiary and that transaction was redeemed also in the month of February which we covered in the last quarterly call so the minor reduction in the net worth has been on account of these two facts.
- Ashwin B.:** What will be the current size of your housing finance book?
- Atul Bansal:** It is about 3200 Crores.
- Moderator:** Thank you. The next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.
- Deepak Poddar:** Sir, what has been our collection efficiency in this fourth quarter as compared to the third quarter?
- Atul Bansal:** The collection efficiency is close to 100% in the fourth quarter.

- Deepak Poddar:** What was it in the third quarter?
- Atul Bansal:** In the third quarter I have to get the details, I can come back to you.
- Deepak Poddar:** Basically our collection efficiency has been 100% in the fourth quarter; I think it would be a marked improvement as compared to what we have seen in the third quarter right.
- Atul Bansal:** Yes, it is right absolutely.
- Deepak Poddar:** In spite of that our provision has been quite in this similar line so what explains that is there any write-offs or any thoughts on that?
- Atul Bansal:** Normally at the end of the fourth quarter we tend to do write-offs and that is principally what is reflected in the book in the fourth quarter.
- Deepak Poddar:** So how much has been the write-off in this quarter?
- Atul Bansal:** It would be about that amount that is there in total about a close to 100 Crores.
- Deepak Poddar:** So 100 Crores write-off we have done in the fourth quarter.
- Sanjay Chamria:** No 100 Crores is the combination of the provisioning and the write-off on account of settlements as well as the loss on the sale of repo assets, it is the sum total and the collection efficiency improvement cannot be directly linked to the provisioning, because whenever there is a recovery in the economy the collection efficiency first would improve in the zero bucket and the 1 to 90 bucket on which there is no provisioning required. It is only if the recovery is sustained that even in the NPA accounts you see a higher recovery and which is what then would result in a lower provisioning and which is where we are hopeful that if there is a secular recovery in the economy and all the products start performing then if last quarter is the start then during this year we should see on a sustained basis collection efficiency which would result in a lower accretion to the NPA and higher resolution of the existing NPA accounts.
- Deepak Poddar:** So basically any outlook that you want to share on the credit cost for the next year I think currently we were at close to 2.2%.
- Sanjay Chamria:** Credit cost is a function of as I was mentioning sometime back is a function of, one, the improvement in the collection, and two, the growth in the loan book so with 2.1% credit cost itself is a 10% growth in the loan book came down to 1.9% and last year we had

a 7% degrowth in the loan book so actually 2.1% if the loan book was flattish would itself would have been less than 2% so one by virtue of the growth in the loan book itself we expect it to be below 2% in the current year at the same time as I was also talking that with the improvement in the economic scenario we would rather look at cleaning up of the higher age NPAs which may result in a higher level of write-offs but the provisioning would certainly be far lower.

- Deepak Poddar:** So provisioning would certainly be far lower in FY 2017 as compared to FY 2016 right.
- Sanjay Chamria:** We expect much slower accretion of the fresh NPAs and this is what has been our experience in the last five months.
- Deepak Poddar:** And my final question is as you have mentioned earlier that we should start seeing the improvement in our overall asset quality from the first quarter itself in the next year that is FY17 so are we continuing to hold that or if there any change in our view.
- Sanjay Chamria:** See on a quarterly basis it is difficult to do a prediction and as we said that December onwards one the internal structural change has started showing the initial signs of improvement in collections, two there is a widespread improvement also in the economic scenario but can we say it is normal I think we will have to wait for another quarter or two to say whether it is fully sustainable, because right now also while there is a prospect of a normal monsoon but half of the country is having a water reservoir which is below 20% and the farmers are crying for water. So in that scenario it is very difficult to say that quarter-on-quarter we would be able to see the improvement I think we have to wait for a quarter or two.
- Moderator:** Thank you. The next question is from the line of Kaitav Shah from SBICAP Securities. Please go ahead.
- Kaitav Shah:** First of all I would like to compliment you the change in our productivity et cetera has actually been paying off to you pretty well so it showing up in your numbers, where do you think this can stabilize going forward now that you have three months could look at this whole system of collections and sales being together
- Sanjay Chamria:** We expected that there could be some level of attrition so I think all of that is now stabilized because it is five months behind us the guys who were not convinced or who were not wanting to be part of this have all gone and even after that attrition we are now sitting on a capacity utilization at about 64% in terms of the fresh loans were in terms of the

servicing of the existing loans we are well capitalized. So therefore now we are expecting that this year up to 85%, 90% capacity utilization also if you work we do not have to add any manpower and that is what our process during the current year is sort of loan book growth up about 12%, 15% without adding manpower and in terms of the guys getting used to handling both the sales in the collection that has happened because in the last four months our first thrust was on collections and not on sales, and we achieved handshake and therefore our overall NPA numbers have remained constant in the last four months, which I take as a first sign of success and now we would rather look to consolidate on this further.

Kaitav Shah: Sir the second question broadly is on if I were to look at on your QoQ disbursement then we are seeing that there is some increase in construction equipment commercial vehicle I know these are very low numbers nothing to talk about but given that some of the banks are now doing some fair bit of lending there do you see this picking up over the next one year and be a driver for loan growth?

Sanjay Chamria: So the drivers of the loan growth looking from SME housing and used assets and to a certain extent tractors and so far as the car CVCE is concerned the markets that we are present and the customer segments that we are catering to there might be some growth but as you rightly said that weightage of these numbers is pretty low and our focus will continue to remain on the SME housing used in the tractors.

Kaitav Shah: So it will not happen that we will probably see two or three years down the line CVCE gaining share or whatever.

Sanjay Chamria: Certainly not.

Kaitav Shah: So the strategy will be on more granular sort of lending unlike say earlier when CECV use to be much higher proportion like settle.

Sanjay Chamria: Yes.

Kaitav Shah: And just one book keeping question if you can give us the breakup of your borrowing mix.

Atul Bansal: Working capital is about 52% Kaitav preferred stock is about 8% and NCD is 16% and term loan is about 24%.

Moderator: Thank you. The next question is from the line of Vineet Ahuja from LIC Nomura. Please go ahead.

- Vineet Ahuja:** Just I want to talk about your liability profile. If you look at this proportion of banks actually increased materially over the last couple of years whereas the interest rates have not been kind of passed through by the banks that happened to the debt market itself so why is there such a big increase in a situation where the transmission has been higher to the debt market?
- Atul Bansal:** If you look at in the banks have transmitted the base rate reductions to us and we have seen the benefit on the top as well.
- Vineet Ahuja:** But has and it been slightly higher within the debt market as such. Because the banks actually because of the liquidity thing they have been holding back but it has been slightly higher from that front right even from your CP series has been lower price as such?
- Atul Bansal:** So we do use CPs and CCs, CPs during the quarters but if you notice most of the NBFCs at quarter end convert them into bank facilities.
- Vineet Ahuja:** And sir going forward what is the ideal mix that would you be happy with?
- Atul Bansal:** I think it would be similar obviously it will play out as we get opportunities in the market, some will be tactical and a lot of it will be strategic.
- Vineet Ahuja:** I do want to understand what is the thought process behind it increasing to such an extent from debt capital market to banks, what was the thinking there as in terms of change over the last couple of years?
- Atul Bansal:** If you see the increase in the borrowing have also gone up, as the borrowings have gone up we have utilized more of the bank facilities to fund those.
- Vineet Ahuja:** And the other thing is on the off balance sheet now that has been materially lower in this year as compared to last couple of years, is there something that we are missing as to why that has happened because there is the PSL requirement obviously, so is that because of the change in our loan book or what is the guideline?
- Sanjay Chamria:** So after raising the capital we wanted to build on our own loan book our own balance sheet and still by doing that we are sitting on 18% capital adequacy and we will rather use the sell down route more as a treasury tool to either bring down our cost of funds on an overall basis or to maintain the capital adequacy.

- Moderator:** The next question is from the line of Darshan Shah from HDFC Securities, please go ahead.
- Darshan Shah:** Congratulations on your good set of numbers. Mainly, I am happy with the direction of the company that 58% of the loan book is now high ROA business, so in this part of the book what kind of growth rate you assume for the next two years?
- Sanjay Chamria:** What was your question?
- Darshan Shah:** This 58% of the loan book, which is right now, used as vehicles and SME mortgages this part of the book will grow at what rate in the next two years according to you?
- Sanjay Chamria:** As Atul mentioned sometime back, these four products are the cornerstone of our future growth and in the next two years by FY 2019 we expect to take it to about 70-72% level and within that we expect the growth of mortgage and the SME to be higher and followed by used assets and followed by tractors.
- Darshan Shah:** In Mortgages, as we move forward I think you will focus on this affordable housing opportunity right?
- Sanjay Chamria:** We have already brought down, last year our ticket size on both LAP and home loan put together below 30 lakhs but in the last quarter which is Q4 of FY 2016, the average ticket size has fallen to 15 max. Home loan is already below 13 lakhs. We are going to be operating in this space because we find that the sticky nature of the customer is a lot higher in the lower ticket size and the risks are far well spread out and the chosen customer segments where we operate which is tier towns in normal segments, self-employed customers, this is a comfortable zone which we wish to operate.
- Darshan Shah:** Sir basically right now government is also coming up with sops on affordable housing in the Pradhan Mantri Awas Yojana Scheme, where they give interest rebates, they also give subsidies for this affordable housing which is below 13-14 lakhs, are you addressing that opportunity also.
- Sanjay Chamria:** We are not yet availing those facilities because these announcements have been made and there are certain states, which sort of announce projects, which would qualify for such subsidy schemes, we are not part of that. We were part of it in one particular state but as it happens within two hours the entire thing gets booked and so therefore we are looking at the individual home buyer in the tier towns, so what we are looking to do in the current year

we have more than 5 lakh existing customers in our vehicle tractor and equipment finance and we have now 3500 people who are in touch with them on a monthly basis. We are looking to leverage on that also to reach out for the home financing need as well as the other customers in our 250 branch network which actually makes it a very potent combination to build our affordable home loan book with marginal expenditure.

Darshan Shah: Are there any competition, which you are seeing in these four segments mainly because SME is a soft target for banks, any competition which you see so that yields might come down in future?

Sanjay Chamria: I am yet to see a virgin market, all the products have competition and in each product there are about five to six players who are strong and they would be strong in their respective regions, so we also have our strength areas and as I mentioned that while we are present in 22 states but we are actually focusing on 10 states which contribute 70% of our total business and we wish to deepen our presence in these 10 states so that we have a competitive leverage and we can also service our customers better.

Darshan Shah: On the asset quality side as you said it is dependent on monsoon right, any particular target which you have set, we are seeing on the opex side you are seeing lot of improvement but on the asset quality side?

Sanjay Chamria: Of course the one open item, which we have not been successful in addressing so far, is the asset quality. There are three things that we are consistently maintaining in our quarterly communication and these are the three vectors on which we propose to improve our profitability, which is the NIM, opex and credit loss. We have more or less reached our target in terms of the NIMS, which in Q4 was 7.5, and for the year first time we have touched 7%. In terms of opex despite last year increase happening across the board we have brought it down by about 8% which is on a de-growth of 7% in the loan book, so in real terms if you see the movement in the opex is about 15%, year in which competition has seen an increase but despite that we are still at a higher end. As we shared that we are at a 65% capacity utilization that is now improving and we are hopeful of taking it to 85-90%. The opex, we wish to keep it under check. The point on the credit quality some things are in our hands which is the internal operating improvement and second is the external scenario which due to the segment in which we operate is largely dependent on monsoon and also to that extent the support provided by the government. Now this year there has been a positive news as I mentioned in my opening address that though the government has committed larger outlay to the rural infrastructure and irrigation and increase the MSP for the crop by 6% against 2% in the previous new year, so all of this could result in a higher cash in the

hands of our customer universe and with the monsoon expected to be normal, I think there will be overall buoyancy which should help us both in terms of a loan book growth as well as in terms of tempering down the gross NPA number.

Moderator: The next question is from the line Anita Rangan from HSBC Asset Management, please go ahead.

Anita Rangan: Hi Sir, this is just a followup question, sorry if I may sound repetitive, but this being Q3 and Q4, the overall ROA has improved significantly from 1.35 to 1.7, that marks a very significant jump, just wanted to understand in terms of sustainability, do we understand that since you said like Q4 you just outlined the Q4 NIMs and opex and all is at the peak, so will you be able to manage 1.7% ROE on a sustainable basis plus going forward is this like a base now?

Sanjay Chamria: This certainly not the base because Q4 as you yourself know is actually the best quarter for most of the companies, so that we do not really take as a benchmark but what we have achieved for the year is we hope to continue to improve on a quarter on quarter basis in to the future in the current year as well, but in terms of the sustainable improvement our target would be to take it in the range of 1.8 to 2 for the entire year which we are currently at 1.4 and there we shared that this would happen now in terms of our unfinished agenda it is only two, one is to reduce the credit cost through a judicious risk management and two is loan book growth, these two things happening our ROE story will pan out.

Moderator: The next question is from the line of Jinay Gala from Florine Tree Advisors, please go ahead.

Jinay Gala: Sir, thanks for the opportunity, can I have securitization income for the full year and the quarter?

Sanjay Chamria: Well, we do not have it right away. I think Atul and his team can provide it later on to you but now our securitization income has gone down because the level of sell down that we do has also reduced and our loan book asset has now improved to 78% as opposed to less than 70% that used to be there till last year.

Jinay Gala: Sir going forward what will be the mix basically between on book and off book, whether it would remain the same or it would be changing?

- Sanjay Chamria:** As I mentioned sometime back to another question that this we are using more as a treasury tool, one, to improve the cost of funds, and two, also maintain the capital adequacy, so because more than 80% of the portfolio that we originate is all eligible for priority sector tagging and therefore there is sufficient appetite amongst the banking system to acquire these assets, so the choice eventually is with our treasury team as to what is the decision that we take at a point of time from the capital adequacy and cost of funds angle.
- Moderator:** The next question is from the line of Pankaj Agarwal from Ambit Capital, please go ahead.
- Pankaj Agarwal:** Sir, one question on your off balance sheet book, what would be the breakup of this book between assignments and PTC?
- Sanjay Chamria:** More than two thirds would be assignment and less than one third would be PTC.
- Pankaj Agarwal:** Sir in terms of your growth in CV/CE, is not it counter intuitive that when things are improving in this segment you have started de-growing your portfolio in these two segments.
- Sanjay Chamria:** We have been de-growing over the last three years Pankaj, we are not de-growing it now.
- Pankaj Agarwal:** But now it should be the time to focus again on this segment.
- Sanjay Chamria:** Therefore whenever you are in a cyclical industry these are the questions one would be faced with, can you really time these cyclicalities that when it goes down, you go down, when it goes up, you go up, I think that way we took a call that we would like to focus on the other four products where we have successfully improved it to 58 in terms of loan book and 65 plus in terms of the fresh disbursements and we are seeing that it also has a positive impact on the overall NIMs, I have shared it in my earlier quarterly call that even in a good year, while you can grow the loan book, but in terms of the ROTA it is not as high in case of a new CV and new CE but passenger vehicle I agree and therefore that we continue to maintain that we will have it at more than 20% in the overall loan book even in the next two three years.
- Pankaj Agarwal:** Sir both these products, new CV CE and new passenger vehicles all these segments are on the margin 2% ROE business sir?
- Sanjay Chamria:** No, they are not. If they were then we would have definitely continued doing it.
- Pankaj Agarwal:** Even passenger vehicles?

- Sanjay Chamria:** Passenger vehicles are and they are not too, but we are saying that any product which does not give up 1.5% minimum ROA we would rather like to maintain low presence if not well present, so in the passenger vehicle where our yields are in the range of 15.7 to 16% with our cost of funds at 10% that gives us a net of 5.75 which on a NIM would be more than 6% is what we wish to continue our weightage whereas in case of CV/CE it is lesser and therefore we are less keen.
- Moderator:** The next question is from the line of Nischint Chawathe from Kotak Securities, please go ahead.
- Nischint Chawathe:** Hi, I was just curious, how do we look at coverage ratios at this point of time and going forward?
- Sanjay Chamria:** As I was sharing some time back that this year with the improvement in the overall scenario, we expect the gross NPA numbers to remain constant if not come down and with that with the cleaning up of the older NPA transactions by way of repo sale or loss on settlements we expect the coverage to improve to go in the range of 27 to 30 and the overall gross NPA and net NPA numbers also to improve with the growth in the loan book and stagnation of the gross NPA amounts.
- Nischint Chawathe:** You basically said that looking at stabilization scenario with obviously the denominator changing you also mentioned that you will have about 150 basis points raise in GNPL ratio as we move in to the 90-day norm, a year or two years down the line.
- Sanjay Chamria:** That will happen after a year from FY 2018.
- Nischint Chawathe:** At that point of time, what kind of a steady state coverage ratio would you look at to maintain?
- Sanjay Chamria:** We are now looking at rather once with the stability in the economy, the coverage ratio only to improve gradually, right now we are at a lower end of the provisioning ratio, provisioning coverage which we would rather like to improve, this year if we improve to 27-30, then next year also we would like to keep on maintaining the improvement trend.
- Nischint Chawathe:** The next question is on the disbursement side, you have guided for around 35% disbursement growth and I think you mentioned some of the segments in which you will want to grow etc., but just curious, would you start seeing an improvement in the second quarter itself or how should we look at it, you had an exit of around 600 odd employees

over the last two quarters of which a chunk was in the third quarter, is it something to do with the fund and that has affected disbursement and maybe the growth would be back ended, how should we look at it because it is a fairly aggressive target that you are putting out?

Sanjay Chamria:

The disbursal growth slowed down from December as a result of two things, one the environment was not improving and two, we went for a structure change implementation from December 1, 2015 and as I had shared also last quarter that our first priority was to stabilize and improve the collection rather than look at disbursal growth. With that being achieved in the back, then in the month of March actually we achieved the disbursal which was previous highest disbursal that we achieved in the year that was in October 2015 and even in the month of April which usually is dull, we are almost nearly to the March numbers but the fact is that we are at a 64-65% capacity utilization and with the collections having stabilized in the new structure and even with the workforce which is down by few hundred people we are at 65% and therefore we feel confident that with the structure having stabilized, process having stabilized, people now being stable, it is a scale up time for Magma. Now, 35% by itself looks aggressive, however if I compare it even with FY 2015 disbursal even at a 35% growth in disbursal we will be below the norm that we have disbursed in FY 2015 that was two years ago, therefore from my branch network, from my existing customer network and the channel network that we have still it will be lower than FY 2015.

Nischint Chawathe:

I take the point on improvement in capacity utilization, but on the opex ratio side one of the reasons for improvement in operating leverage, the fact that you saved on the variable pay for the employees that exited, so in that sense would it your case that over the next few quarters your opex ratio actually goes down before the benefits of higher operating leverage starts kicking in?

Sanjay Chamria:

This is a right point that you have brought about, opex ratio is calculated on the average loan book, so last year like our loan book has declined and still we had the benefit of higher average loan book because the opening was higher, so in terms of the absolute amount in the opex we have seen a lot of savings and stabilization, there may be a marginal increase on account of the inflationary impact plus the variable pay going up with the improvement in the capacity utilization, however in terms of the ratio, it will be a function of the growth in the loan book, like I am sharing that our opex went down by 8%, but our loan book went down by 7%, so actually speaking our overall opex went down by 15% and my loan book has remained stagnant. I think we will see over the next few quarters the opex ratio remaining stable before it starts rather going down.

- Nischint Chawathe:** If you could share some data points on NPLs in mortgages and tractor loans?
- Sanjay Chamria:** In mortgage, now it is almost stabilizing as I have shared two quarters before also that the lower ticket size book which is now a good part of the significant part of the book has been showing good trends and has been performing well. It was high ticket size where NPLs had gone up and because now we have stopped doing that, so therefore percentages are little higher and we were expecting some of those accounts to get resolved which is taking longer than originally estimated, so I would think that in this quarter and the next quarter once they get resolved the higher ticket size NPAs also should improve and in the lower ticket size it is perfectly fine, so far as the tractors are concerned there of course the NPLs are at a heightened level while in the last quarter they have remained stable, but I think they are still beyond our comfort zone and therefore with the collections improving and the last crop realization which would have hit the customers end April and beginning of May, so I think in this quarter we will get to know as to how it is improving but right now they are beyond the comfort zone.
- Moderator:** We will take the last question from Shivang Mahajan from Asit Mehta Investment, please go ahead.
- Shivang Mahajan:** Sir, my question is you mentioned about expansion in branches, which are the regions or locations where you are looking to set up new branches?
- Sanjay Chamria:** Now, we are not looking at virgin territory because we are at a capacity utilization which is below 70, it does not make sense for us to open branch in a new territory when our existing branches are not fully utilized, so what we are doing now is that wherever we have say about, 900,000 customers and being catered from an existing branch but people now live in the Talukas and these places, so therefore we open a local branch there and all the people would report to that branch, so it is one notch leading to the increase in the head count, so therefore it is an effort to keep the cost low, two with the opening of our branch there, it helps us to service our customers and channels better which would also result in a higher business potential from there because right now otherwise the customers would come to the branch which is about 40-50 kilometers away from there and even once or twice a week the field officers also come to the branch but then opening our branch provides us an opportunity to have a local branch manager and all the people working in a local area can operate from there, so therefore when we are opening a new branch it is all in the vicinity of our existing branches and then we are transferring people from that branch to the new branch and also the about 800,000 odd customers to be serviced out of the local branch.

- Shivang Mahajan:** Which means you are moving more closer to the customer?
- Sanjay Chamria:** Absolutely.
- Shivang Mahajan:** Much in the rural regions?
- Sanjay Chamria:** We have already opened about 30 plus branches in the last quarter and we have opened about 10 more branches since April and we will open another 20 by end of June, so roughly about 55 to 60 branches will get opened between December and June.
- Shivang Mahajan:** Will all of this be happening on the same level of employee head count?
- Sanjay Chamria:** Absolutely.
- Moderator:** Ladies and gentlemen, due to time constraint that was the last question, I would now like to hand the floor over to Mr. Umang Shah of Emkay Global for closing comments.
- Umang Shah:** Thank you Margaret. We would like to thank the management once again for giving us this opportunity and we would also like to thank all the participants for taking time out and attend the call. Thank you so much and good day everyone.
- Moderator:** On behalf of Emkay Global Financial Services, that concludes this conference. Thank you for joining us and you may now disconnect your lines.