"Magma Fincorp Limited Conference Call"

January 17, 2012

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Moderator: Ladies and gentlemen good day and welcome to the Q3 FY12 Earnings Conference Call of Magma Fincorp hosted by IDFC Securities Limited. As a reminder for the duration of this conference all the participant lines will be in the listen-only mode. There will be an opportunity for you to ask question at the end of today's presentation. Should you need any assistance during the conference, please signal an operator by pressing "*" and "0" on your touchtone phone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Ms. Chinmaya Garg, from IDFC Securities. Thank you and over to you Madam.

Chinmaya Garg: Good morning everyone and thank you for joining us on Magma Fincorp Q3 FY12 Results Conference call. I have with us Mr. Sanjay Chamria, Vice Chairman & Managing Director and Mr. V. Lakshmi Narasimhan, the CFO of Magma Fincorp to talk about the company's performance and important events during the quarter. We will begin the call with opening remarks from Mr. Chamria following with we will have open forum for interactive Q&A session. I would now like to hand over the mike to Mr. Chamria for his opening remarks. Over to you Sir.

Sanjay Chamria: Good morning everyone. Thank you for joining us on the Magma's conference call for the third quarter ended December 31, 2011. I would like to share with you the key highlights and performance indicators for the quarter. Before that a small note from my side on the general economic situation. There is a general consensus that the GDP growth for the FY'12 is likely to moderate around 7% on the back of uncertainties in global economy and following domestic demand. This is largely on account of sub par performance by the agriculture and the industrial sector; however, the growth in the services sector continues to remain robust. The key interest rates have been raised by the regulator in 13 tractions since March 2010; however, in the last policy review fortunately the rates have been kept constant due to the softening of inflationary pressure.

This has raised expectations that interest rates have peaked and are expected now to go down from the first quarter of the next fiscal hence demand for the interest rates for sensitive segments like cars and medium and heavy commercial vehicles is expected to improve going forward.

Coming to the performance of the automobile industry during the Q3 the primary sale of cars recorded a degrowth of 2% and the commercial vehicles have improved to 22% which included medium and commercial vehicles at 16% and the LCV's at 27%. The tractor industry grew at 16% and the construction equipment industry is expected to have grown around 20%.

Now I would turn to the key highlights of our business and financial performance for the quarter ended December 31. We have expanded our footprint during the quarter by further adding six more branches to reach now 196 branches in total across 21 states on an overall business. Thus so far during the year we have added 25 new branches as against our target of 26 and this expansion will help us in garnering higher market share and achieving our aim for consistent growth in disbursements. Our disbursements have growth by a remarkable 50% in Q3 to Rs.1915 Crores on a Y-O-Y basis and for the nine months in the current year that is April to December 2011 disbursals have increased by 41% at Rs.4895 Crores compared to the similar period last year. Even sequentially our disbursals have grown by 23% over the Q2 of the current fiscal. I am also happy to share that in three of our products which is the car and MUVs, UCV and tractors, we have already crossed our entire disbursals for the last fiscal FY11 and we are geared up to achieve new high across all our products in this financial year. In car and tractor we have beaten the industry growth by a wide margin. In the quarter car we have grown 52% and tractor we have grown 85%. In CV; however, we have recorded a slightly lower growth of 16% vis-à-vis 22% for the industry largely on account of our focus being more towards medium and heavy commercial vehicle segment, which has grown at a slower pace compared to the LCVs. Our blended gross yields which is net of pay-outs to channel has also increased by 31-basis point over the Q2 of the current fiscal and by 187-basis point over the Q3 on a Y-O-Y basis.

The high yield products which constitutes tractor, UCV and SME up have together contributed 25% of our total disbursal during the quarter as against the 22% for the corresponding period last year and we are well on course to achieve our guidance of 25% for the overall year as well. Our strategy of steadily increasing the contribution of high yielding products by about 5% to 6% every financial year has been paying off as evidenced by consistently good asset quality throughout the last three years. For the third year in succession we are able to achieve and maintain 100% collection efficiency and during the Q3 just ended it has touched 100.4% while for nine months it is exactly as 100%. As a result thereof the write offs in other words the credit losses have also been steadily going down and have reached historic low of 23 basis point of the AUM on an annualized basis for the quarter and 22 basis points for the nine months ended December on an annualized basis once again, which is better than the write off percentage for the last fiscal which 24 basis points.

We would pursue the policy of growing the contribution of high yielding products again by another 5% next year to gross and net is and maintain similar focus on asset quality to a stringent underwriting norms and robust collection performance. As a result of our policy to build our own book and grow the balance sheet we are stocked or reduced significantly our dependence on securitization or sale of receivables from beginning of this year. As a result our asset on finance has grown very impressively by 77% Y-O-Y and total AUM now at the end of Q3 stood at Rs. 11856 Crores of which 70% is on balance sheet and only 30% is off balance sheet whereas if you know as at the end of March 2011 which is at the beginning of the fiscal year on book was only 54%. Further with our accounting policy change as well from April this year we have stopped recognizing gain on securitization or sale upfront and rather now we amortize the sale over the tenure of the respective loan contract. As a result around 25% of even the off balance sheet assets, so like I said the off balance sheet assets as on December is 30% so around 7.5% out of that also is going to yield income in the coming years and this percentage of 30% which is off balance sheet is expected to further go down by March 2012.

We have also worked on diversifying sources on debt raising to reduce dependent on the banking system, which is also in line with the regulatory prescription and the guidance and as on December banks constitute only 58% of our total borrowings and the debt capital market players like mutual fund and insurance companies they have provided 31% and the balance 11% is by way off sub debt, pressures, and PDI. BM2 further improved this mix going forward in the next year with a growth in AUM and balance sheet size.

I now move to the financial aspects of the results. Consolidated revenues during the quarter increased by 23% to Rs.278 Crores compared with 226 Crores for the corresponding period last year and for nine months it increased to 751 Crores as against 604 Crores for the nine months last year, which is a growth of 24%. Interest in finance charges have gone up by 82% during Q3 on account of two reasons. The first higher borrowings in order to fund the growth of assets on balance sheet and secondly as a result of increase in the interest rates over the same quarter in the previous year therefore the growth in revenues and the interest in finance cost during the period is not comparable with last year due to the change in the business strategy of building our loan book on balance sheet. Our blended cost of funds for the nine months was 10.5% and our blended yields net of pay outs to the channels was 14.8% thereby giving us a spread of 4.3% for these nine months. We have felt a continued pressure on spreads till the end of the quarter under review; however, with the interest rate peaking now we have foresee stabilization of spreads with a positive buyer. Going to the change in the policy of accounting for securitization income and expenses implemented at the beginning of the year and also as a consequence of very low securitization stock sale of a portfolio in comparison to last year the PBT for the quarter is Rs.21 Crores as against Rs.49 Crores during the corresponding quarter last year and for nine months it is 76 Crores as against 116 Crores for the last year.

PAT is lower by 57% to Rs.14 Crores during the quarter, which also includes the impact of Rs.5 Crores on account of MTM loss on forex exposure. We have estimated that had we continued our earlier business and accounting policy and maintain the securitization volumes at last year's levels our PAT for nine months ended December would have been in the range of Rs.115 Crores, which would have registered a growth of 49% on an apple-to-apple comparison business over last year. We have elaborated the calculation in respect of this analysis in the investor PPT, which has already been exhibited on our website and which can be already either downloaded or you all can access it anytime you like.

Now our outlook for the fourth quarter well the primary sale of vehicles and equipment's and tractors is expected to be moderate and growth rate is expected to be in line with the third quarter we at Magma are confident to outperform the industry growth rate once again as we have achieved in the last nine months. With inflation having partly come within the expectable range of the monetary authorities the policy rates are expected to have peaked and both the government and the monetary authorities are expected to ease the interest rates in a bid to support economic growth as that seems to be the priority for the next year. Even when this happens it would help us improve our spreads in view of very extraordinary growth in our balance sheet loan assets, which carries fixed rate interest it should improve our net earnings.

With that I would like to conclude my comments and Lakshmi and myself would now be very happy to take any questions that you all may have. Thank you.

Moderator: Thank you. The first question is from the line of Mr. B Srinivas Rao from Deutsche Bank. Please go ahead.

B Srinivas Rao: Thank you very much. I have a question not on your financial side but more than the business side. From your presentation it seems that the delinquencies have kind of increased during the course of last nine months. I refer to slide 28 of your presentation particularly on the CV side so just wanted your colour on exactly what is happening on that part of the business?

Sanjay Chamria: Good morning Srinivas, you are referring to which slide?

B Srinivas Rao: Slide number 28, which gives the chart of the infant delinquencies, generally speaking across most of your business lines it seems March 11 was a bottom (ph) and while the trend has kind of improved, it has increased and then kind of things are flattened lately so just wanted your thoughts particularly on the CV side and on the tractor were again there is a big fall?

Sanjay Chamria: So I think you are referring to the slides, which talk about the infant delinquencies on slide 28, so one I will request you, and the other participants to also refer along with slide 28-29 as well, slide 28 talks about infant delinquency and the slide 29 talks early delinquencies. Infant delinquencies is something which after the first six months of lending if even Re.1 is outstanding in respect of a contract is what we describe as an infant delinquent contract whereas in respect of slide 29 which is early delinquency after lending for the first 12 months of billing, if there is a contact which is an outstanding of more than two moths with a lag effect of 60 days then that is qualified as early delinquency. So if you see an there has been an increase in the infant delinquency as you mentioned in slide 28 and which is there in most. It is not only in case of CV but also you will observe that in tractors or in Suvidha, which is used vehicle, which actually kind of denotes that the customers are having a cash flow issue and instead of being zero that is the current customer they may be having one installment default or a half installment default but not exceeding two installments default because the moment exceeds two installments default that contract will also appear in slide 29 as early delinquency whereas you will see now in the early delinquency in commercial vehicle it is almost flat as compared December 2010 and December 2011 also, therefore it shows that in terms of the asset quality it remains impeccable; however, in the short-term where the customer has just taken a loan in the first few months there could be a half an installment or one installment outstanding. The other way we look at the asset quality is the collection efficiency, which is as against billing overall how much are we collecting. So there in as I mentioned also in an opening comments that for the third year consecutively we are maintaining 100% collection efficiency and the way we calculate this is the total cash collection upon the total billing during the period under review. As a result that thereof it shows that we are able collect whatever has been billed and becomes due during the period. So there again we find there is cause for concern.

B Srinivas Rao: On a related note, because and I am coming from more from an auto sector perspective as an industry the commercial vehicle segment has grown very well and I talk of the truck segment wherein you are more focused at least based on our expectation the segment does much better than what the overall economy would have suggested so just wanted your thoughts as to how you think the next year will grow as an industry, I know Magma, given that you are expanding your reach, you will probably again surpass the industry growth, but as an industry what do you think the commercial vehicles will do from now on and is there a potential for a lagged effect of the slow down in the economy which we are witnessing?

Sanjay Chamria: One if you see like if we profile the commercial vehicle as an industry over the last 30,35 years then what typically we observe that after every about 10 to 11 quarters of robust growth it is usually followed by about four to five quarters of stagnation or a marginal degrowth because our GDP growth has been anywhere between 7% to 9% over the eight to ten years there is always a delta impact of about 2.5 so far as the commercial industry is concerned. So therefore in my opinion at a very broad level if we are convinced that our economy is going to grow say between 7% and 8% we should be witnessing on a three year horizon or a five-year horizon anywhere between 17% and 20% growth in the commercial vehicles sales which could of course be punctuated by six or seven quarters of stagnation or degrowth followed by a very impressive growth 25% to 30% but it should give us a CAGR of between 17% and 20%. That has been experienced over the last 8-10 years.

B Srinivas Rao: What do you think for the next four quarters given that as you mentioned we are probably seeing above 10 growth for almost more than I think 10 quarters now?

Sanjay Chamria: We could as you rightly said for example if the fiscal measures and the monitory measures contemplate it and of which there is an expectation if these are not undertaken by the government and by the monetary authority it could for example if it leads to an overall inflationary pressures in the industry then in such a case there will be a sobering impact on the demand for the commercial vehicles and then it could witness a slowdown. There is no doubt about it.

B Srinivas Rao: Fair enough. Thank you Mr. Chamria. I will come back for more question and wait for my chance in the queue.

Moderator: Thank you. The next question is from Pankaj Agarwal from Ambit Capital. Please go ahead.

Pankaj Agarwal: If I look at your AUM breakup it seems that the proportion of high yield assets are going up, it is going up. It used to be around 16% in the last quarter and now it is around 18%-19% in terms of AUM, but if I look at your yields they are again sequentially down in this quarter. So I am not able to tie it up, your cost of funds are rising your proportion of high yield assets are going up but still your yields are going down?

Sanjay Chamria: So one, Pankaj if you look at the slide which we have on the yields, which actually gives the growth IRR, the cost of fund and the NIM wherein you will see that there is a contraction in the yield on a marginal basis from 4.6% in Q1 and 4.2% in Q2 and Q3 and obviously therefore on an overall basis if I look at the assets which we have created in the Q1 which was on a 4.6% basis but then if my cost of funds moved up by say about 60 basis point between Q1 and Q3 then on my portfolio which was created in Q1 there the yield compression will result in a NIM going around 4%. So to that extent you are right but on a marginal basis if you see then we are maintaining a 4.2% yield even in the Q3. If I look at a gross basis then you see in first half we maintained a gross yield of 14.6%. This is slide 14 that I am talking of the investor PPT. I think it is slide no.18. That is not there with you but then the way I see is 14.6% in the first half and in the Q3 our gross yield has gone up to 15.1%. So, sequentially if you look at our yields have moved up inline with a cost of funds also there is a 40 bps contraction from 4.6% it has gone now to 4.2%. That is how it is; however, the other point that you mentioned is right. That is the contribution of the AUM from the high yielding has gone up because now we are retaining all our assets on our balance sheet and the contribution on a marginal basis is 24% in the nine month of this year as against 19% last year so obviously that overall contribution will be going up.

Pankaj Agarwal: 14.8, I believe it is for the first nine months of this year right; it is the incremental yield on the assets?

Sanjay Chamria: If you break up, Pankaj, then first six months it was 14.6 and Q3 it is 15.1 and therefore on an overall nine months basis it works to a weighted average of 14.8.

Pankaj Agarwal: Yes, but what I was asking was about the blended yield on the overall portfolio so though incremental yields are going up I can see your blended yields on the overall portfolio coming down based on my calculation, probably I might be wrong but that is where you know because if you see your average earning assets sequentially went up quiet high but your net interest income has not gone up to that proportion?

Sanjay Chamria: Yes, so on my overall loan book which is resident in my balance sheet I think you are referring to that, so that is actually 14.4%, which earlier was lesser but during the year this nine months the new portfolio which is about as I mentioned Rs.4900 Crores that we created that has produced a yield of 14.8 as a result of that our weighted average yield has improved to 14.4%, but my cost of fund has moved up faster and higher and therefore there is a contraction in the yield, which is the point you are mentioning.

Pankaj Agarwal: I was not coming on the spreads I was only to want the yields itself?

Sanjay Chamria: Yields have gone up. In the yield there is an improvement. Because like last year we had a 13.2% yield FY'11. This nine-month we had a 14.8% yield and my entire loan book has a yield of 14.4% so there is a upward bias in my overall yield on the portfolio which is outstanding in my own balance sheet. So that fact what you are mentioning is not correct.

Pankaj Agarwal: Okay, so you are saying entire contraction in NIM is because of increase in cost of funds?

Sanjay Chamria: Absolutely that is the point I am making.

Pankaj Agarwal: Coming to this Rs.50 million mark-to-mark losses on forex what is the mathematics behind it?

Sanjay Chamria: Pankaj can you just repeat this?

Pankaj Agarwal: Mark-to-mark losses forex exposure?

Sanjay Chamria: What is your question?

Pankaj Agarwal: My question is that what is the mathematics behind this Rs.5 Crores on what exposure you have booked?

Sanjay Chamria: We have only one borrowing outstanding which is not exactly borrowing it is a sub debt in the form of press shares which we had issued in the year 2007 of about $15 million on which we had a hedge economic hedge both in respect of the currency on the redemption of this press share and also on the coupons and this Rs.5 Crore that we are talking is basically including the interest rate deferential as well as the forex variations that has happened due to the volatility into the Rupee Dollar in the last quarter on the entire portfolio of Rs.15 million; however, having said that this press shares that we have is qualifying for the tier two and therefore it has a maturity of eight year and of which four years have gone and then in the balance four to five years it will be redeemed at the rate of one-fifth every year over the next five years.

Pankaj Agarwal: So you have booked the forex losses till what INR USD rate?

Sanjay Chamria: It is the book till I think 54.12. Pankaj you get the answer from Laxmi?

V Lakshmi Narasimhan: Pankaj, just to just to state on the spread related point if you are going to relate directly to a 14.6, 14.8 and 15.1 to the net interest income then there may be a slight alteration which you need to do because the assets is earning only for a specific period of a given month. So

14.8 is a weighted IRR of all deals that a been booked during the month so practically business booked in December will start earning only from January because installment is a month in arrears so the IRR that you are seeing my suggestion would not to relate directly to the net interest income unless you kind of complete a full cycle of installments commencing. So there will be a slight variant between what you are seeing as 14.8 is a direct impact in term to the net interest income.

Pankaj Agarwal: Thanks a lot Sir.

Moderator: Thank you. The next question is from B. Srinivas Rao from Deutsche Bank. Please go ahead.

B Srinivas Rao: Thank you very much Sir. I have come back for couple of more questions. First on you tractor business we have anecdotally heard over the last two years that the non-farm usage of tractors have increased so just wanted to check find out your thoughts a) if that the case within the portfolio when you are lending and b) does that have an impact on the riskiness of the loan in the sense that the return on value of the tractor would probably or the tractor would depreciate faster than just if it is put in the usual farm in a user the farm, non farm mix if it changes has that been the case for you?

Sanjay Chamria: Let me try to answer your question in two different parts. One is it is an acknowledged fact that the growth in tractor sales in India has been helped by the non-farming uses of the tractor and this is also has been largely on account of the NREGA scheme in which there is lot of infrastructure development going on in the rural and the semi-rural market as the government is guarantying that minimum 90 days job for every person they actually then give them job into the developmental work in those villages and the small areas where these guys reside and tractors are used there for movement of the building construction materials like stone chips and/or the removal of the overburden. So as a result of that that is the practice, but the second reason which you have had mentioned and but where it is actually for the farm uses and the tractor sale is going up is also the shortage of the labor. Today there is lot of migration of the labour from the rural and the semi-rural areas to the urban areas and whether it is in the building, real estate or mining or the other places as a result of that also the availability of labour has gone down into the agriculture and that also had pushed the sale of the tractor. The second point is and this is also evidenced by our interaction with the tractor customers in different states in the country that when they buy the tractor they actually buy it for a mixed uses. For example, somebody having a 6 acres of land and doing a two crops a year would use a tractor from max about 90 days in his farm and the balance the nine months of the year either he has an option that where he can rent out to the other fellow farmers or he can use it for the non-farming users so mostly it has been seen that the farmers who own between 4 to 6 acres or 8 acres of land they actually use the tractors for a mixed uses and this has been our experience thus far based on our interactions.

B Srinivas Rao: On a related note, I mean, do you seen that these structural factors of kind of continuing to impact a or continuing to have positive impact on the growth and again this is the on the context that tractors have had a significantly above trend growth for the last three years and at least there was an expectation that it will moderate quite dramatically in a next 12 months as an industry again is something which you would share your views which again could have an impact on your collections and credit cost going forward so just on that note?

Sanjay Chamria: I think these two are, Srinivas in my opinion unrelated in the sense one I would agree with you that see India is already the largest tractor market in the world and now we are having a pretty high base this year it may be well in excess of 500,000 tractors industry so therefore the growth rate may taper off next year because we have actually been surviving a very good three year of tractor sales. However coming to the delinquency part the tractors which are already disbursed and which are being used by farmer for their farms as well as non-farming users wherein we have seen our collection efficiency in the last nine months which is April to December has actually improved compared to the same nine months period last year and this figure I will share with you it was this is include only by 10 basis points from 96.4 to 96.5 in the nine months of the current fiscal and if I look at the three months period then again there is a 10 basis point improvement which is 97.5 to 97.6 so therefore I do not really see any stress in terms of collection efficiency on the tractors. It is a valid point. I should stress here like overall my collection efficiency is 100% whereas in case of tractor I have about 97.5 or 97.6 so obviously tractors does not give me 100% collection efficiency nor do I expect that.

B Srinivas Rao: On that note, just on your used CV business again that would be a part of the business which will probably see a stress earlier compared to the new CV business is that something you shared based on your last as a five to six years experience that when there is a downturn or when there is a softness in the market the UCV market tends to react first or to the credit impact is first felt there?

Sanjay Chamria: In fact there are two reasons in this, which I did not talk about so one has a positive impact on the delinquency and the other as a negative impact. Now what are these two factors? In case of the used CV the impact of the loan servicing is much lesser as compared to new CV and that we can see because the ticket side in case of the used CV is 5 lakhs whereas in case of a new CV it is about 16 lakhs and that you can see in our investor PPT in slide no.15 and so therefore the you know the load bearing capacity of a used CV would be marginally lower than that of a new CV. And secondly while a new CV can apply on a national permit and there by earn higher revenue the used CV usually would apply within the state or in the neighbouring state and have relatively lower revenue. But as per the EMI is actually about 40% only in case of the used CV as compared a new CV.

B Srinivas Rao: The new CV would be about at least 60% plus if not more?

Sanjay Chamria: It is a 2.5 times of the used CV because if you have 16-lakh-ticket size and you have 5-lakh-ticket size it will actually more than 3 times.

B Srinivas Rao: Sir the percentage of the monthly earnings it will be much higher actually?

Sanjay Chamria: Yes, so therefore what we do is we calculate a FCA which is a Free Cash Flow analysis and therein we find that in case of a new CV over a 48 months tenure it usually gives us about 1.2 times which is a free cash flow wherein case of a used CV even we lend for a period of 3 years where as the FCA throws a ratio of 1.4 to 1.5 so these are the positive impact. However the negative impact is that the profile of the customers who usually go for a used CVs relatively moderate and weaker as compared to the customer who goes for a new CV. So these are the two-contrarian reasons, which would have an impact on the delinquency in the event of a slowdown. Now coming to Magma's experience I think I have shared in some of my earlier calls that we had got the product wrong in 2005 -2006 when we started this, as a result we ran up a very high level of delinquencies, so in 2007 we did mid-course correction in terms of the credit screen and the process fees as a result thereof from 2008 onwards we started witnessing a very high level of collection efficiency because we had a lot of backlog so if you look at our previous slides on the investor PPT in used CV we used to have 110%, 112%,107% kind of collection efficiency so we were recovering a lot of . So even now in the current year we are actually collecting 100% plus because our backlog is now more or less over so we are maintaining that collection efficiency in the used CV

B Srinivas Rao: Understood this is very helpful. Thank you so much.

Moderator: Thank you. The next question is from Parag Jariwala from Anand Rathi. Please go ahead.

Parag Jariwala: Thank you for taking my questions. Sir, whatever the accounting changes and etc., your number becomes little difficult to compare so can you give us a what is a number for comparable basis for this nine 9 month and earlier 9 month or even quarter I mean for 3rd quarter would be also great?

Chamria: Nine months is what actually, Parag we have put up on our slide in the investor PPT so while you may download it in your time but I can you know give you a synopsis on the nine months basis. So nine months basis you see we have had a profit of Rs.77Crores last year, which right now is about Rs.52 Crores. This is on a PAT basis and so which is about 32% decline and if we had maintained as I said in my opening comments the same level of securitization which is about 52% of the disbursal during the year and then what would have happened we would have gotten interest income from securitization which would have been Rs.57 Crores additional. Then we have mentioned in that line that because my own balance sheet loan book would have gone down that would have required lesser standard asset provisioning of about Rs.3.6 Crores and because of securitization my interest and finances charges would have gone down because my borrowing would have been reduced to that level so that would have you know saved about Rs.72.7 Crores of interest. However on the negative side like earlier when we used to have a upfront recognition of income we also used to upfront debit entire channel pay-outs rather than amortizing the sales which we are now amortizing so that would have increased our expenses by Rs.41.3 Crores so therefore on the positive side you have Rs.57.3 Crores, Rs.3.6 Crores and Rs.72.7 Crores on the negative side we would have Rs.41.3 Crores on account of increased brokerage and commission. Then on top of that this would result roughly in about Rs.100 Crores of increased PBT so there would be a increased tax also of Rs.29.9 Crores so if we adjust all of this then on a apple-to-apple comparison of PAT this would have increased from Rs.52.3 Crores to Rs.114.7 Corers. So Rs.114.7 Crore as a proforma profit as compared to Rs.77.2 Crores of the last year nine months would have resulted in a 49% increase in the net profit Y-O-Y, which also compares favorably with 41% increase in our disbursal in nine months and 24% increase in the high yielding assets. So this is the kind of a bridge analysis that this time we thought its very important given a deep impact this change in the business strategy is having on our P&L.

Parag Jariwala: Sir did you see on the on first quarter of FY'13 this accounting is a good blemish when we can compare on year-on-year basis or it could be some later?

Sanjay Chamria: So while you know what happens now the carry which we are having of our own balance sheet assets is now improving with every quarter so I think what will happen is by first quarter of next year we will have some level of apple-to-apple comparison; however, in terms of getting the real impact we have estimated it takes anywhere between five to six quarters. Therefore right now we are in the Q4, which is January to March. So either we should see this in July to September quarter or at most we should see it from the October quarter. The other thing which I can share with you is the like I mentioned in my opening comment that we have a 70% on balance sheet assets and 30% off balance sheet and of 30% 25% which is about 7.5% of 100% that is also income earning because now we have also change the accounting policy so whatever little bit of sale or securitization that we do we are amortizing the income on that. So therefore on a base of 100 now 70 plus 7.5, 77.5 is what is now earning the income in future as opposed to only 52% which we started the year with. So based on our securitization plan for the last quarter because that is how we get the rate benefit on the priority sector, we estimate that one this 70-30 would become about 80-20 and in that 20 about 45% again would income earning so which means on a base of 100 it will be roughly about 89% to 90% as the income earning and 10% to 11% which will be non-income earning asset while we start the next fiscal. I hope this clarifies kind of your question.

Parag Jariwala: Thanks a lot for clarification.

Moderator: Thank you. The next question is from Jigar Walia from OHM Group. Please go ahead.

Jigar Walia: Good morning to everyone. Sir I needed to understand the more on the strategy front particularly from a longer perspective say two years from now in terms of now what are the levels of ROA ROE that we are looking at and to achieve this what are the kind of minimum growth rates or the target cost income ratio that we are looking at?

Sanjay Chamria: Jigar like at the beginning of the year in terms of a strategy we had said that we want to grow this year 50% in terms of disbursal and we said that we want to maintain a NIM of about 5% and we have said that we want to maintain the same asset quality despite increase in the high yielding this year we said we will take it to 25% from 19% last year. These are the three broad headline statements that we have consistently made during last nine months of the current fiscal. I think I derived a lot of privilege and pleasure in sharing that we have largely stuck to what we have said and despite the sub 15% growth in the primary sale of the various products that we are financing, which is something I think no one on the street would have estimated that for example car, which contributes the largest chunk in our business was having a negative growth of 0.5% in loan until December now it has entered the positive trend but still it is flat we have still posted 41% growth in disbursal in nine months and in the Q3 we have posted a 50% growth in the disbursal so on the NIM front of course it has fallen to 4.3% because our estimate was that by growing the high yielding product contribution by about 6% we would have increased our NIMs by about 35 to 40 basis point. However the increase in the cost of funds has gone beyond expectation, which again I guess was larger than expectations by everybody on the street. As a result thereof our NIMs have compressed to 4.3% which in the last quarter has we have seen over the last three years the interest rate would drop because banks also want to build their balance sheet and because of the private sector you are able to get lower cost of fund so it may end up anywhere between 4.3 and 4.5 which I think considering the difficult interest rate environment it would be pretty credible number being performed and achieved by us. In terms of our strategy going forward we believe that in each of the product and that is the beauty that Magma has that we have seven products in our table that makes us the most diversified company and in each of the products we have the market share which ranges from as low as 2% to maximum of about 7.5% so therefore we have a lot of headroom to grow. Like this year we have added about 26 branches, next year will again had about an other 25-30 branches so we wish to pursue our strategy of this 50% growth at least till such time we feel we have reached a place where increasing it further will be difficult. So that is what our strategy is going to be so we will continue to improve upon our geographical penetration, second we want to grow as a strategy the contribution of the high yielding product. You see in FY'09 we had 9% which went up to 13% in FY'10 which went up to 19% in FY'11 which will go up to 25% in FY'12, next year we will take it to 30% and we wanted to steadily do this because otherwise the normal perception and even our apprehension was as we grow the high yielding contribution it may have the detrimental impact on your asset quality but pleasantly you see we have maintained the asset quality, collection efficiency and all other diagnostic parameters so therefore we are more involved in our approach and as a strategy we will grow the contribution which will kind of act as a hedge against the adverse interest rate scenario in future also if we were to encounter the same. Now the sum total of all of this has to be to provide a ROA and ROE, which is the very healthy, and inline with the expectation of the stakeholders in the company and broadly the investing community so that whenever we want raise capital we are able to do it at proper pricing. I hope I am able to…

Jigar Walia: Sir I was just look at some indicative numbers for say cost to income or the minimum sum ROA to be achieved in the interim. I understand we are in the growth phase and the transition phase and also that we also need to grow at a pretty high rate of a 40%-50% over the next two years and that would also entail some cost. But still some minimum numbers, a cap for a cost to income ratio or for a minimum for an ROA, ROE number some interim phase say up to this time we can achieve something?

Sanjay Chamria: So one as a policy we never give guidance on a ROA, ROE so one I will refrain myself from committing from that zone, which I am not allowed to; however, I will deal with your answer on the expenses and the growth phase part. So therein like, we have assured in the cost of the optimization and you can see that in fact there is a slide number 25 of our investor presentation which if you see in our interest expense, if you see that our overrates have gone down 5.7% to the overall assets to 3.9% in the current year nine months. So you can see there is a 40% drop. **Jigar Walia:** I see the slide and got the point.

Sanjay Chamria: This 40% drop the credit does not go to us that we have reduced our expenses by 40%. So there are two reasons in this one is that due to the change in the strategy, we know that we are growing our own balance sheet assets so naturally the denominator that is increasing in the lower percentage of the overrates; however, what we have also done we have increased the productivity norms in our five core functional areas. As you know like we operate on the vertical concept so we have a sales vertical, underwriting vertical, operations vertical, collections vertical and the MPSS vertical. All the five verticals we have grouped our productivity rather we have assured in the productivity improvement. So this has given as the benefit of roughly about 10% savings in the cost in the current year, but then we are expecting to get almost about 30% to 35% savings in the cost; however, all these changes that we have assured in, in a company which employs 5400 people across 200 branches, it will only happen over a period of one to two years. So this year like we are getting 10% benefit. We as a management team are committed to get another 10% next year, so that means over FY'11 and FY'13 I should except to save 20% on my cost and imagine a 20% savings on a much larger base will actually result in a good savings going forward. Now I come to your question on the ROA, ROE, we also have a slide on the proforma basis when I was giving the comparison on the profitability, if you had followed the same norms as last year then if you look at the slide number 37 wherein if you see the ROA 2.4 and the return on networth is 15.8%. Having it will take a while for us but it will reach like last year we had 20% for ROE and 2.3% for ROA, so I think it will take us a while but obviously our aim would be that having raised so much of capital and which has given us so much of benefits like we have diversified our debt profile today only 50% or 58% of my borrowings comes from the banking system and about 31% comes from the mutual funds and insurance companies which were earlier conspicuous by their absence and we have 11% by the way of tier II, and sub-debt and the perpetual debt instruments, so therefore we have introduced lot of very high quality debt investors in the company. So I think going forward all of these things will have a positive bearing, our credit rating has improved. Today we enjoy a rating of AA+ for the long-term borrowing program for the company, which is at par with the highest rating being enjoyed by the peers. So therefore in banking we are pretty confident in terms of improving the returns.

Jigar Walia: Thanks a lot sir.

Moderator: The next question is from Surajit Chaudhuri from Edelweiss. Please go ahead.

Surajit Chaudhuri: Hello sir good set of numbers; just want to ask few questions on your business side, as you have mentioned am I audible?

Sanjay Chamria: Yes, very much but I didn't get your name correct.

Surajit Chaudhuri: I am Surajit Chaudhuri from Edelweiss Capital. Sir a few questions on your business side as you had mentioned in the beginning of your presentation that disbursements on account of MHCVs have moderated vis-à-vis the other rapid classes mainly because of the sales slowdown in the underlying asset class. So what I want to understand is how are the business dynamics working out from the large fleet owners perspective or from the truck owners perspective in terms of business volumes that they are generating and or the freight rates that they are getting, now this is in the context of broad economy slowdown and within that also slowdown particularly in sectors like mining and construction where I believe a large portion of these MHCVs gets deployed?

Sanjay Chamria: Let me time out for it both from the mining and the construction side and from the transporters side because they are the two end users that you have specified. The mining and construction site only the tippers part of the medium is heavy, commercial vehicle is deployed and not the trucks and the buses chassis which are used in the goods and the passengers transportation. Mining and construction side I am definitely seeing that there is a cash flow stress in the hands of the either the large infrastructure companies or even the contractors who are impanelled with these infrastructure companies or even with government bodies like NHAI or the PWD, PHE or irrigation departments and as a result it is having adverse impact on the debt service capabilities of the customers who have taken loans on either on the tippers or on other construction equipment's like the backhoe loaders, excavators, compressors and the rest of it, this is one side. The other side is so far as the MLOs we call them, which is the Multiple Load Operators or the big fleet owners in terms of the passenger transportation there I have seen that these people have maintained a better what we call a FFR, which is Free to Finance Ratio as a part of our underwriting screen we would not take an exposure from somebody who would have a less than a 30% ratio of FFR, that means 30% of the fleets should be free at the point of time when we are giving further loans to him for acquisitions of more fleet and therein I have not really seen is the cash flow issue but we are witnessing a viability issue as a result of that what has happened is MLOs and the Road Transport Operators they have slowed down the fleet acquisition part of it and this is what had resulted in a more subdued demand for the medium and heavy commercial vehicle as opposed to LCVs and Ace which is growing at a faster place.

Surajit Chaudhuri: Sir do they have enough margin of fleet going forward also say assuming that the economy slows down continues in this mode for another three to four quarters, like you mentioned there is a viability issue already coming but not as a cash flow issue as yet, but given prolonged slowdown will they have an issues on the cash flows as well?

Sanjay Chamria: Actually for example, you also qualified your statement if the slow down continues? Therefore if the slowdown continues, then we might witness a October 2008 to May 2009 scenario, wherein the principles may not be able to pay their contractors in time and you see all these people are gullible to cash flow management, so if they do not get their three months billing from their principles they will not discontinue, because these are all not very long-term relationships based on contracts. So but they will also delay the payments of installments and obviously you will see a rise in delinquency. So summarizing if the slowdown continues as you said for the next three to four quarters, obviously we will see an impact in the cash flow and the ability to service the installments. So if you could see a blip in the delinquency numbers.

Surajit Chaudhuri: Sir on the LCVs as you mentioned the Tata Ace and I believe other vehicles like Mahindra Pick-Up and all are doing well, sir is it because of the multiple users that these vehicles can be put to or there is a new segment getting created which finds increased application of these vehicles?

Sanjay Chamria: We are not very active, Surajit in this particular segment and so I am not really in a position to give a deep dive comment on this particular part of the business and that is the reason that our overall commercial vehicle disbursal growth is muted as compared to other products.

Surajit Chaudhuri: Right. Thank you so much sir. That was very helpful.

Moderator: Thank you. The next question is from Nischint Chawathe from Kotak Securities. Please go ahead.

Nischint Chawathe: Hi thanks for taking my questions. Just wanted to understand especially in the context of discussion that you had with the previous participant how does this, I mean is that not like a fleet replacement cycle or some period in which upper some periodic intervals maybe three years, four years where some of these players will want to replace their fleets and irrespective of their cash flow pressure they may kind of want to go ahead and take some of these calls. Is that the way it works?

Sanjay Chamria: Absolutely right, Nischint that is the way it works, because for example if you are attached with players like Maruti or Hero Honda for transportation of two wheelers and four wheelers manufactured by them for sending them across four zones in the country or you are attached with the transportation of very heavy materials then you have got to replace your fleet every four to five years. However what happens and it is common to every business that when there is a slowdown and when there is a uncertainty looming large in your business in manufacturing or transportation then if you were to replace your fleet this year you will kind of defer the decision by say another two quarters or four quarters and do it when it is inevitable or when you are pressurized by your principle. Otherwise in the normal course when you have a good margin which as I said is 1.2 or 1.3 in the first four years then actually you replace it as per the normal cycle and that is what results in a slowdown in the growth rate or a stagnation in CV industry every eight to ten quarters once you hit a purple patch.

Nischint Chawathe: But when would you I mean where exactly are we in this fleet replacement cycle at this point of time?

Sanjay Chamria: So the customers that we are dealing with they are either the MLOs or they are the passenger car or two wheeler carriers, so we actually saw between July and September a significant amount of slowdown by them in terms of the adding to their fleet; however, in the third quarter we witnessed that once again there was a renewed demand. So we also check them up with them by what's happening like in the previous quarter we did not see then we saw that they also got in some new contracts from manufactures, like Maruti for example, had a prolonged strike in the July to September quarter at one of their plants, so that kind of reduced their sales, usually the carriers who are attached with the Maruti will not add fleet but when Maruti recommenced and then their Swift and Dzire were doing well then of course they also pledged more contracts on their carriers. So at that time they want to add to their fleet. So we have quiet a good number of them as customers so this is how we analyze the scenario.

Nischint Chawathe: Just one book keeping question the 5 Crore MTM loss, this gets where exactly in the financial status gets reflected?

Sanjay Chamria: It is part of the interest and finance charges.

Nischint Chawathe: Just one final question actually one final comment from your side and I understand that this may or may not be directly related but there is obviously lot of noise that PSU banks kind of about high NPLs from the PSU banks, specifically from the from the Agri sector. Now as I understand clearly non-banks are doing really well, their underwriting and the way the business is done is very different, but how do you really see that what is driving it from an underlying point of view we see most underlying trends being very strong except the facts you know that PSU banks are reporting higher NPL, so your comments a) what is causing it and does this kind of have any kind of repelling factor of the financiers?

Sanjay Chamria: Well first of all, Nischint I am not amused if I see the higher NPLs in case of the PSU banks and in my opinion it has got nothing to do with the slowdown or the recessionary trend in the industry. Because if that be so then it would have impacted all the players be it a bank or a non-bank, it is not a cash flow or the slowdown related issue. To me it is more of a kind of segment in which you are dealing with that issue. Today a very large numbers of customers that we are dealing Nischint we need to contact those customers every single month, to remind them about the installment and to a 2200 people strong work force, which does collections 24/7 and they will reach out to the customers at their zones and collect money with the family member with whom he would have left or to go to a particular dhabba or a highway wherein the truckers would have an arrangement they will the leave the money there and say *"ki accha, Magma ka adami aayega, aap usko dhedijiyega.*" "The person from Magma will come, please do give this money to him." Can you expect a PSU bank clerk or official to handle this kind of a collection? Even the private banks when they tried to do this by outsourcing collection, they ran into a lot of hygiene issues wherein there is a clear conflict of interest between the collecting agents.

Nischint Chawathe: Sir my issue is not on he structural aspects clearly there are a big difference that is very clearly understood and acknowledged. But my point is that is there something that is triggering things at this point of time vis-à-vis one year back, two year back, three year back, that the delta that we see in the NPL is increasing?

Sanjay Chamria: I think let me answer for this question three years ago tell me how many PSU banks were active except State Bank of India? None. Therefore you would not see NPL rising three years ago if you compare. But if you look at now the State Bank itself reported some level of rise in the retail NPL because when you start it will actually show up in your books after six or eight quarters because initially NPL will not show and secondly you have a denominator growth which kind of cover up for any kind of any potential NPL that may be there and that is the reason. Nischint if you see in the last 11 quarters consecutively, we are throwing certain early warning signals in the form of ID&AD like ID I mean today you are recognizing NPLs at 90+, but IDs when I talk it recognizes NPL at 0+ one rupee outstanding from a customer in the first six months of billing that ID. Now how many place would be showing that data once you start recognizing you start focusing on it and controlling it.

Nischint Chawathe: Yes, I understand it. Yes even this data seems to be fairly in control as in that does not seem to be in any issue and there does not seem to be any one and early sign?

Sanjay Chamria: Therefore Nischint I am very optimistic if this kind of a scenario continues we are a outlier in terms of a delinquency trends and asset quality, I see a great opportunity in this challenging scenario.

Nischint Chawathe: Definitely. Thanks a lot and all the best.

Moderator: Thank you. The next question is from Pankaj Agarwal from Ambit Capital. Please go ahead.

Pankaj Agarwal: Sir, when are you planning to launch your housing loan and gold loan portfolio?

Sanjay Chamria: So, these two businesses are where we have received the approval from the board and we are in the process of putting the team together. In case of gold of course we need to open new set of branches because the customer segment that you deal with and the location of the branches that we need to have are very different. So there luckily we had the top team and we are building up the team at different places and then we will start there and that should happen some times in the second quarter of FY13. So far the housing finance is concerned there we require marginal efforts because the entire branch network of Magma would be quite available for users and it would be useful and also the entire customer database of Magma will be available for cross-sell of housing finance because whether it is a truck driver or a machine operator or a self-employed businessman everybody needs a house and today these are the people where we have the track record of their performance with us and if they need a housing loan and if we do not give it then who else will give it? So there we are in the process of putting a team together a team and I think that may happen sometimes in FY'13, we will come back with specific plans once we have fructified it.

Pankaj Agarwal: Sir housing I understand that there are some synergies but what is the management thought behind getting into gold loan business?

Sanjay Chamria: I think one is that we are already a very diversified company and if you see the one reason why we were able to post a 41% growth in the nine months in the current difficult year is because all those products will not do bad in a particular year and we are able to then kind of divide our growth rate across various products, so our objective of becoming a multi-diversified product conglomerate in retail finance is what requires our management team to look at different opportunities and therefore we can kind of make the company whether it is inflation or recession agnostic, so that in all seasons we can continue to grow. Secondly when we are look at this it is a secured form of lending. But then we are not looking like some mono line product company that I want to have a significant weightage of a gold loan or a housing finance in my overall portfolio. I mean if I look at three years or five years down the line I will be much more happier if I have no single product contributing more than 15% of our AUM, just like we have achieved that because in case of geographical disbursal. Today for the last two years no single state in India contributes more than 13% of disbursal. Same thing we would like to achieve in case of our products.

Pankaj Agarwal: Thank you very much Sir.

Moderator: Thank you. The next question is from Jigar Walia from OHM Group. Please go ahead.

Jigar Walia: Thank you Sir. Just one question, for the vehicle that we finance we do the insurance through our own company?

Sanjay Chamria: Well, we have not yet received the license to start underwriting the insurance, so we do not do insurance through our company.

Jigar Walia: Through any other agency that we do and do we get any commissions or something?

Sanjay Chamria: No, we do not actually do agency business in Magma so therefore we do not turn any agency commission; however, what we do is our 81% of the branches are located in the rural and the semi-rural markets, wherein lot of insurance companies do not have a servicing set up, so therefore what we do is we provide our set up to them for servicing our clienteles to whom they will sell the insurance and for that we actually earn some infrastructure sharing fee from them.

Jigar Walia: So that we recognize separately as income or we net it off from our infra expenses or something?

Sanjay Chamria: Again that depending upon the nature of fees that we receive some of it would actually be part of income and some of it would be netted off from the expenses.

Jigar Walia: Sir, just to understand more from a vehicle lending perspective, do we or that industry use the modern systems like GPS or tracking devices or something like that because those would be pretty low cost and extremely effective in terms of overall management, etc., or is it possible or is it not possible?

Sanjay Chamria: You are right but Jigar, but so far we have not branched out on into that although we have discussed two, three times about it, in fact yesterday only in our board meeting one of the members commented that we should also look at retrofitted breaking systems to be financed, which would improve the life of the vehicle as well as it will reduce the fuel operating costs and thereby and able to have better savings in the hands of the customer, so we then advised of our management team, because they are also invited to the core that we should look at some of these things we did talk about the GPS as well but today what is happening is today all of our customers are paying and we hardly have any write offs as you can see it has gone down from 45 basis points to about 22 basis points in the last 11 quarters, so we find that as of now there is no cause for worry, even when we look at it from the industry perspective none of the peers have so far looked at implementing this. So we may also look at it, I know it is a good thought.

Jigar Walia: Is it possible just to analyse the cost perspective, what percentage of our cost would be say for generation purpose and what percentage of our cost would be safe for collection purpose? Would collection be our major chunk of the overall cost, which would include Mahindra and other travel cost and other stuff?

Sanjay Chamria: Well actually the way we monitor, because we operate on a private banking basis in terms of vertical concept, so we do not have a SBU or a branch manager concept. So therefore when we look at in sales we are have a cost which is varying product-to-product in a high ticket size the cost is relatively lower as compared to a low ticket where the cost is relatively higher. Just as an abstract example in case of tractor for example my cost is highest which is roughly about 1.5-1.6 of the sourcing. If I do for example for 100 Crores then I will incur 1.5 Crores or 1.6 Crores as sourcing cost whereas in case of trucks where my ticket size is 15 lakhs there my sourcing cost is 40-45 BPS because there my ticket size is higher, this is how we monitor. Then we have an underwriting cost, then we have an operation cost and then we have a collection. Now collection underwriting and operation, this is actually common for all products. This is what gives us the economies of the scale whereas in case of sales, which are, customer interfacing there you need to have dedicated otherwise there is a cannibalization that happens, so there we operate differently. So if we operate on a macro basis then collection cost is also quite huge, but that is the investment that we have made by design because we wanted that you may have a lesser profit margin but if you maintain top quality of the asset you can sustain over a very long time in the retail finance business but if your asset quality goes for a toss where it can take you back by about four five years very easily and there are plenty of examples in our industry. That is a conscious call we have taken.

Jigar Walia: I think the numbers should certainly improve if once get into home finance and stuff?

Sanjay Chamria: Well we also hope so.

Jigar Walia: Great Sir, Congratulations.

Sanjay Chamria: Thank you.

Jigar Walia: Thank you.

Moderator: Ladies and Gentlemen that was the last question. I would now like to hand the floor over to Ms. Chinmaya Garg for closing comments.

Chinmaya Garg: I would like to thank Mr. Chamria and Mr. Laxmi for taking out time to explain to us the results. Thank you so much and thanks for all the participants for being there on the call. Thank you everyone.

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