"Magma Fincorp Limited Q3 FY2021 Results Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to Magma Fincorp Q3 FY2021 results Conference Call hosted by ICICI 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 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 would now like to hand the conference over to Mr. Kunal Shah from ICICI Securities Limited. Thank you and over to you Sir!

Kunal Shah: Thank you Ayesha. Good morning all of you. This is Kunal Shah from ICICI Securities. We have with us today, Mr. Sanjay Chamria- Vice Chairman and Managing Director, Mr. Deepak Patkar – CEO Asset Backed Finance, Mr. Manish Jaiswal – MD and CEO of Magma Housing Finance Limited and Mr. Kailash Baheti- Group Chief Financial Officer from Magma Fincorp to discuss their Q3 FY2021 earnings and also to give medium to longer term outlook as well as their strategy. Over to you Sir!

Sanjay Chamria: Thank you, Kunal. Good morning to all of you. Thank you for joining Magma Q3 FY2021 results conference call. First a few sentences on the macro. The Indian economy is clearly on the path of quick recovery. The high frequency indicators like PMI, GST, and the green shoots in the capex cycle all suggest a strong recovery ahead.

India presently seems to have averted the second wave. The country's massive vaccination drive will ensure that the pandemic will now be behind us for good. The budget has clearly indicated its focus on growth flow, and strong expansionary budget. A strong focus on capital expenditure, rural and agri infrastructure especially roads and railways along with their scrappage policy with ensured freight expansion, a 74% FDI in insurance is a welcome move and will invite a significant FDI.

Housing sales continued its momentum as the home affordability is at a 25-year high, due to the price correction, state governments' stamp duty schemes, and significantly lower interest rates. While the auto industry was facing headwinds even before the pandemic, the pandemic gave a big blow to the sector. As per the recent SIAM data, the industry is going through a structural slow down. With the CAGR of major vehicle segments showing a declining trend over the past three decades, having said this, the used car space, has shown remarkable growth on a YTD basis and a few pockets in the new vehicles like private cars and the MUVs are also showing a strong revival backed by personal mobility needs and the lower interest rates regime. The new and the used commercial vehicles remain under stress.

RBI's focused policies ensure significant liquidity and benign interest rates this has resulted in excellent liquidity and cheap cost of funds for the NBFCs. Such enabling factors could ignite the growth engine going forward. On the sector growth front, a leading rating agency expects modest growth in the NBFCs AUM by about 5% to 6% in FY22 with manageable asset quality risk. As per the rating agency, there may be about 3.5% to 4% onetime restructuring for the vehicle finance sector by March 2021. NPLs have peaked in Q3 and now showed downward trend from Q4 onwards and the situation is further expected to improve in FY2022 and most NBFCs will carry a cushion of COVID provisions in FY2022 as well.

Coming to Magma's performance during Q3, our focus on niche segments like used vehicles, agri business, affordable home loan and SME is propelling us amidst the competitive intensity seen by NBFCs from banks mainly in the segments which are addressable by banks like new vehicles, urban home loans and the formal segment of customers. Our performance has been superior than envisaged for ABF and housing finance, while we are seeing some stress in the SME business. Having said that we are adequately provisioned, and the worst is behind us.

Our NPAs to gross stage III assets are projected to go down in the last quarter of the current fiscal. We continue to have healthy liquidity of INR 2100 Crores at the end of Q3. We have capital adequacy of 28% supported by equity relief from our non-core customer portfolio. This will ignite the growth engine of the high yield focused products. NIMs are on the rise, on account of the boost in the portfolio gross sales from focused products and decrease in the cost of funds in the benign interest rates environment. Our asset quality is in check with a strict monitoring and control mechanisms in place.

I will now share some of the highlights with you for the quarter. Moratorium portfolio where the customers have not paid one EMI till December 2020 stands at about 280 Crores which is about 1.9% of the AUM. We are carrying total COVID provisions of 149 Crores, which is about 1% of the AUM and we are confident that we are adequately provided. This confidence is due to the portfolio resilience despite COVID headwinds. Our net stage III assets in Q3 are at 4.5%, it is similar to Q3 FY2020. As per the Honourable Supreme Court order, if we were to give effect then the net NPAs would be down to 2.4%. This means we are at the peak and we expect the NPLs to decline in Q4 of FY2021.

We have received excellent support from our bankers during this entire period and the strong pipeline of sanctions in hand is expected. The current benign interest rates regime has also helped us bring down our Q3 cost of funds by 56-basis points over H2 of FY2020 and we expect this trend to continue. We have achieved significant reduction in opex to the tune of INR 116 Crores YoY on a YTD basis and this translates into the drop in the opex by about 70 BPS during nine months YoY. Out of this 70 BPS we expect sustainable savings to the tune of 40 BPS, while the balance will gradually come back as business picks up and the variable costs go up.

As a result of the above initiatives, despite additional COVID provisions, our profit after tax is about INR 13 Crores for the quarter from INR 22 Crores in the same quarter last year and higher by 42% from INR 63 Crores on a YTD basis nine months to about INR 89 Crores in nine months FY2021. With the COVID related portfolio issues behind us we will now focus on growing the businesses from Q4.

I will now give you the brief update on the strategic initiatives taken by the company. On the first initiatives, our focus has been on the high ROE products in ABF business, which are the used assets and tractors. It is clearly expected to increase from around 58% currently to about 88.5% by March 2022. Around INR 210 Crores of capital is expected to get released from non-focused portfolio run-off in FY2021 which shall get deployed towards the growth of focused products. The resultant mix change will provide improvement in NIM, ROA and ROE.

On the second initiative, Magma Housing Finance, the wholly owned subsidiary continues to carve out a niche for itself in the specialized affordable housing finance space. The capital raise is underway and we have so far received healthy preliminary interest from potential investors. Magma Housing finance hopes to receive firm investor interest over the next two to three months.

On the third initiative, Magma HDI General Insurance is well poised for growth and to tap the strong market opportunity in the underpenetrated general insurance space. On the capital raise front, we have received firm interest from a few parties, and we hope to reach definitive alignment in the foreseeable future.

I now hand over to Deepak to share the updates on the ABF business.

Deepak Patkar: Thank you Sanjay. Good morning everyone. Giving a brief overview of the sector that we operate in. In the vehicle finance segment, hygiene factor and value buying has driven up sales in Q3 by about 10-15% YoY in the used car. This has largely been driven by the entry level segment and first-time buyers.

The higher BS-VI pricing and vehicle availability and now the improved freight conditions are also driving the used CV sales back to the pre-COVID levels. After a significant growth in the tractor sales in Q2 and for some part of Q3, there was a sharp decline in growth in December about 25% month-on-month basis. On our disbursals, our strategy to build focus product disbursals have led to the focused product book increased to 58% of the ABF business and will rise to 60% by Q4.

The used car disbursals are at 85% of the pre-COVID levels and expected to normalize in Q4. We started our used CV and CE disbursal in Q4, and we will see a large contribution taking place in Q4 from these product categories. The new tractor disbursals have been slow, but we expect normalization in the next one or two quarters.

On the risk management front, the flows from the over three month's moratorium availed book was the key for us in Q3. As a result of the differentiated collection strategy undertaken by the team we were able to manage these customers well and more than 75% of these customers have paid us at least two EMIs or more in Q3 itself.

Disbursals in Q4 will accelerate with us opening all our product lines in line with our pre-COVID level policies and in our chosen geographies. In this respect our continued drive for digitization of our processes as well as expansion in the channel network and engagement with channel should hold us in good stead.

That is about it from the ABF front. I will now hand over to Manish for the housing finance piece.

Manish Jaiswal: Good morning everyone. Magma Housing Finance now is a national scale affordable housing finance company focused on retail assets with minimal construction risk. Over the last quarter, the economic revival has been sharper in Tier II to Tier III towns. Our disbursements for the quarter grew 38% over the previous quarter and we now stand to INR 367 Crores, almost back to normalcy, post the COVID-19 disruption. Our AUM has grown by 16% to reach INR 3709 Crores. The mortgage vertical AUM overall stood at INR 4248 Crores at the end of the last quarter.

Our bucket zero collection efficiency has reached back to the long-term average of 98% and collections have returned to normalcy. Our gross stage III assets stood at 1.9% down from 2.1% during same period last year. The company showed prudence and choose to write off COVID impacted assets of INR 24 Crores during the quarter. Despite write offs of 1.1%, the PAT stood at INR 10.2 Crores for the Q3 FY2021.

Our offering reflects our mission of keeping customer first, over the last quarter 60% of our fresh awarded home loan customer, are eligible for PMAY benefit. 74% of the loans sourced were sourced directly. Deploying technology and stringent control resulted in opex ratio reducing to 2.9% as a percentage of AUM by the end of last quarter. For the employees, there have been continuous engagement program of senior leadership team to regular connect sessions, digital sessions and the company is directly focused on building a strong national franchise to serve customers with meagre documentation in semi-urban and rural geographies.

I will now give an update on the SME business. The company focused on asset quality over fresh disbursals, collection efficiencies, even for SME business has now reached back to pre-COVID levels. SMEs are undergoing revival month on month basis and the monthly sales are yet to come back to pre-COVID levels. Our SME team provided ECLGS loan to 3200 customers with minimal paperwork. With the pickup of economy, we are now cautiously optimistic to scale up SME business in the Q4. The SME business has also successfully concluded a pilot of secured lending in three states and now expects to double its distribution in this quarter.

The SME business is also embarked on going direct and engendered transformation during these pandemic times to build long-term direct client relationships. Given the strong need for MSMEs to reboot and relook at this model our company also partnered with Wadhwani Foundation, a leading philanthropic institution, to provide them pro-bono advisory under Sahayata program. Their SMEs are reaping benefit under various facets of programs such as advisory on digital learning management, resource management, and revenue enhancement programs to under 30-hours of engagement thus far. I would now hand over back to Sanjay for update on General Insurance Business. Thank you.

Sanjay Chamria: Thanks Manish. Rajive the CEO for the Insurance Business is tied up today so he could not join. So, I will provide the update on the General Insurance Business. The industry has registered a growth of 4.9% in Q3 with all segments registering a growth except for crop insurance. The motor insurance segment also bounced back after two quarters of negative growth and registered 7.6% growth in Q3. The commercial segment grew by 17% and the health and the accident by 8.4%. On the overall business the industry registered a limited growth of 2.5% during the nine-month period ended December 2020.

As a company we grew by 2.3% in the third quarter which is a strong growth of 82% in the commercial segment and 32% in the health and the accident segment. The de-growth in the motor segment also tapered from 6.6% in second quarter to 4.3% in third quarter. Traction in the health business continues in this quarter as well. The health and the accident segment contribute to 6.3% of the total portfolio as of December. The activation of the dealerships, IT integration, with newly acquired OEM partners and acquisition of agents continue. Our motor OD claim assessment through video streaming is stable at 45%. Our investment AUM now stands at about INR 2881 Crores in December with a leverage of 6.6 times to the capital. By the way our AUM in January has crossed INR 3000 Crores. Our profit after tax for nine months AUM stands at INR 22.3 Crores as against INR 7.3 Crores during the same period. Our solvency margin as at December 2020 is 1.87 times.

With the distribution engine the claims in the operations platform stabilised. The company is well poised for growth. To conclude, with the recent budget announcements of the proposed increase in FDI limit from 49% to 74%, we remain excited on the opportunity in the sector and the outlook for the company. With that I handover back to the moderator and now, me, Deepak, Manish, and Kailash would be happy to take on any questions, that you all may have. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Sumit Bhalotia from HSBC Securities. Please go ahead.

Sumit Bhalotia: Congratulations for a good set of numbers. I wanted to know about the understanding on the asset quality movement, so you are saying that the GNPAs, pro forma GNPAs they have peaked in this quarter and it will be coming down from next quarter onwards. So, we have seen in the industry that the trend has been pretty divergent, if I look at the GNPA movement for vehicle finance companies. So, can you give us more colour on how this change happens? What kind of provisions in this quarter is specific to stage III assets and have we dipped into the COVID buffer that we had, I think, our buffer has also come down from 230-odd to 250-odd, so actually on restructuring, so well, stress asset piece level restructuring has also the guidance have also increased a bit last quarter, we had mentioned something around 3% and this quarter presentation you have mentioned it to be around 12.5% so, if you can give guidance around these three will be very helpful.

Sanjay Chamria: I think your voice was quite muffled, but I understand your question is broadly pertaining to the asset quality, the write off, the adequacy of the COVID provision, the outlook on the Stage III. So, I think it is quite all an encompassing question on the portfolio that is what I will attempt to address. So, the reasons we have said that the Q3 is the peaking of the NPAs, which is the stage III is that this was the first quarter after the moratorium that four months have gone, September, October, November and December. So, therefore the customers who did not pay after the moratorium got over and which is what our previous quarter call, we had defined if you remember as on September it was 1500 Crores to 1600 Crores portfolio and as at October end because we had the call in

November, so we shared the number was about 600 Crores, now that number if you look at slide #17, the third bullet, we are saying that this number is now down to 280 Crores. So therefore after the end of the moratorium in August, out of 15000 Crores portfolio, now 280 Crores portfolio worth of customers are the ones who have not paid the EMI from September till December and all this portfolio has already moved into 90+. So, they have already become stage III and that is exactly what we had given a guidance that Q3 will be the peaking of the NPAs and that is what will happen when our NPAs if you look at the same slide #17 stage III has moved up from 710 Crores to 927 Crores. Now how do we say that it has peaked and now it is stable? If you look at in the March our stage III was 914 Crores which was after taking the benefit of the moratorium in the month of March and that number is now 927 Crores after the entire portfolio has moved up who took the moratorium and therefore we believe that now it will only come down and it cannot go up. That is the second reason. The third reason is in the same slide, the first bullet we have explained the collection efficiency, month-on-month, the first month after moratorium it was 84.5% which went up to October 19 remained at November 19, improved to 94% in December and further to 97.2% in January. So, there is a consistent improvement in the collection efficiency and that gives comfort and confidence to us that now the NPAs will come down and the collection efficiency will keep improving, and now if we go to the next slide, which talks about the restructured portfolio which is on slide 18 the total restructuring done by us is about 1.9% which is 281 Crores. The important thing here is that whilst we have restructured the portfolio of 281 Crores and if you look at the left side of the table, it shows stage I is 34, stage II is 225 and stage III is 12, but we have not altered the staging after restructuring. So, while we have given the benefit to the customer of restructuring we have not recorded the restructured lower bucket in our books and therefore if you look at the right side of the slide 18, you will see that the stage I is only 2 Crores out of 281, stage II is 262 Crores and stage III is 17 Crores, so this is based on the pre-restructured portfolio plus the payments made by the customers during the restructuring period and that is how we have recorded and reported the numbers whereas the middle bucket shows the table 256 Crores is the stage I that actually if we take the benefit of the restructuring which we have not taken. The point and the last point here is that when we have restructured the portfolio we have retained the original provision and also if those customers who have not paid after restructuring and have moved up in the stage I or stage II there we have made an additional provision of 10%. So, in that sense out of 281 Crores portfolio we have restructured portfolio; we have made a provision of 43 Crores, which is about 15%. So, sum total of all this gives us the confidence that we are adequately provided and we still continue 150 Crores worth of provision as against 117 Crores in BAS-20 and we believe that we will not need to consume this in Q4 entirely and we will carry over a significant part of provision in FY2022. I think I have tried to answer different parts of your query.

Sumit Bhalotia: Really helpful. Sir on the restructuring what kind of restructuring are we doing, 10-year restructuring or extension, what is the exact nature of restructuring?

Sanjay Chamria: Maybe our CFO Kailash can give us specific response to this question. Kailash over to you.

Kailash Baheti: When we do restructure, we do not give any rebate on our rate of interest. We do not give any top up loan; we only increase the tenure of the loan.

Sumit Bhalotia: What kind of extension of tenure?

Kailash Baheti: It depends. It cannot be more than two years generally. That is the RBI guideline. So, we stay with the guidelines.

Sumit Bhalotia: Sir, one last question on the provisioning any targets you that we have in mind?

Sanjay Chamria: You see our overall coverage of the ECL has improved to 5.3% in December as against 4.8% in September and as against 4.4% in March and so far as the stage III is concerned it is stable at 36.8% as against 38% in September and 36.5% in March. So, the Stage III PCR provisioning coverage ratio is guided by the LGD experience that we have, the loss given default and what we have seen in Q3 and there is another slide, if I take you through which is the total waterfall of 182 Crores NCL that we have debited to the P&L in the year, if you look at the third line which is the loss on settlement of repossessions it is back to the pre-COVID levels at 50 Crores and if you see in Q3 of last year also it was 58 Crores. So, what we are saying is that repossession, claim and settlement is now almost same as the pre-COVID levels and also we have seen that loss on sale or the loss on settlement in terms of percentage also compares same with the pre-COVID levels and therefore the LGD rates are guided by that and we believe that they have not deteriorated.

Kailash Baheti: Just to give another point Magma writes off entire ABF portfolio if it moves to 730 bucket and SME portfolio if it moves to 450 buckets. So, to that extent you will never see that the portfolio stayed with us if it is written off. This is not Ind-AS requirement. This is Magma specific policy.

Sumit Bhalotia: Thanks.

Moderator: Thank you. The next question is from the line of Vibha Batra from FairConnect. Please go ahead.

Vibha Batra: Thanks for taking my question. My question is on emergency credit line disbursements. If you can tell me that what percentage of disbursement in current year are under emergency things like?

Kailash Baheti: Our total disbursements under emergency credit line is 325 Crores, this comprises of 110 Crores in SME loan book and balance 225 Crores in the ABF loan book.

Vibha Batra: This is for the nine months current year or only for the quarter?

Kailash Baheti: This is till date, the entire ECL.

Vibha Batra: This loss on REPO in relations to the assets value when you repossess. What would be that percentage now?

Deepak Patkar: That would be in the range of about 38% to 40% right now.

Vibha Batra: 38% to 40%. It was similar in Q3 2020 also?

Deepak Patkar: That is what we mentioned. We are back to normalization. We have not seen any deterioration in the loss rates on the REPO rates.

Vibha Batra: Okay. I see a loss on REPO in absolute value it has gone up sequentially if you see but I think that is because you have done more of REPO sale? Would it be possible to give the movement of NPAs and restructured assets, like Mr. Chamria very nicely explained what is vulnerable, because there are overlaps now in lot of cases stage II and restructured, so if you can pick the vulnerable assets and how they are moving quarter-on-quarter it would be really helpful?

Deepak Patkar: I think what you must look at is our slides which show what the amount of stage II is and what is the amount of stage III. You would see that the stage II and stage III, this is slide 17; March 31 stage II was 1366 Crores, December 31, 1582 Crores, stage III 960 Crores, and it stands at 927 Crores. So, we are more or less in the range of the pre-COVID which is March 31, 2020. Second question is on OTR we have clearly said and Mr. Chamria mentioned it that the entire OTR stands or we do not take any advantage, whatever is covered in stage II and stage III already covers entire stress. There is nothing which is there in the zero bucket or stage I. Our conservative policy ensures that we do not take any advantage of the OTR or shows zero bucket or 1 bucket, the entire pain has already moved to stage II and stage III. So, you do not need to specially focus on OTR separately. It is already part of our stage III.

Vibha Batra: What I am trying to say that there is an overlap between the restructured and overdue accounts, so one should not double count, if you just take a pool, vulnerable as a rule and then share the movement?

Sanjay Chamria: I will explain you. I understand your question typically what I have seen in quite a few reports if the NPA in a particular organization is 7% and if the restructured assets are 3% then analysts take it at 7% plus 3% 10% is the portfolio. That is what you are asking. I understand your question.

Vibha Batra: Yes, in your case it is 7% and it is closer to 7%, so if you take that pool and show the movement coming quarters, it will really be evident?

Sanjay Chamria: Therefore just to put the simple answer in our case, while we have 1.9% of the portfolio which is restructured, but as Kailash mentioned and before that as I drew the attention to slide #18, we have not restated the bucketing post restructuring so the take restructuring and because they state restructuring so therefore whatever is NPA has been reported in NPA and whatever is in stage II has been reported in stage II and therefore in our case, 6.9% GNPA and 4.5% NNPA already includes your impact of restructured portfolio that is what I would say.

Vibha Batra: I think this a good thing, and you explained it very well. I was trying to understand this. Thank you very much. All the best.

Sanjay Chamria: I do not know if Manish, Deepak, they want to add something on to this?

Deepak Patkar: I think Sanjay just wonderfully explained. I have nothing more to add. This is a brilliant explanation. Vibha that was a great question.

Vibha Batra: Thank you. All the best.

Moderator: Thank you. The next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: Thank you very much for the opportunity. Sir, just wanted to understand you were talking about flat AUM in FY2021, so that effectively means 7.5% kind of a quarter-on-quarter growth in the fourth quarter which seems quite steep to me. So, any comment on that would be helpful any growth outlook for the next year? Thank you.

Sanjay Chamria: I think there is some misunderstanding. What I said that a leading rating agency has predicted a modest growth of 6% to 6.5% for the vehicle finance portfolio at an industry level in FY2022 but so far as Q4 is concerned, what we have guided is that we will improve our disbursals now that portfolio quality related issues we are put behind, we are very confident about it and our endeavour is now to arrest and this is what the guidance we gave even in the last quarter that the portfolio may decline AUM till Q3 and in Q4 almost it will stabilize and that is what we would endeavour to achieve in Q4. That means our 15000 Crores overall AUM will not decline in Q4 and next year obviously we will look to grow at least 10% to 15%.

Deepak Poddar: Understood. In terms of your credit cost also, since you mentioned that from Q4 you are expecting unlike the third quarter NPA has peaked out, so by when you are expecting your credit cost to also normalize and what would be the new normal of the credit cost like post COVID, where do you see your new normal in terms of credit cost?

Sanjay Chamria: One, last year our credit cost was at about 3%, this year for nine months annualized is 3.5%, we expect this to be in the range of about 3.3% for the year as we are in March because Q4 we expect better performance, reduction in the NPA, reduction in losses and the new normal because we have now stopped doing the non-focused business of new car and the new CV, and our share of the mortgage is increasing and the tractors and the used assets, therefore the new normal of the MCL should be between 2.5% and 2.75%.

Deepak Poddar: So, 2.5% to 2.75% so that is what we can start from Q1, right? That is what we can expect like the normalization of your credit cost may start from Q1 of next year?

Sanjay Chamria: No, I do not think we will be able to comment on that right now, right now I think that guidance we will give in the next quarter call, once we end the year and we have done our workings, but I understood your question as to what is the new normal post COVID, there I would say the new normal post COVID based on the portfolio composition should be between 2.5% and 2.75%.

Deepak Poddar: I think that is it from my side. All the very best. Thank you.

Moderator: Thank you. The next question is from the line of Shreepal Doshi from Equirus Securities. Please go ahead.

Shreepal Doshi: Good morning. Thank you for giving me the opportunity. Sir, my question is with regards to our Housing Finance business. Sir, what is the normalized level that we are comfortable with? I suppose currently it is close to 4.5x to 5x. So, what is the level that we are comfortable with in that segment?

Manish Jaiswal: I think we believe that 4 is a good level to have and as we already and Sanjay has already given in his strategic message that Affordable Housing Business we are in the process of capital raise, so we are very conscious of what we are doing and I think these two would tie up your answer.

Shreepal Doshi: Thank you. Second question for the same segment, I understand we are in the smaller ticket size below 15 lakhs ticket size, but we have seen that even in this segment, the competition is increasing, so are we seeing any pricing competition playing out there and what would be the normalized ROA, ROE profile that we are looking at this business.

Sanjay Chamria: There are quite a few questions all put together. Let me slice each one of them. So, in terms of pricing pressure, while it may look like that there is plethora of affordable housing finance companies but if you really see the markets are very localized in terms of distinctive national character there are far and few players. So, in terms of localized competition, the intensity by and large remains same. We have not seen any abnormal trend or pricing pressure that is to answer your first question. Then looking at the normal ROA and ROE you can do your maths this is leverage but our sense is that the business on a steady state basis should eventually reach towards an ROA moving up or graduating from a 2.5% to 3%.

Shreepal Doshi: Sir, since you said that there the competition is broadly localized, so are we seeing a vacuum created because the smaller NBFC, I mean the smaller AUM or the smaller NBFCs are still struggling and therefore we are able to gain that market share there?

Sanjay Chamria: I can say that there is no getting up on the demand and irrespective also though far and few players or one or two players not really active have they changed the market dimensions, I feel that the size of the opportunity and also our landscape I think it is basis our installed capacity we feel that there is a comfort. There is not such a minimum or a shake out that you have seen, a large vacuum space being created. To answer your question, it is probably very mild impact and it is not yet played out.

Shreepal Doshi: Thank you Sir. That is, it from my side. Good luck for the next quarter.

Moderator: Thank you. The next question is from the line of Abhishek Murarka from IIFL Capital. Please go ahead.

Abhishek Murarka: Good morning Sir. Congratulations for the quarter and the kind of provisions you have made and great explanation you gave, earlier on the call. Sir, just moving on to the insurance business, Sir, your tie ups, you have mentioned that you have tied up with a leading NBFC so if you can just talk a little bit more about this tie up, what products and the other question on insurance is in terms of combined ratio now on an incremental basis, you are running at 117% whereas nine months is 122% clearly you are improving that. What is the target for FY2022? Where do you think by the end of FY2022 you should get or what are you planning for?

Sanjay Chamria: Abhishek it is paradoxical that this is the first time in many quarters that there is a question on insurance and our CEO Rajive is not on the line, but anyway, I will attempt to answer that question to the best that I can. First is that we have got a very proud set of tie up with the largest OEMs in the country be it in the passenger vehicle, commercial vehicle, tractors, two-wheelers, and among the specific set of companies whether it is microfinance, gold loan, etc., and even in the vehicle financing. So, today for a company of our size the tie up when we have we can actually do much, much higher amount of business and that is the reason we were looking to raise a growth capital and as I mentioned in our strategic initiatives that we are now pretty close to achieving closer on the same and in terms of the combined ratio we are now in a declining trend and while we are at about 116% or 117% after giving impact for some of the motor OD loss resell that we did and the CP loss resells that we did on the insurance on a normalized basis, already we are down to about 113% in terms of the combined ratio. Our endeavour is that in the next three to four years' time, we would like to take the combined ratio to about 103% -104%. In terms of the growth that we are witnessing it is coming largely now from the health because the board has mandated the management team that we would like to see if we can grow the health business from a low single digit to double-digit. So, already we have crossed 6%, we added about 6.3% or 6.5% now and I think soon may be coming in the couple of years it should touch about 7% and here also the tie up with the lenders on selling the bundled products on the health insurance policy is also helping grow the volumes. I do not know if I have answered all your questions on insurance.

Abhishek Murarka: Thanks for that. One question on the ABF business, now this REPO activity typically when you repossess and the vehicles come to you, you would be seeing some settlement by customers and then you proceed to sell those vehicles so, the rate of settlement after repossession has that improved?

Sanjay Chamria: Yes, I will take that. Thanks. It is a great question, and it's one of the most important parameters that we measure in the ABF business because our endeavour is not to really repossess everything and reset. The objective is for the customer to come back, make these payments and release the vehicles. In the last quarter, we have seen a significant improvement in terms of the release percentages going up. We stand at about 65% on the release percentage side, which is a very, very heartening sign, which means that there are cash flows returning to the customer, and customers seem to be wanting back to be deploying their assets. So that is where we stand at. Q4, we expect an even better performance in terms of the release of the assets after repossession. And that is the sign of the economy coming back to normal for us.

Abhishek Murarka: Historically, Sir, what is the highest release percentage that you have reached? And what is an average, just a ballpark?

Sanjay Chamria: The ballpark, we look at about 75% releases what we want to maintain it at, and we are already at about 65%.

Abhishek Murarka: The highest would have been what, like just highest ever or highest in the last 5, 7 years?

Sanjay Chamria: So that 75% is a number that we would have moved around with most of the times.

Abhishek Murarka: Because it is so cyclical. So, at the peak of the cycle, it will probably be 75%. But at the trough it would probably be, I don't know, 40s or 50s. So that is why I was looking for an average also.

Sanjay Chamria: So even in the trough for us, we have never hit a 40 kind of a number. It was only during unlock beginning of the quarter where we saw that kind of a number happen. But like I said, it quickly came back to a 65 as we ended the quarter. And in January, also, we've seen improvement. So, we are happy with the way we progressed on that front. But we were worried when it was about 45 in the beginning.

Abhishek Murarka: In terms of number of vehicles being repossessed, that has also come back to pre-COVID levels or there you are still going slow?

Sanjay Chamria: No, no. We are at pre-COVID levels now. We were obviously not doing as much because of the economic situation, and we were not really wanting to put additional stress on the customers but as we now entered December and in January, we are at the pre-COVID levels now.

Abhishek Murarka: Great. And Sir, final question, sorry, for multiple questions, but just 1 more question. On the ECLGS portfolio, while you have given disbursements, do you see any kind of further stress in that pool? Or customers where you think that you might need to either restructure well, you cannot, you may need to restructure, or it may slip into NPA in the pool? And any reasons that you can catch why there would be additional shift?

Sanjay Chamria: So, is this question specific to the ABF business? Are you asking on an overall basis?

Abhishek Murarka: No, both. So, ABF and the SME portfolio also, I am just trying to see whether there is further stress in the ECLGs pool. Because one of the banks has said that they had to restructure further into the ECLGS pool also. I'm just trying to see what kind of stress or lack of stress you are seeing in that portfolio?

Kailash Baheti: Can I take that question?

Kailash Baheti: Yes. So, we started ECLGS from the first quarter of the current year. And first quarter and second quarter, we have done roughly about 60% of the Rs.325 Crores, which we are talking of, and the balance has happened in the current quarter. We do not see any significant stress in the first quarter or in the second quarter and when we had this discussion, our Board looked at especially the entire ECLGS portfolio, parent portfolio, how it is behaving. We did not see any significant stress in that portfolio and therefore, we would believe that our selection of ECLGS customers has been prudent.

We have not gone overboard. And of course, we are definitely not managing our portfolio through this ECLGS scheme. That is a category consistent from our side. This will not give any surprise. This is just business as usual and our duty in the current difficult times to support wherever we could to the good customers who had potential to do good business, but needed money and government came out with a scheme and we supported our customers.

Sanjay Chamria: I will just add to what Kailash has mentioned on ECLGS, that for SME business, specifically, it was also an opportunity to look at customers who were good quality borrowers, but unfortunately, it could not get supported by their bankers or their other NBFCs so in a way, it was cherry picking of good portfolio from the market as well as our own customers our philosophy was not to put good money after that. So, I think we have stayed very conscious on Slide 15, you can examine the numbers. The portfolio behaviour, though early, is giving such indications.

Deepak Patkar: I think the way the ECLGS was also implemented for ABF business is very important to understand. We did not just disburse the money because the customer was eligible. Each customer that the money was dispersed to undergo the due diligence on the credit side, under 2 parameters. One was in terms of ensuring that the asset was still with the customer and in good condition, and second was a line of sight of this cash flows returning to the normalcy. So, these 2, 3 parameters were looked at before any disbursal was made on the ECLGS.

Abhishek Murarka: Thanks so much everybody and all the best for the future. Good to see great numbers here.

Moderator: Thank you. The next question is from the line of Kunal Shah from ICICI Securities. Please go ahead.

Kunal Shah: On the off-balance sheet, across the industry, we were seeing that there was some demand for the portfolio and there is a higher amount of balance sheet or assignments, which was happening. So how do we look at them in terms of RMS, it is still remaining broadly stable so across our businesses, if we can highlight, maybe if there are opportunities and of balance sheet could be the other way of maybe the borrowing source, which we could not want to tap even the demand which is there in the industry so what maybe your call on that?

Sanjay Chamria: So Kunal, I think sometime back, we shared that our policy with regard to the PTC or TA will be more from a treasury standpoint than anything else and given the surplus liquidity, which we have had in the last three quarters and consistently over Rs.2,000 Crores, Rs.2,500 Crores, there has not been a need felt for doing the PTC already. And so marginal amounts we have done. In fact, to that extent, however, this year, overall volumes of TAs are lesser than last year.

Kunal Shah: Okay. So, I think it can continue. So, the balance sheet proportion will very much stay more or less kind of a flat?

Sanjay Chamria: Yes, I think it will remain in this range. It may go down or go up a little bit. But it will be either ways but remain in a very narrow range.

Kunal Shah: Secondly, in terms of the collection efficiency we have highlighted, the overall increase, which has been there from Rs.84.5 Crores, most like Rs.97.2 Crores now. If you can broadly suggest in terms of the product segments, any place wherein we are seeing much better-than-anticipated or much better than industry average collection efficiency and somewhere we would be lagging apart from the SME. You highlighted that it seems to be relatively more stressful. But besides that, within the product segment, if you can highlight how the collection efficiency is standing out.

Sanjay Chamria: Maybe I can give an overall view and then Deepak and Manish can respectively touch upon the respective product segments. See, in every product segment, you have a range of collection efficiencies across the place in the industry. It is not a reflection on whether company is better or worse, because it is a reflection of the customer segments that we cater and the type of asset that we cater. So, for example, if I take mortgage, we are catering in the affordable segment and within affordable, we are catering to the self-employed segment. So, if one is catering to the salaried segment versus the self-employed segment, there would be a difference so one needs to compare apple to apple. So, if we compare our own performance to the past, there, I think we are doing pretty well in SME or mortgage or even in the ABF. Similarly, in ABF, for example, if you are doing to the fleet operator versus you are doing to the single truck owner or a single taxi owner, then the collection efficiency percentages would vary and we are confident, we have reasons to believe that the customer segment and the product segment in which we are operating, we are pretty much at the peak rates at the top quartile of the top 10% in the industry in terms of the performance. Now I will leave it to Manish and Deepak in case they would like to add something to this.

Manish Jaiswal: So, on the ABF front, we have touched about 98.9% collection efficiency in January, which if you look at January 2020 numbers, would be roughly around 99-point something. So, we are pretty much there on that front. I think that is a better measure for us to look at rather than looking at peers because like Sanjay mentioned, depending upon the product category and within the segments within those products as well, collection efficiencies should vary. So, from that standpoint, the ABF business is extremely comfortable is what I see. And January has been the one month that we have seen the swing happen in the right direction for us.

Kunal Shah: This would be including the arrears as well?

Manish Jaiswal: This will be including, sorry?

Kunal Shah: Arrears, maybe you have passed arrears well?

Manish Jaiswal: Yes, of course, of course.

Kunal Shah: Sir, maybe a few of these guys are reporting more than 100-odd percent, okay, including the arrears, maybe 105%, 110% as well. So maybe I think if we knock up arrears from this, then how purely it would be in terms of, say, the collection to billing?

Sanjay Chamria: Again, this would be getting into too much of analysis because different organizations, compute collection efficiency in different ways. When you repossess and sell or repossess and settle sometimes some people also include that into the collection efficiency, whereas some do not. So, I think it all depends upon how you calculate but if you maintain consistency in your own definition and then report the numbers that how it is moving month-on-month. I think that, to me, is the true measure of the trend, whether it is improving or deteriorating. So, in our case, when we said that it was 84.5% in September, going up to in 94% in December and 97.2% in January. It is on the same consistent definition.

Kunal Shah: This was helpful. Lastly, in terms of, say, the rundown and overall the disbursement, so still maybe when we look at it overall in terms of the rundown, given the improvements in the collection efficiency, finally, we have seen some kind of a decline in the overall AUM. And in terms of the focused business, it is like Rs.200 Crores to Rs.300 crores up. So now finally, maybe should we expect that, okay, collection efficiency would also stabilize and whatever incremental disbursements are happening quarter-on-quarter that should ideally add on to the AUM growth next quarter onwards? So, you said it should be more or less flat, but just trying to get into it because I think now further improvement in collection efficiency, it should be more or less stable. So, if there is any delta in disbursement, it should reflect in AUM growth, which has not happened in this quarter.

Sanjay Chamria: Our top priority, if I look at the waterfall, first was to have a normalized year in terms of the NPA and NPL despite COVID and now having completed 10 months in the year, we are confident that we will have a normal year ending in terms of GNPA and NNPA and in terms of the NCL. The second priority was in terms of the strategic initiative, pivoting the business towards the higher yield and the higher NIMs, that also like it is now at 58%, which will increased to 85% by end of next year and overall, our NIMs, which is currently at about 8.5%, will actually cross 10%. The third one was also the opex reduction, which has now gone down to 3.4%. We have also given the guidance that it may increase by another 40 BPS due to the variable expenses coming back as we return to normalcy. With all of these things, now our priority in Q4 is to arrest the decline and maybe have a flat AUM compared to Q3, and the next year start growing where we have given that we would like to grow at 10% to 15%. I think Manish wants to add something to this, so over to you. So, we are all digitally connected. And so, I can see Manish wanting to say something. Over to you!

Manish Jaiswal: I just wanted to only say that even if you look at this quarter's deck, all our focused products across the sector, we are either stable or growing. It is the defocused products, which have contributed to decline in the last quarter. So in the net sum game, while it may appear a declined, but I think we are now relatively well focused I must say in a focused product category to record growth And I think we already mentioned that in the housing business, we have seen a growth of 16%. In SME, there is a clear rebound trajectory is on and also, if you see these slides also on ABF, the core focused products, there were clear stabilization with established set of entity level, I think we are quite reasonably comfortable where we are and whatever is non focus, that anyway is a core, is a strategy to run it down to be more capital efficient.

Kunal Shah: Thanks. This was helpful.

Moderator: Thank you. The next question is from the line of Sachit Motwani from Param Capital. Please go ahead.

Sachit Motwani: Congrats on great set of numbers. I just had a question on your capital raise in the subsidiary. Can you indicate some timeline with respect to capital raise, both in housing and the general insurance subsidiary?

Sanjay Chamria: Sachin, as I mentioned, even in my initial comment that so far as the insurance is concerned, we had started the process much earlier during pandemic slowed down. And last quarter, we said we had received interest from quite a few bidders, and we were evaluating. And now we have received the definitive interest, and I think we will have this closed out in the foreseeable near future. So far as housing is concerned, that process we launched from September and given the affordable housing being the flavour of the season, we have a fair amount of interest being expressed. I think in the next few months' time, we should be able to also go the same path as the insurance.

Sachit Motwani: Okay. You mentioned about 12% to 15% AUM growth, like next year onwards is something that you are looking at. So, this would be only for your focused products or this should be on an overall AUM basis?

Sanjay Chamria: In fact, it will be slightly higher than the focus product because our de-focused products will have a negative effect on the AUM, and it will go down, and we are not adding. And which used to be about 40-45%. So therefore, we will have to grow faster in the focused products than even 15% so that on an overall basis, we will have between 10% and 15% growth in the next fiscal.

Sachit Motwani: Thank you. Those were my questions. Thank you so much.

Moderator: Thank you. Due to time constraints, that was the last question. I would now like to hand the conference over to the management for closing comments.

Sanjay Chamria: Thanks a lot for very active participation by all of you. It has been a pleasure for me, Kailash, Deepak and Manish, to try and answer all the good set of questions and look forward to you in the next quarter. Thank you very much.

Deepak Patkar: Thank you.

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