Magma Fincorp Limited 3QF15 Results Conference Call

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Moderator: Ladies and Gentlemen, Good Day and welcome to the Magma Fincorp Limited 3QF15 Results Conference Call hosted by SBICAP Securities Limited. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing '*' then '0' on your touch tone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Mahantesh Sabarad from SBICAP Securities. Thank you and over to you sir.

Mahantesh Sabarad: Thank you, Margaret. Good Morning to all the conference-call joinees. It gives SBICAP Securities great pleasure to host the 3QF15 Post Result Conference Call of Magma Fincorp. We have the senior management team from the company with us to take us through the results, and thereafter, answer your questions that you may have. We have with us Mr. Sanjay Chamria (Vice Chairman and MD). We also have Mr. V Lakshmi Narasimhan (CFO) and Mr. Kailash Baheti (the Chief Strategy Officer).

Sanjay Chamria: Thanks, Mahantesh. Good Morning, everyone. I thank you for joining Magma's Quarterly Conference Call for 3QF15. Before getting into the specifics of our performance, I think it is appropriate to spend a few minutes updating you on the overall environment in which 3Q went by, with a view to enable a connect between the environment and our performance. There were items of positive impact like the diesel prices coming down, improved medium and heavy commercial vehicle sales, drop in the bond rates, controlled inflation and directionally paying well within the RBI target. At the same time, we have had continuing negative impacts like erratic cash flows in the customer side, lower utilization of assets by the customers, slight drop in the freight rates and lower realization of the sale of repo assets. We have accordingly altered our product mix and within it the customer segment and overall geography and are constantly reviewing and tweaking the same from the angle of delinquencies. As a result, we have reduced LTVs to increase the customers' equity in the asset, introduce more stringent customer selection criteria, and consequently, we have seen superior quality of portfolio originated in the preceding quarters. Further, the growing contribution of Mortgage SME, Used Assets and tractors has helped us maintain a diversified product portfolio strategy from the angle of risk adjusted return. The weightage of CV and CE has gone down further owing to the tough scenario prevailing in the deployment resulting in the lower primary sales. Once the economic environment improves, we will then look at improving the contribution of CV and CE accordingly. As informed during the last quarter, we have stopped the Gold Loan business completely and closed down unique 36 branches exclusively pursuing the Gold Loan business.

Now I will run you through 3Q Performance Highlights before I open the floor for questions. The Loan book has increased 13% YOY to Rs19,503 crores, driven by better alignment of product, customer and market. Used assets and tractors are the key products driving growth, while the share of CV and CE put together is falling steadily and stands at less than 25% as on December 2014. This change in the portfolio composition has resulted in higher blended yields, with a 100bps YOY growth of NIM at 6.41%. It has also enabled the company reduce the gap in the NIMs with the peers that it set out to build at the beginning of the year. The product mix

change remains work-in-progress, and hence, NIMs are expected to increase steadily over the next few quarters as well. In line with our past guidance, the new business lines of market in general insurance have been achieving scale and contributing to the overall profitability at the group level. Magma HFC had a PAT of Rs.3.9 crores, while Magma HDI General Insurance had a PAT of Rs8.1 crores in 3Q. The focus in both the businesses will continue to stay on steady growth and sustainable profitability. The benefits of higher NIMs and contribution that came from Mortgage and General Insurance got blunted due to the higher rate losses on the older portfolio and higher collection-related expenses. We hope with the improvement in the operating environment in the coming quarters, the drag on account of the higher credit losses and higher OPEX will decrease and correspondingly improve the ROAs and ROEs. Consolidated PAT increased 25% YOY to Rs45.1 crores driven by a healthy increase in the NIMs. As markets improve and the Loan book increases, the drag (because of the OPEX in the provisioning) will disappear and earnings will improve significantly to reflect the inherent profitability of the underwritten assets. OPEX remains an area of concern for us. We have had to invest a lot in the employee strength to deal with rising delinquencies and implementation of several initiatives to establish better reach and connect with the channels and customers. Now with the portfolio quality stabilizing and the initiatives having already been implemented, in my view, OPEX is peak and we should see the OPEX ratios improving once the growth momentum returns in the economy and the impact of investment gets captured in the Loan book growth and bottom-line.

As you will appreciate, we have been following stringent NPA recognition in the provisioning norms for the last eight quarters since the Usha Thorat Committee recommendations were released. The final guidelines have been issued by the RBI advising NPAs to migrate to the new NPA recognition norms. It is pertinent to note that Magma recognizes NPA at 120 DPD, and hence, Magma is two-years ahead of the curve and is compliant with the RBI guidelines until March 2017. To give you all a perspective in the monetary terms excess hit to the P&L on account of the earlier recognition of the NPA at 120 DPD as against the present norm of 180 DPD is about Rs124 crores cumulative till December'14. If you had followed the RBI norms of 180 DPD, our reported ROA would have been 20bps higher in F14 and 26bps higher in 9-months ended F15. Now Lakshmi, Kailash and myself would be happy to take any questions that you all may have. Thank you.

Moderator: Thank you. Ladies and Gentlemen, we will now begin the question-and-answer session. The first question is from the line of Jaiprakash Toshniwal from IndiaFirst Life Insurance. Please go ahead.

Jaiprakash Toshniwal: Just wanted to understand the Tractor business. This time we have seen strong disbursement in tractor QoQ. So, where are you seeing the improvement?

Sanjay Chamria: Tractors as such have been growing pretty well for us, and this is one of the four products where we have set our sights to continue to grow, and if you look at the loan book mix Tractors contribute about 17% of our total book, and we have now got about 8.5–9% share in financing of Tractors on an all-India basis and we have taken seven years to reach this position. While

there are higher delinquencies in the Tractor because of the rural economy slowdown in the last 4 to 5 quarters, but given the higher spreads that we have in the Tractor segment, we still consider this as one of the more profitable product lines and therefore our outlook is positive and we continue to remain positive going into the future. So far as the territories are concerned, then largely it is UP, MP, Haryana, Bihar, Jharkhand and Rajasthan, these are all the areas where the growth for tractors has been coming in for us.

Jaiprakash Toshniwal: On the Housing Finance book, what is the strategy going ahead? This time the profitability is very strong, so going ahead what should we expect from the Housing Finance subsidiary?

Sanjay Chamria: So as I mentioned that we have four product lines where we wish to increase our focus and the weightage –Tractor being the first, followed by Mortgage, Used Assets and SME, respectively. In addition, mortgage started about 2-years ago for us and now it occupies about 13.5% in our overall Loan book but on a disbursal basis, it is more than 15%, and over the next 3-years or so I would guess that the Mortgage could become the single largest product in our overall Loan book, capturing almost about 20% in terms of the share and that is largely one because the tenure in case of Mortgage is about 10- to 15-years as opposed to 42- to 45-months in case of the Vehicle Financing and the ticket size is also higher in case of Mortgage.

Jaiprakash Toshniwal: On the General Insurance business front, this time the profitability is very strong at Rs8.1 crores (Rs1.8 crores in previous quarter) and it was Rs.1.4 crores in the year-ago period and we have also earned a higher premium. So what has changed here?

Sanjay Chamria: When the topline itself is growing at about I think 39% or so as against the industry growth of about 10 to 12% and this is largely possible because one, the insurance company is also operating through the similar network that we have in the Vehicle Finance business and therefore the larger part of the business is again coming in from the Retail segment in the interiors of the country. Therefore, when we look at the discounts and commissions being paid, these are more favorable for the business that we underwrite from the interiors compared to the metros and the main towns. Second, there is a tight lid on the management expenses; we are about 2 to 3% short of our budget and we are below 30%, which is for a company in its second year of operations considered to be quite a good achievement, and this is also largely possible due to the sharing of the infrastructure with the parent company. And the 3rd one is with the bond age falling and we have a portfolio of Rs700 crores in the Insurance company, so there is certain reshuffling of the portfolio also that is being done, which has also resulted in non-recurring income on account of the sale of investments.

Jaiprakash Toshniwal: Could you quantify the non-recurring income?

Sanjay Chamria: That would be about Rs5–6 crores.

Moderator: Thank you. The next question is from the line of Namesh Chandani from Axis Capital. Please go ahead.

Namesh Chandani: Just wanted to know a brief about your SME business and Mortgage business. So what is the key difference, whether in the SME we also have property gain collateral or these are the unsecured ones?

Sanjay Chamria: The SME business is unsecured business, there is no property collateral, so there the assessment of the client is done on the basis of the underlined cash flows generated in the business, evidence by the balance sheet analysis and further validated by the tax returns for whether it is VAT or excise or service tax filed by the customer. As far as the Mortgage part is concerned, there are two types – one is the home loan where it is principally given to the customer for buying a home or for residence whereas the LAP which is the other part end use is similar to SME, because in LAP the loan that we give is used for the business purposes; however, LAP is secured by the underlying collateral of removable property and to that extent the reliance is relatively lesser on the underlying cash flows of the business. So to distinguish between the profile of customers, the SME customers which are unsecured could have more stronger cash flows compared to the LAP customer and that is the reason they supplement the loan security by giving collateral. The ticket size also in case of SME is lesser at about Rs20 lakhs or sub-20, whereas in case of LAP, it is around Rs30–35 lakhs.

Namesh Chandani: What kind of yield are we enjoying in LAP as well as in SME?

Sanjay Chamria: So in LAP, the average yield will be about 14%, whereas in SME it is about 17.5%, and this underscores the differential in the perception of the collateral securities.

Namesh Chandani: On the provisioning part, what is our provisioning norm as of now – is it based on what the RBI prescribed to the banks or do we have some different provisioning norm as of now?

Sanjay Chamria: As I mentioned in my opening comments, RBI has now released the final guidelines as far as the provisioning norms are concerned (for NPA). One is that RBI said 180 days recognition of NPA, the NPAs migrate similar to banks to 90 DPD. To deal with the same, they have allowed a 3-year time frame – so starting April 1, we have to move to 150 DPD; by April 1, 2016 we have to move to 120 DPD; and by April 1, 2017, we have to move to 90 DPD. We have been following since last eight quarters the 120 DPD as recognition norms for NPA and there are two impacts that we have – one is the reversal of the interest income for any account that gets into NPA and second is the provisioning at the prescribed rates on the principal outstanding as a provision for NPA. So we are compliant till F17 because 120 DPD is required to be achieved by March 2017 and we are already there. In addition to this, the rate at which we make the provisioning is higher, and therefore, we also have an additional provisioning sitting in our balance sheet on accounts, which are treated as NPA at 120 DPD.

Namesh Chandani: Could you quantify what amount or excess provision are we carrying?

Sanjay Chamria: I think I mentioned that it is Rs124 crores on a cumulative December 2014 and in terms of the ROA, it is impacted for F14 about 20bps and in the 9-month period, it has impacted about 26bps.

Namesh Chandani: With reference to Rs124 crores you mentioned, is that an excess provision you are carrying? This excludes the impact of interest reversal or does this include the interest reversal impact as well?

Sanjay Chamria: It is inclusive.

Namesh Chandani: On your staff expenses, you mentioned in your opening remarks that your staff has increased to improve the collection efficiency as we are currently weak. So, how do we see this thing going ahead that we continue to invest in the incremental staff or do we expect some rationalization in that line item?

Sanjay Chamria: OPEX of course traditionally has been an area of concern for us because we are higher than our industry peers, and in the beginning in the May Analyst Call also I had mentioned that it will go up this year because the delinquencies were expected to be more severe and as a result our OPEX has gone up; however, now sitting in February and having seen the performance of the last 10-months, I would tend to believe that the collections performance has stabilized and I do not see any further expenses to be added in the collections infrastructure to deal with the delinquencies. Moreover, as you can see that net NPA, between September and December, has gone up by about 0.2%. So the net of accretion also has diminished quite significantly. The second reason why the OPEX went up is on account of a lot of initiatives, which were being implemented to improve the connect of our field force both in the channel and customers. So, we have provided 2,000 tablets to the sales guys, developed lot of backend applications, did fair amount of training interventions and tied up with several banks for remote banking and all of those things. With all these initiatives having already been implemented, now I would tend to believe that OPEX has reached the peak and therefore, while it may not come down in Q4, but I would be happy to say this has stabilized, and I think from Q1 of next year, one should be able to see the reduction in the OPEX going forward.

Moderator: Thank you. The next question is from the line of **Richard Bhati** from UTI Mutual Fund. Please go ahead.

Richard Bhati: I just wanted to know the gross NPA number on a 120 DPD plus basis because I gather that the 3.9% given on Slide #11 is on 180 days past due?

Sanjay Chamria: I think is 4.9% on 120 DPD.

Richard Bhati: This would be on the total AUM or on the total Advances on book?

Sanjay Chamria: It is on the Loan book.

Moderator: Thank you. The next question is from the line of Aditya Singhania from Enam Holdings. Please go ahead.

Aditya Singhania: I just wanted to get some sense of the trend in collections over the last quarter. Is there any stabilization improvement/worsening? What are your thoughts there?

Sanjay Chamria: So Aditya, October was a bad month and if I just take you back then April to July were relatively better, but August-September and October were clearly the worst months in the last 10-months of this year and December was better than November, while January has been the same as December. Having said this, overall, I see that there is a marginal improvement in the Commercial Vehicles segment, in the sense that the rate of roll forwards has been established and gone down, however, the roll backwards are not improving, which indicate that the customers have more cash flows in their hands to pay installments; however, the same is not enough for a customer who has moved into a higher bucket to pay two installments. So if somebody has gone into, say 31 to 60 which are two-months dues, then he is able to pay one installment, which is falling during the month and is still remaining in 31 to 60, and we are not coming below to 1 to 30 and is also not going up to 61 to 90. So, there has been on the other hand deterioration because usually the month of November and December is when the bulk EMIs fall due to coinciding with the harvesting season and whenever the bulk EMIs fall due there is a temporary spike that happens in the roll forwards and it takes about 2 or 3-months-time that those customers they are not able to pay Rs60,000–65,000 at a time and therefore they will pay it over a period of 3-months, during which there is no further EMIs that would accrue. Barring this, it has been largely better in November, December and January.

Aditya Singhania: Tractor portfolio has been better over November–December?

Sanjay Chamria: No, I refer to overall that I shared in Tractors, which is in the deteriorated side and the Commercial Vehicles segment, which is on the marginal improvement side.

Aditya Singhania: On an overall basis, would you say that the roll forwards in the early buckets have stabilized now, you are not seeing any further worsening?

Sanjay Chamria: One, the further worsening is not there and roll rates have rather reduced; however, if this trend continues, then I think after about 3- or 4-months we will see reduction in the NPA because what happens, the toxicity in the buckets have increased over the last year and a half and the buckets have burst, so even if the loan rates reduce from say 30% to 25% but instead of Rs200 crores if the bucket is at Rs300 crores, in absolute amount the roll forwards may be higher even the rates were reduced. So it should take another maybe one or two quarters for the buckets to become lighter and that is when you will see the overall benefit of the operating environment leading to improvement in the portfolio quality. So one set of improvement has come but the second set is yet to come.

Aditya Singhania: So you are saying that once you see the improvement after that maybe in a couple of quarters, we can see a reduction in absolute NPLs?

Sanjay Chamria: Yes, so that is but a contingent asset on the improvement in the operating environment. What we have seen in the last 2 or 3-months if that does not deteriorate in the next few quarters is one, and two, on the other hand like there is a marginal improvement of the cash flow in the hands of the truckers, if that continues to remain then of course we should see an improvement in terms of the NPAs.

Aditya Singhania: Is the improvement in cashflows you are seeing being mostly driven by reduction in diesel prices or is it also better utilization of the fleets or trucks?

Sanjay Chamria: Unfortunately, that is why I was saying, the utilization of the fleet has not improved one bit; it is largely the softening of the diesel prices resulting in a better cash flow in the hands of the customer, which is why I said that if there is a contingency, this is on account of that; if the operating environment improves, that will lead to an improved fleet utilization, which is currently sub-70%, so if that improves to 80%, that is when the guys will have more installment-paying capability and those who are sitting in the higher bucket instead of one, they will pay two installments and that is when the roll backs improved.

Aditya Singhania: What was the driver of the margin improvement QOQ apart from the change in portfolio mix?

Sanjay Chamria: There is a tri-axis of the product combination changing, so Tractors, Suvidha and SME are three segments giving us higher spreads, and two within each product then there are certain customer segments, say in case of passenger vehicles the MUVs will always provide a higher yield as compared to a car, which is used for personal uses, then there is a geography mix, so the contribution of the business coming in from the talukas and the districts. You would remember Aditya you went with us to Haryana and that model you studied, when you have a higher contribution coming in from the areas, which are in the interiors, that also would have a higher yield, other factors unchanged. The third thing is the collection efficiencies will improve, then that also would ensure that there is a reduction in the EIS hit that you would have on the portfolio that we sell down. So a combination of all these factors would improve the NIMs.

Aditya Singhania: Has that third factor also helped this quarter?

Sanjay Chamria: Yes, there is a marginal help, not a very significant one, as we would expect that because October was a big hit, and secondly, it always happened with a one-month lag, we only got the benefit of November last quarter. So, now we will get the benefit in the fourth quarter of December and January, and if February is good, then we would get the benefit this quarter all the more.

Aditya Singhania: So you are saying that the 3Q NIM improvement does not incorporate much of the benefits of improvement in collection efficiency but you should get some of it?

Sanjay Chamria: Conceptually, I was explaining that the NIM improvement is a factor of one, the changing mix in the product market and the customer and second is the collection performance.

Aditya Singhania: Is there any impact from the cost of funds side during this quarter or not yet?

Sanjay Chamria: So it has remained largely stable and going forward, now with reduction in the base rates and enough and more liquidity in the system chasing good credit, we hope that if not in the current quarter but at least next year we should see an improvement in the spread on account of the cost

of funds going down because Mortgage, which is 15% of the book, is the floating rate and 85% of the Loan book is a fixed rate, so that should give us the benefit.

Aditya Singhania: What was the net NPA on 120-day?

Sanjay Chamria: 3.9% is net at 120 DPD.

Aditya Singhania: What was it in the previous quarter, 2QF15?

Sanjay Chamria: 4.5% and 3.5%.

Moderator: Thank you. The next question is from the line of Adhish Choudhary from Axis Asset Management. Please go ahead.

Rahul Vikaria: This is Rahul here from Axis Mutual Fund, Adhish's colleague. One, I wanted to ask, where are we looking to grow in the next one year and how are we looking to fund that kind of growth – are we stalling any kind of capital infusion and if so then by when for what amount?

Sanjay Chamria: So Rahul over the last two years, if you see that our Loan book growth has been muted because sensing that we will have a more delinquent trend we were not overtly aggressive so far as the lending is concerned. Now our focus was on improvement of the NIMs, which we have been able to bridge the gap very successfully, there still is a further gap to be bridged by us with our peers. So about a year and a half ago, we were sub-5% and we have moved up to 6.5%, and our peer group is at about 7% to 7.5% so we are still about 50 to 100bps away from there. So my management team's focus is completely on churning the book to improve the yields, whereby we can have a better profitability. With improvement in the operating environment the credit cost, which traditionally has been the lowest for Magma compared to its peers, would also further go down and that will widen the overall net profit margins. Once that happens, then I think we will look to step up the growth rate and accelerate the accretion to the loan book. As far as the capital part is concerned, we are currently at about 16.5% capital adequacy with 11% in Tier-I, so there is no tearing hurry for us to go ahead and raise capital; however, being in the capital incentive market if we get a right opportunity we might raise capital.

Rahul Vikaria: You just said that we are in the chasing yields mode to match our peers and 100bps. Do you think this is the right environment to do that or would we rather choose to be conservative and not do that incremental this key kind of lending to push up our portfolio yields, because what we are getting a sense, looking at their NPAs, talking to other NBFCs, things have not changed, in fact, they have only worsened and it might take another six–nine months, more quarters to actually see a turnaround or an increase in collective efficiency ratio. So, do you not have a conservative view there?

Sanjay Chamria: Yes so I would agree with I think the general view which has been expressed by the industry peers that it is another six–nine months before the situation will actually look to improve. So if you look at our performance, our credit losses till 3Q have been the lowest in the peer group and that is despite the fact that through the simulation of the product, customer and the market

mix, even in the current scenario keeping the credit cost lower, we have improved our yields by 100bps between Q3 of last year to the Q3 of this year. So without taking an undue risk by amending the contribution and the mix if we can improve it that is what our endeavor would be, and as I told you that between growth of AUM versus improvement in the NIM, without taking undue risks, if we have to choose, then we will choose the latter and not the former.

Rahul Vikaria: What per cent of your book would be unsecured?

Sanjay Chamria: SME lending is about 6–7%.

Rahul Vikaria: I got the DPD number for 120 days. Would it be possible for you to share for 90 days as well for this and the previous quarter just to…?

Sanjay Chamria: No, I do not have the number right now with us because we monitor 120 and 180.

Moderator: Thank you. The next question is from the line of Ketav Shah of Anand Rathi. Please go ahead.

Ketav Shah: My question is related to your securitization income. Sir, when do you think that line item should stabilize and should help augment your overall NII?

Sanjay Chamria: I think with improvement in the collection efficiency, which would be happening once the operating environment further improves, that hit on account of the AIS that we are having that would not be there and that will lead to an improvement in the Net Interest Income and will significantly help the bottom-line.

Ketav Shah: I am just trying to understand your credit cost. Historically, we have been one of the lowest and one of the reasons I think is because we are more centralized in terms of how we disburse loans, correct. So given that now we are moving to a steady state of higher yielding exposures like Tractors, UCVs, do you think the credit cost will stabilize at a much higher level than what it used to be 2–2.5 years back?

Sanjay Chamria: One, actually, we are not centralized in our disbursal because the Retail Lending that we do with the ticket size of less than 5 lakhs we have a decentralized credit approval and disbursal system. The second observation that you made is absolutely bang on that with the change in the product mix and more weightage in favor of Tractors and the Used Assets the credit losses that we used to witness till 3-years ago, which was at 40bps to the AUM has already gone towards 1.4% of the AUM will certainly not see 40bps, but I will be very happy if it can stabilize at around 1% and that is largely because of the weightage in favor of the Tractors and Used Assets.

Moderator: Thank you. The next question is from the line of Chunky Shah from Credit Suisse. Please go ahead.

Sunil Tirumalai: This is Sunil Tirumalai. I have a couple of questions: Historically, there has been a larger share of short-term funding compared to peers for the company. Given that the proportion of longer

tenure assets like LAP and Mortgages are expected to increase, is there any change to the borrowing mix, any strategy that we have over there?

Sanjay Chamria: Our overall borrowing strategy is about 1/3rd of the total borrowings comes by way of sell down and that is perfectly door to door matched. Second is then we have another 40% coming in by way of the banking lines of credit, which is by way of a working capital and term loans, and within working capital again there is a carve out we would get the demand loans and we issue the commercial paper, etc., wherein that is used more to bring down the overall cost of funds, and out of the balance 20–30% there is where we would issue the bonds to the capital market players like mutual funds, insurance companies and we would also raise Tier-II capital from like subordinated debt or preference sales or the perpetual debt from either the bankers or from the international agencies. So, with the Mortgage portfolio, which is currently about 13% and expected to go up to 20% I do not really see this mix changing very materially in the near or the distant future, unless there is an opportunity that comes, whereby the cost of fund differential between the different modes are such that we would increase the weightage in favour of say the capital market borrowings versus the banking lines and so on.

Sunil Tirumalai: Wanted to know on the Mortgage and LAP segment, there is rising interest in the segment from many other players as well including the banks. So just wanted to understand what is the outlook on yields and spreads in this segment?

Sanjay Chamria: So actually the amount of competition that is there is already quite intense in Mortgage and traditionally in the Retail Lending banks has more than 50% weightage on the Mortgage of the total Retail portfolio. So therefore right from beginning we have consciously stayed away from the segment, which is catered by the banks and the large HFCs, which is the Salaried segment. So if you study and I am sure you would have done so, there is more than 70% or 80% of the total segment of the Mortgage customer, banks and the large HFCs from the salaried class, because they have surety of income and there is no divestment, and they live in the capitals are the main towns, whereas in our case more than 85% of our portfolio comes from the self-employed and within that also non-professionals, so we call it SENP. In that segment, like the SME is the ones which is devoid of the credit availability from the banks and the larger HFCs. Second is the geographically focus again within the SENP for us is the sub-districts and the small towns which for a standalone HFC is difficult from a cost angle because our vehicle finance parent company has projected about 250 towns in the country and that we operate in about 1,500 sub-districts and taluka. So, with the marginal cost we are able to reach out to the customers who live in these areas and I have traveled to about 15 states in the preceding 18-months and whenever I have gone to a state, I also travel to the smallest branch of Magma in that state, I had covered 2,000 or 3,000kms, then we studied that out of 80 odd players that are there in the Mortgage space, which is 30-odd banks and 50-odd HFCs, about two or three players are present in taluka. So, that actually keeps the market wide open for someone like us who has 7 lakh customers in these places for our Vehicle Finance and they have also done the Mortgage needs. So today, 20% of our business is actually coming in from our existing Vehicle Finance customers where our collections team has comfort and we have all the KYC talks and the customer background. So therefore, while there will be pressure going into the future, if you

were to grow disproportionately the contribution of mortgage, but this segment also will continue to increase and we are working on certain cross-sell initiatives, which we are not fully successful as of now. However, as and when we are able to successfully implement this, this will help us mitigate the increasing competition.

Moderator: Thank you. The next question is from the line of Preethi RS from UTI Mutual Fund. Please go ahead.

Preethi RS: What will be the income from securitized asset this quarter?

Sanjay Chamria: I think Rs2700 crores is what we sold down during the quarter.

Preethi RS: No, what will be the income that you book on a zero DPD basis?

Sanjay Chamria: I think that is something we do not have it right away, maybe Lakshmi will provide you offline.

Preethi RS: If we look at the gross NPAs bid on 120 DPD or 180 DPD level, it has been on an uptrend and if we understand like the Stress and CV segments, it seems to be bottoming out or it has reduced from where it was like let us say one-year back with the certain tailwinds like the fall in diesel prices. So where are we seeing the incremental stress from and which segments are contributing to the incremental stress?

Sanjay Chamria: Incremental stress continues to come from the Commercial Vehicle and Construction Equipment, then from Tractors. So these are the three which would contribute the bulk. So the weightage in our portfolio of the CV and CE has gone down considerably and now that is less than25%. Tractor is about 17–18%, and I mentioned previously sometime back that in case of Tractor, we have done valuation that even with the higher NPA, we find that the spreads are more than sufficient to address the profitability and even after the higher NPAs it continues to remain among the more profitable productgroup for us and therefore will continue to remain bullish so far as the Tractor funding is concerned, whereas we have reduced our exposure quite considerably in the CV and CE and will remain so until the market scenario improves.

Preethi RS: Will it be safe to assume reduced OPEX in the next quarter now that we have shut down nearly 40 branches for Gold or will the contribution not be that great?

Sanjay Chamria: Not only Gold, I think the major reasoning for the higher OPEX as I shared was one significant investment in the collections infrastructure to deal with the rising NPAs and the more delinquent customers, and second, I said that to improve the collect and reach, with the customers and the channels in the interiors, where we needed to make a lot of investments. Now, all these things have already been implemented and the Gold branches shut down that we have already effected. I said that in terms of OPEX I can safely say that we have reached the peak level, in Q4 it may not come down, but certainly in the next year we should see the trend line, which will demonstrate that there is a consistent decrease.

Moderator: Thank you. The next question is from the line of Gaurav Jani from JHP Securities. Please go ahead.

Gaurav Jani: I am just looking at Slide #7 and your Vehicles Financing contributes about 51% of the loan assets. So I just want to have a sense of what growth are we expecting and when do we see robust growth in the segment?

Sanjay Chamria: A million dollar question, because in the last 2-2.5 years, CV and CE sales have been falling down and the Passenger Car sales have remained stagnant, it is only in the last few months that you find it Passenger Cars sales is going up. Traditionally, I have seen the yields in the new asset class in these three products is about 4-4.5%. Even when the scenario improved, I would not say the weightage of the three going beyond 30–35% in the overall Loan book and the weightage of Mortgage, Tractors, SME and the Used Assets will rather grow from the current 49% over the next two years to maybe about 65% or so. While the overall book will grow, the absolute growth that one will see in the CV and CE segments, but in terms of the overall product mix, I do not see that is happening unless if there is a dramatic change that happened, like what we saw when the golden quadrilateral happened and there was a boom in the infrastructure, and there was a waiting period.

Gaurav Jani: I just want to understand when do we see robust growth then in these segments?

Sanjay Chamria: I do not see that happening at least for the next three quarters. That again is contingent because the present government has laid a lot of emphasis on infrastructure development, but at the ground level, we do not really see that any new infrastructure or road project being kicked off because the moment that happens there would be a lot of mobilization of machines, which will lead to the improved utilization of the fleet, lead to a higher primary sale and none of which is happening because that is a lead indicator that the things have started moving at a ground level. I do not see that happening at least till October or November, it will take another 6-7 months time after the budget announcement, the government is to do the allocation and release the orders and give the mobilization advance.

Moderator: Thank you. The next question is a follow up from Rahul Vikaria from Axis Mutual Fund. Please go ahead.

Rahul Vikaria: I want to understand is what would be our peak Commercial Paper exposure on the liability side in this quarter?

Management: We do not have it off hand, we will need to give it to you separately.

Rahul Vikaria: What would be your total bank lines of which would be unutilized?

Management: About 40%, close to Rs3,000 crores.

Rahul Vikaria: Of which 40% will be unutilized?

Management: No, I said, the unutilized is Rs3,000 crores.

Devang: Devang here. Just wanted to understand we had read the last rating report issued from CARE. What we understand is that the rating can see further stress or downgrade if once the asset quality deteriorates or if the capital is not infused. So what do you see the impact on rating going ahead because the asset quality has been deteriorating and there has been no infusion of capital yet?

Sanjay Chamria: We have not had any dialogue with the rating agency post this. We will have a dialogue with them to explain them the scenario and we will take their views on record.

Devang: But do you see an impact on downgrade rating?

Sanjay Chamria: I cannot really comment on this; this is something which is up to the rating agency and they are commenting. As a rated entity, our job is to present the picture to them and give them an outlook and then it is for them to take a decision.

Devang: When we had met the management, including Lakshmi sir, last quarter, what we understood from them is that by March, we will see some capital infusion. So, what are the plans for capital infusion?

Management: Devang, like we spoke the last time, if there is any growth indication that we see in the market that is when one starts preparing for capital infusion. What we have done is to address the leverage issue by ensuring more of direct assignment than through the PTC route, and if you see between the last year same time to this year, the capital adequacy in terms of Tier-I has improved even on an overall basis. So capital infusion is going to be a function of what we see in terms of growth, what we see in terms of opportunities. Unless these two combine well, I do not see action happening any quicker than it forms out over a period of time. So at this point in time they are going to ask "Is there a timeframe?" There is no timeframe that we have in mind at this point in time.

Moderator: Thank you. As there are no further questions, I would now like to hand the floor over to Mr. Mahantesh Sabarad for closing comments.

Mahantesh Sabarad I thank all the participants for attending the call. Special thanks to the management of Magma Fincorp for allowing SBICAP Securities to host this call. Thank you very much, sir.

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