"Magma Fincorp Q3FY13 Results Conference Call"

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Moderator Ladies and gentlemen good day and welcome to the Magma Fincorp Q3 FY13 Results Conference Call hosted by Ambit Capital Private Limited. As a remainder for the duration of the conference, all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call, please signal for an operator by pressing '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr. Dharmen Shah of Ambit Capital. Thank you and over to you sir.

Dharmen Shah Good afternoon gentlemen. Welcome to the earnings call of Magma Fincorp organized by Ambit. Today we have the senior management represented by Mr. Sanjay Chamria and Mr. Lakshmi Narasimhan. Along with them two other members of the team are also there to share their views on the results as well as take questions once we open the call for questions. I request you to restrict your questions to one at the first time and then you can roll back for further questions.

With this I would request Mr. Chamria to quickly share his thoughts on the business going forward on the previous quarter and his thoughts on how things are panning out. And then open the floor for questions.

Sanjay Chamria Thanks Dharmen. Good morning to all. I thank you for joining Magma's quarterly conference call for the unaudited results for the quarter-ended December 2012. The 3rd quarter of the current fiscal has been quite significant in terms of its long term impact both for the NBFC sector as a whole as well as for Magma since we have launched our insurance business and announced our entry into the housing finance sector through the proposed acquisition of GE Housing Finance Business in India.

RBI while clearly recognising the important role played by the NBFCs in providing credit to the under-served segments of the society and complementing banking system in the financial inclusion, has sought to strengthen the same through improved governance and risk management systems, stricter provisioning norms on non-performing assets, higher capital adequacy ratios, greater degree of oversight etc and almost placing large NBFCs at par with the banking system. Magma's board clearly sees it as an opportunity to differentiate itself on these quality parameters and endorses these apparently tough measures which will eventually strengthen the company as it grows in size and becomes systemically more important. We have therefore laid down a road map to implement all these guidelines and made a start this quarter by early adoption of provisioning norms both on a/c of NPAs and also standard assets in the following manner:-

1) Our Tier-1 capital adequacy as a policy will be kept above the threshold of 10%.

2) Our NPA recognition norms will be at 120 days past due with effects from the beginning of the fiscal year that is 1st April, 2012 well in advance of the deadline of 1st April, 2014.

Therefore we have effectively implemented the proposed NPA provisioning guidelines 2 years in advance.

3) The standard asset provisioning norms have been increased by 5 basis points from 25 basis points to 30 basis points as on 31st December, 2012. And we will progressively grow to 40 basis points ahead of 31st March, 2014.

Now I will share with you the performance of the industry sectors which have an impact on our asset financing activities. During the quarter under review we have seen de-growth in the primary sale of commercial vehicles by 4.7% and construction equipment industry by 0.2%, while sales in tractors have grown by 3.6% and passenger car and utility vehicles have gone up by 11.1%. Needless to mention the growth in the tractors and passenger car vehicles has been contributed by rural and the semi urban markets.

Our performance highlights during the quarter –

1. Our disbursals have grown 20% on a YoY basis and 35% for 9 months ended December 2012. Largely buoyed by the growth in disbursal in used vehicles, tractors, passenger vehicles and SME lending

2. Our interest spreads for the incremental disbursal during the quarter have grown to a very healthy 5.43%, reflecting an increase of 52 basis points YoY. And with this now we have crossed 5% for the entire disbursal made during the current financial year which is in line with our guidance at the beginning of the year.

3. Our total loan book has now crossed Rs.14,300 crores and earning assets comprise 93% as the total loan book. As a result of more than 90% of the loan book earning interest income and the expanding net spreads, our profit after tax has grown by 174% to Rs.38.1 crores during the quarter. However I have to stress that our profits would continue to grow higher quarter on quarter till such time when the effect of increasing spreads gets fully factored in.

4. Our collection efficiency for 9 months period was 97.8%, though we would like to do better and are working intensely on this aspect. We have seen some turn around in the last month that is December and if the trend continues during the current quarter, we will see superior performance during the 4th quarter in NPA provisioning.

5. Gold business started by us in June '12 is now stabilizing and the KUV Rao committee's recommendations are quite positive for the business and will ensure orderly growth in the sector on level playing field.

6. We have launched the general insurance business in our JV Company and it has started operations in 45 branches across 21 states. It is off to an excellent start and we hope to share more details on this performance during the coming quarters.

7. As regards housing finance, post announcement of the proposed acquisitions on mortgage business of GE Capital in India, we have already built our top management team and are on course to consummate the transaction during the current quarter and then launch booking of new home loans and LAP business from the end of this quarter.

8. We have added 23 new branches to take our total footprint to 263 branches as on 31st December 2012. We are ahead in our plans to complete our distribution network and feel that this is the right time to build the network to take advantage when the economy rebounds.

In our consolidated results, we have for the first time incorporated the results of our insurance company as per the accounting standards on joint venture accounting and as a result the impact in our profit and loss has been a negative Rs.1.9 crores at the profit before tax level. Also there is a net addition of Rs.60 crores to the overall net worth of Magma in view of higher breakup value of investments in the JV Company. MITL, which is a subsidiary in which we fund Sonalika (ITL) Tractors, has a positive Rs.9.3 crores at the PBT level. As a consequence of these consolidation impact while standalone Magma's profit before tax is Rs.48.9 crores for the quarter, the consolidated profit before tax is Rs.56.4 crores.

We remain confident of the future growth prospects and opportunities ahead of us in each of our businesses. We believe we are uniquely positioned within the NBFC sector to capitalize on the opportunities given the broad range of our products which now include housing and gold business, a strong management team and deep bench strength, and customer centric marketing initiatives coupled with a pan-India network.

Magma's board has also approved an enabling resolution to raise up to Rs.500 crores of capital to fuel the growth of business in various product segments and while we have comfortable capital adequacy presently, we will evaluate the various options and decide on the quantum and timing in accordance with the business performance and in consultation with our bankers.

Lakshmi, Kailash and I would now be happy to take any questions that you all may have.

Moderator Thank you very much sir. Participants, we will now begin the question and answer session. Our first question is from the line of Mr. Kunal Sabnis from VEC Investments. Please go ahead.

Kunal Sabnis Just wanted to understand what is the net addition that you are expecting in the 4th quarter in terms of advances? And what would be the quantum of securitized portfolio that you will be looking at in Q4?

Sanjay Chamria We have stayed away from giving any numbers in terms of guidance for the future except that till 3rd quarter we have grown at 35% in terms of disbursals and for the 3rd quarter we have grown 20%. There has been moderation in terms of the primary sale of the various asset classes that we are present in. So we have been doing much better than the rate of growth in the primary sales. As long as that trend remains, I think we will continue to grow. But it is difficult to give an estimate.

So far as your second part of the question is concerned which is on securitization, I think we have shared in the past also that the second half of the year is usually more optimistic and robust for securitization because of the slow rate of credit growth as well as the priority sector requirement of the banking system. Therefore we will see this as an opportunity and off load some part of our assets wherein we get good rates from the market.

Kunal Sabnis What would be the total securitized book if you can give a rough estimate by the end of the 4th quarter? And how would that affect the Tier-1?

Management I think largely we had kind of put out a guidance that we would remain in the 30% odd level as a total loan book percentage that is going to be off balance sheet. So one actually need to evaluate what price we get, what types of assets we can sell, so on and so forth. There are no specific number but I think it is good for us to assume that 30% of the total loan book would be off balance sheet.

Kunal Sabnis In terms of your collection efficiency, it has seen a drop consistently over the last couple of quarters and now you have changed your provisioning policy as well. Can we read much into it? Is it really difficult to get to that recovery in the current environment or how is it panning out currently? And what do you think would happen if it would pan out in the next couple of quarters?

Sanjay Chamria You are right. Actually we are concerned about the collection efficiency that we have which is now 97.8%, because for 3 consecutive financial years we have achieved 100% collection efficiency and reached all-time low rates of credit loss during the last fiscal year when credit losses were at 20 basis point of our total advances.

Now if you look at the first 9 months, our total loses have risen to about 42 odd basis points of the total advances. Given the current economic environment while we continue to remain the lowest in the industry, in terms of credit loses. I think if there is even marginal improvement in the overall market, we will hope to improve because we have taken lot of measures in the field where we have 3000 of our permanent employees handling collections.

The reason the board decided to adopt the stricter provisioning norms led down by the regulator earlier than expected to be mandated by RBI, was also to create a constructive tension within the management teams that instead of 180 if you recognize the non-performing asset at 120 days, then apart from making a provisioning you also need to do an income reversal on any contract which goes beyond 120 days. So I guess while we have taken a bitter pill now, hopefully in the coming few quarters it will result in a better health for organization as a whole.

Moderator Thank you. Our first question is from the line of Pritesh Nambiar from UTI Mutual Fund. Please go ahead.

Pritesh Nambiar I wanted to know this other income rise which has happened, anything extraordinary out there?

Sanjay Chamria Other income has 3-4 components, which include income from sale of power from wind mills. We have some of the interest income on the investments in the PTCs we make under the new guidelines when we securitized. Now you need to retain about 10% of the total portfolio that you sell as your investment under the MRR guidelines of RBI.

Now we have started the insurance business wherein as per our JV agreement with our partners, we are leveraging the entire infrastructure of the parent company which is Magma Fincorp in terms of the IT platform, the branch network, and all the support services. The infrastructure sharing services is on arm's length basis and therefore there is revenue that flows on the basis of the actual uses of all this facilities from the insurance joint venture company to the parent company. Magma holds 37% in the joint venture company.

Pritesh Nambiar Has there been any write-off recovery by any chance this quarter?

Sanjay Chamria There is a write-off recovery also. That we clarified also in the UFR notes that we have shared.

Pritesh Nambiar If you could share me how much is the quantum?

Sanjay Chamria It is about Rs 8 crores.

Pritesh Nambiar So that is the rough run rate of your recoveries in the other income or this time around there has been some….

Sanjay Chamria In terms of the policy that we were following earlier, whatever recovery we had from write offs is offered as an income as and when we receive. So obviously we still have a large amount which was written-off till the last fiscal. So whatever recoveries that we will make, will continue to be part of the other income and going into the future, now that we are making an early provisioning, over a period of time, this amount will taper off.

Pritesh Nambiar On this 180 days provisioning, just wanted to know the amount of assets which is in the 120 to 180 day bucket.

Sanjay Chamria We have given that in total, the investor's PPT, I do not know if you have been able to download it. Therein we have given in Slide #13 that the total greater than 120 days is about 189 crores. That is how now we have a NPA for the first time. Earlier we used to write-off and therefore NPAs at 180+. Now at 120 DPD we have a NPA of 189.

Pritesh Nambiar Just one adjustment I wanted to know, if suppose the write-offs which we have done the gross NPA plus the write-off, if you could give me that number.

Sanjay Chamria That would be about 46 odd crores. In our profit and loss account you will see that the total debit is about 46 crores of which as mentioned in Slide #13 the provision is 31 crores. So we have done additional write-off of 15 crores.

Pritesh Nambiar Sir, don't you think that this 180 day 100% write-off thing would be long term beneficial on the P&L side? Because you were one of the most aggressive providers as far as all the providing of potential losses were concerned and this RBI norm on spirit actually has eased thepressure on you as far as provisioning is concerned?

Sanjay Chamria I disagree with you and this is what we have explained in the second part of the Slide #13 which is the impact of the change in the NPA recognition. Going forward into the future while RBI has given a 3 year window which is starting with the next fiscal, they need you to provide 40 bps on the standard asset provisioning. Then from the FY15, they expect you to provide for the NPAs at 120 DPD and from FY16 they are making it more stringent, expecting you to provide for at 90 DPD. So we evaluated this in the board and analysed that if you pre-pone from 180 days to 120 days, you have 3 impacts:

1) You need to reverse all the income and which is what we have explained in Slide #13 second part that we have actually reversed almost about 7.5 crores worth of income which we were earlier not required to reverse because we were doing a write-off at 180.

2) You need to also make early provisioning even for the accounts which are sitting in 120 to 180 as far as our own policy is concerned. So we need to make additional provisioning. Therefore, once you go to FY15 which is when you need to migrate, while we are doing write-off at 180 that does not absolve you from your responsibility to comply with the guidelines of making a provisioning at 120.

So while on one hand this requires you to comply with that the guidelines, we thought it is better to adopt the policies right now, 2 years in advance of the RBI guidelines. And on the other hand if we do not do this and if we continue to do a write-off at 180 dpd and make a provision at 120 dpd, it impacts our capital adequacy which RBI has stated is to be maintained at a minimum 10% Tier-1 capital adequacy. Therefore, I think considering the entire guidelines in totality, the board and our statutory auditors felt that we should do an early adoption and move gradually over a period of time.

Pritesh Nambiar This provision on account of standard asset includes the 4 crores which you have mentioned right on the increase in standard asset provisioning?

Sanjay Chamria In fact that is the one we are talking. The incremental Rs 4.5 crores is in respect of the 5 additional basis points which the company management has decided to provide on a voluntary basis. Today RBI requires you to make a mandatory provision of 25 basis points. We have taken the total asset base as on 31st December, 2012, and on the entire asset base, we have provided an additional 5 basis points provision. So the impact of that is Rs 4.5 crores.

Pritesh Nambiar Because your assets have grown by roughly 800-1000 crores and the standard asset on account of that itself is 2.5 crores. I was just curious because this quarter if you remove that it shows your total assets have not grown much. How to read into that?

Sanjay Chamria I suggest actually we are doing a bilateral discussion it would be better if you get in touch with Lakshmi or Ujjwal and you clarify some of these points because there are so many people on this call. They will be happy to provide you the clarifications but what I can answer to you is that on account of the additional 5 bps the impact is about 4.5 crores.

Pritesh Nambiar Lastly if you can touch base upon how was securitization this quarter that would be helpful.

Sanjay Chamria So we upped our securitization and as we said till first half we didn't do it and we see securitization as a tool to reduce our cost of funds and improve capital adequacy because under the new guidelines announced in August 2012, now potentially the capital adequacy requirement goes down from 15% depending upon how is your asset quality. I am very happy to share in response to your question that given the terrific asset quality even in the difficult environment as of today the first loss percentage as specified by the rating agencies are as low as 3 to 3.5% which is a multiple of the historical loss percentages and as a result the total impact of first loss and second loss put together on capital adequacy is less than 6%. So we have used securitisation quite effectively in the third quarter and we will do so in the 4th quarter as well.

Pritesh Nambiar Sir but how much is the quantum of securitization if you could give us the number?

Sanjay Chamria It is over 1000 crores.

Moderator Thank you. Our next question is from the line of Mr. Srinivas Rao from Deutsche Bank. Please go ahead.

Srinivas Rao Sir my question is on your collection efficiency which as you said has come off a bit, in the context of the current environment. Would you like to comment on any particular segments due to which it has come down, that would be my first question? And second given that you have been gaining market share, or your disbursement growth is obviously far in excess of the underlying growth of that segment, who are you taking away market share from particularly in tractors and cars.

Sanjay Chamria If I take your first question on the collection efficiency, we find that it is largely seen in the context of the product categories and the geographies. So in product categories we find that it is more prominent in the commercial vehicle construction equipment and the tractors. And in terms of geographies it is more prominent in Maharashtra, Andhra, and Karnataka. So if I marry these two then I find that poor crop last year and poor pricing, especially for sugarcane, has impacted the collections in the tractor segment. In the CV segment, drop in the industrial output and the drop in demand of vehicles has resulted in lower utilisation levels. And as a result of that, the available cash flow in the hands of the transporters has gone down thereby forcing them to defer the payment of installments. The third factor, which is related to construction equipment segment, is that infrastructure sector related activities have further slowed down and with all the coal mining related negative sentiments in the market, mining activities have gone down. As a result of that, contractors who have deployed the mining equipment into the coal mines or on the road construction have seen lowering of rates and thereby they have not been able to honor the payments. That was the answer to your first question.

The second one that you said who are we gaining the market share from I think it's a million dollar question, If you can tell me who I am getting the market share from because it is very difficult to pinpoint but I think I can give you a generic answer. So the generic answer is that in the tractor industry if you look at the last 3 years, the share of the public sector banks as a whole has been going down and the share of the private sector banks and the finance companies has been steadily going up. So therefore I think it points out that if there is efficiency in the credit delivery mechanism and when I say the credit efficiency, I mean the service levels, turnaround time and corruption free credit delivery atmosphere then I think markets gravitate towards that. Secondly, a reason specifically helping Magma increase market share, is that this year we have opened lot of branches which are essentially catering to the Agri market, especially in Uttar Pradesh, Bihar and MP. We see these are some markets where we command a much higher market share in tractor compared to other tiers in the industry be it a private bank or NBFC. Therefore we have deepened our presence by opening certain tractor dedicated branches and deepened our distribution network. And to your second one was on your car. So in car what has happened you see the whole industry has grown in single digit but if you look at the passenger car that has degrown by 0.3% but the utility vehicles have grown at 37% in the last 9 months and utility vehicles are largely sold in the rural and the semi-rural markets and bought essentially by the self employed segments which is the so-called informal segment not having the ITR, bank statements and so therefore they are the prime customers of the NBFC side and therefore the NBFCs have gained in market share.

Srinivas Rao The reason I ask in the context that one of your key competitors Mahindra Finance also continues to have a pretty strong growth in these 2 segments. I mean in tractors I am assuming your cost of loans cannot be lower than public sector banks, right, is that a fair assumption?

Sanjay Chamria First I am honored that Mahindra Finance is considered as our competitor. And second is you are absolutely right, that the cost of funds for a public sector bank is much cheaper than us because we borrow from the banks and therefore our cost will always be higher than them.

Srinivas Rao But you are pricing of the tractor loan is also higher than the public sector bank?

Sanjay Chamria Yes absolutely.

Moderator Thank you. Our next question is from the line of Mr. Srinath Krishnan from Sundaram Mutual Funds. Please go ahead.

Srinath Krishnan Couple of questions sir, first one the CV segment has been a sequential decline. You have declined in line with the market CV volume decline. In your presentation you have stated your move towards the SCV or LCV segment. My understanding here is segment per say is more crowded and the yields are slightly on the lesser side compared to the HCV, so how would it be different for us and the second question is on the securitization income that we have apart for this quarter, will you be able to share with us the securitization income which you have recorded in the income statement?

Sanjay Chamria So your first question is on the commercial vehicle. We have declined in the value terms, 26% on a QoQ basis. In fact had it not been for that, our growth would have been more than 40% and we are currently at 35%. We are at an organization under weight on the commercial vehicle segment because we believe that this will continue to see a decline until there is a pick up in the industrial activity as a whole in the country. And within that if you look at, there are 3 segments, medium and heavy, light commercial and the small commercial segment. This year, the medium and heavy has de-grown by more than 22%. Light commercial has de-grown by 10% and small commercial segment has grown by more than 21%. So therefore tactically it suits any player who is financing these vehicles to concentrate more on the small commercial vehicle. And therefore if you actually look at our Slide #6 of the investors PPT we have shown that while we have de-grown 26% in value terms but in terms of market share we have gained 0.6% and we have grown from 2.1% to 2.7% which actually indicates that if you look at the number of vehicles then we have actually gained traction and we have financed more than what we did last year. However, because the ticket size has fallen from Rs 14 lakhs plus to Rs 8.3 lakhs as mentioned in slide 6, it is a function of the average ticket size. The other part that you mentioned is about the numbers of players. If you look at the medium and heavy also there are larger number of banks operating in that because they see this as a prime segments and where they can take large exposures and therefore the rates are driven southwards whereas risk perception wise we find them higher. Whereas in the small commercial vehicles since it is again being bought by the customers who have relatively modest profile and the ticket size is about Rs 3.5 to 4 lakh, therefore this segment is largely dominated by NBFCs and we find if easier to compete within the NBFC industry since the rates are higher and the service levels are comparable. So that was on the first question with regard to commercial vehicle. So far as the securitization income is concerned, this has actually fallen down in the third quarter because first half of the year we did not sell down. And it is only in the third quarter as I was answering to one of the first guys who asked the question, that we did sell down of over Rs 1000 crores in the third quarter and see an increase in the securitization income in the fourth quarter. So actually the securitization income we have seen a fall in the 3rd quarter.

Srinath Krishnan How much was that sir because last first half securitization income was around Rs 55 crores.

Sanjay Chamria This time it is about Rs 25 odd crores. So it is a marginal fall but there is a fall.

Srinath Krishnan Sir if I may ask one more question, is the ROA of LCV or SCV business much lower than the HCV business? Reason I am asking is the collection you might have to spend much more on collection than the HCV segment.

Sanjay Chamria I must admit your question is very good. We have not reached that level of sophistication wherein we can allocate the collection cost within a product on the respective sub-product segment. That LCV being a low ticket size and the customer profiling being such, I will incur a higher cost, so we look at yield at the cost of fund and then from the gross spreads we look at what are the credit losses where it is possible to have sub-product or each customer type and there we see that the risk-adjusted ROA is higher in case of small commercial vehicles as compared to the medium and heavy.

Moderator Thank you. Our next question is form the line of Mr. Onkar Kulkarni from CRISIL. Please go ahead.

Omkar Kulkarni Just wanted to understand out of this 23 branch addition we have done how much it would be for gold loan business and how much for our normal CV financing business.

Sanjay Chamria Out of the 23, 13 branches are for the gold loan business. Let me give you a total, 263 branches is what we have as on 31st December. Of which we have added 63 branches this year. We started the year, we added 63 branches during the year in which 31 branches are for the gold, and 32 branches have been added for the asset finance business.

Omkar Kulkarni Secondly on the presentation just require 2 small clarifications. One was on the NIM side you mentioned your incremental NIM around 5.4% whereas on your Slide #14 your gross spread is reported as around 6.9%. So is there any difference in both these?

Sanjay Chamria I did not mention the NIM, I mentioned the net interest spread is about 5.4%. So when we talk about the net interest spread, we don't take into account the benefit of the equity capital. Whereas the profitability in Slide #14 that we have given is more like a ROA tree in which we have taken the total income divided by the average assets. So therein we also get the benefit of the equity capital plus we collect for example, the overdue also from the customers for the delay payments. And that is almost 60 – 70 basis points. So if you add all of that then obviously it will go up. Secondly as I mentioned that 5.43 was the spread for the lending we did in the third quarter, and for the entire 9 months it has now crossed 5% whereas in the Slide #14 that you are referring to we have the income which is on a total portfolio which also includes the portfolio which was originated in the earlier year. So therefore it will not be comparable.

Omkar Kulkarni This 5.43 is the spread or is it the NIM because the presentation mentioned that it is the NIM.

Sanjay Chamria No it is actually the spread, I am sorry if it is mentioned as NIM in the presentation. It is the spread for the incremental lending done during the 3rd quarter and it has crossed 5% spread for the lending done during 9 months.

Omkar Kulkarni Sir just one last question if I may, on the gold side, just wanted to know what is your loan book as of this quarter end and secondly where will it be classified in the presentation?

Sanjay Chamria It is roughly about Rs 30 crores and we have disbursed over Rs 55 crores since June 2012, when we started the business and because in case of gold you see the tenure is about 4 months or so. So it has a very fast run off. So we currently have about Rs 30 crores. So it is quite insignificant as of now in the overall Rs 14,000 crores loan book and it will remain so because we have about 7 products and the contribution of gold will always remain low.

Moderator Thank you. Our next question is from Nisarg Vakharia from Lucky Investments. Please go ahead.

Nisarg Vakharia I have just 2 -3 small data point question. One is on your vehicle financing aspect you get any subvention income or something and if you do so, are you kind of treated on par with the M&M Finance who of course has a parent who is doing the manufacturing and selling out there?

Sanjay Chamria We do get subventions from different manufacturers and across product segments. So it is not restricted only to tractors or utility vehicles. We get it in respect of cars, we also get in respect of construction equipments, and in commercial vehicles. And the percentage of subvention varies from manufacturer-to-manufacturer. Again within the same manufacturer, it varies from model-to-model depending upon which model they want to promote or where they have difficulty in getting financial support or where the cost of acquisition is higher for the financier. Now, that was one. Secondly so far the comparison with the others including Mahindra Finance is concerned, I think these data points are usually kept private both by the manufacturers as well as by the financiers. So it is difficult to have a very specific comparison and then say whether I am getting less or more.

Nisarg Vakharia Okay and sir do you also finance the auto dealers?

Sanjay Chamria No, we do the financing to the auto dealer by way of trade advance which is usually to help them provide us the leads and on the successful disbursal of the loan against their need then the trade advance gets self liquidated. So for example I would have about 100 – 150 crores of total outstanding by way of dealer advances and that usually gets liquidated in about 30 – 45 days and again we replenish and give it to it. It is more to facilitate the business.

Nisarg Vakharia And lastly if you could just help us understand what are your plans on raising money, you of course have put it in, you are planning to do something on that. So if you could just help us understand what is the quantum you are looking out for?

Sanjay Chamria As I stated also in my opening comments that board has allowed the management team that we can go ahead and raise up to a maximum of Rs.500 crores and while we have a comfortable adequate capital adequacy ratio as of now at 16% plus, we will evaluate the options and decide on the quantum as well as the timing in consultation with our bankers and how we go during the quarter 4 of this year, both in terms of disbursal as well as securitization. So then I think we will take a call.

Nisarg Vakharia Sir the question was more in context that your Tier-1 is pretty much close to where it can possibly be in terms of 10% being lowest that you can touch, right?

Sanjay Chamria That's right.

Nisarg Vakharia If you want to grow at 25 – 30% next year and of course you will be selling down few assets, but do you feel you have enough resources to grow at 25 – 30% and if yes, what quantum of money is required for that?

Sanjay Chamria Which is why I am saying that depending upon how much sell down we do in the Q4 as I shared that the capital adequacy goes down in our case to as low as 6% for the part of the portfolio that we sell down and how much growth we are able to achieve during Q4, these 2 factors will have an impact in terms of the quantum and the timing when we will do the capital rate. And you are absolutely right that with 10% being the Tier-1 bare minimum is specified, we are at more than 11%. So we will need to take a decision and that is why the board decided to pass an enabling resolution so that in terms of statutory formalities we are well up on the curve and then we can take a decision based on the opportunity available and the requirements.

Moderator We will take our next question from the line of Mr. Srinath Krishnan from Sundaram Mutual Fund. Please go ahead.

Srinath Krishnan My question is related to the housing finance division which you have acquired. How would be the average ticket size for each customer and more on yields and NPAs and the spreadsbe for this business? And what are the synergies existing between Magma and the business that we have acquired?

Sanjay Chamria As I mentioned in my opening comment, we announced the acquisition in November and it is subject to certain covenants. I also mentioned that during the current quarter we will consummate the transaction and then we will start writing the new home loans and LAP from the end of this quarter. Until the time the transaction gets consummated we would not be in a position to share the granular details of the same. Once it comes on our books then I think we will be able to share. I can share with you what we believe is the synergy between our existing business and this business. So I think going forward we are looking at something similar to our insurance business model, wherein we want to follow a low cost distribution model and want to leverage the entire IT platform and the branch network and the agents network of the parent company and thereby not incur additional cost. We will have a sales services agreement similar to the one that the insurance company has with the parent company. Secondly we also want to utilize the collection infrastructure and treasury and the documentation and other aspects. Only the sales and the underwriting team is what we are building as a dedicated team for this business. So we have a lean structure, that is the synergy we get. Secondly, today we have over 700,000 customers of Magma with an established track record. We find that these customers, who are not able to get a loan of Rs 7-8 lakhs for a revenue generating asset for a period of 3-4 years from a bank, find it more difficult to get a home loan than a CV/car/tractor loan from a bank because in a home loan the ticket size is typically Rs 10 – 15 lakh and the tenure is about 15 – 20 years and there is no revenue generation on the housing asset. So while our existing set of customers would be our prime target in the initial 1 – 2 years, we also plan to develop independent sources of customer acquisition.

Srinath Krishnan Just to reconfirm so the sales network would be similar to, you will be using the existing sales network of Magma for your housing finance too, is it?

Sanjay Chamria No, I said we will use the agency network, we have over 3,500 agents who work in the Magma network but the sales team for housing at the underwriting team for housing is a separate team and will be dedicated to housing.

Srinath Krishnan But sir just to get a better understanding, how would customer profile sir? Was GE targeting more of customers existing in semi urban and rural market because significant proportion of 700,000 customers are non-metro customers. So are the existing GE customers non-metro too?

Sanjay Chamria As I said I cannot disclose the details of that until we consummate the transaction and get it on our books. But they are only providing us, these transactions that we are contemplating rather we have announced that is actually accelerating our entry in the housing finance business and so we not only acquire a book we also get a license of the National Housing Board plus we get a company which is consistently making profits for 8 consecutive years and has a good credit rating and that makes it lot easier to do business. I think its from that point of view.

Srinath Krishnan So it will be in out books from the 4th quarter is it?

Sanjay Chamria Yes, this quarter it will get completed and therefore when we end the quarter we will be able to share the details.

Sanjay Chamria Thanks to all the participants.

Moderator On behalf of Ambit Capital, that concludes this conference. Thank you for joining us and you may now disconnect your lines. Thank you.