"Magma Fincorp Limited Earnings Conference Call"

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Moderators: **Mr. Sanjay Chamria- Managing Director, Magma Fincorp Limited.**
Mr. Lakshmi Narasimhan – CFO, Magma Fincorp Limited
Mr. Jyothi Kumar –Centrum Broking

Centrum Broking Private Limited |"Centrum House" Level 6, CST Road, Near Bandra -Kurla Complex, Vidya Nagari Marg, Kalina, Santacruz (East), Mumbai - 400 098 | Phone +91-22-4215 9000 |

Moderator: Ladies and gentlemen good morning and welcome to the Earnings Conference call of Magma Fincorp Limited hosted by Centrum Broking Private Limited. As a reminder, all participants' lines are in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need any assistance during this conference call, please signal an operator by pressing * then 0 on your touchtone telephones. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr. Jyothi Kumar of Centrum Broking. Thank you and over to you sir.

Jyothi Kumar: Good morning everybody and a very warm welcome to the Q1 FY11 conference call of Magma Finance hosted by Centrum Broking. We have with us Mr. Chamria and his team from Magma who will give us a brief review on the performance for the quarter followed by the Q&A session. So without much due, I now hand over the call to Mr. Chamria. Over to you sir.

Sanjay Chamria: Hi good morning everyone and thank you for joining us on Magma conference call for the first quarter results ended 30th June. I will briefly take you through the company's background and the key performance for the quarter.

As you know, we are engaged in diversified range of the asset financing products principally in the semi-urban and the rural markets and the demand for these products has been growing pretty strongly in the last few years and which continues to be largely under serviced. We conduct our business as per the respective functional verticals of sales, credit, operations, and collections which is quite different from a traditional NBFC model and we have a Pan-India distribution network with a strong footprints in the semi-urban and rural markets with 75% plus of our branches being located there and we have built a huge in-house collection and servicing platform which enables us to reach out to our customers in the remotest area before the due date and collect money from them and which has enabled us to post unprecedented collection performance for the last 6, 7 quarters on a trot.

As on date, we have 157 branches across 21 states and we employ 4700 people and currently we have more than 2.3 lakh live customer base. During the last few quarters, our strategy has been to improve our net interest margins, which is through the increased contribution of the higher yielding products. Continuously built upon the excellent asset quality and improved the profitability parameters on a sustained basis. Keeping in view our business growth, we raised equity capital of Rs. 122 crores through QIP during May 2010. Further the promoters have also subscribed to the warrants of Rs. 50 crores and now I hand over to Lakshmi, our CFO to give you and share with you the key highlights of our business and performance for the first quarter.

Lakshmi Narasimhan: Good morning everybody. We have seen the primary sales for the core products actually growing in the industry as well. Car Q-on-Q in the sense compared to Q1 of last year versus Q1 of this year, the industry grew at 33% and Magma grew by 30%. Commercial vehicle, the industry grew by 55% and Magma grew by 71%. Tractor, the industry grew by 36% and magma grew by 172%. Construction equipment, even though we have grown, we understand that the market has been largely sluggish.

In terms of our disbursement growth, we grew by 42% compared to Q1 of last year. We did 735 crores last year. We have done 1047 crores during this year. Now out of this 1047; car contributed to 250 crores, commercial vehicle contributed 384 crores, and construction equipment contributed 247 crores. Now broadly as we just now articulated, our intent is to grow the high-yield products from a 13% last year to about 20% during this year.

For the contribution during the Q1 of the high-yield products namely tractor, used commercial vehicle and SME was 16% for us which means 84% went into the core products which is commercial vehicle, car, and construction equipments and the high-yield products contributed 16%, a mix of this and the portfolio quality contributing to better cost of fund for us.

We got a NIM for the disbursement that we made during this quarter of 5.7%. Most of you will recall that we were at 5.1% for the last year. So we have grown that to 5.7 during the quarter 1. We have added about 4 branches during this year. So we have 157 branches as of now. Our collection efficiency, like Mr. Chamria just now shared, is at an all-time best. Most of us will know that the quarter 1 collection efficiency generally falls in the industry. We have beaten that trend internally and externally as well because we reached the 101.6% collection efficiency during this quarter. Last year, we did 99.8%. So we have bettered our own best in terms of reaching the collection efficiencies.

Our consolidated revenue was 179.4 crores which is a growth of close to 23% from 146 crores during Q1 of last year. Our PAT grew by 61.5% which is 18.2 crores that is what we reached during the Q1. I think with the economy the way it is positioned as of now looks like we should be on target in terms of what our own performance levels have been. So we expect to continue the good performance during the ensuing month as well and possibly maintain our NIMs that we have said as of now.

I have said what I need to in terms of the numbers as of now. Both me and Chamria will be happy to take on questions from you all and then answer them appropriately.

Moderator: Thank you very much sir. Our first question comes from the line of Abhishek Kothari from Way2Wealth**.** Please go ahead.

Abhishek Kothari: Could you please tell me the yields on various segments in comparison with last year?

Sanjay Chamria: You are saying the product wise yields?

Abhishek Kothari: Product wise like cars, CV, construction equipment etc.

Sanjay Chamria: I will give you what we did during the Q1 of this year first.

Abhishek Kothari: Okay.

Sanjay Chamria: Cars, we did 13%; commercial vehicle, we did 11.8%; construction equipment and Strategic CE, when you put both together then we would be at about same as commercial vehicle which will be about

11.8%; used commercial vehicle we produced 18.8%; tractor, we did 19.6%; and our SME loan, we did 16.1%. So that gave us a weighted yield of 13.1% for the quarter.

Abhishek Kothari: Okay and last year?

Sanjay Chamria: Last year Q1, the conditions were completely different. As far as the financial year 10, the whole of last year was concerned, car was 13.3%, commercial vehicle was 12.9%, construction equipment again I think about 12.8% is what we would have done for strategic and the construction put together, used commercial vehicle 19.7%, tractor 21.5%, SME 17% is what we did that give us a weighted of 13.8% for the whole of last year.

Abhishek Kothari: And what was your AUM?

Sanjay Chamria: At the end of Q1?

Abhishek Kothari: Q1.

Sanjay Chamria: It is around 9500 crores at the end of Q1.

Abhishek Kothari: And sir your cost to income ratio has increased, could you elaborate on the same please?

Sanjay Chamria: First thing is Q1 generally you have the increments coming in that is one of the contributors to the additional cost that we would have had.

Abhishek Kothari: Going forward, where do you see I mean would you maintain at this level or increase?

Sanjay Chamria: No, I do not think the cost will go up because you realize that 40% of the business happened during the first two quarters of the year and 60% of the business happened during the last 2 quarters of the year. If you look at it on a year-on-year basis, I think we should be at the same level as last year I mean that is what we expected to be barring completely unforeseen circumstances.

Abhishek Kothari: Thank you.

Moderator: Thank you. Our next question comes from line of Santosh Kamat from Franklin Templeton. Please go ahead.

Santosh Kamat: I have couple of questions for you. On a slightly macro front, the two big changes going to happen in the industry, one is the securitization norms changing up where you need to have at least 9 months freezing and so on. Secondly it is the base rates coming into play. How do you see this two key changes impacting business for the NBFC and especially for you?

Sanjay Chamria: So far as the securitization norms are concerned, I think the two big changes that they are bringing in there, one is the minimum holding period which you are saying as about 9 months and the other is the minimum retention amount which they are talking of about 10%. So most of the deals that we do on the securitization side, actually all are rated by the rating agencies and they prescribe the credit enhancement levels which usually are more than 10%. So I think on the minimum retention amount, it may not really be having much of an impact. However with regard to the minimum holding period, it would adversely impact the business volume on this securitization side because currently the rationing is between 3 to 6 months where as in this it could actually go up to even 12 months for the portfolio which is having a original tenure of more than 24 months. So, therefore, we have as an industry body represented to the Reserve Bank saying that all the NBFCs originate more than 75% of the loans toward the priority sector and therefore if they put this kind of condition, then the flow of credit to the priority sector may get jeopardized and the initial meetings that we have had with the regulator that seem to sympathetic on this particular point. So let us see as to what ultimately comes but assuming if it remains the way it is then I think the volume of sell downs would come down.

Santosh Kamat: Okay and will that also impact the capital adequacy because of this when you do the loan segment the credit collateral part is now supposed to be removed from the capital?

Sanjay Chamria: Now, you see the first loss that is provided it actually knocked out from the capital and the second loss is provided as you have to provide 100% risk rate and provide capital adequacy on the same and so I do not suspect there is any change contemplated in the draft guidelines on that front.

Santosh Kamat: Was is it different for PTC and for the assignment earlier or was the same for both routes?

Sanjay Chamria: It was different and in the present guideline also, it remains the same way as it was in the earlier guidelines and in the draft guidelines also there is no differentiation.

Santosh Kamat: And the base rates?

Sanjay Chamria: On the base rate, you see now all the banks have come out with their base rate which is now at a low of 7 to a high of 8.75. So what I see is the short-term borrowings that we do from the banking system by way of commercial paper or by way of the working capital demand loan and there the rates are lower. So those rates will inch up because they will not be able to lend the base rate. However so that will have a negative impact and on the other hand, where they are charging on the CC and the OD limits based on the base PLR and which used to be pretty artificially higher at about 11 to 12%. So there I guess the rates will come down. So in terms of a blend, right now the picture is not very clear because the 20 banks that we interact with none of them really have come out with an operating model as to for tens of thousands of corporate how do they proposed to implement the base return that is why I was reading the paper as well that banks have asked from the regulators the Sunset clause which is almost one year from now to implement this because what banks are also wary about it to lose the highly credit worthy clients if they charge a higher rate from what they are charging now. So I think that is where there is a lack of clarity.

Santosh Kamat: And sir the last thing on the collection you said the collections are more than 100%. What is your experience on this used commercial vehicles, tractor finance, and SME. Do they also show the strong collections or they are yet to be seasoned and therefore you could see some impact going forward?

Sanjay Chamria: Out of the three used commercial vehicle is a seasoned portfolio because we entered this business about 5 years ago, whereas tractors we entered about almost close to 2.5-3 year and SME we entered about/under 2 years, July 2008 is when we have started the SME, about 2 years we have done. So far as the used commercial vehicle is concerned, initially when we started this business, we got it pretty wrong in terms of the credit quality and our collection actually nosedived and that led to a mid-course correction in terms of the credit screens and the way we were evaluating the customer and doing the valuation of the vehicles and that correction happened sometimes in August 2008. So after that now close to almost 2 years had passed and now we find the portfolio which is created, is so good that it is producing the quality which is as good as the new commercial vehicles. Therefore in fact this has forced us to relax our screen and which we have done in the beginning of this year because we do not want that good a quality in the used vehicle because that is also restricting our volumes. We want to grow the volume of the used vehicle because that gives us a return of about 19%. So I mean right now in case of the used vehicle for the third year consecutively we are collecting more than 100% that means the earlier over dues which were there are also getting collected and the book is getting completely cleaned. So far as the tractor and SME is concerned, SME of course our experience has been absolutely tripling. For example in the first quarter as Lakshmi pointed out that we had about 101.5% in SME we achieved 98.3%.

Santosh Kamat: In SME, is it a secured financing?

Sanjay Chamria: No, SME is unsecured financing, whereas in case of tractor, again like we did some corrections in October 2009 and after that our collections have been improving by leaps and bounds. So in fact in the first quarter, we have achieved 96% collection efficiency in tractors as well which is very high compared to the seasonality and the kind of product and the customers that you lend to. So we are pretty confident now on the three high-yielding products that although we have budgeted higher levels of delinquency because that is what the perception and the nature of the product as such, but then until now where we have not although seasoned but our initial feedback is quite good.

Santosh Kamat: And one more thing if I can ask you. Sir this is regarding the shareholding you had a recent shareholding change. So can you throw some light on who came in and what price?

Sanjay Chamria: Today in terms of our shareholding, we as a promoter group own close to about 42%. About 39% is held by the foreign institutional investors, about 10% is held by the domestic investors, and the balance 9% is held by public at large. This is the broad shareholding pattern. The changes that happened was in May we did a QIP ranging about 122 crores at a price of Rs 301 per share and we got in about 14 investors and except for one domestic investor all were actually FIIs' and amongst the existing investors who were there in the company, the two large investors churned their portfolio. So that has been picked up again by the FII and that is how the FII holding has gone up significantly in the company.

Santosh Kamat: And there is no warrant issued to the promoters, right sir?

Sanjay Chamria: There is a warrant that we issued also in the month of March which is the 2 million warrants at price of Rs. 250 per share that was before the QIP, two months before QIP which was done at Rs. 302, but this 2 million warrant have been subscribed by the promoters to further improve the capital adequacy at Rs. 250 per share which was higher than the SEBI floor price of 238 at the time when the warrants were issued.

Santosh Kamat: Thanks a lot sir and wish you all the best sir.

Moderator: Thank you. Our next question comes from the line of Lalitabh Srivastav from Dalal & Broacha. Please go ahead.

Lalitabh Srivastav: Sir, congratulations on good set of numbers. Two things you have guided of adding around 25 branches in the coming year. My question is, what kind of capital expenditure you would be looking to go for that and secondly what would be the comfortable kind of a leverage that you would be maintaining on your balance sheet? Thank you.

Sanjay Chamria: We have four types of tranche structures that we have and which is standing from a pocket office to a strategic business unit office which is a large office and the CAPEX to set up a pocket office can be as low as Rs. 3 lakhs to about 30 lakhs for a SBU office. So in terms of SBU we have populated the entire country. We have today about 21 SBUs. So I do not think we need to open more SBUs. Now we are actually improving our penetration in the rural and the semi-rural markets and that too largely in South and West where we have a lesser presence compared to North and East. So if I take an average of say about Rs. 10 lakhs per office therefore 25 offices it would incur a CAPEX of about 2.5 crores. So this is the answer to your question one. Can you just repeat what was your second question?

Lalitabh Srivastav: What would be a comfortable and sustainable kind of a leverage ratio you would like to maintain for your balance sheet going forward?

Sanjay Chamria: In fact it has now become more conservative also as mandated by the regulators who have increased the capital adequacy norms from 12% to 15%. Although if you look at it historically, we have always been maintaining leverage between 5.5 to 6 and we are comfortable keeping it around the same level. Although, currently it has gone down, one, because of the increase in the capital due to the QIP and also we have issued some Tier-2 capital and with the kind of internal accruals thankfully we are having our net worth has been going up, but I think in the later part of the year as Lakshmi pointed out when the disbursements will increase, our gearing will also go up, but then we would keep it not beyond 6, we will keep it below that.

Lalitabh Srivastav: Okay, 6 is the upper limit that you have?

Sanjay Chamria: 6 would be the upper limit.

Lalitabh Srivastav: And one more thing sir. When you were talking about your used CV experience that you had gone through, you said that earlier you had been very conservative on that and you had tried to maintain a very good asset quality and then now you are relaxing a bit because you are looking at growth. If you can just elaborate a bit more on what changes you have brought in on that? Thank you.

Sanjay Chamria: See initially, we followed the industry leader model and where we faced problems. So August 2008 is when we actually tightened up and which resulted in an excellent asset quality so much so that it was producing the same collections and the write-off as a new CV portfolio whereas we had budgeted for a higher number. Now I said that the beginning of this year, we have relaxed it a bit. Therefore, the changes that we have brought in from April 2010 is one, increase in the loan to value ratio. So earlier like we are restricted it to about 65-70% so now for a certain customer plan we can even offer up to 80% loan to value, this is one change that we brought about. Second change is like certain models where we had bad experience 3 years ago which we had disallowed, now what we have done we have expanded the models in our portfolio against which we can provide the funding. So that again increases the universe within which we can finance. And third, on the valuation of a vehicle, when we tightened up the norms, then we used to say that we will take the lesser of the three which is that we have a resell price matrix then we have a valuation report and then we have a IDV, which is called a Insured Declared Value as per the insurance companies and so we will take the least of the three. So now actually, we also allow some discretion to the local credit office, if they are satisfied then they can actually take slightly higher values then. These are the changes that we are brought in so that it one, make the company more competitive and yet at the same time the quality should not go completely out of hand, with great difficulty we have controlled it and brought it within the acceptable norms.

Lalitabh Srivastav: Right. Thanks a lot sir.

Moderator: Thank you. Our next question comes from line of Ashi Anand from Kotak India Focus Fund. Please go ahead.

Ashi Anand: Good morning sir. Congratulations on good set of numbers. I have a couple of questions. Firstly I just wanted to understand the profile of our customers in the terms of the end customer, are they fleet owners, basically mix of the fleet owners and first time buyers, are they salaried, are they no? Just kind of explain who the end consumer actually is for you?

Lakshmi Narasimhan: The fact of end customer is going to be product specific. So suppose I were to explain you the commercial vehicle piece first, then you get a sense for the other products as well.. As far as the commercial vehicle is concerned, we handle right from the first-time buyer in super-strategic segment that is the customer profile that we will have.

Ashi Anand: Right from the first-time buyer to?

Lakshmi Narasimhan: Super-strategic segment which means fleet owners of say 50 vehicles or above.

Ashi Anand: Okay sir.

Lakshmi Narasimhan: So the first time owners are typically the 0 and one vehicle owner as far as we are concerned. We categorize one vehicle owner as well as a first-time buyer. The fundamental difference in the word is we are not giving it to first-time users, but are giving to first-time buyers, which means we would expect somebody with experience to graduate into being an owner of a vehicle, say a driver working for a fleet operator now wanting to buy a vehicle of his own. So we would graduate him from being a driver to becoming an owner of a vehicle. That kind of gives you the customer profile. Your second piece was in terms of how do we go about, was that the question?

Ashi Anand: Just on the customer profile, just in terms of the focus as in are we more concentrated towards first time buyers, if you could just comment on sense in terms of where exactly is the focus more, because if you are looking into super-strategic segment and assuming competition vis-à-vis banks to be a lot more of them so just wanted to understand and is that a mix game which is in play where we could focus more in first time users and actually drive yields from the CV segment. Just trying to understand some of that?

Lakshmi Narasimhan: Yes sure. If you have been tracking us about 70-75% of the portfolio qualifies for priority sector and priority sector means it aims at 5 vehicle owners. .So and 35-36% of my book is commercial vehicles. So broadly if you see that less than 5 vehicle owners would be contributing close to about 55-57% of my book during the quarter one. So if I want to say what is the focus? Then yes, the focus is towards the segments, which produces better yield and quality. I mean there is a mix of both these that the want. So we keep a mix which is close to 60% of vehicles less than 5-vehicle owners, the balance broadly falling from the 6 vehicle and above.

Ashi Anand: Lastly if you could help me with this, perhaps my understanding may be wrong, but if we are going down towards say the 5 vehicle owners and below, we actually get into the priority sector should not that produce higher yields than 12% on a CV or construction equipment portfolio, if we actually going down to that lower segment. Are we still competing against banks even in that segment? Who exactly we are competing against in this particular segment and is there potential to take yields up from the current 12%?

Lakshmi Narasimhan: Potential always exists. There is no denying of the fact whether there is a potential exists or not.

Ashi Anand: It is in terms of what the market can bear or not?

Lakshmi Narasimhan: In terms of competition, there are some banks which are operating this space for example the Indusind Bank operates this space, as also HDFC or a Kotak would operate the space provided that customer comes in with somebody who has a 3 vehicle plus owner coming in as a guarantor. So banks are present in different manners in this segment may not be the way that we are present. So the segment has competitors. There is no denying the fact there is competition in that segment as well.

Ashi Anand: Okay. How much the construction equipment in some of the other kind of portfolio, is the competition broadly the same and the user profiles is similar?

Sanjay Chamria: The banks have been on and off in this particular segment of the first-time buyer. There was a time when ICICI Bank was extremely aggressive in this. Before that Citi Bank subsidiary called Citicorp Finance India Limited was extremely active and aggressive in this segment. However, what banks have realized that the first-time buyers are the category who do not have a credit history and do not have a banking habit. So therefore you require a strong collection focus on ground to be able to reach out to this customers who are largely in the remote area and then collect their installments on time which unfortunately the banks due to their own or organizational structure have not been able to do it and they outsourced this collection to the agencies and as a result, they ran up much higher number of NPAs than what was warranted and therefore they withdrew and then some other banks came in. So as a result of that, this segment is largely catered by the finance companies which have a far greater degree of local demographic expertise and the collection network. So that is how the deal with the competition and our focus area also is, one, semi-urban and rural, two, the first-time buyer be it a construction equipment which is your next question or a tractor or a commercial vehicle or a commercial use of a passenger car like multi-utility vehicle. So these are all the people who are graduating from a truck driver or a taxi driver or a machine operator to become an entrepreneur and all that have is the experience of using this asset as an employee and two, they have put in about 30% as a down payment, so they require about 70-75% of the total value of the asset as a loan, and these specialize in giving loans to them and therefore 1), we have developed a credit screens where we can apprise the credit worthiness of such kind of customers and 2) supplemented it well with the collection infrastructure which has helped us to post superior result on collection quarter-on-quarter.

Ashi Anand: No your collections have been very impressive?

Lakshmi Narasimhan: That is despite the fact Anand that today overall basis if you see across product line, then almost 50% of my customers are such who are taking a loan for the first time in their life.

Ashi Anand: Can I ask just one last question, you kind of mentioned that increasingly we are going to do kind of the branch expansion. We are going to focus on kind of West and South India where we are relatively weaker. In South India, there are already a number of NBFCs for the last many years had a very strong regional hold especially in South India as we enter a market which has worries and fears, does that really have an impact on us and how difficult is it increasing further in the South as compared to increasing in the North and East where we have traditionally been strong so I just wanted to understand those dynamics?

Sanjay Chamria: Well, it is very difficult to say the first sentence and it has really taken us lot of pain and almost 3 to 4 years to make our presence felt in and that too again not in all the markets we have been able to do it. Now in South, for example, out of 4 states, Andhra is the one where we have actually got a good toehold in the market in terms of market share and like for example in commercial vehicle, we would be among the top 3 financials in FY10 in Andhra. Similarly in Kerala also, we have been able to make a very strong foothold, but we have not been able to do so in Karnataka and Tamil Nadu. Therefore our focus during the current fiscal would be to grow our share in Tamil Nadu and Karnataka and continue to maintain the share that we have got in Andhra and Kerala. Similarly, if you look at West, Gujarat is an extremely competitive market and till FY10, we were not able to get a good toehold and if you look at our investor presentation, then last year Gujarat as a state contributed only 5% of our total disbursal, but I think the tides have turned and this is what I want to share with you for the quarter 1 of this year. West has contributed 30% of our total disbursals, so the number which Lakshmi said 1047 crore that we did in the quarter 1, West has actually done 30%. Followed still by North at 29%, but now South has come ahead of East and South is doing about 24%. So that shows with the growth in business volumes in Andhra and Kerala and a little bit support coming in from even Tamil Nadu and Karnataka., the South is at 24, but I believe that South would compete with North. West will remain the highest and East, where we are headquartered you will be surprised that the contribution is just about 18%.

Ashi Anand: Great sir, thank you so much for taking my questions and all the best for the future.

Moderator: Thank you. Our next question comes from the line of Poonam Sahani from Ambit Capital. Please go ahead.

Poonam Sahani: Hello Mr. Chamria, congratulations on a very good set of numbers. Sir I am a little new to your company actually have gone through your updates, just wanted to understand, rather, gather the entire breakup of the disbursements in the various products as well as wanted to understand the delinquencies product wise and the future outlook in terms of your disbursements and AUMs?

Sanjay Chamria: I think what you wanted is what product wise disbursals?

Poonam Sahani: Yes sir, you have given the mix in your fourth quarter presentation. The CE and strategic equipment stands at 29%. So a similar breakup for the first quarter?

Sanjay Chamria: So that is one you wanted. What is the second one you said?

Poonam Sahani: The delinquencies in similar product wise?

Sanjay Chamria: In terms of the disbursals, the 1047 that we talked about, cars have done 250, commercial vehicle has done 384, construction equipment did about 247, used vehicles did about 39, SME did about 49, and tractor did about 78. And if you total up it will be 1047 and that is where like Lakshmi was pointing out that Suvidha, SME, and the tractors would total up to about 16% of the total disbursal which has gone up from 13% last year. This is one of the key constituents for the higher NIMs that we have achieved during the quarter 1. So what was your second question? I did not understand.

Poonam Sahani: Sir the delinquencies, what is the nature like for instance…

Sanjay Chamria: Okay, I understood now. So like for example, overall collection efficiency that we achieved was 101.6% in the quarter 1. In which, surprisingly the highest collection efficiency as I was answering to Mr. Santosh Kamat's question, in used vehicle we actually got 113.8%. So we are actually constantly reducing the over dues in the used vehicle, followed by commercial vehicles at 102.4, followed by cars at 100.8, followed by construction equipment at 100.7, and then SME also is at 98.3, and the tractor at 96, and their cumulative blend is about 101.6. So that shows that the collection performance has been uniform all through the 6 products.

Poonam Sahani: Sir what I basically wanted to understand is, suppose you are disbursing Rs. 100 of loan to a tractor segment or to that customer segment. What is the NPA in that segment?

Sanjay Chamria: I understand. You see in case of SME and tractors, as I mentioned sometime ago that our portfolio is not yet seasoned. Again SME, it is about 2 years old and in tractor, it is about 2 year 8 months old. Right now, the numbers look very rosy but I do not think that would be a true indicator. So right now, it is much lower than what we have budgeted in our projections, but I can talk about the products which are seasoned which are the other 4 products. So in case of car, commercial vehicles, and construction equipments, our write-off which is net of recoveries from the earlier write-off have been all in the range of 1% to 1.5% which is over the tenure of the contract and that is why per annum, if you see in a FY10, our write-offs were about 0.46% of our AUM which has actually dropped in the first quarter to 0.42% because of the improvement in the collection efficiency obviously the NPAs are going down. However, there is always a lag effect of the collection efficiency on the NPAs. So the good work that the company has been producing in FY10 and FY11 quarter 1, our predictive analysis says that our write-off eventually should fall to less than 0.35% annually of the AUM, but I think it will take us couple of more quarters that all the backlog is clear and then you will see that it will be less than 1%. So far as the used commercial vehicle is concerned, earlier it was more than 4% which is where I said that we did a course correction in 2008 August and now actually it is producing the results, which is as good as a new commercial vehicle and there it is actually around 1%. So this is the position.

Poonam Sahani: Okay and what is your future outlook? Where do you see in terms of the industry headed? Where do you see the maturity of your disbursements coming in over the next 1 or 2 years and in terms of the entire industry, I understand your focus is on the higher yield.

Sanjay Chamria: With your question, I need one clarification before I go to answer. Are you seeking my view on the industry or Magma?

Poonam Sahani: On Magma, but within Magma as well on the CE part, construction equipment, passenger car, the CV part?

Sanjay Chamria: I understand, within Magma, product wise.

Poonam Sahani: Yes sir.

Sanjay Chamria: Now let me deal with the question. See we have taken a very conscious call about 7 quarters ago that were that we need to improve the net yields in the company which will have a salutary impact on the return on assets and return on equity. As a result of that, if you see our results from first quarter of FY10 and now this is the fifth quarter which has ended. Quarter-on-quarter, we are able to improve the NIMs and ROAs and the ROEs and this has happened largely because in FY09, the three high-yielding products contributed about 9% which went up to 13% in FY10 and which has now gone up to 16% in quarter 1 of FY11. We are on record in terms of our guideline that we want to increase this to 20% during the FY11 and over the next 2 years' timeframe, we want to take it to 30%. Now, our guess is that once we are able to do that like first time last year in the history of our company, we cross the NIM at more than 5% and this year, our indication is that we want to touch and go ahead of 5.5% as against which we have done 5.7% in the quarter 1 and if we are able to reach 30% in the next 2 years' timeframe, I think we should touch about 6% that is what our objective would be.

Poonam Sahani: Okay and what is the ball park growth overall in your disbursements or in your AUM you are anticipating in the next 2 years?

Sanjay Chamria: See these are two separate issues. As far as the growth in disbursements are concerned, over the last 6 years we have grown at a CAGR of 27% and we are on record again that we will grow this year in excess of 25%. So during the quarter 1, we have grown at 42%, but then this could be low base effect because the quarter 1 of FY10 was marred still by recession and the capacity started from August 2009 onwards. So I think quarter 2 and more than that quarter 3 will be the real test of the growth that we are able to achieve, but then we are pretty confident and as I answered sometime ago that we are looking to open about 25 branches and which will also help us improve our disbursals that is what Lakshmi said that in tractors, we have grown at about 150%. So tractor, SME, and used vehicle business which we wish to grow will also help us post numbers in excess of 25%. So that is my answer with regard to the growth in disbursals and over the next 2-3 years, we proposed to maintain this. So far as the growth in AUM is concerned, as I was answering again to a question of Mr. Kamat, that due to the securitization norms, it could well happen and also which is suiting our philosophy over the last 3 years that we have brought down the level of sell down in the company from over 75% to 48% in FY10 and with the increase in the capital which has improved our capital adequacy, our ability to hold assets from our books has improved dramatically. So therefore going forward, we would like to reduce it to about 35%. So once we do that, then growth in AUM would be much faster than the growth in the disbursals.

Poonam Sahani: Thank you so much.

Moderator: Thank you. Our next question comes from the line of Ashutosh Mishra from Amsec Limited. Please go ahead.

Ashutosh Mishra: Congratulations for good set of numbers. I just want a few clarifications regarding your write-off policy and the way you recognized that income in profit and loss account because I had a doubt on that?

Sanjay Chamria: Actually from April 2003, we are following this policy. So it is now the 8th year in succession and what we do is any account which becomes delinquent by 6 months, we treat that as a write-off and when we write-off in the profit and loss account, we not only write-off the overdue installments that are fallen due by 6 months, but we also write-off the entire principal outstanding in that particular contract which will fall due in the next 2 or 3 years of the unexpired tenure. So this is the first thing that we do. The second is like our recovery efforts do continue on the same. Our experience has been that whatever that fits into 180 DPD plus, we are able to recover just about 40-45% of the same over the next 18 to 24 months. So whenever we are recovering money out of the past written-off contracts, then we actually offer it as an income by way of reduction from the gross write-off that we do. So when I was answering just to the previous questioner that our write-offs were 0.46 of the AUM in FY10 which has gone down to 0.42% in the quarter 1 of this year. This is actually the net amount which has been written-off which is the gross write-off minus the recoveries made out of the previous write-offs that is the policy that we have been following.

Ashutosh Mishra: And that is slightly different from the other players because normally they show it in other income?

Sanjay Chamria: There are a lot of differences. What you are saying is only the difference in terms of representation, but I think the more stark difference with the other players comes in the way they recognized the write off in the way we recognized the write off. RBI does not require us to do this. What RBI requires is that an account which becomes 180 days past dues should become a nonperforming account from a standard and you stopped recognition of income and start making provision on an accelerated basis over the tenure of the NPA starting from 10% of the principal going up to 100% after the expiry of 3 years. So I think that defers the problem. So therefore we say that got a cancer then cut it off now rather than grow it that is a big difference.

Ashutosh Mishra: Can you give a breakup of like what was your gross provisions and net provisions and how much provision and how much has contributed by for FY10 and this quarter?

Sanjay Chamria: I do not have this figure right now with me. So what I would suggest is that…. Have you received the mail on the performance from Kishore in our company?

Ashutosh Mishra No, I have not received this, I will contact him. I have a con-call with him Mr. Hota also quite sometime ago.

Sanjay Chamria: Mr. Hota… probably later on in your call with him, you get these details product wise.

Ashutosh Mishra: Okay and other thing is that out of current 9500 of AUM, how much is on book and how much is off book?

Sanjay Chamria: I think on book is about 4600 and off book is 4900.

Ashutosh Mishra: Okay and another question is regarding your strategy on expanding the business whether you normally expand your business through your own branch or through franchise model?

Sanjay Chamria: Well, this is a simple question. We do not operate through franchisee because I do not believe that when you are lending your money, let it through the franchisee set up or you should outsource the business. So we do it through our own offices all the 157 offices are our own offices.

Ashutosh Mishra: So 100% business is through the branch only?

Sanjay Chamria: And it is also done through our own employees. There is no outsourcing.

Ashutosh Mishra: Okay, thank you.

Moderator: Thank you. Our next question comes from the line of Amitabh Sonthalia from SKS Capital & Research. Please go ahead.

Abhijith Subankar: Hi, Abhijith Subankar here. I have couple of questions. One what is the book value post the QIP issue, could you give us breakup and second what is the return on equity as you are targeting for the full year FY11?

Lakshmi Narasimhan: Can you please repeat that question on QIP?

Abhijith Subankar: Yes the post-QIP issue, what is the adjusted book value**?**

Lakshmi Narasimhan: About Rs. 188 and can you please ask the second question again?

Abhijith Subankar: And the return on equity that we are targeting for the fiscal year?

Lakshmi Narasimhan: For last year, we did 19.4. You can see our performance the way it is coming across as of now, it cannot be lesser than 19.4. If you are going to ask a specific number, then I am saying presume that it has to be 19.4 and above.

Abhijith Subankar: Okay, thank you so much sir.

Moderator: Thank you. Our next question comes from the line of Ankit Ladhani from Anvil Research. Please go ahead.

Ankit Ladhani: Sir, can I get the average advances maturity period?

Lakshmi Narasimhan: You are asking the tenure of lending?

Ankit Ladhani: Yes, the on book advances

Lakshmi Narasimhan: 40 months, when you look at all the products put together.

Ankit Ladhani: That is all, thank you.

Moderator: Thank you. Our next question comes from the line of Nikita Khilani from VCK. Please go ahead.

Nikita Khilani: Good morning sir. I wanted to ask you how confident of not having high delinquencies after Citi Group and ICICI Bank have burned their fingers, what are you doing differently from them?

Sanjay Chamria: I think our confidence tells from our performance. So October 2008 when the crisis struck and everybody like have reported that the deterioration in the portfolio quality. On the other end Magma has bucked the trend and reported improvement in the collection efficiency and the portfolio quality. Secondly, I am not sure if you are getting the report from CRISIL. There are three reports released by them during calendar year 2009 and in each of the report they have commented on the ABS pool performance and in which they have said that while there has been a deterioration as rightly pointed out by you in the retail asset business, but Magma bucked the trend and reported superior performance on all the products. So that is where I think our confidence comes from and which has further evidenced even in the quarter 1 in terms of the collection efficiency improvement and the reduction and write offs.

Nikita Khilani: How are you doing it that is what I want to ask, how are you different from Citi Financial?

Sanjay Chamria: Can I should answer that question in the way how are we different, but I can tell you what we do. What we do is we do not outsource collections, we handle it through our own team. Secondly, we do not operate the traditional NBFC way where the guy who is lending the money is also doing the credit decision and is also handling the collection because to us, there is a conflict of interest. When you deal with a customer, there you have gone and lend money to him and you are recovering. So therefore we have a separate team which would handle collections, separate team which does the credit underwriting and a separate team which does with the origination and each one would gun for their own key performance indicators and then we are very strong processes in our company. We have almost 2000 plus people who handle collections 24/7 and therefore they will ensure that each and every customer is contacted well before the due date and if he does not pay, then visited at the house and then met up with and then persuaded to make the payment and that is how we are able to put this kind of a performance.

Nikita Khilani: Okay, thank you sir.

Moderator: Thank you. Our next question comes from the line of Sachit Motwani from B&K Securities. Please go ahead.

Sachit Motwani: Good afternoon sir. Just a couple of questions. Sir in terms of CV sales, can we expect the CV sales growth to continue, post the emission norms in October and my second question is which business segment which do you think you can achieve maximum scalability in?

Sanjay Chamria: In terms of expected growth of CV, traditionally that industry has been functioning in a pattern which is 3 years of continuous growth followed by about 1-1/2-2 years of de-growth. Prior to October last year, there was an extended degrowth as far as the CV industry was concerned, and we have had the shift in the emission norms in the last 3 years consistently from nothing to about BS-3 as of now. So I will not be too concerned about the emission norms coming in because I am sure that it is not going to contribute to either a deceleration in growth or otherwise. CV industry we should expect it to grow. In terms of our own growth item, they are going to ask what is going to be the darling then if you are going to look at the base which you have had, then tractor will be the highest growth percentage oriented product in my book.

Sachit Motwani: Okay, thank you.

Moderator: Thank you. Our next question comes from the line of Ankit Ladhani from Anvil Research. Please go ahead.

Ankit Ladhani: Sir this high-yielding product segment that we have by March 2011, what is the percentage share that we are targeting for them?

Sanjay Chamria: Last year, we ended at 13. We are at 16 during this quarter. So again our target is to reach at about an 80-20 mix.

Ankit Ladhani: Okay, 80-20 mix. Thank you.

Moderator: Thank you. Our next question comes from the line of Poonam Sahani from Ambit Capital. Please go ahead.

Poonam Sahani: Thank you Mr. Chamria for taking my question once again. This time, my question is a little more broader base on the industry. Where you see since most of your current disbursements is in CE, cars, as well as CV and you are concentrating again on tractors. From the industry levels where you see all these 4 segments growing at an industry level? Do you think in the next 2 years, the industry would be growing 2 times or 3 times, do you have any view on that?

Sanjay Chamria: I do not think we have a view on the growth of the industry in the next 2 years' timeframe because all predictions have fallen. So I think we only have a one year view and current year, it is expected that the commercial vehicle and the passenger car industry should grow in excess of 20%; 1) because of the low base effect and outsource, secondly because of the revival of demand going to the improvement in the business sentiments across. Construction equipment, last year also did not really grow and it continues to be sluggish. I will be pleasantly surprised if it will post a modest growth this year as well because already one quarter that has gone and we are not seeing a strong revival.

Poonam Sahani: And in the tractor segments, I think the growth again is expected to be really good?

Sanjay Chamria: The tractor last year grew 28-30% which was completely beyond all predictions. That is why I am saying, predictions have no values. Here the tractor industry itself expected it to grow by about 10%. When it grew by 28% despite weakest monsoon in the last 13-14 years and this year also, I mean June data I do not have, but April and May, the tractor industry has grown on such a high base still by 36%. Therefore, it is very difficult to have any and we are a new player in the tractor market. So therefore I think what we are looking at last year we did on an average about 600 tractors a month. So already touching about 1000 tractors. So we want to grow our business significantly because 1) we have a confidence on how to handle the tractor quality which is what is adversely affecting most of the players and I think we have got that under our belt. Therefore we would like to grow this business and it is quite profitable.

Poonam Sahani: Sir just wanted to understand any reason on why the construction equipment is not really reviving that much, because we see a lot of loans in terms of the banking sector, lot of loans are going to the infrastructure segment. So when you say that you particularly are not observing so much of revival in this CE, would you have any thoughts to share on that?

Sanjay Chamria: Actually I am also a bit puzzled because the mining sector has already shown revival in terms of the iron ore mining. Coal was in any case doing well. Cement sector was in any case doing well. So it was mainly on the infrastructure construction side that there were issues and you know about NHAI kind of projections they had. They were far from it and even now I think they have not been able to sort out the issues. Also they have now been awarding packages, but now the rainy season has begun, so therefore the mobilization of equipments on the site will get delayed by about 3 months which is why I said I will be pleasantly surprised that if we post a good growth this year, that happens and it will happen only from October onwards. By August-September, usually you do not mobilize equipment form the site due to the rainy season.

Poonam Sahani: And sir the way you mentioned for the CE like you mentioned that the CE growth cycle has 3 years of continuous growth followed by 1 to 1-1/2 years of dull period. Would you have any similar thoughts to share on the CE segment?

Sanjay Chamria: Not really, because you see CE from 2001 till 2006, I think partly 2007 grew at fantastic rate which is about 35-40% and those years were the golden years in the CE business, but then I think that markets started decelerating even before the onset of the economic crisis which was in October 2008, but the CE market has started degrowing from April 2008 itself and it is now close to 2 years that the market has not really picked up. So either there could be a over hang equipment in the market with lot of projects being over the equipments may be available for hiring and there may not be enough demand for the same. And then CE industry is not as old as commercial vehicle industry. So we do not have hand on the data over the last 20, 30, 40 years where one can sort of say there is a pattern and based on which you can predict as to what will happen.

Poonam Sahani: Thank you so much.

Moderator: Thank you. As there are no further questions, I would like to hand the floor over to Jyothi Kumar for closing comments.

Jyothi Kumar: We would like to thank management team of Magma for coming and sharing their insights for the industry and with that, I would like to hand over the call to the management team to make their final comments.

Sanjay Chamria: Thanks a lot to all of you for having joined on that call and given the opportunity to both Lakshmi and me to share insights about how we are running the company and how we proposed to take it forward and we look forward to your support in future as well. Thank you very much.

Moderator: Thank you very much. On behalf of Centrum Broking Private Limited that concludes this conference call. Thank you for joining us and you may now disconnect the lines.