"Magma Fincorp Limited Q1 Financial Year 2015 Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Magma Fincorp Q1 FY 2015 Earnings Conference Call hosted by Axis Capital Limited. As a reminder, all participants' 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. Please note that this conference is being recorded. I now hand the conference over to Mr. Praveen Agarwal from Axis Capital Limited. Thank you and over to you Mr. Agarwal!

Praveen Agarwal: Thank you Margaret. Good morning everyone and welcome to this call. I would like to thank Mr. Sanjay Chamria for giving us the opportunity to host this call. We have with us Mr. Sanjay Chamria, Vice Chairman & Managing Director, Mr. V. Lakshmi Narasimhan who is the CFO, and Mr. Kailash Baheti, who is the CSO to talk about the company's performance and tell us about the important events during the quarter. I would like to hand over the call to Mr. Chamria for his opening remarks and then we can move on to the Q&A. Over to you Sir!

Sanjay Chamria: Thank you Praveen and good morning everyone. I thank you for joining Magma's quarterly conference call for the first quarter ended results for June 2014. The quarter gone by has been quite eventful in terms of political and economic trends changing in our country. After nearly 30 years, we have given decisive mandate in favor of one party forming government at the center keeping in mind the hopes of growth agenda and better governance.

The new government has also taken its job seriously and announced its intent on quick policy decisions and improving the business climate and sentiments with a view to getting the economy back on track. After facing the spectrum of one of the worst monsoons during June, the deficit has reduced to around 25% and thereby raising the hopes of near normal agriculture produce.

The overall sentiments have improved dramatically leading to a business community planning to grow its capacity and business through investments and expansion. The situation at the ground level however has not changed as much yet as I have experienced during my regular state visits that I do every month with a top management team and during my interactions with the local dealers and customers and our employees.

The widespread belief in semi-urban and rural India is that the feeling of positivity will materialize into results on the ground by October-November. The festival season will start by then and also the reforms and the policy action by the government would have tickled down to the common man releasing cash flow in the hands of the small businessmen who are our customers.

In the above backdrop, we have been working on becoming a smarter linear organization that is prepared to extract the most benefit from the change in the economic momentum. I will now share with you the critical elements of our efforts first. We have calibrated the product market customer mix to an optimal set that we think will result in the greatest profits for the company. Having overlaid the current economic data on our credit database of more than 10 years, we have created a risk/return asset profile that we are quite comfortable with for now.

As a result, the major growth in our disbursal in this quarter has come from mortgage and tractors. The contribution of mortgage, used asset, SME, and tractors has increased to 56% of overall disbursals during the quarter and we have reduced the weightage on CV and CE to less than 18%. We will continue to sensitize our product markets fit model to the change in economic and policy conditions and to ensure that we can generate greater value through our cross sell efforts.

Our new business line of mortgage and general insurance have been achieving its scale and contributing to the overall profitability at the group level. In fact, our general insurance business has already turned profitable in its seventh quarter of operations. Going forward the focus will remain on growing the business cautiously to ensure that profitability remains the key driver and customer service is the ultimate objective.

The investments made by us in people process and technology over the last several quarters has started bearing fruits in the form of increase in disbursals along with increase the spreads and stabilization of collection performance and we see clear green shoots during the last quarter. We have followed a conscious strategy of investing in the collections infrastructure to stabilize and improve the portfolio quality at the cost of higher opex and once that is achieved then to look at reducing the opex ratio.

We believe the short-term benefits of lower credit cost and the long-term benefit of a very clean unrestructured portfolio will offset the temporary increase in opex and result in greater value creation for shareholders. We have utilized the opportunity provided by the downturn to restructure the sales and the credit teams to take them closer to the customers and more responsive to the consumer’s requirements, this will improve the customer experience especially in the underserved rural markets and help us increase market share on a sustainable basis.

In fact, we have been able to achieve a companywide turnaround time of just three hours for doing field investigations. Steps like these ensure that great appraisal process is streamlined to support customer acquisition. We have run pilots across the country to estimate the efficacy of all the process changes made and we are in the process of launching the full scale tested solutions across product segments in the next few quarters. I hope all of you have been able to access the investor's presentation and all the requisite numbers are available as well.

Now, for the Q1 performance highlights, the disbursals have grown 33% YoY to Rs.2398 Crores. This has been achieved through substantial investment in technology-led process interventions and deeper penetration in the rural areas. The strategic reorientation of our product customer market mix have resulted an improvement in the net spreads by 16 basis points from 5.6% to 5.76% during the quarter.

The loan book has grown by 12% YOY to Rs.18295 Crores and there is not one contract in the entire loan book which has been restructured and it is one of the high points of our portfolio. The increase in the NPA numbers during Q1 had been comparable to Q3 and Q4 of last year and this gives me a lot of confidence to state that the worst is behind us in terms of the portfolio quality. We will see it improved quarter-on-quarter of course this recovery is contingent on the general economic scenario remaining stable till October and gradually improving thereafter. The profits have increased by marginal 1% to Rs.45.77 Crores despite higher opex and the higher provisions compared to Q1 last year.

As mentioned earlier, I expect the impact of provisioning going down and also uniquely in our case the share of securitized income to grow as we recognize the income on cash basis and the current trend of cash collections on the past dues will boost the earnings. The supporting exogenous factors like an improving economy and better monsoons coupled with a phase wise launch of several sales effectiveness, collection efficiency and profitability initiatives, we are confident of delivering consistently increasing value for our shareholders.

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

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

Kunal Shah: Sir first thing in terms of the overall securitization income, how has been the trend in this quarter and also may be with respect to the tax rate, which has been quite low. So I presume it is to do with it is linked to the securitization income as well, so considering like this kind of a trend in securitization income continues for a while, do we see our tax rates also to be on a relatively lower side than what we saw it in FY 2014?

Sanjay Chamria: To answer your question that with the growing proportion of the securitized income which due to the change in the tax laws from 2013, it will show a lower effective tax rate as a proportion would grow in the coming quarter and as I mentioned that the portfolio that we securitized earlier where we did not collect and therefore since we recognized the income on a cash basis, so that was lower last year and now we have been collecting the overdue money in the securitized contracts and therefore the income has now started accruing and therefore the share of the securitized income is higher and as a result of that the effective tax rate will be lower.

Kunal Shah: So how much has been the securitization income this quarter?

Sanjay Chamria: I will just take a look at it and provide you the details.

Kunal Shah: Overall do we mean to say may be on the GNPL side, we have actually seen may be the rise has been there on the GNPL on the on balance sheet side, but is the collection efficiency different, the trend is different in terms of say the off balance sheet items as well as the on balance sheet because there I think may be overall the collection efficiency would have come off again to 94%, 95% if I am not sure but if you can clarify on that number as well and say since the collection actually that the securitization income has moved up and that too on a collection basis, so is the collection efficiency higher on the securitized portfolio?

Sanjay Chamria: Collection efficiency has been higher on the portfolio that was securitized and as a result of that we got a boost in the income on account of securitization and overall the collection efficiency still has remained at the same level as was earlier; however, as I mentioned that there are several projects in collections that we have implemented over the last three quarters, so the first benefit that we have started now getting stabilization of the portfolio in the higher buckets, which actually get into the NPAs so as I mentioned in my address that what we have seen is the trend of the NPA in the Q1 has been similar to Q3 and Q4, so when I say that what I mean is that the roll forward rates in the higher buckets is either superior to Q3 and inferior to Q4 or at best Q4 equivalent or Q3 equivalent and usually the Q1 is the weakest and we have looked at the relationship between the Q4 numbers and Q1 numbers over the last three years and there we find that the rate of accretion in the higher bucket in the last two years has been the best in this quarter. Having said that, we find that in the lower buckets which is the 0 and 1 to 30 which is the customers who are current and the customers who are in one installment default that is yet to stabilize and therefore the collection efficiency is the tagged over and the last such project we actually implemented in May and June which was in this lower bucket and we are very confident that during the Q2 onwards, the collection efficiency in the lower bucket also was improved.

Kunal Shah: On a blended basis, how much was the collection efficiency in this quarter? Overall the collection efficiency which was somewhere around 95.7% in the last quarter and say in the previous two quarters, it was approximately 94% odd, so how much it has been in Q1?

Sanjay Chamria: So it has been hovering around the same level, which is around 94% to 94.5%.

Kunal Shah: But you are saying may be in terms of accretion it is lower, so I think may be overall comfort should be there in terms of say the GNPL number as we move forward?

Sanjay Chamria: Which is what I said and I repeat again, see what happens when the portfolio quality deteriorates, there are two kinds of impact that you get, one the collection efficiency goes down and second is that the higher bucket start bulging and once the higher bucket start bulging even if you arrest the rate of rolls forward, the accretion to the GNPL would be there. So we have now arrested the roll forwards and now our objective is to slim down the higher buckets and that could happen once the collection efficiency in the lower buckets will improve. So therefore first we address the imminent problem on hand which is to arrest the roll forwards in the NPA bucket and now we are addressing the second one which is to improve the collection efficiency in the lower bucket and thereby the accretion to the higher bucket before it gets into NPA also becomes slimmer and reduces and which is what we are confident of achieving now in the Q2.

Kunal Shah: Sir, securitization income number?

Sanjay Chamria: This actually is around Rs.39 Crores in the Q1 and so Q4 it was lower at about Rs.21 Crores.

Kunal Shah: As compared to that of last entire year may be which was 103, I think definitely the trend seems to be on a higher side in terms of …

Sanjay Chamria: That is the reason, I mentioned Kunal that we will get two impacts, one our securitization income even for the preexisting portfolio would increase because we recognize the income on a cash basis and hopefully as collection efficiency improves so is the accretion to the net income and secondly the tax rate would probably even go down further because this is an adjust income as per the new provisions of the income tax.

Kunal Shah: Sir one last question in terms of our borrowings, which is from the nonbanking side of 40% odd, how much does say the mutual fund subscribed to the paper so may be in terms of the impact which has been there during the changes in the budget, how much do we see it in case of our borrowing profile?

Sanjay Chamria: I think in the investor's PPT there is a slide where we have given as to the breakup and there is an amount 38% is from the banking system and about 10% to 12% is by way of the tier 2 and the rest of it comes from the DCM player, so yes with the changes announced in the budget, there will be an impact going forward in terms of the mutual funds as a source of borrowing and their corpus will reduce so we say that allocation to the sector will reduce but then right now it is too early to assess the impact. On the other hand, the way we look at it that the deposit accretion with the banking system should improve when the corpuses will go down for the mutual funds and if that happens then banks should probably increase the lending to the sector. So it could see some guidance for realignment.

Kunal Shah: In terms of quantum of this 26%, how much is say the subscription by the mutual fund?

Sanjay Chamria: Almost completely by the mutual fund.

Kunal Shah: So this entire 26% is mutual fund. That is all I wanted to get. Thank you.

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

Ritesh Nambiar: Good morning gentlemen. I just had a question on in the presentation the NPA numbers which are provided is the 180 day number?

Sanjay Chamria: These are 180-day numbers for a comparison purpose with the peer set.

Ritesh Nambiar: Should we add that 90 odd basis which was there in last quarter or there has been further slippage on the 120 side?

Sanjay Chamria: Exactly 90 basis points the same as you pointed out.

Ritesh Nambiar: In fact your collection efficiency peaks at Q4 or how is it, what is your cycle of higher collection efficiency?

Sanjay Chamria: So it is pretty much standard in the industry that in Q4 the collection efficiency does peak, having said that when you come out of lower than suboptimal performance in collection over the last six quarters then there is a lot of buffer, which is built in and as the economic conditions would improve and as the various projects that have been implemented start yielding results. I would guess the collection efficiency will also show a rising trend, so as we experience in FY 2010 to FY 2012, during these three years when we came off of a poor collection performance in the global crisis period, the collection efficiency during these three years was around 100% and higher, so after that again in FY 2013 and 2014, we had a collection efficiency, which was 98.5% and 95.8% and I believe that from October onwards the economic conditions should improve and to top it up further with the various implementation and the initiatives being implemented, I think the collection efficiency should start showing encouraging trend from Q2 onwards itself.

Ritesh Nambiar: Just on the margin side of it, there has been sharp shift in the high yielding side, so incrementally in fact what kind of the NIMS which you have reported this quarter, is it sustainable based on the rating downgrade, which you have taken so the increased margins which we have got in the new high margin segments whether it would be nullified with the rise in cost or you would manage it anyhow?

Sanjay Chamria: Not only that we are confident of managing it but then as I mentioned in my brief address that we are constantly reviewing the tri-access of the product customer and market across 23 states and seven products that we are present in, so keep on working on improving the margins and in fact now it is the story of almost about 12 quarters wherein consistently, we have been improving the margins, which was almost about two-and-a-half years ago sub 4% at 3.9% has actually now gone up to 5.76% and this 5.76% is after the higher interest reversals on account of higher accretion to the NPA, so therefore as the situation would normalize that itself should add to the margins and plus due to the newer lending that we are doing which is at higher overall yields so subjected to the cost of fund, the margins are higher on the incremental lending as well. So we should see a double impact of one the lesser income reversals that happens on account of the NPA accretion and two, improvement in the margins on the incremental lending and therefore we are confident of not only protecting but further improving the margins.

Ritesh Nambiar: I just had a question on this NPA, if you could just give segment wise breakup and where there has been the maximum slippage YOY?

Sanjay Chamria: I can give you a qualitative colour and I think the exact numbers and all may be offline Lakshmi and his team can provide you. As is anticipated the maximum slippages happen and continue to happen in the commercial vehicle and the construction equipments and that is the reason as we stated that over the last two years we have calibrated and our disbursal during the quarter is just about 17.6% in these two asset class which used to be more than 55% about two and a half years ago.

Ritesh Nambiar: Lastly Sir, the tractor segment what is the gross NPA, which has given to that segment because your ITL subsidiary is showing a very high NPA, so is it reflected off your overall tractor portfolio?

Sanjay Chamria: That could be representative of the overall scenario in the tractor funding. In tractors there are two things one we get the higher margins and subjected to the higher NPA also it provides the higher ROA and the ROA which also is evident from the MITL P&L that you would have looked at and the second is in case of the tractor funding that is also with some of the manufacturers the loss pool available so therefore when you incur the loss or you have NPA, there is certain degree of subvention on the losses which are available from the manufacture.

Ritesh Nambiar: So how much is that Sir, if you could just quantify on a percentage is fine?

Sanjay Chamria: Percentage wise, this is also in the same range which is 3.5% to 4% which is as per the RBI norms, so our overall is 3.2% and so the tractors between in fact in the MFL, it is 3.26% and MITL it is higher at 3.35%.

Ritesh Nambiar: Lastly two questions, one is your on-book gross NPA and lastly your plans on capital raising?

Sanjay Chamria: Is that the question on which you wanted the answer now because I thought we will share the NPA details subsequently with you.

Ritesh Nambiar: Just on-book gross NPA figure I wanted and any plans which you have on the capital raising going ahead?

Lakshmi Narasimhan: On capital raising I just request Sanjay to take it, as far as the on book is concerned let him take the capital question, I will come back to you on the gross NPA.

Sanjay Chamria: So far the capital part is concerned, you see we are now sitting on about 17% plus capital adequacy and I maintained this even in the earlier calls that we would expect the growth momentum to pick up from October-November onwards and which is when the accretion to the loan book would be a lot higher, so in the last quarter where we grew the disbursals by 33%, our loan book has grown by 12% and I expect the loan book growth momentum to pickup from October onwards and right now it was the mandatory 15% but however that the overall market sentiments improving and this getting recognized, so I think we will evaluate and we are now enabling resolution to raise capital, so if the board decides to raise capital then we will do it either towards the end of the year or may be early next year.

Ritesh Nambiar: Just on book and the number?

Sanjay Chamria: It should grow by about 60 to 70 basis points if that kind of answer to the question.

Ritesh Nambiar: It has risen by 60 to 70 basis points?

Sanjay Chamria: That is right.

Ritesh Nambiar: Thanks.

Moderator: Thank you. The next question is from the line of Ritesh Lunawat from ICICI Prudential. Please go ahead.

Ritesh Lunawat: Recently downgrade rating to AA, is it completely due to asset quality and moderate capital adequacy?

Sanjay Chamria: Going through the rating rational, these are the two points which they have highlighted that compared to the peer set Magma enjoyed a higher rating for the similar set of numbers based on the earlier we used to have zero and gross and the net NPA as we used to do a write off until March 2011 and after that when we changed our business model and the accounting policy on the securitization income where instead of upfronting, we started to amortize and we also started recognizing NPAs in the books and making provision there against, which is where they had a concern that due to the last six quarters delinquencies rising, the NPAs have risen and the capital available to cover the NPA is not at the level at which they want to see a comfort for AA+ rating and therefore there is one notch downgrade which has happened.

Ritesh Lunawat: From October the growth momentum will pickup, so what percentage of growth you are seeing like?

Sanjay Chamria: Actually in the last quarter, I have mentioned that this year we are looking to grow the disbursal between 20% and 25% and at that time the assumption was the economy will pickup from October onwards; however, what we have seen that during the Q1, our disbursals have gone up by 33%, although the economy still maintain when the start picking up from October-November onwards, so this has happened largely on account of the various internal initiatives undertaken in the company and now what bullish with regard to the 25% growth in the disbursal as compared to what I was last quarter because right now it is happening without the external conditions improving, so once the external conditions improve probably we will grow even better. So now I will be more on 25% than on 20%.

Ritesh Lunawat: Thank you.

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

Vikas Garg: Thank you very much. I think all of my questions have been answered already. Just one clarification which I want the gross NPAs number which are reported on the PPT, are they on the total AUM, which would also include the off balance sheet and those are the numbers which are there on the on balance sheet loan book?

Sanjay Chamria: It is on the basis of the total loan book which will include the off balance sheet as well.

Vikas Garg: Will it be possible for you to give us the absolute number of the gross NPA and also the net NPA as on quarter first?

Sanjay Chamria: I think we will take it offline Vikas.

Vikas Garg: Thank you.

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

Kaitav Shah: Thank you for taking my question. Sir, if you could share some light now on your general business and housing finance business, all three subsidiaries have come back in the green on year-on-year basis, so if you can share some light and plans there?

Sanjay Chamria: So the ITL which is the tractor subsidiary has been doing quite profitably for many years now and so far as the housing is concerned last year was the first year and the business are really gained traction and I have mentioned last quarter that both the new business, housing and insurance, our objective during FY 2015 is to drive it to scale and the profitability, so one as you can see that in the disbursal during Q1, mortgage is already the third largest product in terms of the contribution in the disbursal and going by our plans we hope that by end of the year, it will become second largest product, which also lends a lot of stability to the AUM given that it has the longer repayment tenure as well as the asset quality because traditionally home finance is the best asset quality although with lower return and therefore the housing business has become now profitable and it is contributing to the overall good profitability and gaining its scale. The customer segment that we are approaching in this is largely self employed as opposed to the salaried because we find that the salaried segment is quite over clouded with several large HFCs with long years of present in the private bank and secondly again in terms of the market segments, we are present more in the up country markets which are Tier 3 to Tier 6, where we already have presence for our vehicle and the tractor finance business, so therefore on an marginal cost basis we are able to grow the housing business there. In fact, one of the other thing that the housing team was patched was to leverage the existing customer database and do funding there again, so while it is still early days but during the Q1, 6.5% of the total disbursal happened to the existing customer of the asset finance on which there is no payout and the target for this year is close to 10%. So this is so far the housing is concerned and even if you look at the spreads, these are better than many established HFCs which have been in operation for about 8 to 10 years. So far the insurance business is concerned, there again last year we clocked Rs.420 Crores of gross premium which is actually highest for any general insurance company in its fist full year of operation and during the current year again first quarter we have crossed Rs.110 Crores and it has turned profitable as well in the seventh quarter of operation which itself is much earlier than about two and a half to three years what is the industry experienced. This has happened largely on account of the two reasons, one again like the housing finance, the insurance business also is leveraging on the current company distribution network and the support infrastructure of the functions like IT, accounting, HR and the other things and the second is the claim ratio experience has been quite favorable and dealing with the vehicle finance and the tractor finance and as a result of that the overall combined ratio for the quarter one also is about 110%, 111% and therefore with the investment income it has turned positive.

Kaitav Shah: Secondly on your employee expenses during the quarter, I know you have attributed it to more collection, so where do you see this number stabilizing?

Sanjay Chamria: Right now it is about 3.53% in the Q1 and our target also for the year is this but we expected our original budget for Q1 is a little higher than this and while the number is compared to last year it is still lower than our internal budget for Q1 and as I mentioned that while it may be higher by about 30 to 40 basis point compared to the peer set but then it was a conscious call that we as a management have taken that, we would rather over invest in the collection structure to stabilize the asset quality and have more robust portfolio and once we achieve that may be hopefully before the end of the year then we will look at reducing the opex next year and in the meantime we have built up solid pretty clean portfolio.

Kaitav Shah: Thank you. That is it from my side.

Moderator: Thank you. The next question is from the line of Kashyap Jhaveri from Emkay Global. Please go ahead.

Kashyap Jhaveri: Good morning Sir and congratulations on good set of numbers. I have a question on this how has the resale values of the vehicles behaved and did we repossess anything in last about six months or so?

Sanjay Chamria: We are repossessing every month not about six months.

Kashyap Jhaveri: Let us say numbers obviously would be there but if you could comment on trend both on resale values as well as the repossession?

Sanjay Chamria: I have very transparently said in my previous calls that contrary to what some of my peers are saying, the resale values have not increased at all and on the other hand it is a struggle to get a good resale value, so therefore the losses on this portion of the repossessed assets continue to be high and the trend of repossession still does not show any sign of abating and there is a proof of this that earlier in good times when you repossess 70% of that will get released because the customer will come and pay the overdue installment and commit not to default in future, but today when you repossess the rate of release is not more than 30%, it remains in the stock and therefore you need to really be creative to be able to dispose off in a manner that the losses are minimum, so every company has undertaken steps and we have also taken steps from November last year we have setup a separate team which does not have a target on collections or NPA which only has a target on disposal of the asset and improving the realization of the asset. So we have seen has marginally reduced our losses by about 5%, I think it is too meagre an amount, we are rather looking forward to more expeditious disposal of the REPO assets because even in our books once the asset is repossessed there are still the amount of provisioning and the interest reversal hit that we take, so therefore we would rather like to improve the tat of disposal and minimizing the losses.

Kashyap Jhaveri: Would not be right of me to ask also but I am just risking it if I would your experience be different from what your colleague's sort of experiencing, why would that be different?

Sanjay Chamria: Which is what I said that in my view it cannot be different because these are all operating in the same matured market and I am aware just like my peers would be aware as to what is the situation of my stockyard than somebody else's and I am also reaching out to the same set of brokers and the same set of consumers and may that I am admitting and others may not be admitting.

Kashyap Jhaveri: I fairly appreciate that last time when I met Lakshmi also I mean he highlighted the same thing and we were quite amused but I quite appreciate your viewpoint. The second question is that recently we have raised our exposure to the tractors segment, if you could highlight what could be the end use, would it be purely agri or would it be mix in favor of agri or commercial in what percentage and if let us say monsoon continues to be the way it is, if you say any risk on that portfolio?

Sanjay Chamria: Over the last several years, the trend is that a significant majority of the tractors sold in India goes mixed use and the reason for that is very simple that the landholding's have gone down to less than 2.5 hectares. There is no possibility that if you have a landholding of less than 2.5 hectares, you can use the tractor throughout the year for the agri use. Therefore it will be very safe to assume that an overwhelming percentage of the tractors being sold in the country are used for the mixed use. In a way it is good because then it reduces the dependence on the vagaries of monsoon and the agriculture produce because of the commercial application and in which they have monthly cash flow and thereby they can honor their installment obligations even if there is a poor monsoon; however, to your second question it does not take away the risk factor which is associated with the tractor financing, but whenever there is a poor monsoon or crop failure, the first thing that the customer does is to withhold cash and then pay the installment even if he has money and secondly they have actually in any case inadequate money, so therefore they are also not able to pay, so there is both inability and a willingness issue to pay the installment when there is a poor monsoon. The tractor business is not an easy one. It is quite tough especially in terms of collection of EMIs, while lending it is easy because there are not many players to do the lending.

Kashyap Jhaveri: Just to sort of clarify when you said mixed use, so let us I have got a tractor and I have less than 2.5 acre land, what I will do is that I will rent out my tractor to somebody who has also got let us say two acres of land, is that the way you said mixed use or is it I use it for sort of in my field but alternatively I could also use it for transportation, is that the mixed use or the first part is what you called mixed use?

Sanjay Chamria: The second part is the mixed use.

Kashyap Jhaveri: It is alternatively used for transportation for somebody else?

Sanjay Chamria: Absolutely. It is usually used in the civil work, which goes on in the interiors and especially moving the sand from the riverbed or for movement of the store, agriculture produced which they take to the mandis that also renting it out to the farmer in the same village the tractor and they will rent it out, so this is how it is actually done.

Kashyap Jhaveri: Thank you.

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

Srinivas Rao: Thank you very much for taking my question. My first question I think which you answered on the tractors given that we are seeing a slowdown in new tractor sales, is it a prudent to kind of increase your disbursement at this stage? That is the first question. In the same way I just wanted to clarify your earlier comment that you have some subvention from the manufacturers for the loss pool for tractors, if you can comment on how that works? My third question is on your collection which you mentioned is better for the higher buckets that is in the focus compared to the lower bucket. Is it possible that people are borrowing fresh to pay for the higher buckets, the NPAs in the higher buckets they are basically borrowing back to pay for the higher buckets and it is kind of cycle that is my second question? I will come back for more.

Sanjay Chamria: Alright, you have asked three questions, let me try and take that one by one. So the first one you see I had shared if you reflect on the con call that we have done almost a year ago that we significantly tightened our credit screens in view of the rise in the delinquency and the external scenario showing no signs of improvement, so how do we do it is one to stiffen the criteria in terms of the customer equity and reduce the LTVs. The second is that we insist on the longer years of the experience of the customer to use the asset that we are financing and we tighten up our field investigation and the TVR which is the telephonic verification, that the analyst does to the customer to understand as to how he is going to deploy the asset. Under a downturn where the sale itself is not happening, so how is he confident that he can deploy to pay the installments therefore the customer selection process becomes more vigorous and because despite all the improvement it is still the NPAs are rising although they have stabilized, our customer selection criteria and the process has not liberalized and has remained **(indiscernible) 41.30.** Now despite that your question was if the tractor market and by the way the tractor market degrew 1% in Q1 whereas we grew 40% how has that happened? So this largely I can attribute, the overall 33% increase in disbursement and 40% rise in the tractors can largely be attributed to our deeper presence and closure contact with the dealers who are our first spurt **(Unclear)** of call and customer and the ultimate consumer to whom we provide much faster response and better touch point. As I mentioned that what we do unlike other traditional NBFC model, the guy who goes to the customer does not take a calculate, he goes, meet the customer, picks up the file and makes a DFF which is going to deal forwarding freight. Then we have collection guy who will go and do a field investigation and earlier it used to take anywhere between one and three days of time depending upon how interior the lead is coming from, so we rechecked the entire setup and today on an average we will take about three hours to get the feedback from the collection guy on a lead which might coming in from the most interior village. Now this has an impact on the dealer who would think that here the company which is as sensitive to me when I am sourcing a lead from a customer to close the business and therefore we are getting higher support from the dealer, so this is one example. There are several such process improvement initiatives that we have implemented over the last four, five quarters and which has started yielding results and which is why I said that from October when the situation improves I am a lot more confident in terms of the growth in the disbursal and therefore accretion to the yield. This is my response to your first question.

Your third question that I remember is the borrowing need to be paid in the higher bucket, see today our customer who is in default will really find it very difficult to get the borrowings from someone else and then pay me; however, what has happened in collections like we are one as I said overinvested in the infrastructure and largely this is to improve the touch points with the customer. Today you see a customer who is getting lesser money in his hand, it is a question of how do you set the priority for your payment with the customer and whole set of customer that we deal with, I am not financially very savvy, their approach is *"iske saath kya hua, isne toh mera payment nahin diya, agle mahina de denge, abhi hamara paas paise nahin hain,"" What happened to him. He has not made the payment. Today we do not have any money,"* but then they do not realize that if they do not pay me I need to make provisions for NPA and I need to reverse the income and I have the quarterly responsibility to report the earnings, so therefore we have improved the touch points very, very significantly and wherein even the supervisors would go and meet the customer, if he is in more than three installments default. Now for a company which is about more than 500,000 live accounts to ensure that each and every delinquent customer is met by a supervisor, I think this is when it starts yielding the result. This again brings me back to the point that is from festival season starting Navratri from October when the customers I hope that they will have more cash flows, our performance on collections should improve even further, right now it is boosted more due to the internal initiatives, but still we are not getting any environmental support, so this is my answer to your third question.

Srinivas Rao: So my second one was on the subvention loss pool support from manufacturer.

Sanjay Chamria: It works differently with different manufacturer and some would give it upfront, some would give it subject to the loss being incurred, some would give it that in case of repossession if you incur loss on the sales then we will pick up that loss so it varies from manufacturer to manufacturer, so it would be really difficult for me to give you a wider perspective on this issue.

Srinivas Rao: But it is that generally more or less an industry wide phenomenon, which kind in the sense industry wide phenomenon of manufacturers and financiers sharing the burden of potential credit loss if I say put it in a very general term?

Sanjay Chamria: I would not agree with that it is a general phenomenon. I think it all depends upon what kind of relationship you are able to establish with the manufacturer in terms of supporting the sale in the markets where they need your support. For example we have a good market share in tractor business over the last three years, so we are able to get it, but in utility vehicles we do not get it because my market share is lesser whereas I am sure some other peers of mine who have larger market share they get the loss pool so therefore it is not a broad approach that every vendor and every financier will have it. It will all depend upon the bilateral relationship.

Srinivas Rao: This is really helpful. Thank you so much.

Moderator: Thank you. The next question is from the line of Pankaj Agarwal from Ambit Capital. Please go ahead.

Pankaj Agarwal: Sir, what would be your borrowing cost from different sources like banks, capital markets, and securitization?

Lakshmi Narasimhan: Just to give you range, it depends on what your borrowing depends on what quantum your borrowing and which quarter your borrowing. Largely I think we should be near about the base rate when it comes to the banks and when it comes to the sale down again it is the function of what type of asset you are selling it, so the rate arbitrage could be anything like 75 to 100 basis point depending upon what type of asset you are selling.

Pankaj Agarwal: That is below base rate 75 to 100 right?

Lakshmi Narasimhan: I do not think it will be below base rate, you cannot today borrow it below base rate, so while you may have structuring or transaction which will kind of relate to that largely I think you should presume that the borrowing should be in and around the base rate.

Pankaj Agarwal: Even if it is priority sector securitization.

Lakshmi Narasimhan: Any type of assets value that is there.

Pankaj Agarwal: What would debt capital market?

Lakshmi Narasimhan: Capital market again today for three year money I think largely we should be about **(indiscernible) 47.50.**

Pankaj Agarwal: So basically the money from debt capital market is around 100 basis points cheaper than bank base rate is likely monthly compounding so 10.25 becomes 10.75, right?

Lakshmi Narasimhan: That is a good position to take, hope there are not many debt capital market participants in the call.

Pankaj Agarwal: Apart from this, how much of your portfolio is qualified under PSL under the current regulation?

Lakshmi Narasimhan: Anything between 60% and 70% qualifies for priority sector, off the sourcing that we do presently.

Pankaj Agarwal: I mean in last two to three years securitization has come down from 50% to 30% of AUM so is there any chances to bring it back to earlier levels?

Lakshmi Narasimhan: I think largely securitization is something that we use more like a treasury tool. I am not too fixated on what percentage should be in or out, it actually is the function of what price we get, what quantum of asset we pickup and how much is the appetite in the market. I will just request if Sanjay have something to add and request him to add as well.

Sanjay Chamria: So I have said over the last three years that ideal position for us over a longer term would to have one-third by way of the securitization of balance sheet, one-third from the banking system, and one-third from the DCM and therefore this would insulate us from the volatility in the debt market, so that is the ideal position that we would like to achieve and I think if you look at over the last five years the kind of diversified our risk.

Pankaj Agarwal: Sir in terms of you had applied for banking license and now the RBI has come out with licenses on payment banks and has allowed NBFCs to become banking correspondence for banks and probably RBI will also come out with wholesale banking licenses, so do you see any opportunity for you in any of these verticals?

Sanjay Chamria: Honestly, I am confused. I would rather wait for the final guidelines of the regulator. Now we have felt that let us not devote too much of management bandwidth on what we will do with the banking guidelines of the banks. Let them first decide us to what they want and meanwhile we will continue to build on our franchise and then look at anything that we do has to eventually make sense for the larger set of shareholders and we would like to get into any kind of a model where it becomes ROE decretive even in the short-to-medium term.

Pankaj Agarwal: I get your point but especially being banking correspondence for a bank I mean clearly you can select your asset much better if you can build your business?

Sanjay Chamria: Not so encouraging example of some very large banking correspondence, so the balance sheets are trading year-after-year. So I think unless if they really look at a revenue model which would be profitable for a standalone banking correspondent model, I would really not see very serious players coming into this. I have had a chance to speak to some of them because some of them are up for grasp but then it does not really make sense.

Pankaj Agarwal: On standalone basis probably it does not make sense but because you have existing setup, the same setup could be used for that additional opportunity as well?

Sanjay Chamria: We could rather look at maybe some various lines of businesses, which can be more complimentary and value accretive, so therein if the banking correspondent model does then we could take a look at it but we have not yet examined it.

Moderator: Thank you. We will take our last question which is from the line of Aadesh Mehta from Ambit Capital. Please go ahead.

Aadesh Mehta: Sir my questions have been answered. Thank you Sir.

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

Sanjay Chamria: Thank you very much for being on the call for the last 60 odd minutes and I hope we have been able to answer most of your queries and those of you who have not had a chance to ask questions or have not got a full answer, I would recommend if you can be in touch with Lakshmi and his team and we will be happy to provide you all sorts of clarification and look forward to the next call again in October. Thank you.

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