"Magma Fincorp Q3 FY14 Earnings Conference Call"

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MANAGEMENT: MR. SANJAY CHAMRIA – VICE CHAIRMAN & MANAGING DIRECTOR, MAGMA FINCORP
MR. LAKSHMI NARASIMHAN – CHIEF FINANCIAL OFFICER

Moderator Ladies and gentlemen good day and welcome to the Magma Fincorp Q3 FY14 Earnings Conference Call hosted by Ambit Capital. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Pankaj Agarwal from Ambit Capital. Thank you and over to you Mr. Agarwal.

Pankaj Agarwal Good morning everyone this is Pankaj Agarwal from Ambit Capital. I welcome you all on third quarter FY14 earnings conference call of Magma Fincorp. The officials who are representing Magma today on this call are Vice Chairman and Managing Director Mr. Sanjay Chamria – Chief Financial Officer Mr. Lakshmi Narasimhan and other members of the Senior Management team. We will begin the call with opening remarks from the management team followed by a question and answer session. Thank you very much sir for giving us an opportunity to host this call and over to you.

Sanjay Chamria Thank you Pankaj and good morning to everyone and thanks for joining on the Magma quarterly conference call for the unaudited results quarter ended 31st December 2013. The wagon industry as you all know continues to witness weak demand from the customers reflected in the continuous degrowth in monthly sales. As well as the operators in both commercial vehicles and construction equipments face lower fleet utilization and they are confronted with the increase in operating cost due to the diesel price hike and salary cost increase but they are not able to pass on the increase in the cost by way of increasing the freight or the hiring freights. It has therefore impacted the available cash flow of the customers and their ability to service the installments. We at Magma followed a conscious policy of calibrating our growth strategy to focus on customers and products which are more diversified utilization of the assets in making them to just vulnerable to the cyclical trends in the industry and hence lower our risk quotient. Further, we have also focused over the last few quarters on improving the yields and less so on growing the loan book. Further our efforts have been largely concentrated on improving the operating efficiencies resulting in cost reduction and productivity improvement as well as containing the delinquencies through more regular follow ups and significant presence of the leadership at all levels in the field. Having stabilized the recoveries from the existing customers to a large extent and controlling OPEX ratio in a slow growth phase we are now focusing on new initiatives to improve our sales performance and making the organization ready to partake in the next growth phase we should assign from September '14 onwards with a formation of the new government and it taking various initiatives to review the economic situation.

Now, first on the specifics of our performance for the year till date – One our total loan book stands at Rs.17,224 crores on 31st December, 2013, a 20% Y-o-Y growth from Rs.14,338 crores as on 31st December 2012 aided largely by growth in our tractor, mortgage and the SME book.

There disbursements have also grown by 12% on Q-o-Q basis and in line with our lowering focus on commercial vehicle and equipment. The share of these two products in our loan book has now reduced to 33% from 53% two years ago. Our net interest is spread for nine months FY14 stands at 5.7% up from 4.75% in the corresponding period last year and 4.91% for the full year FY13. The product mix change driven by the increasing share of tractor and the SME business and decreasing share of commercial vehicle and construction equipment as contributed partly to the yield improvement. With multi product portfolio at our disposal we have been able to calibrate our exposure across product segments in line with primary market sales and asset quality challenges. Our next move will be to touch 6% of spread in the next couple of quarters with continued tweaking of product and customers mix delivering risk adjusted returns on improving ROA. Our collection efficiency for the nine months FY14 stands at 94.9% at the same level as in Q1 and Q2 FY14. I am of the firm view that worst is behind us after October '13 and we have experienced improvement month-on-month both in terms of overall collection efficiency as well as NPA accretion in Q3. The significant process improvement witnessed in collections function coupled with even mild recovery in the overall economic scenario will result in much quicker improvement in NPA position and we should experience sequential improvement every quarter.

As you all know we have more stringent NPA provisioning policies recognizing an account as NPA at 120 plus TPD and also making higher provision at 15% as against 180 day plus TPD and 10% provisioning prescribed by RBI. Further we don't restructure any loan account in our books although realizing customer's situation we do allow more time to pay the installments but still categorize the account as NPA if as per the original repayment schedule the account has crossed 120 plus DPD. We have debated this policy every quarter and still hold the view that although a departure from industry practices this policy is more pragmatic and prepare the organization better to face the tough situation like the current one. Therefore while our operating metrics have improved by way of latest spreads and OPEX ratios there is marginal dip in the profits on account of higher provisioning which has gone up by 80 bps during Q3 and 50 bps for nine months ended December '13. Our gross and net NPA as per 120 plus DPD policy are 3.6% and 2.9% to provide an industry level comparison with peers we had provided a slide on proforma P&L in our investor's PPT to circulate it to all of you. It shows our gross and net NPA as per RBI provisioning policy at 2.5% and 2.2%. Similarly, the impact on our profits due to the stringent policy has also been shared in slide 15 of the investor's PPT.

You will kindly observe that our profits for the third quarter will be higher by 16.5% and for nine months ended December '13 by 20.5% over what has been reported. This title provisioning policy leads greater resilience to Magma's financials to deal with the tough economic scenario and serves as early warning signal. To add a quick update on the new business, we are now present in 79 locations for the mortgage business and 87 locations for the general insurance business. These new businesses being integral to the customer universe being served by Magma's traditional assets finance business. It helps us to cater to the buying needs of customers and also build a stronger relationship. It will also lower our cost of acquisition with stabilization of these new business verticals and will drive better performance on sales front. It has also resulted in the infra optimization and benefits of the verticals in terms of lower OPEX ratios. On a closing note I would like to add that well the last two quarters had been challenging for the entire Financial Services industry we have used this opportunity at Magma to implement various initiatives and best practices. We have revamped processes in the collections and credit appraisal process to ensure that adequate buffers are built in to counter diesel price hikes and economic stress. We have also worked on bringing higher levels of automation in sales and increasing penetration in the rural locations, all the economic revival in the few quarters away the recent changes in the organization have equipped us to grow our business in a sustainable and profitable way as and when the opportunities arrives. We will also revisit our plan to capitalize the company when we detect early signs of growth revival. Now, Lakshmi, Kailash and myself would be happy to take any questions that you all may have. Thank you.

Moderator Thank you very much. We will now begin the question and answer session. The first question is from the line of Kunal Shah from Edelweiss. Please go ahead.

Kunal Shah Firstly in terms of the overall income how much has been the contribution of the securitization and how much has been the say the securitized portfolio in this quarter if you can share some insights on that?

Sanjay Chamria Yes, Kunal I will just share with you. We have in terms of the portfolio we continue to securitize our quarterly and especially since a good part of our portfolio is priority sector and with the RBI guidelines now favoring the benefit of PSL or to the banks who get the portfolio on sell down basis, we get the benefit of rates so therefore we have a good degree of dependence on securitization. During the current year nine months we have securitized closed to about Rs.2000 crores and therefore our gross income from securitization is higher. However, with the new RBI guidelines effective August 2012 in case of the securitized portfolio even if your accounts are standard and not NPA but if you have less than 100% collection efficiency the interest income is to be recognized on cash basis, so as a result there is a penalty in terms of the income recognition in respect of the securitized portfolio and instead of recognizing on accrual basis is a cash basis accounting and therefore during the third quarter our income from securitization has dropped by about 25% from Rs.25 crores to Rs.20 odd crores.

Kunal Shah And how much was the securitization in this quarter?

Sanjay Chamria This quarter we did over Rs.700 crores.

Kunal Shah Rs.700 crores, okay so overall securitization say till date has been approximately Rs.75 odd crores nine months?

Sanjay Chamria The income you are saying?

Kunal Shah Yes income.

Sanjay Chamria No the income nine months is about Rs.83 crores but in Q3 it is about Rs.20 crores.

Kunal Shah And you mentioned in terms of the collection efficiency improving post November so now what level of gross NPLs based on say 120 days, so would it be like only the accretion to the NPLs would be lower or we are seeing good recoveries and we can expect say the gross NPLs to moderate from the current levels?

Sanjay Chamria So, as I mentioned the last quarter call also I said that I had been spending a fair amount of time visiting different states and the smaller locations and meeting out the defaulter customers to understand what is the reason that they are defaulting after having service for about 12 months or 18 months on a regular basis. Then I have also been interacting with our collectors who are on ground as to what is the issue they are facing, how many times do they go to the same customer to receive one installment. And based on that we have taken a lot of correcting measures. The benefit of which has now started percolating so in the month of November as I mentioned that we saw the trend lines reversing so the collection efficiency remain the same it didn't improved but the accretion to the NPA started going down in November and then in the month of December the accretion further slowed down so now it is more crawling rather than racing ahead but collection efficiency also improved significantly in the month of December. So, while our overall collection efficiencies for quarter three is 94.2 but in the month of October and November it was in the range of 93.7 whereas in the month of December it was 96.9% and in terms of the accretion to the NPA it has literally got its fault I mean it is still accruing but then the rate of accretion had slowed down significantly.

Kunal Shah And in this overall perspective what would be the say the growth which we would be looking out in terms of say the AUM as we move forward?

Sanjay Chamria So, our AUM on a Y-o-Y basis has grown by 20% and as I said that right in the beginning if you even look at our con call which I did in the month of May that our focus will be more on building the spreads and less on the loan book given the style economic scenario. So, consistent with that we have almost increased our spreads by about 70 basis point and actually 95 basis point if you compare Y-o-Y and now we are sitting at 5.7%. As I also mentioned just now that our focus is and what we are seeing that every quarter we are able to increase our spreads, incrementally by about 16 basis point. So, therefore our endeavor now will be in the next two quarters, trying and touch 6% and cross it and which should be the first ever in the history of our company. In terms of the growth in the AUM we will continue to follow the cautious policy that in today's circumstances as somebody is adding to its fleet or somebody is acquiring an equipment or tractor or a truck then how does he propose to deploy the same given that there is a lower capacity utilizations in the industry as a whole and given the fact that they are not able to pass on the increase in the diesel cost and the operating cost by way of increase in the freight or the hiring charges. So, therefore I am not very optimistic in terms of accelerated rate of growth in the next two quarters but we would rather concentrate on improving yields through a product and customer mix changes.

Kunal Shah And one last question how much of the book would be PSL for us?

Sanjay Chamria Our book is predominately PSL so giving a percentage would be difficult and that is something which Lakshmi can have an offline call with you, predominant percentage of book is actually PSL.

Moderator Thank you. The next question is from the line of Kaitav Shah from Anand Rathi, please go ahead.

Kaitav Shah Secondly, I was just looking at the average ticket sizes that are disclosed in the presentation. So, what I see is that there has been a commendable movement downwards in most of the average ticket sizes so is it like strategy per se or it's like as of right now you all are wanting to move in the lower segments more or something like that?

Sanjay Chamria So, one Kaitav is the result of also how the primary market is moving so if you look at commercial vehicles then medium and heavy commercial vehicle has witnessed a degrowth of more than 45% in the last 20 months and small commercial vehicle and the light commercial vehicles today in terms of numbers constitute more than 60% - 65% of the overall vehicle in universe. On the other hand our tractor business which was at number four two years ago has now become a number two product and contributing 18% additional, incremental disbursals during the nine months that we are talking. And in case of tractors the overall ticket size is lower at about less than 4,00,000 and even in case of SME we have been now looking at the little lower end of the customer also who has the requirement of say between 5,00,000 to 50,0000 that was in that portfolio is small but it does slows down the overall average ticket size. The other point which I shared to your previous colleague who was asking the question on the going forward our strategy exits that we are looking at a product and customer mix within the risk adjusted returns philosophy to improve the yields about 6% in the next couple of quarters so therein also you find that as a ticket size is lowered other factors remaining as it your yield should go up.

Keshav Shah And secondly, book-keeping question, could you give us the breakup of borrowings in terms of bank loans and?

Sanjay Chamria I think we are in investor's PPT also wherein we have shown that 35% of our total borrowing is actually from the banking system which is slide number 11. 25% is from the debt capital market and 13% is by way of securitization and 10% is from the other sources and if you look at that what we have shown there is the three year scenario, so the bank borrowing has remained stable at 35% whereas the dependents on securitization has gone down from 45% to 30% and the DCM has increased from 13% to 25% and which is again **carefully then 21.37** consonance with the philosophy that we had that we would rather like to divide our dependence on the liability side in two three ways which is banks and institution about one-third, securitization one-third and DCM one-third, so I think in terms of DCM we are at 25% and with the increasing acceptance of the company and the various instrument we issue in the debt capital market I think maybe in the coming fiscal we should be able to have about 30% each and 10% coming from the other sources.

Keshav Shah One final question on NIM outlook. I know you are targeting six but do you see a threat to that given the kind of interest rate or volatile interest rate regime that we are in currently.

Sanjay Chamria So, the volatility in the last several years that I look at is to the extent of about 0.5% to 1% in any given fiscal and the segment of customers that we are largely dealing with are more price in elastic and what they are looking for is the service efficiencies where if somebody is looking to get a loan to buy a productive asset should be able to get it within 5 to 6 days' time from the time when enquiries logged in to the time one gets delivery of the asset. But the focus is more on that and so therefore our energies are more directed towards improving the efficiencies within the sales organization to provide that superior customer service and there we find that customers are willing to pay little extra and that's how we are bullish on to be able to increase our split to around 6%.

Moderator Thank you. The next question is from the line of Vikas Garg from L&T Mutual Fund, please go ahead.

Vikas Garg First on the asset quality numbers which you have indicated of 3.6% gross NPA so just wanted to understand if that number is on the total AUM, which would also include the securitized asset or that is only the balance sheet loan book?

Sanjay Chamria That is on the overall basis that 3.6% and which is where I also shared in my opening comments that as per the RBI guidelines which is at 180 days basis this corresponding number would be 2.5%.

Vikas Garg So, if you could also give me a breakup of the gross NPAs which you were carrying on the book which you have on balance sheet and the books which is securitized?

Sanjay Chamria So the NPAs which we are having is actually what is on our balance sheet and in respect of the book which is securitized as I was I think connecting another question which was in terms of the income on securitization so while we have a larger portfolio outstanding on securitization basis but my income has fallen so therefore we have taken a hit as I said that there is revised guidelines which puts a penalty on treating the income from securitization on cash basis and therefore and not on the accrual basis so therefore an account which even does not go into 180 plus and is still treated as on standard assets but from a sell down perspective it becomes NPA the moment it becomes even 1 day due or 1 to 30 days due on 31 to 60 days due and then we have taken a hit as well, so the corresponding NPA is in terms of the provision is in terms of reduction in the income from securitization rather than provision for NPA.

Vikas Garg Got it. But just to compare the numbers on the gross NPA the report to gross NPA based on 120 day policy so 3.6% is the gross NPA on your own on balance sheet book, so the number would be similar or much different on the books which is securitized?

Sanjay Chamria See it would be largely similar but then it can vary because when we sell down then we sell down the PSL book and the non-PSL book remains on our balance sheet although in the last quarter we have also done certain transactions which are more on a non-PSL basis so therefore it will largely be the same and the other thing also is that the securitized book that we sell is a seasoned book and the seasoning would be minimum six to nine months which is also in line with the RBI guidelines. The fresh origination you cannot sell without doing the seasoning whereas whatever that I originate in my books till the time it gets seasoned it's completely own book. To give you another perspective also that the difference between 3.6 which is the NPA as per 120 days plus and RBI guidelines is 2.5 so that is 1.1% so the portfolio that is setting between 120 and 180 would be about 1.1%.

Vikas Garg Third question was on the loan mix which we have as of now, so we acquired this mortgage loan book from one of the other financier which now forms around 8% of the total book. So, now in terms of the carrying gross NPAs so does that proportion of the loan book have any NPAs or it's like completely clean book with us over here?

Sanjay Chamria So, well these 8% constitution of our total portfolio break up coming in from the mortgage is not entirely from the acquired book, because the book that we acquired was about a year ago in February last year and so if I look at the composition of the total mortgage book roughly about 30% of the book is originated by our own team in the last seven months and 70% of the book is the post run off what is outstanding as on 31st December, so out of 8% maybe about 5.5% would be the acquired to get about 2.5% would be the own origination. Now, the second part of your question it is right that 3.6% or 2.5% NPA as per RBI guideline includes the provisioning which is made in respect of the book which has been acquired. However, as it happens when you do an acquisition you would discount the NPA position when you do the evaluation of the portfolio so that commercially we get the benefit but in terms of reporting NPAs we don't get that benefit and to that extent the NPAs are reported inclusive of the acquired book.

Vikas Garg Will it be possible for you to just give a break up of maybe of these key three mix like the car CV and CE in terms of the respective gross NPAs number?

Sanjay Chamria I don't have it right away maybe Lakshmi can have an offline conversation with you and provide you some more flavor and details on this front.

Vikas Garg Sure thank you very much. One last question what are your thoughts on the capital infusion given that the tier 1 is at 10.5% as of now?

Sanjay Chamria So, as we had mentioned even in the earlier calls that we didn't expect that economic activity to pick up during the current year so when we started the year also we were sitting on 10.6% and now we are at 10.5% and fourth quarter usually better in terms of acquisition to the reserves and also there is an increased activity on account of sell down in the fourth quarter coming in from the banking system so our internal view is that by the time we end the year we will be either at the similar core-capital or little higher than what we started the year with. Having said that in my opening comments I also mentioned that once we see that there is an economic activity is picking up then we will calibrate our capital regime plans and access the market.

Moderator Thank you. The next question is from the line of Srinivas Rao from Deutsche Bank, please go ahead.

Srinivas Rao I just wanted to check your commentary around commercial vehicle market which seems to be a bit weak even the car market is slow given that it's a very large part of your portfolio and the collection efficiency also seems to be slightly weak and any comments on the outlook will be very helpful?

Sanjay Chamria Yes sir outlook is certainly not very bright.

Srinivas Rao Are you seeing any signs?

Sanjay Chamria This market has been over researched by your community so therefore I also benefit by the oversight that your community provides on these markets as to see through a telescope of the next one or two years so I was reading a report by one of the houses that the capacity utilization in the commercial vehicle segment is low at about 65% to 70% and it is expected to remain weak over the next 24 months, so one cannot be overweight in terms of the demand pick up from the segment. If I look at a construction equipment segment as well given the story picture side panning so poorly, again lot of equipments are lying ideal and there is a deployment issue and which is one reason as to why there is a weakness in the collection efficiency and therefore if you look at the primary sale number of the leading five or six construction equipment manufacturers I think they are reporting lower capacity utilization in the plant quarter-on-quarter that's what even my outlook is not very bright and therefore what we have done and that is what I think covered in my comments and it's covered in one of the slides which is Slide #6 I think where we are saying that our contribution of commercial vehicle and construction equipment we have dropped from 53% to 33% over the last two years and the weighted this is slide number nine it has gone down so much and on the other end the tractor and the mortgage which was just about 10% two years ago has not increased to 23%. So, these luxury we could afford Mr. Rao is largely because of the diversified nature of the product basket that Magma as compared to our peers.

Srinivas Rao Collection efficiencies any, I mean you said you have met lot of your individual borrowers who are kind of not defaulting so what's your kind of feedback truly less demand haulage demand?

Sanjay Chamria What is your last part you said, can you just repeat?

Srinivas Rao I said that I mean you have met lot of borrowers on ground so what is the feedback is that actually they are unable to get freight for their vehicles which is very worrying sign I mean to be honest from an outlook perspective.

Sanjay Chamria So, there are three kinds of problems they are facing, what I find that they don't have enough deployment so therefore if a guy was doing earlier three trips on a national summit, he is still not able to three trips he will do about two trips probably-

Srinivas Rao Which is barely breakeven for him?

Sanjay Chamria Second issue that he faces is the diesel cost as you know now barring the political gimmickry where they have not increased every month otherwise till I think October they increase the prices I think by about 50 paisa every single month and this went up by about 22% or so compared to the beginning of the year and if you look at the cash flow workings which we call as a FCF analysis, which is a Free Cash Flow analysis of a truck operator, almost about 29% of its total OPEX is on account of the diesel loss so that goes up by about 24% so there is 6% hike in his operating cost which is unable to pass on so if you look at the freight index then you don't really find that the index has moved upwards in the last nine months. On the other hand the salaries of the drivers and the cleaners and the helpers have gone up, so all these situations has resulted in a title cash flow scenario and which is the reason it is delaying or defaulting, this is one side. The other side that I find the last fleet operators and the lose booking agents typically someone is having 20 vehicles then you will find is only about 7 out of 20 vehicles and 13 vehicles are more attached within which are owned by the truck drivers or the relatives or associates which it takes on a hiring basis so when his own load has gone down by about 25% so from 20 to 15 vehicles then obviously his own seven vehicles he will deploy but out of the balance 13 he will only deploy 8 and 5 he will release and those guys then don't get charged which is the problem that I am seeing being witnessed. The third element that I can add and which is like I had visited about nine states in the last five months and gone really deep I find that there is clear trend emerging that the states which are based on the industrialization are the ones that are witnessing higher delinquencies and the states which are based on the agri are the ones which are facing lesser delinquency so therefore if I find that the state of Bihar, MP and UP and relatively witnessing lower delinquency, however on the other end Gujarat, Maharashtra Chhattisgarh these are facing higher delinquencies because they are largely industrialized so the coal linkages have snapped the total ore mining has gone down and the steel has gone down and power production has gone down so therefore they don't tell us I mean my core portfolio in Korba and those belts where you have lot of power plants and coal mines they have got impacted, the guys don't have deployment. So, these are three – four elements that I can share out of my interaction with the customers across different geographies.

Moderator Thank you. The next question is from the line of Kunal Phadnis from VEC Investments, please go ahead.

Kunal Phadnis Just referring to your comment about the changing trend line and NPL lead accretion, just wanted to understand it was more about the aggressive follow-ups by on your side or it was more about the changing economy or better stabilizing the economic scenario across India.

Sanjay Chamria So, I think on the second part is easier that's what I have been saying that until now we don't really see any sign of economic revival at the ground level and we find that the situation is pretty much the same either in terms of deployment or in terms of the cash flow so therefore now the question is that if we have seen an uptick as I mentioned also in my comments that it is largely the result of us very significant level of initiatives that we have undertaken to tighten up our efforts on collections. Now, it is always said that enough is never enough so therefore my message to my team and in terms of our entire top management leadership being in the field we say that that there is nothing that we can do about the external economic scenario but there is a whole lot that we can do about our external processes and efficiencies, how do we therefore remain connected with the customer and know as to what is happening within, how do we ensure that our supervisors can actually help the collectors who are in the field and talk to the customers to understand their real situation and take a more calibrated call rather than just going by the route book and a significant higher level of engagement with the customer understanding the issue and then taking the call visiting him repeatedly ensuring that the supervisors visit the territories and meet up with the customers and we provide them a lot of tools combination of all these measures have resulted in the improvement that we have witnessed and mind you these improvements have come in from the month of November whereas all these efforts started from July so actually two months went in just understanding as to what's wrong and from September to October two months went into our understanding and solutioning as to what we should do and then we deploy the solution and now we have started seeing some results.

Kunal Phadnis Okay so you are fairly confident that this improvement is likely to continue in the near term at least from the follow up side?

Sanjay Chamria Yes, because one I believe that we have hit the real bottom and it's really difficult to say that we can even go worst from where we are in terms of the outer economic scenario, so far as the internal part is concerned even now as we speak and when I visit now different locations I find that all the measures that we have unleashed it does not reached its full potential, the quality of implementation is at best about 50% to 60% or 70% so therefore the challenge that me and my team has in the collection is how to improve the quality of implementation to about say 90% or 100% and therefore we believe that other factors remaining as is the performance of collections should further improve a lot in the next three to four months' time and that's why I said that I think the worst is behind us and we should see quarter-on-quarter improvement.

Kunal Phadnis On the provisions front your provisions front coverage will be pretty low since you will be building up provisions book on your gross NPLs will we see incremental aggressive provisioning going forward I mean much more than the NPL accretion?

Sanjay Chamria So, one the reason for our lower provisioning is that until March '12 we used to write off everything at 180 DPD so therefore we started the year on a clean slate and the provisioning coverage being lower is the reason that our NPAs are fresh and also I mentioned that as per the RBI guidelines the provisioning requirement is just about 10% whereas we have been making 15% provisioning which is 130 DPD itself is higher and to 15% as against 10% is higher so therefore either we are able to recover these NPAs early and before they migrate into a higher aging because now once they cross 485 DPD is that when we need to increase the provisioning for 15% to 25% and that's how you will see progress in the over the year or two the PCR going up.

Kunal Phadnis Okay but my question was will we see you provision much ahead of those guidelines to build a provision book and to increase the PCR way before it's mandated as per the guideline.

Sanjay Chamria There is no guideline on the PCR coverage, what's guideline RBI has very clearly is in terms of provisioning percentage depending upon the age of the NPAs and which in any case we have advanced so as against that we are making 15. What you are referring to is applicable in case of banks where RBI specified that the PCR should be at a certain level but it's not applicable for us.

Moderator Thank you. The next question is from the line of Chandan Gehlot from Deutsche Bank Asset Management, please go ahead.

Chandan Gehlot My question is on the Magma Housing Finance you have acquired this portfolio last year so just wanted to know how is your journey so far in terms of the asset origination and the collection front?

Sanjay Chamria Okay so in terms of the origination it has been pretty good as I shared I think and replied to your other colleague's question that out of 8% contribution from the housing, 2.5% roughly would be on account of the new origination and 5.5% is the run down book that we acquired last year is what is they are now. So, roughly about 30% of the book has been run down and in terms of our experience on the collection so far is the new origination is concerned all are current and we have almost Rs.450 odd crores of portfolio which is offsetting in the current buckets so far as the acquired portfolio is concerned initial part and that was like February is when we acquired and until June there was accretion in NPA because whenever the changeover happens there is always a transitioning issues no matter how much you plan and unfortunately we also experienced that however July to September we sort of stabilized it and October to December we have plot back so therefore based on our evaluation of the portfolio in terms of the roles forward on a static pull analysis for the past four years we had projected a certain accretion to the NPAs and we are well within that as we sit on 31st December, 2013, and therefore hopefully by March '14 we will be better than what we had estimated in terms of the performance of this portfolio.

Chandan Gehlot Will it also possible for you to share the gross NPA number on this portfolio?

Sanjay Chamria So, as I said I don't really have ready, I hand the product wise NPA positioning maybe Mr. Lakshmi later on can share with you offline on this.

Chandan Gehlot And lastly can you throw some more light on your another subsidiary Magma ITL, how is disbursement and collection there?

Sanjay Chamria So, the disbursement has grown by 19% in the Magma ITL on a Y-o-Y basis and collection performance is pretty much the same because today while in Magma ITL we do the funding of ITL brand which is Sonalika and rest other brands we are all financing in the Magma Fincorp and the markets are practically the same the collection team is the same which handles the collection for MITL as well as the MFL and therefore the performance is pretty much similar. Just one advantage that we find is that now ITL has at the end of December become the third largest tractor maker in India by way of market share and just being the joint venture entity so therefore our contribution in the tractor is going up and that's how it contributes from 18% of the total incremental disbursal.

Moderator Thank you. The next question is from the line of Ritesh Nambiar from UTI Mutual Fund, please go ahead.

Ritesh Nambiar Just few data keeping questions. One of the subsidiary which you mentioned the ITL tractor business. Why has the OPEX cost gone so high?

Sanjay Chamria The ITL OPEX cost is more like a transfer pricing from MFL as I mentioned just to the previous question that ITL is where we book the entire business only related to the ITL tractors called Sonalika but the entire sales and the collection team and the underwriting team is all common pool and therefore based on the pre-agreed formula at the end of each quarter there is a transfer pricing that happens at arms' length which is most under the company's act and things from that fact.

Ritesh Nambiar Next is more on account of overall tax rate which has fallen actually for the last two quarters, the tax rate seems to be low, any particular reason for that?

Sanjay Chamria So, there are two reasons for it. One is that from 1st April, 2013, the ITL has been amended and in respect of the securitization transactions there is a securitized and distribution tax which is equivalent to what is the dividend distribution tax so therefore at a PBT level it has an adverse impact on the profit but at a PAT level it is neutral and therefore you will see that effective tax rate going down for that and because we have a large amount of sell down and therefore we have a good pool of the securitization and distribution tax which is called SDT. And the second one is in respect of the insurance company which is where we have the initial losses so there we have a deferred tax asset so that benefit also comes in and to that extent we have a lower tax requirement.

Ritesh Nambiar On the similar lines it is actually general insurance venture of your, you have economic interest of 37% in that?

Sanjay Chamria Yes.

Ritesh Nambiar Just wanted to know because the loss sharing seems to be higher than Rs.10 crores, the Rs.10 crores is the total loss for that business so it should have been Rs.3.7 odd crores of loss this quarter but it seems to be slightly higher, any particular reason for that?

Sanjay Chamria I think Rs. 10 crore that you are talking is for nine months whereas in the quarter-ended it is actually positive because of the deferred tax asset and the overall cost is about Rs.31.1 crores in fact we have provided the P&L also of the insurance company in the annexure to the investor's PPT and so you will get the numbers there.

Ritesh Nambiar From there only I am coming into, it's Rs.10 odd crores which I can see in the business on the PBT level?

Sanjay Chamria So, you are referring to Slide #36. So, Slide #36 if you see at a PBT level is Rs.10 crores which is for the Q3 so that is the total one and at a PAT level it is 1.4 so.

Ritesh Nambiar So, in the console similar impact has come because the loss proportion seems to be slightly higher than that so just wanted to check on that.

Sanjay Chamria No it would be 37% only, so let me take a look at it. See what we have done is for nine months the overall PAT level is (-21) and the impact on consolidation is 7.8. So far as Q3 is concerned it is Rs. (+1.4) crores in the third quarter and the impact is Rs.50 lakhs which is 37% of PAT on a consolidation, this is how it is. Maybe if you have any further query then Lakshmi knows it and then he can have a call with you separately.

Ritesh Nambiar Lastly, just on the issue which was raised by earlier colleagues. In fact just on that in fact these 180 days RBI norms gives 2.2% ratio for your net level and your capital adequacy on a core level is just about over 10 and on overall level it's just over 15% which is and 15% being mandatory by RBI so how do we read into this number because 2.2 is the lowest number which I would say the number which can easily be deducted from the capital to know the core capital which your company holds so how do you look into these 2.2 number versus your long term credit cost which is around the similar level.

Sanjay Chamria So, the credit cost if you talk about that we have provided in the ROA tree and I did mentioned that in the Q3 the hit is higher by about 50 basis points and I think overall is about 1.2 or 1.3% so that's already built into the P&L account and so while 2.2% net NPA or a gross level I think credit cost will hit in terms of gross so at 2.5% for 42 months average tenure will result in typically about 72 to 80 basis point impact per annum on the P&L. But because the increase has been more budged in the current year so therefore the impact of 70 or 80, in fact if you look at FY13 it's about 80 basis points and which is now higher at 1.3% and that's how our profit is higher despite increase in the spread and the reduction in the in profit ratios. So, I would guess that as I said this is the peak level and in my view it's just moderate sound in the next few quarters as we see the impact of our collection initiatives and maybe from September – October the scenario improving in the general market. So, I think we should be cushioning it against the profitability of the company as we have been doing.

Ritesh Nambiar Okay because where I am coming into is the total change in policy of 180 day write-off the tax effective policy so based on that policy your PAT would have been lower is what we should read into?

Sanjay Chamria So, now there are lot of changes that has happened so when we were doing that that time there was no guideline with regard to the income reversal on the sell down even on a standard portfolio which is something that I think repeated twice that now RBI change the policy effective August 2012 saying that you need to treat even if account is current and one delay and if the collection efficiency is less than 100% you need to knock it from your income and we have taken a huge hit on account of that and that's how despite higher securitized portfolio, our income in the third quarter is down by about 25% so this wasn't there earlier. Second is standard asset provisioning which was earlier 15 and then became 25 we have accelerated there as well and we have provided for 30 basis point which is more than what is mandated by RBI and that is something which wasn't there earlier. So, in order to compare something that we used to follow until two years ago to today I think we need to stack up all the numbers together on account of whether it is the write-off income reversal provisioning for NPA and standard asset provisioning and then take a look at it.

Ritesh Nambiar The knock-off which you have taken on securitization income if you could quantify this quarter and nine months?

Sanjay Chamria So, this quarter is about Rs.19 crores and nine months is Rs. 47 crores.

Moderator Thank you. Our next question which is our last question is from the line of Jigar Walia from OHM Group, please go ahead.

Jigar Walia Yes, UCV is a source, is it own pool of repossessed assets or is it entirely new market that we capture?

Sanjay Chamria Well, actually I wish it the other way that if I am repossessing and if I am selling it if I can finance that it would be better but unfortunately the market is not as matured and coordinated and we don't get many customers who are buying the repossessed assets from us in an auction taking refinance from us. So far as the sourcing for the used vehicles is concerned by the way here it is not commercial vehicles as much it is commercial utility vehicles, passenger cars as well as the commercial equipments, all stick put together. And then the weightage of commercial vehicle is about 30% - 35% and this again has done through a network of direct sales agents who are not the dealers. And in case of car of course you have dealers as well like Maruti True Value or Hyundai Advantage or Mahindra First Choice and the likes of them from where we get the leads for financing the used cars and in case of equipments also it is the authorized dealers of the manufacturers like JCB or Tata Hitachi who also will provide us the equipments but they do the exchange for and then we finance them but the in addition we also have a large number of agents who will refer the cases to us.

Jigar Walia And similar question, of the overall book over the rest of the book a major chunk would be sourced through dealer networks only?

Sanjay Chamria In fact entire thing would be sourced through that and just about 15% - 20% would be coming through the existing customers referrals that they want to take a second vehicle or their friend would want to take a vehicle or a relative would want to take a vehicle and then also it goes to the dealer because the delivery eventually happens in servicing from the dealer point.

Jigar Walia And of the overall business that we do through dealer networks, well how much would be dealer finance or trade finance?

Sanjay Chamria Very little in fact because they really look for floor funding and working capital which is largely provided by banks, so for example we do about 800 crores funding in a month and our total trade advance portfolio would be under Rs.200 crores.

Jigar Walia And two more questions, one is on our branch if you can highlight how many branches are there with our probably bleeding and you expect them to mature and if you can give some flavor in terms of which are these branches and where are these branches?

Sanjay Chamria I should say this is an excellent question because this is the re-exercise that is now underway that we should look at one at the product profitability angle and two at a branch profitability angle and then look at as to branch wise how does the P&L look like because you see we are not a traditional NBFC we don't operate as a SBU structure where you would have a branch manager and you will be responsible for sales credit collection and expense management and would have a P&L rolls we are a vertical organization wherein right from the national down to the branch level we have sales, credit, ops collections and the NPA management function, so what we are now looking at is also to super impose in that at geography level initiative and whereby we should concentrate more on growing into the branches that are more profitable at a geography level and the ones which are less we should look at restructuring them. So, this is something that will get our attention in the next fiscal year some times, as of now we are not looking at that.

Jigar Walia So, simultaneously apart from increasing the top line you are also looking at relocating some staff or resizing some of the branches which are bleeding.

Sanjay Chamria Which I said there is something we might take up next year, this is not on our radar.

Jigar Walia In your comments you highlighted for the cash flow analysis of truck driver and stuff like that and we understand that giving the asset inflation more particularly and the continued diesel price inflation which will continue. You think for the new launch or going ahead ideally the duration of the portfolio should increase to cover up because the cash goodwill probably never be enough for the truck driver or the operator to really service the loans and then we have a policy where we book NPAs while allowing some delayed repayments.

Sanjay Chamria So, it has already happened to an extent where I see that the tenure has increased somewhat so earlier like in car raised to have about 41 – 42 months and now it is 45 months. Commercial vehicle has gone up from 39, 40 to 44. In construction equipment it used to be 33 – 34 it has now gone up to 39. However, I agree with you that in times like this we should rather make it convenient and possible for a truck or our equipment operator to pay the installments given the limited cash flows that he gets and then allow him to make an accelerated payment. So, what we do is when we get a case then we look at FCF should be 1.2:1 and we then calibrate the LTV accordingly. However, there are also competitive pressures in the market, luckily I can share with you that it was only from the October quarter that we have found that even in respect of the capital finance company is promoted by the manufacturers, there has been a withdrawal from the market offering 100% LTVs or 90% LTVs because they have been hit in a greater fashion by the rising delinquencies and therefore today it is possible for us to increase the customer equity thereby to reduce their installment rather than only increasing the tenure as a solution.

Jigar Walia Yes, I think that makes sense reducing the LTV and increasing the tenure probably, perfect.

Moderator Thank you. Ladies and gentlemen that was the last question. I would now like to hand the floor over to Mr. Pankaj Agarwal for closing comments.

Pankaj Agarwal Thank you very much sir for joining this call. On behalf of Ambit Capital I would like to thank everyone to join this call. Have a good day.

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