"Magma Fincorp Limited Q3 FY 2018 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Magma Fincorp Q3 FY2018 earnings conference call hosted by Edelweiss 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 the conference call, please signal an operator by pressing "*" and then "0" on your touchtone phone. I now hand the conference over to Mr. Kunal Shah from Edelweiss Securities Limited. Thank you and over to you Mr. Shah!

Kunal Shah: Thank you Natasha. Good morning everyone. This is Kunal Shah from Edelweiss Securities. We have with us today Mr. Sanjay Chamria, Vice Chairman and Managing Director, Mr. Kaushik Banerjee, President and CEO of Asset Finance and Mr. Manish Jaiswal, MD and CEO of Magma Housing Finance and SME Business, Mr. Rajive Kumaraswamy, Managing Director and CEO, Magma HDI General Insurance and Mr. Kailash Baheti, the Chief Financial Officer from Magma Fincorp to discuss their Q3 FY2018 earnings Congratulations Sir for good set of numbers and over to you!

Sanjay Chamria: Thank you Kunal. Good morning and a warm welcome to all of you to the Magma's third quarter investor Call. Given that budget has been presented yesterday, we would like to start up with the key budget announcements having an impact on our business and then move on to the economy.

As expected it was a rural focused budget with rigorous efforts to double the farm income, fulfill promise of housing for all by 2022 and motivate MSME entrepreneurs with the availability of low cost funds. Few key beneficial announcements for the sector were minimum support price extension to Kharif crop, doubling of allocation to food processing, electricity to all households, world largest government funded health care program covering almost half the population, expansion of e-NAM a e-trading platform coverage to 585 APMCs by March 2018, acknowledgment of NBFCs as powerful vehicles for delivering SME loans, better refinancing policies for NBFCs under Mudhra is welcome move. Effort to encourage various government funds to lend to A rated companies.

Moving back to the current financial year, the year 2017 can definitely be considered as a year of the reforms in the Indian economic history. The most standoutreform was of course implementation of GST, which has consolidated and streamlined the indirect taxation in the country. The introduction of the Indian Bankruptcy Code has provided resolution framework to free up stressed assets and help corporates to clean up their balance sheet. t has also changed debtor discipline. Another critical move was announcement of the large capitalization package of around 1.2% of GDP to strengthen balance sheet of the PSU banks.

In the backdrop of these reform, there was some deceleration in the economic growth over the past few quarters; however, we clearly see signs of growth rebounding. This is evident from the latest GST collections data. The tax structure has stabilized on the GST collections on the rising trend.

Another important indicator is the recent IMF report projecting India's growth in 2018 at 7.4% and 11.8% in 2019, which would make Indian fastest growing economy in the world for the next two years.

Moving on to the rural economy this was a second consecutive year of normal monsoon. The Kharif output was good and cumulative sowing in the current Rabi season is similar to last year as per the data published by the Ministry of Agriculture.

Sale of tractor is an important rural economy indicator. The sale of tractor in the first nine-month of current year has been close to Rs.5.4 lakh, which is year-on-year growth of 16.4%. This growth has been on the back of 18% growth in FY2017.

The tractor industry is set to record highest sale in the current financial year. We are also witnessing the best collections in our own tractor portfolio over the last five years. These indicators give a good confidence from the health of our customers in rural India. This year's budget would further boost the agriculture and rural economy.

Let me now give you the overview of our business and performance in the Q3 of FY2018. I would like to first speak on asset quality. In our transformation journey, which started few quarters back we are relentlessly focused on "portfolio first". We have merged sales andcollections team in 0-90 bucket, segregated SME and Housing collections team and have introduced the dedicated tractor collections team in tractor dominant markets. All these efforts have resulted in 90 plus bucket reducing by over to Rs.250 Crores during the nine-month compared to an increase of Rs.360 Crores as of the same period last year. Our GNPA currently is at about 7.1% and NNPA at 5.3% and we hope to end the current fiscal with the similar GNPA and NNPA ratios evem after shifting through 90 DPD recognition norm from the current 120 DPD.

I will now share my thoughts on the ABF business. During the past interactions we shared the strategic initiatives taken by us such as branch/product grading and, the induction of customers relationship managers, while we are still in the implementation phase of some of this initiatives, the positive impact of these are already visible.

We have increased share of High ROA, used assets and CV's particularly LCV and SCV and calibrated share of car,/UV and tractors. This has not only helped in increase yields, but also to improve the asset quality.

The branch grading and the product grading basis EWI and CPMI ratios, which are early warning indicators, have also helped in better asset quality, which is evident from these indicators, which are trending lower. Similarly the focus on direct sourcing from the existing customers has helped in increase our direct business share to 37% in Q3 from 24% in the same period last year. Our ABF disbursals grew by 20% on sequential and 14% Y-o-Y on the back of focused growth in the used assets, which is 65% Y-o-Y and 15% Q-o-Q growth and Commercial Vehicles which is 30% Q-o-Q and over 200% Y-o-Y.

Coming to the mortgage business our initiative of Go HLe, Go Direct and Go Affordable has resulted in higher HL disbursal of 40% in Q3 compared to 34% in the same period last year.

Similarly our direct sourcing has increased to 47% of the business in Q3 compared to 29% in the same period last year.

Our average ticket size has come down to Rs.13 lakh with more than 80% of the sourcing below Rs.25 lakh.

Our field officers strength is more leaned towards direct sourcing with almost 50% of them being exclusively direct sales officers. We expect the direct business to further increase significantly by leveraging our ecosystem of existing ABF and SME customers.

In the SME business disbursement grew by 26% Y-on-Y despite some disruption in the initial days of GST implementation. We are in the process of building a direct origination team and leveraging Magma branch network to expand geographically.

We are also planning expansion of products suite to increase our target market. We have revamped our collections model to dedicated collection team forSME & mortgage business. This has led to improvement in overall collection efficiency.

Our Insurance business has registered Y-o-Y grew by 21.5% in Q3 and 25.7% in nine-month over the last year. We have successfully launched One Health, a comprehensive retail health insurance product and Loan Guard, five-year critical illness product with a view to expand our product suite in the health in the accident category contributing to 3.7% of the GWP in nine-month of FY2018.

On the back of enhanced reinsurance capacity, our commercial business also continues to register healthy growth. With these initiatives the contribution of motor as a segment of the business has come down to 79.7% from 87% in the Q3 of last year. Management is working continuously towards the new partnerships and new products to diversify the portfolio..

I will now like to share the key highlight on our performance for the Q3. We have seen a steady rise in disbursals, which grew by 18% on Q-o-Q basis and the AUM, degrowth in Q3 almost negligible at Rs.10 Crores and we are now moving to the growth path.

In Q3 we reported a healthy NIM 9.7%, which is 230 BPS higher than same period last year. The expansion in the margin was due to the improvement in the cost of funds and increase in the share of the earning book.

Our cost to AUM remaind stable sequentially in the Q3; however, we will benefit from the operating leverage as we grow. aAlso our leadership team is capacitized to handle higher disbursals and therefore with growth in the ensuing quarters, we will only incur marginal incremental expense for the field officers.

We have improved our collections in the NPA bucket resulting in absolute NPA steadily coming down, with growth in AUM the ratio of NPA to the AUM would be even healthier. We expect a smooth transition to 90 DPD norms in the fourth quarter without impacting the profitability as we have been proactively providing additional provisions through the year.

Our Q3 PAT stands at Rs.65 Crores with consistent uptrend in ROA from 1.5% last quarter to 2% currently. Now the entire management team 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 with the question and answer session. The first question is from the line of Shubhranshu Mishra from Motilal Oswal Securities. Please go ahead.

Shubhranshu Mishra: Good morning Sir and congratulations on a good set of numbers. Just wanted to understand your thought process on ROA and ROE going forward what kind of aspirations do we have going forward?

Sanjay Chamria: Shubhranshu as I had shared that ROA has been steadily improving and this is actually happened on the back of a significant improvement that we observed in the ABF business, which comprises 70% of our total loan portfolio and even there has been an improvement in the mortgage business. As a result of that for nine-month, our ROAs has crossed 1.6% and Q3 at 2% and in terms of ROE for nine-months, we are that about 9.7% and Q3 we are at 11.7%. So we would like to maintain an overall ROA more than 2% and also increase the ROEs in the medium term over the next two to three years to 15% and the entire product mix and the customer mix would be geared towards the achieving this target..

Shubhranshu Mishra: What could be the specific levers going forward in terms of 2% ROAs?

Sanjay Chamria: One is that the asset quality and we have seen that the credit cost as a percent in the ROA key is consuming anywhere between 2.5% and 3.5% and with the improvement in the asset quality one we are very confident that the hit to the ROA in terms of credit cost will go down substantially. Second the NIMs have been now expanding. Q3 itself like our NIM has expanded very significantly and further with the rating improvement and with the asset quality improving the cost of fund should go down and we propose to maintain our spreads s at the present level through the healthy mix of customers and the product. As we grow the volumes, as I mentioned that the leadership team is already in place so we are incurring the marginal incremental expenses on account of old officers. So with all of these things in a combined manner we hope to improve the ROAs going forward.

Shubhranshu Mishra: Right Sir. That answers my question Sir. Best of luck.

Moderator: Thank you. The next question is from the line of Sangam Iyer from Subhkam Ventures. Please go ahead.

Sangam Iyer: Sir congratulations on a very good set of execution this time. Just wanted to understand when we say that from next quarter onwards we are looking to move towards the growth path, which post the consolidation period and degrowth rate that we saw in the last in six to eight quarters, what is the kind of growth that we should envisage going into Q4 or going to FY2019?

Sanjay Chamria: Sangam our objective over the last two years was first to change the direction of the ship and therefore we slowed and our objective was one to protect the existing portfolio from any further deterioration and to that extent as I was sharing in my initial address, post the sale we did in March we wanted to ensure that the entire Rs.16000 Crores portfolio that we have currently we ensured that there is no increase in the NPAs. So during the first nine months we achieved the record by reducing the NPAs by over Rs.250 Crores, which is in the previous year nine-month it actually went up by Rs.350 Crores so the swing is actually more than Rs.600 Crores and that one singular reason has contributed to the significant expansion of the NIMs in the current year and particularly in the third quarter. The second is we have also been increasing the provisioning so that when we graduate to 90 DPD norms as laid down by RBI there is no hit to the P&L and the third is we started the year at 5.3% net NPA on 120 DPD and as I mentioned that when we graduate 90 DPD in the fourth quarter still we hope to end the year at 5.3%, which could be a very considerable achievement. That was the second part of my answers, which I lost track of, so this was objective number one and which we are satisfied largely that we are up to the target and have stuck to the promise and commitment that we made. Having achieved that this year we had said that we will degrow in the first half and second half we will grow with the fact that at the end of the year we will have 1% to 2% growth in the AUM. That has been delayed by quarter. So instead of the second quarter even till the third quarter we have degrown though in the third quarter degrowth is more symbolic then anything else because 15262 to 15252, it is just about Rs.10 Crores and in fact ABF, which is 70% of our total loan portfolio has started now growing. So from fourth quarter we will start growing. Now coming to your point as to what is the kind of growth that we can expect in the near team if you look at all of our peers in the industry they are growing at a low of 15% to a high of 25%. We obviously would like to maintain that we will definitely like to grow more than 15% in terms of AUM across all businesses in the next year. While doing so we want to ensure that our credit cost would come down and our opex to AUM because that leadership team is already capacitized so therefore the overall opex to AUM should go down and this should result in the ROA expansion.

Sangam Iyer: Got it. Sir just to understand when do we expect to reach the FY2016 kind of levels do we see that coming in at the end of FY2019 itself, Rs.18000-odd Crores?

Sanjay Chamria: So FY2016 if I remember was Rs.19000 Crores and not Rs.18000 Crores and I do not think that will happen in FY2019 because having experienced what we experienced in the past so if I apply even a 15% growth in the AUM, I think it will be anyway between Rs.17200 and Rs.17500 Crores so therefore it may happen in FY2020 that we cross FY2016 but for sure in terms of profit we want to surpass all the past records.

Sangam Iyer: Okay and in terms of credit cost reduction when we are indicating as a lever given that 90-day DPD transition would also get over, how should one be looking at the credit cost for the next financial year?

Sanjay Chamria: One just as a starter we would like to see credit cost go below 2 and as we have shared also earlier in the last quarter call that by end of March 2018 the new book, which we are managed that we are seeing the early warning indicator significant to the superiors would be almost 70% and the 30% which is the old book would have peaked in terms of NPAs so therefore we do not really see the lag effect coming into from FY2019 onwards. That gives us the optimism that we should be able to push the credit cost below 2% from the heightened level of 2.5% to 3% that we are currently experiencing.

Sangam Iyer: Would be average or would this be an exit rate that we are looking at?

Sanjay Chamria: This is the average I am talking so there could be exit would be lesser and in FY2020 is where we would hope to bring it given may be some mid point, which is around 1.5% or so but that will all depend upon the product mix that we achieved because eventually we will look at the revive ratio.

Sangam Iyer: Finally last question from my end before I join by the queue. On the NPA side you said that the net NPA in absolute terms would be almost similar given that in Q4 the growth would be marginal over Q3 so if we are maintaining the net NPA percentage then we are actually talking about even after the migration in absolute terms there is not much of needle movement happening at the net NPA level is that the right understanding that I am having?

Sanjay Chamria: Let me reconstruct your sentence. One is that in terms of the AUM you are right that we may add a few Rs.100 Crores but that will not move the needle in terms of net NPA ratio. What will move the needle is the continuous improvement that we are achieving in the reduction of the absolute amount of the NPAs so that even after we migrate to 90 plus the ratio that we have started at the beginning of the year, which is 5.3%, we hope to stay there even after migrating to 90 DPD by March 2018. In other words what I am trying to say that we are not looking at the denominator impact to reflect a superior net NPA ratio. We are looking at numerator impact, which is reduction in the absolute amount of the net NPAs through two ways, one is the reduction in the amount of the GNPA and two, increase in the provisioning of the NPA such that the net NPAs would continue to go down.

Sangam Iyer: Great Sir. Thank you and all the best Sir. I will join back the queue.

Moderator: Thank you. We have the next line from Antariksha Banerjee from ICICI Prudential. Please go ahead.

Antariksha Banerjee: Good morning. Congrats on the numbers once again. I have few questions have basically to firstly with respect to the asset based business if am I ask Kaushik Sir you have the strategy of degrowing in tractors because of experience that you have talked about in the previous calls as well, but if I look at I mean you spoke about the budget and rural focus and all that also and if I look at your peers someone like Mahindra has done some 50% growth in disbursement in this quarter even someone has conservative as Sundaram has given that 50% growth and while I see your disbursements are growing 37% quarter-on-quarter something like that so my worries that are you going too conservative on the tractor portfolio when the rural perhaps too strong to ignore?

Kaushik Banerjee: I want to first clarify the perception that we have degrown in tractors, the entire tractor degrown and tractor the intent is to reduce the contribution of tractors, the overall disbursement in the portfolio while growing the product at individual level. So I hope that clears the perception, if you look at Q-on-Q growth we have grown 33% on tractors.

Antariksha Banerjee: Yes exactly that is on base.

Kaushik Banerjee: What we needed to do was we need correct portfolio behavior and then kind of reintegrate the product in a manner without in anyway compromising on portfolio product. I mean we pretty much completed that and as MD pointed out earlier we have got a dedicated tractor collections teams in place for that portfolio so there is no intention to degrow the portfolio. We will not be investing in dedicated manpower for collections. So the intent to continue to grow tractors but today as I said it contributes to 28% of the portfolio so the thing is that if we broad base our portfolio there is no single product in our company, larger chunk of the overall mix. But we would certainly like to grow at least industry growth rate in tractor as well so we would certainly have to participate in the improvement tractor sales given the government's position on rural and support to the farmer is clearly a good product to begin with. It is the second largest ROA generator for us after used. There is asking for us who are the other category so we will continue to grow this certainly but with certain amount of circumspect in terms of how we do it.

Antariksha Banerjee: Okay and with regard to this collection that you are talking about when did you bring this in place?

Kaushik Banerjee: Last quarter.

Antariksha Banerjee: Okay and you are already seeing the progress?

Kaushik Banerjee: We got UP, UP West, Bihar, Jharkhand, and Madhya Pradesh, which is essentially tractor dominant markets, so we have placed, dedicated tractor collections teams in these markets.

Antariksha Banerjee: Exactly you already seeing traction in terms of tractor improvement?

Kaushik Banerjee: Absolutely, so clearly a switch over the product has come down by a significant percentage post induction of this team.

Antariksha Banerjee: The other point I wanted to ask about the asset base business so last quarter in your presentation you had given out the data point of about how much share is coming from the category A branches if I remember it was something like 60%-odd or something?

Kaushik Banerjee: That is correct. Good memory. So we are now at 70%.

Antariksha Banerjee: You are 70% right now.

Kaushik Banerjee: Yes category A and category B.

Antariksha Banerjee: A and B together and what was that last quarter?

Kaushik Banerjee: And also pointed out last quarter but 61% of our disbursements are coming from A and B today about 70% of our disbursements come from A and B.

Antariksha Banerjee: Right 60%-70% okay and what would be our rejection rate currently across the businesses approximately?

Kaushik Banerjee: It is difficult to answer that question because that is slightly sort of detailed report that we get but as you know it would be a significant fairly, so we have an independent credit structure so that is the rejection rate has gone up marginally.

Antariksha Banerjee: With respect to this SME business I was just going through presentation you would talk about the Fintech solutions and you are talking about digital scoring model and all what digital model is basically what we have for asset based business also you are replicating in SME is what it is?

Manish Jaiswal: The way SME business is run is the way it should be run. It is a very different from the way an asset based financing business is run. In the SME business we deal with largely corporate, people who have got balance sheet and financials and we do unsecured lending in this space and we have been in the space for almost last eight years we have been through turbulences, we have been through GST demand shocks without in fact any impact on the portfolio quality and it is stood rigors of time so what we have done over here is generated business health calculator, which actually speeds our efficiency and it is a digital model where essentially certain variable and key parameters are able to give a good indication of go or a no go criteria and they essentially help to give quick front end clarity in terms of turnaround time so essentially it is a quality tollgate at field level, which enables a period division making and the same time also helps in good customers selection post which we of course do trade due diligence as we do without compromising on principle of risk and that is how we run the business.

Antariksha Banerjee: If I understand correctly this is generated from existent pool of the vintage of the business right?

Manish Jaiswal: It is generated through an experience of having run the business successfully for the last eight years and having seen the portfolio behavior and quality we have pretty decent insight in terms of what is the good customer, what is the bad customer, what is the great customer so it touches the middle and helps us take decisions faster.

Antariksha Banerjee: With regard to your market initiatives and expansion trajectory so we know that your presently about some 57-60 odd branches right now?

Manish Jaiswal: That is right.

Antariksha Banerjee: So where do we see this going forward in the next one year or so?

Manish Jaiswal: So our intention is to completely diversify, I would say that almost 60% of SME business comes from top 10 cities and what we are doing is that we are now going to diversify and go deeper in our markets. Magma is a semi-urban rural player. It has got deep presence in these markets. We went to leverage in the core strengths of the organization so we would be now getting into the deeper pockets. Our goal would be that in next year we would perhaps augment our team capacity by 50% and almost all of it will go into these market, which are more semi-urban or I would say, which are cities beyond of top 10 cities going from city 11 to 50 so that is how we will deepen ourselves in this space.

Antariksha Banerjee: Lastly if I may ask Kailash Sir with respect to this bond yield spikes and all that how are you looking at your cost of funds?

Kailash Baheti: I think it is very recent phenomenon. It has gone again by about 20-basis points if you look at our liability mix right now it is back. We do not see any significant impact right away on cost of funds.

Antariksha Banerjee: You are talking about immediate impact or may be so my question is how will that cost of fund move in tandem with your growth, which is at least another quarter away?

Kailash Baheti: There are quite few sectors which are playing one is rating and given the performance we would expect upgrade sooner rather than later and that in itself could act as a lever for positive direction.

Antariksha Banerjee: Of course. The reason I said one quarter growth is away because the point you keep making that for your rating upgrades you will need growth to come in and that is at least one quarter of is what my feeling is I do not know if I am wrong?

Kailash Baheti: No you are not wrong.

Antariksha Banerjee: I mean we can expect some cost of fund benefits coming in even if the bonds if the trade cycle in general goes up but we start growing is that correct?

Kailash Baheti: That is what we would target for.

Antariksha Banerjee: Thanks. That is all.

Moderator: Thank you. The next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: Thank you very much Sir. Sir, as you mentioned that your cost of fund is likely to go down given the credit upgrade plus why you are looking into maintain it as well so that is effectively means that you would want to see your NIMs expanding further from already the expansion that we are seeing in this quarter?

Kailash Baheti: There are one or two facts, which you need to know, we have above 30% of book, which is securitised and at the end of the cycle we have to buyback when the assets are only just about 10% left that is when we get a little bit of spike in the interest rate because then the accounting changes from except interest rate accounting to on book accounting, which means that excess interest rate loss and the provisioning starts playing into so what would you see that there has been spike in NIM to above 90% and there is a slight increase in the provisioning also. Ultimately these two factors are also a result of what is happening when we do the clean up. I think the NIM, which would be likely to target, would be between 8.2% and 8.5% and the credit cost already as Sanjay mentioned that we would be targeting below 2.

Deepak Poddar: Can you repeat the below 2 what did you say what were targeting below 2?

Kailash Baheti: Credit cost.

Deepak Poddar: That you already mentioned okay so basically even after kind of factoring in or the cost of fund going down we are targeting to 8.2% to 8.5% in kind of NIM level right?

Kailash Baheti: That is right.

Deepak Poddar: I think that is it from my side. Thank you very much.

Moderator: Thank you. The next question is from the line of Sneha Ganatra from Subhkam ventures. Please go ahead.

Sneha Ganatra: Sir can you give me the provision breakup how much the standard asset and how much for the NPAs and how much right off?

Kailash Baheti: I think this you would have to take offline and standard asset provision will be marginal given that there has not been growth in the book and as you know that standard assets is when your book grows that is when you have to going for standard asset.

Sneha Ganatra: My second question is on the cost to income ratio considering the growth of 15% and how do you see the opex would be panning out and where do you see cost income of settling for FY2019 and 2020?

Kailash Baheti: I think we have said that our opex has peaked and asset based growth our opex ratio should come down and it is significantly higher than the industry and therefore there is so much of room for reduction in the opex ratio. I think I would leave it on that.

Sneha Ganatra: Okay got it. Thank you and all the best.

Moderator: Thank you. The next question is from the line of Rahul Marathe from Akash Ganga Investments. Please go ahead.

Rahul Marathe: Congratulation on good set of numbers. I just wanted to know about the combined ratio in our general insurance business for nine-month FY2018 and nine-month FY2017 comparative?

Rajive Kumaraswamy: My combined ratio has been more or less flat compared to the last year. If you look at actually the overall operating parameters on now business, there are basically three ratios which comprise of combined ratio one is the loss ratio, the expense ratio and the commission ratio. What has happened in the core business is that our motor OD loss ratios are trending significantly better than the previous year, same is true for our commercial business. There basically I would not to call it as a challenge it is more seasoning impact which is the third party liability loss ratio, which given that we have been getting healthy rate increases from the regulator and last year we got almost 24% improvement in pricing. This is from our point of view more a timing issue, because typically on third party liability for the company to know what would be the one full cycle would be typically 7 to 8 years. We are currently in fifth full year of operations so from that point of view the reduction in the third party loss ratio should be gradual so you are holding provisions so there is nothing in the portfolio, which worries us in terms of our actual paid ratio. If you look at our overall expense and commission ratio we have actually marginally improved over the last two years and if you add the expense and commission ratio last year we were at about 44.8% this year brought down to about 32.5%, which essentially is on account some of better negotiated reinsurance contract that we have not place this fiscal.

Rahul Marathe: Also I would like to know about the gross sale potential the business that we can derive from other units for general insurance?

Rajive Kumaraswamy: We historically had corporate agency, which is the Magma Fincorp portfolio contributing to fairly sizeable portions, our insurance business. This currently stands at about a third of our business where we currently do insurance catchment is basically on all the assets that Magma attaches mainly on the ABF business, which is on tractor commercial vehicle and the private car segment. What we introduced last fiscal and where a reasonable growth of health portfolio has come in is the critical illness portfolio that we have started attaching on the Magma business. This fiscal given the fact that we have got a detailed health product approval coming in the last quarter so September is when we got the regulatory approval we started selling from the retail agency portfolio starting October, November and December that is an opportunity where we would now start deep mining on the ABF business. We have also historically attaching insurance on the housing portfolio. There is significant opportunity to do cross sell on health and other insurance products on the SME and housing book as well.

Rahul Marathe: Thank you and best of luck.

Moderator: Thank you.

Kunal Shah: Question from my side particularly on the cost side if you can just say in terms of guidance as to how we should look at it over next two years so you have touched upon in terms of managing the cost to income but now that may be growth will also kick in so investments would have largely been made and we should see the operating leverage benefit kicking in so where do we see the cost to income and the opex to AUM ratio settling over the next 18-24 months?

Sanjay Chamria: Kunal, I think the industry average if you take is at around 3.5% and I am talking of the industry, which is in the similar lines. We are at in this quarter 4.6% average for the year will be probably around 4.5% so that is the distance we have to cover and you need to keep in mind that for the last three years we have now grown, actually degrown and that is also getting the reflecting in the opex ratio. From here on as we grow our book we would be targeting the first milestone on 4% and then ultimately may be 3.5%.

Kunal Shah: Thank you. Yes Natasha we can take the next question.

Moderator: Thank you. The next line is from the Rahul Singh from Ampersand Capital. Please go ahead.

Rahul Singh: Good morning. I just needed one data, the gross NPA on 120 DPD is 7.1% what was it on the 90 DPD basis are you disclosing that?

Sanjay Chamria: I think increase will be about right now it will be about 1.2% but we also mentioned that our target is by end of this year when we move to 90 DPD we stay where we are with respect to our NNPA.

Rahul Singh: That would be 6.7%, which you started the year with on 120-basis?

Sanjay Chamria: 6.7% was our GNPA. I am talking of NNPA, which is right now as 5.3% and as we move to 90 DPD our target would be for the next quarter we still have NNPA at about 5.3%.

Rahul Singh: What would be the NNPA number okay I can check that in the PPT. I will check that later. Thank you.

Moderator: Thank you. As there are no further questions I now hand the conference over to Mr. Kunal Shah for closing comments.

Kunal Shah: Thank you the entire top management team of Magma Fincorp for providing the perspective on the company as well as industry and all the best for the coming quarters and thank you all the participants for participating on the call. Thank you.

Sanjay Chamria: Thank you.

Moderator: Thank you. Ladies and gentlemen on behalf of Edelweiss Securities that concludes this conference. Thank you for joining us. You may now disconnect your lines.