"Magma Fincorp Limited Conference Call"

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Moderators: **Mr. Sanjay Chamria – Vice Chairman & Managing Director, Magma Fincorp Ltd.**
Mr. Girish Pai – Co- Head of Institutional Equities, Centrum Broking Pvt. Ltd.

Moderator: Ladies and gentlemen, good day and welcome to the Q3 FY Results conference call of Magma Fincorp Limited of Centrum Broking Private Limited. As a reminder for the duration of this conference all participants' 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. If you should need assistance during this conference call please signal an operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. At this time I would now like to hand the conference over to Mr. Girish Pai from Centrum Broking. Thank you and over to you, Sir.

Girish Pai: Thank you, Marina. A very good morning to everyone and thank you for being on this conference call to discuss the Q3 FY '11 results as well as the outlook going forward from Magma Fincrop. Centrum has the privilege of hosting the management team of Magma headed by Mr. Sanjay Chamria, Vice Chairman and Managing Director. Without further adieu I hand over the floor to Mr. Chamria. Over to you Sir.

Sanjay Chamria: Good morning Girish and good morning everyone and thank you all for joining us on the conference call for the Q3 results. Both me and our CFO Lakshmi are available on the call. I will briefly walk you through the highlights of our performance for the quarter and for nine months ended December 2010, after which we will be available for the Q&A part of it.

During the third quarter we have seen continued positive market conditions across all our target products. We have also taken advantage of the growth witnessed in the primary sales and have achieved 21% YOY growth and as a result our total disbursements during the quarter went up to about 1274 Crores and on a YTD basis it has reached 3460 Crores, which is a growth of 29% over the similar period last year.

As you will be aware, we have been trying to increase the contribution of the high yielding products, which are broadly three; tractors, used vehicles and SME loans and during the Q3 the contribution of the high yielding products have also gone up to 22% compared to 13% in the Q3 of last year and on a YTD basis now we have reached 19% as against our target of 20% for the year.

During this quarter, we have also added two more branches taking our total network to 172 as of December 2010. As regards net interest margins, we have achieved 5.1% for nine months as against whole of the year which also was 5.1%. Due to the increase in the interest rates during the last few months, the net interest margins have come under pressure; however, because we had a higher net interest margins in the first half, so still on an YTD basis we are at 5.1%.

As usual our collections have reflected a stellar performance and we have continued to maintain our collection efficiency at more than 100%. During this quarter again we are at 100.9% and on an YTD basis it is 100.8%. This performance in the collections has also resulted in continued reduction in the bad debts, the credit losses and during the Q3, the write offs have also gone down by 35% in absolute amount compared to the Q3 of last year despite increase in the overall AUM and as a result the write off as a percentage of the overall AUM has hit an all time low and this is one of the reasons for the spectacular increase in our profits for the year and for the quarter.

Total income for nine month stood at 604 Crores, which is up by 19% compared to 506 Crores for nine months last year and during these nine months, the profit after tax have crossed the PAT for the whole of last year, which was at 71 Crores and our consolidated profits are now at 77 Crores up by 72% whereas during the Q3, the profits are up by 82% to 33 Crores.

Return on assets during the third quarter has increased to 2.5% compared to the whole of the last year which was at 1.8%, and it was 2.2% in the Q2 of this FY. So there is an improvement in the return on assets on a QoQ basis. For nine months also the ROA stands at 2.1%, which is again above our guidance of 2% for the year that we had issued. Similarly the ROE has improved substantially during the third quarter to 21.7% as compared to 19.4% for the whole of last year, and for the nine months works out to 20.4% on annualized basis.

Our capital adequacy continues to be comfortable at 19.2%,.

We are a bit concerned from the point of view of high inflation resulting in monetary tightening. I think, as widely expected, the regulator is again expected to increase the Policy rates during the ensuing credit policy, review. We have tied up our entire fund requirements for the Q4, but so far as the interest rates are concerned I think we will have to take a view as and when it comes and then accordingly pass on the same. However, our experience has been that during quarter four, since more than 75% of our total disbursal are in the priority sectors, therefore we will be able to negotiate much better rates while borrowing from the banking system.

Our expectations so far as the growth is concerned remains quite strong because of lot of tailwinds in the primary sale of all the products that we are funding and we hope that over the next four to five quarters, the sales will continue to remain strong and the last quarter usually is a booming period for financing business and we hope to continue our growth momentum.

With that now Lakshmi and I would be happy to address any questions that you all may have.

Moderator: Thank you very much sir. The first question is from Nikhil Rungta from Religare Capital Markets. Please go ahead.

Nikhil Rungta: Sir, as you indicated that the NIMs have been under pressure due to rising of the interest rate scenario, so how do you see the Q4 NIMS with respect to the rising interest rate prevailing in the market?

Sanjay Chamria: See Nikhil, the interest rates are expected to further rise by about 25 to 50 bps during the Q4. It is the street expectation and as I said that more than 75% of our total lending is to the priority sector and during the last quarter there is a huge appetite in the banking system to acquire the priorty sector portfolio and as a result of that we are in a vantage position to negotiate superior rates. This is one of the methods as to how we propose to maintain and improve upon the NIMs of 5.1%. Secondly the contribution of the high-yielding products, which has been increasing quarter-on-quarter and as I shared that it's plus 22% for Q3, having started it with 16% from the Q1 and 13% for the whole of last year. I think that again helps us to cushion the net interest margins, because on the core products we get a NIM of about 4% whereas for the high-yielding products we get about 10%, so I think that again will have a positive impact on our NIMs for the Q4.

Nikhil Rungta: But then when we say that there is an increase in the share of high-yielding products how do we see the impact on the asset quality, because these high-yielding product would definitely have some impact on our asset quality too?

Sanjay Chamria: You are absolutely right, like the risk returns relationship would indicate that more high-yielding products you do and you will have higher write off, as a result like I was sharing that last seven quarters we have been maintaining and improving our collection efficiency at about 100%, so that has continued even during this third quarter when we had a collection efficiency of 100.9% and for the whole of nine months we did about 100.8%, so what we have done is, we have tried to mitigate the higher risks of lending to the higher-yielding statement by tightening up our collection department and also improving upon our underwriting process. So this is the way we have tried to mitigate the risk, but the point remains valid that there would be an element of higher risk and maybe over a period of time only we will see whether it is really consistent in terms of asset quality. So far it is good.

Nikhil Rungta: My last question is, what would be your total portfolio as on date including the off balance sheet and on balance sheet and the breakup between the two?

Sanjay Chamria: What we have been doing over the last three years we have been reducing the level of sell downs that we have been doing and this year like we have issued a guidance that it will be under 50% for the first time, so therefore now we are increasing the on-book portfolio in our balance sheet. The total assets are now about close to 9900 Crores as we speak on December 31, 2010 and of which off balance sheet is less than 5000 Crores and on balance sheet is now increased and gone beyond off balance sheet.

Nikhil Rungta: Thank you Sir.

Moderator: Thank you. The next question is from Vidit Vakaria from KC Securities. Please go ahead.

Vidit Vakaria: My question is regarding the brokerage and commission income or expense. It has gone up this quarter significantly. What is your take on that?

Sanjay Chamria: This has gone up Mr. Vakaria, during the quarter because you see the combination of different products that we are funding, the brokerage and commission rates and it is higher in respect of two product out of seven, which is car and SME loans. In these two products our net payouts are in the range of about 2.4%-2.5%, whereas in respect of the other five products it is lesser, I mean in some products that is nil and other products that is 0.5, 0.4 which is commercial vehicles and construction equipment. Therefore in line with the increase in the contribution by cars and SME loans, the overall commission rates have gone up and then we follow a conservative policy wherein we write off the entire brokerage and commission which is paid to the agents in the month in which it is incurred rather than a amortizing the same over the tenure of the contract and therefore we have a higher write off the income that we are going to receive will be spread over the next 42 months which is the tenure of the underlying contract.

Vidit Vakaria: One more question Sir, the construction equipment segment, what is your growth on that segment this quarter?

Sanjay Chamria: Construction equipment segment as in for the industry or for us?

Vidit Vakaria: No, for Magma Fincorp.

Sanjay Chamria: We have had a growth of 9% in construction equipment over the second quarter of this year, but if we compare to the last year same quarter then there has been a de-growth in construction equipment segment as far as we are concerned, but the industry has grown.

Vidit Vakaria: What is your take on that segment currently?

Sanjay Chamria: Actually, there are some internal issues that we are dealing within the construction equipment, but the industry as a whole we are quite optimistic, especially during the Twelfth Five Year Plan the kind of spend that the government is planning on the infrastructure, I think the demand will remain very, very robust over the next two to three years timeframe. As we had said we have had internal issues which impacted our volumes starting from the second quarter. We have now addressed the scenarios hopefully over the next one or two quarters we will be back on track in terms of our disbursals and market share in the construction equipment.

Vidit Vakaria: Thank you very much Sir.

Moderator: Thank you. The next question is from Saikiran Pulavarthi from Indiabulls Securities. Please go ahead.

Saikiran Pulavarthi: Just to continue with your first question on the off balance sheet strategy if you could explain us how this will look in the next couple of years in terms of percentages that will be of great help?

Sanjay Chamria: Well actually our longer-term strategy has been that from an over dependence on sell down, we wanted to sort of smoothen the scenario and bring it under 30% and from a level of over 75% which was till FY'08 **We are** actually progressively bringing it down and like last year it was around 50%-53% and this year we propose to bring it below 50% and now with our capital adequacy, which is quite comfortable going forward we propose to reduce our dependence and we would be happy to let it be at about 30 odd percent in terms of the sell down as a percentage of the total disbursement during the year under review.

Saikiran Pulavarthi: Do you see any risk to the profitability of sell down considering the rising industry rate scenario?

Sanjay Chamria: Well, I think, if you look at size from the point of your impacting of profitability then the fact that we have been reducing the sell downs, our profits for the year are actually adversely impacted because the gain that otherwise we would have got had we sold the same proportion of our assets as we did in the previous year then our profits should have been even further higher. So therefore we are taking a hit, but then our operating matrix have been significantly improving be it in terms of net interest margins or in respect of the net credit losses or in terms of the growth in the OpEx that we have been able to cushion the adverse impact of the lower sell downs.

Saikiran Pulavarthi: And couple of data queries, if you can just give us breakup of assets under management in terms of segments for the current quarter?

Sanjay Chamria: Well, I think I do not have it ready at hand, what I will recommend that if you can offline get in touch with Dhiren and Kishore, if you know them they should able to provide you this data because I do not have right now with me at hand.

Saikiran Pulavarthi: Sure sir thanks a lot and thanks.

Moderator: Thank you. The next question is from Varun Goenka from JM Financial. Please go ahead.

Varun Goenka: Sir my question is towards the capital structure of company. Could you give me a breakup of the secured loans and what is the average tenure of the loans?

Sanjay Chamria: Well actually secured loans usually in respect of the term loans the tenure is between three to five years and in respect of working capital it is perpetual because it gets renewed every year and that has been our experience over the last 20 years and then in terms of the third part of total borrowings, which is on account of sub debt, the preference shares and perpetual debts the tenure is more than five years and it is up to 10 years and beyond. In terms of breakup as of December 31, this of course you know varies from date to date, but as of December 31, the working capital is about **52%,** term loans and non convertibles debentures are about 25% and 13% is on account of preferences shares, sub debt and the perpetual debt.

Varun Goenka: So what would be the cost of capital I mean **just the weighted average cost** of capital at this time?

Sanjay Chamria: As on December 31 if we talk, I think it is for the quarter 3 at about 8.5 % but for nine months basis on a cumulative it is 7.9%.

Varun Goenka: Okay and what leverage are you operating at, just a ballpark?

Sanjay Chamria: So the leverage, the way we calculate as per the RBI and that would be, in fact it would be under six. The capital adequacy you see about 19.2% so that typically makes it a little over 5.

Varun Goenka: And what leverage are you looking to operate going forward?

Sanjay Chamria: Well, we have stated earlier also that as a prudence financial position, we would like to be operating between 5.5% and 6% and not exceed the same.

Varun Goenka: My final question is what is the accounting policy towards the securitization of income?

Sanjay Chamria: We take it up front.

Moderator: Thank you. The next question is from Sneha Kothari from Subhkam Capital. Please go ahead.

Sneha Kothari: The borrowing profile trend would be continue or is any change expected?

Sanjay Chamria: In what sense Sneha?

Sneha Kothari: In the term loan, working capital as it gained 2% and 25%?

Sanjay Chamria: As I said this changes from time to time and quarter to quarter. Typically the working capital is the only form of borrowing which is subjected to the variable interest rate, so therefore what we do is to utilize this more as a warehousing lines and then we would sort of replace the credit facilities with the term loans or debentures that we would raise from the banking system and which we try and time the market depending upon the interest rate scenario, which is extremely volatile. So what we do as we speak today, we have over Rs.4000 Crores worth of working capital lines and which would support us for at least eight months of disbursal and then what we do is we keep on substituting the same from time to time by borrowing under term loans or issuing debentures for insurance companies or banks. So this percentage is quite fungible and keeps changing from quarter to quarter.

Sneha Kothari: Can I get the quantum of the borrowing?

Sanjay Chamria: We have disbursed over 3400 Crores so far during the year and we have contracted, not exactly borrowed, we have contracted more than 4000 Crores of commitments from the banking system, so therefore we have large lines of credit which are available with us and Q4 which usually accounts for about 35% of the total lending, we are completely ready with the cash flow in terms of addressing the requirements of our business team so that in respect of the volatility in the market in terms of asset liquidity, cash liquidity or in terms of interest rate we are in a position to take care of this thing.

Sneha Kothari: How much were the secutirization income during the quarter?

Sanjay Chamria: For nine months I can tell you our total income from securitisation would be about 15%-16% of the total icome and during the third quarter also I think it is 16.51%.

Sneha Kothari: From the coming quarters or years, I just want the guidelines of the business? How you are considering the auto and CV segments moving across?

Sanjay Chamria: See I expect the commercial vehicle segment, which has been having a fantastic turnover, they are growing more than 40% but I think over the coming quarters I expect that to maintain at least about 20% to 25%. The reason I say that today there is a supply side constraint. In fact the top models, which are highly saleable and fast moving, are not really available. In fact today we would have booked more business in the month of December if the dealers were able to supply those vehicles and so far as cars are concerned they are growing at about 30% to 35% and over the next year we would expect that to grow at about 20% odd and that is the reason we are pretty confident that at least for the next four to five quarters the growth should continue in most of the products in which we are present in, in terms of our primary sales.

Sneha Kothari: But the NIMs you are saying there is pressure in the coming quarters?

Sanjay Chamria: Yes, I would expect the NIMs to be under pressure for the next couple of quarters until the time the inflation comes down, because the regulator and government are completely united to have a dear money policy and this is directed towards the need for the food inflation and the overall inflation come under control. Therefore the way we wish to combat the situation is by raising, and which is of course part of our longer term philosophy, is to raise the contribution of the high-yielding product which hopefully we will do 20% by the end of the year and the next year we are targeting 25%. So therefore while we would have expected our NIMS to go to may be about 5.5%-6%, but if anything does not go there, but at least it would be better than what we are being achieving year-on-year.

Sneha Kothari: Thank you sir.

Moderator: Thank you. Our next is from Aniruddha Kekatpure from JM Financial. Please go ahead.

Aniruddha K: I wanted to know are you sensing any kind of discomfort amongst your borrowers given the high interest rate rises and which have been quite rapid off late especially in the market rates also and what is your outlook for the auto as well as the commercial equipment lending say over the next 12 months?

Sanjay Chamria: I think second part of the question I have answered already in the query of your colleagues who asked the question, but the first point that raised Aniruddha is with regards to the discomfort or the comfort levels of our customers with regard to the rise in the interest rate. Now here I would like to share with you is that when we started the current growth trends in the industry and which was from January 2009 and that time the interest rates were higher than what they are today. If I look at my own cost of funds then during as I said, Q3 it was 8.5%, but if I look about a year ago then it was more than 9% and despite that we have seen that the growth in the demands for retail loans and the growth in the primary sale of cars and commercial vehicles, tractors and construction equipment all have really continued and this is largely on account of the fact that the domestic demand has been growing pretty well and there is a need for movement of goods, which results in the increased demand for the commercial vehicles and you see during FY'09 and I think last part of FY'08 there was a flat or degrowth in the vehicle and the equipment markets, so therefore now the boom is continuing and there is the gap in the demand of these vehicles and the availability in the market for movement of goods. Therefore I would expect that over the next four to five quarters the demand should be very robust and continuing.

Aniruddha K: So you would not be concerned about , not finding especially on the CV side, fleet operators being very much concerned about rising fuel prices or the interest rate in the system. **Is there no concern on account of that**?

Sanjay Chamria: See today, we are talking about the increase in the cost of fund, which if I look at the last 12 months it is actually speaking gone up by about 1.5% to 2%, but it is still like we are for example lending to a fleet operator. If you talk about a fleet operator at about 11%-12%, they were borrowing these loans at more than 13% and 14% about two years ago, so I think it is all in a relative degree that whether one would be comfortable or uncomfortable, similarly so far as the fuel prices are concerned. I think most of the fleet operators have the rate contracts with their principles, which would allow them for an adjustment in the contract pricing based on the fuel price movements because they are in no position to absorb the fuel price hike all by themselves if they cannot pass it on.

Aniruddha K: Just to come back to the construction equipment side, you gave a view about your own company, but how are you finding on an industry wide basis, the demand for construction is it picking up, is it flattening?

Sanjay Chamria: As I said we particularly did not do very well in the construction equipment, but if you look at the construction industry per se then it has done very well during the year and I think the sales have gone up by almost about 30% over last year because construction equipment was the last product in our total bouquet of five new products, which has recovered from the recession. In fact if you look at my transcript of the calls about a year ago, then till December 2009 the construction equipment was not really growing the way I have felt that the car and commercial vehicles, and the tractors have grown. It is only from January 2010 that you see the construction equipment industry coming in its own elements and now you know with the next year new five-year plan beginning I guess that it will be very, very good. I mean the excavators, which is a second largest range of construction equipment is actually growing this year at more than 35%, so I am pretty bullish for the next two to three years in respect of construction equipment.

Aniruddha K: Just a last question from me. Going by your experience in terms of having observed the past cycles where do you see the auto industry cycle at this point in time, is it entered a matured stage at this point in time, would that be an observation?

Sanjay Chamria: In fact I believe if you look at the last 30 years or so of auto industry cycle, which is both passenger car and commercial vehicles then I think usually about 10 to 12 quarters of good growth is followed by about four to six quarters of a flat or dip in growth. From that kind of view, I think so far as commercial vehicle industry is concerned we are now actually in the seventh or the eighth quarter of the growth run, so in my opinion we should see this at least for the next four to five quarters before we might hit a drop, and therefore that could be in fiscal 2013. So far as passenger car is concerned, I think that market is getting redefined. I mean the kind of the growth that we are seeing on the back of a very high growth in fiscal 2010 is something, which even the auto **manufacturers have not planned for** and the industry body could not predict. This year the auto industry has grown at 31% in nine months, which I think is largely due the changing demographics in our country and therefore I would guess that next three to four years timeframe given the disposal income increasing the young people coming into the job and then buying the car and the availability of finance I think it should be growing 15%-20% comfortably for the next three to four years.

Aniruddha K: All right. That should be it. Thank you very much.

Moderator: Thank you. The next question is from Kashyap Pujara from Enam Securities. Please go ahead.

Kashyap Pujara: Basically the high yield segment has been showing a very good growth and just wanted to take your sense as to where do you see it stabilizing; you are already at 18%-19% where do you see it stabilizing at?

Sanjay Chamria: Kashyap, actually during the Q3 we went up to 22% and as you know in our previous calls and also in one-on-one discussion with people like yourselves we said that this year we are planning at 20% and I have said that by the time we end the year we will do 20% for whole of the year. That means in Q4, we would be targeting close to 25% and next fiscal year we are targeting 25% and year after we are targeting 30%, I think but in one of the questions by your colleague sometimes back I said that you need to also see that our asset quality does not get impaired, it is a high yielding and therefore, I think by fiscal 2013 when you would have reached 30% of our incremental disbursal from high yielding, we also would have completed about two business cycles in respect of two out of three product and one business cycle in respect of the third product and by then you would have known whether the underwriting standards and the collection tightening of that we have done has helped us to maintain the asset quality and if that happens then only we will take a call to further increase otherwise may be we will stabilize at 30%.

Kashyap Pujara: Because that was my concern also that in good economic times wherein you are typically seeing good GDP growth, comfortable scenario and interest rates and largely a widespread boom, this is a very sweet spot to be in where you can get definitely good margins, but that can be work against you jn probably a bad patch, so wanted to take a sense that now that you know populate and really grow and maintain a number grow the disbursals, but in a bad patch if you come through what is the kind of procedures or processes that you have incorporated to largely see to it that the asset quality does not deplete, you do not have a hit coming on, so that is the understanding if you could probably give?

Sanjay Chamria: So what we do Kashyap is we look it in three different ways, so one is the underwriting standards and the processes that we deploy, there we benchmark against some of the best risk takers in the industry from a conservative standpoint and accordingly tweak our policies to ensure that we do not end up very aggressive on taking the credit or the risk in these particular products. The second way we look it at you know the new originations that we do, we keep on looking at because of course when your numbers grow too fast, then your denominator growth can couch the poor asset quality and you may not really be able to find out, so therefore what we do is to slice the portfolio and look at the infant delinquency of the new origination and that actually will sort of not give you the comfort of a growth in the denominator and which is the parameter that our risk team has, as to how the infant delinquencies have been moving up, then collection department will look at how they have been collecting from the new portfolio and what percentage of our portfolio is sitting in the zero bucket, which is the current bucket, so these are two things we internally mitigate. I think the third factor and which is beyond our control, which is what you mentioned and that is the systemic risk that is tomorrow for example if the economy goes into a tailspin and if there is a repeat of a recessionary scenario then obviously this sector may actually get hard hit, in that case how do we deal with the credit and losses emanating out of that, which I think would be a difficult one to really deal with, but if I look at our past track record then in fiscal year 2009, which was the year marked by the crisis that time we improved our collection efficiency by 0.8% because it was 97% in FY'08 and we have moved to 97.8% in that year.

Kashyap Pujara: But that year we had approximately 10% or 12% exposure to the segment now, it is gaining traction. That is what my concern was. Second thing is if you can give, what is the kind of loan to value ratios to this segment per se, I mean the high yield segment what is the kind of average loan to value ratio which we would set out for?

Sanjay Chamria: In fact you are right. Last time our portfolio was about 10% and now it is going to 30% in two years timeframe. So that makes us more vulnerable in the event of a downturn, so just like reaping the benefits, we also need to be ready to withstand the pressures on delinquencies. Now coming to your point on the loan to value in respect of a tractor it is 63%, which I think is another way of mitigating the risk. In case of used commercial vehicle that is 72% and SME of course there is no LTV, this is more a working capital loan that we provide.

Kashyap Pujara: That is one and second is what is the average tenure of these loans because in the **shorter term** you would be more comfortable with?

Sanjay Chamria: If I look at the door-to-door then in the case SME, it is about 33 months, in case of used CV it is about 32 months, so therefore, the average would be about 16 to 16.5 months, in case of tractor, it is 47 months, so the average would be about two years.

Kashyap Pujara: Fair. That is all from my side I think. I will touch base with you at a later date.

Moderator: Thank you. The next question is from Anuradha S from Ticker Plant. Please go ahead.

Anuradha S: What is the total write-off as a percentage of AUM?

Sanjay Chamria: You see in terms of amounts as you can see it has gone down by about 35% during nine months and if I look at during the third quarter, it was 0.28% of the total AUM and If I look on a nine months basis as I said it has hit all time low so it is 0.3% on an annualized basis compared to 0.45% for last year.

Anuradha S: What is your guidance for NIM and disbursement growth for the full year?

Sanjay Chamria: Disbursement growth is about 29% and I do not know whether I have interacted with you in the past, but then we have issued a guidance that this year will grow in excess of 25%. So far we are maintaining our guidance and growing at 29% although third quarter growth was 21%, but last quarter we were looking at very, very fantastic growth rates. In terms of NIMs, last time we have maintained 5.1%, this year we wanted to go beyond. In fact in Q2 we were at 5.4, but in Q3, it is now on a YTD basis gone to 5.1 and in Q4, we hope to improve it for the reasons that I shared is more than 75% is on the account of priority sector and that gives us the leverage to borrow cheaper in the Q4.

Anuradha S: What is your market share in Punjab and Haryana?

Sanjay Chamria: That is a tough one. I think I do not have this ready at hand, maybe I should advise you to get in touch with Kishore and Dhiren. They can actually help you with product-wise share we may have.

Anuradha S: Thank you Sir. Thank you so much.

Moderator: Thank you. The next question is from Sandhya Hegde from Sequoia Capital. Please go ahead.

Sandhya Hegde: I had a few questions building on what Kashyap had started on, which is on the high yield segments, the three high yield segments that you have, would it be possible for you to share the nine month disbursal and NPA number?

Sanjay Chamria: Let me see as to what all we may have to be able to share with you. So far as nine months disbursal growth is concerned, tractors we have grown by 141%, which I think we have shared with you earlier that it is a focus product for us and we are right now still at a very low base and we want to grow our markets there very significantly over next two to three years because of our branch network which is largely semi urban and rural to the extent of 82% now. So far as the used vehicles is concerned that has grown by 109% and so far as the SME loans are concerned that has grown by 34%. Now you would remember we have shared that in the high yielding we are more comfortable in tractors and used vehicles because both are collateralized and the risk is spread over a larger number of customers because of the **ticket** size which is about 3 lakhs in both the cases more or less and SME we said that we are cautiously optimistic and we would like to keep on reviewing on a very close basis, the performance of our customers and then taking a call, so I think that is how it has been growing consistently quarter on quarter and on a nine months basis.

Sandhya Hegde: Do you also have the absolute number for disbursals in FY'11 nine months?

Sanjay Chamria: Yes, I do. The absolute numbers of tractor is about 304 Crores and used vehicles it is about 154 Crores and SME it is about 192 Crores.

Sandhya Hegde: Very nice, and what about the NPA level in these three categories?

Sanjay Chamria: NPA in these three would not be a right indicator, because these are still growing numbers, however, if I look at the tractors, then it could be in the range of about 2% to 2.5% and there if I talk about NPA, I am talking about six months past due. In respect of used vehicles actually the NPAs are much lower at about less than 1% although we have budgeted, I think we have shared with you about 2% and so far as the SME loans are concerned, which are also between 2% to 2.2% which is also largely under control on our expected lines.

Sandhya Hegde: Given that your NIMs are stable while the ROE has increased, is it due to better than expected collection from the high yield portfolio?

Sanjay Chamria: There are three reasons for this Sandhya. One is that like when we are sharing this NIM numbers these are only the disbursals for the period. When we talk about 5.1% this is for nine months. Last year when we achieved 5.1% that was on the disbursals for last year, so therefore our carry on book portfolio which is there, the NIMs are improving because historical NIMs were less than 4% till FY'09 as you are aware, this used to be at 3.6% to 3.8%. Now what is happening that portfolio is getting churned and as a result of that the NIM of our carry on book has been improving quarter-on-quarter and year-on-year and as a result of that if you look at our UFR then you will see while our gross income has grown by 28%, our interest cost which is the largest component has grown by only 14% and that is the reason for widening jaw line in terms of the profitability that is reason #1, and reason #2 is which you said the credit losses, which has been going down and is now down to about 0.3% of the AUM both on and off book on an annualized basis is an all time low. Last year it was 0.45% which was all time low until last year and the third one is the expenses that we are incurring except for the brokerage on commission which has gone up rest of them have grown modestly and therefore there again we are having some developed savings. So these are the three broad reasons as to why despite the NIMs being same at the last year's level our profitability is up by 82% and our disbursal is up by 29%.

Sandhya Hegde: Right, thank you so much.

Moderator: Thank you. The next question is from the Deepti Chauhan from Asit C Mehta. Please go ahead.

Deepti Chauhan: Sir just had a few questions. One I just wanted to know if you can provide me a breakup of the lending rates for each product which you have got.

Sanjay Chamria: I think if you look at Car, this was 12.7, CV was 11.3, construction equipments was 11.8, used vehicles was 17.9, strategic construction equipments was 10%, SME was 16.2 and tractor was 19.5 and that gives us a weighted average of 13.2. What I would also recommend Deepti is, we are going to put up whatever that I am talking to you this entire presentation will be up in about half an hours' time on our website and this particular slide which I have given you will be available and you can download it from there.

Deepti Chauhan: Definitely that would be of help. Just furthermore what I would want to know is we are seeing that the interest rates are moving up, so these rates which you have specified, has there been any increase in the interest rates or will this further go up in the quarters to come?

Sanjay Chamria: It will have to go up because we are in no position to absorb the increase in the cost of funds and which is also I am seeing the trend Deepti with every other single retail players be it HDFC Bank or even the non-banks. As for today everyone is operating on a very tight parameter, so if there is an increase in the cost of fund they all pass on except that there is a lag effect because when you borrow wholesale and lend retail, the borrowing cost goes up on the day it is announced whereas in retail there is a pipeline and by the time you announce and there is always resistance from the sales team so usually there is about 20-30 day lag.

Deepti Chauhan: Okay, thanks a lot Sir.

Moderator: Thank you. The next question is from Karthikeyan Muthuswamy from Trident Advisors. Please go ahead.

Karthikeyan M: What do you think about systemic risk, if there is some kind of blow-ups somewhere in the world and how do you look at Magma?

Sanjay Chamria: I think it is too broad a question Karthikeyan. The way I would address this is, how did we deal with 2008 when there was a huge systemic risk, so I think what we did was we significantly clamped on our underwriting measures, we looked at in respect of past portfolio we could only tighten up our collections mechanism. In respect of this further origination what we could do is to tighten up our underwriting measures and therefore we reduced LTVs. We also **planned** certain special restriction with regard to those customer segments, which are more vulnerable to the economic downturn which is the first time buyers and which is the unsecured borrowers of the certain SME industries which are dependent on the exports and therefore they would be more severely hit in the event of the downturn so that is how we dealt with. So depending upon what kind of a systemic risk would happen I think the approach will have to be more customized to deal with the same.

Karthikeyan M: If the Indian GDP were to slowdown next year, do you think Magma can increase its market share to maintain growth or do you think you will have a slowdown in disbursements?

Sanjay Chamria: Well actually I do not share the view which you have expressed that if the GDP were to slowdown because….

Karthikeyan M: That is just a hypothetical question; I am not saying it will slowdown, if it slows down?

Sanjay Chamria: That is right I also want to record my disagreement with this hypothetical assumption because while we are growing at about 9%, IMF itself has revealed that it should be growing at 9.5% for this year and 8.5% till FY'14 so therefore I do not really see... now 0.5% plus or minus is a different thing, so if we are growing at between 8%-8.5% then we are actually looking at doubling of our GDP to about 2.4 trillion and if that happens then I think we have seen in respect of the automotive sectors there is a delta 3 impact, so therefore if our GDP grows by 8%, our demand for the vehicle should be growing at about 20% plus, because there is so much that is to happen. So I think over the next two to three years' timeframe until such time we reach there I do not really see a situation and so far Magma specific answer is concerned I think we have talked earlier that we plan to increase our branch penetration like this year we have already opened 19 branches and we have gone up from 153 to 172 and we have shared our plan that we propose to go to about 225 branches by fiscal 2013 which will help us map every nook and corner of 22 States in which we are present and that will help us to sort of corner additional market share where we are geographically not present today.

Karthikeyan M: Thank you.

Moderator: Thank you. As there are no further questions from the participants I would now like to hand over the conference back to Mr. Girish Pai for closing comments.

Girish Pai: I thank everyone for participating on this call. We thank the management of Magma Fincorp for giving us the opportunity to host this call. Thanks everyone.

Sanjay Chamria: Thank you.

Moderator: Thank you very much. On behalf of Centrum Broking Private Limited that concludes this conference call. Thank you for us and you may now disconnect your lines.