"Magma Fincorp Limited Q1 FY 2016 Post Results Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Magma Fincorp Limited Q1 FY 2016 post results conference call hosted by Ambit Capital. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by entering "*" then "0" on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Aadesh Mehta from Ambit Capital. Thank you and over to you Mr. Mehta.

Aadesh Mehta: Good morning everyone. I welcome you all to the first quarter FY 2016 Earnings Conference Call of Magma Fincorp. The officials who are representing Magma on this call are Mr. Sanjay Chamria, Vice Chairman and Managing Director, Mr. Atul Bansal, the Chief Financial Officer, and Mr. Kailash Baheti, the Chief Strategy Officer. Thank you gentlemen for joining this call and over to you Sir!

Sanjay Chamria: Thank you Aadesh. Good afternoon everyone. I welcome you all to the Q1 FY 2016 Earnings Call of Magma and thank you for taking time to join the call. The Indian economy has continued to exhibit weaker trends in recoveries going by the key economic indicator amply validated by our experience in dealing with the vast number of informal customer segment across hundreds of towns in all parts of India. It also looks unlikely that the recovery in the Indian economy will be witnessed before the start of the new fiscal FY 2017 as the central government is dealing with its own challenges of disruption in parliament and various state elections and the economic development is taking a backseat. In this backdrop, the sales of vehicles have registered smart recovery particularly passenger cars and medium and heavy commercial vehicles, although on low or stagnant base where the sale of construction equipment and tractors have fallen because of monsoon and lack of orders in the infrastructure space. The silver lining for our industry as shared in the last call as well is the benign credit environment and the stability in terms of policies of RBI and providing our strategic roadmap for the next few years and building a conducive environment for the systemic growth of the sector. Therefore, the sector will grow alongside the recovery in the overall economy and with more innovations being introduced through Fintech Solutions and the launch of newer products and distribution network getting digital. Given this frame of reference, let us take a quick look at our company. Over the years, we have built a distinct capability for providing financial solutions to the underserved and under bank customers of rurban that is rural and semi-urban India. Customers who have informal sources of income, first time banks have limited banking and credit history and are mostly self-employed to small entrepreneurs. These customer segments have very limited access to the formal lending ecosystem of the banks primarily because serving this set of customers require more hand holding including the ability to assess the credit worthiness, distribution coverage to service their needs. Catering to this customer segment also requires the

financier to have deep knowledge of the rurban markets and a strong understanding of the customer behavior. Today, we have a well-diversified product portfolio and a widespread pan India distribution coverage that primarily caters to these customer segments. I would like to highlight that our penetration into the heartland of India is right up to till the taluka level well beyond the traditional business with more than 7000 field executives, field force covering 1600 talukas and 2900 locations in the country. This proximity to our customer's pleasure that are strongly to deliver our diversified portfolio products right to their doorstep. Our company's technological innovation has served as the backbone to drive faster customer acquisition, portfolio servicing and effective cross sell. We are well positioned to tap this opportunity as we possess strong capabilities in assessing and managing asset-based risk for the rurban customer class. Our medium term strategy is on steering our company towards a steady loan book growth with an emphasis on profitable growth. Currently, our concentration is on four product segments namely agri finance, used commercial finance, SME finance and mortgage as well as general insurance while we are reducing our exposure in the new commercial finances space. We have selected these four product segments with the objective to enhance our overall risk adjusted yields and to improve our ROE. We see a huge complimentary nature in these four products with cross-sale opportunity and getting higher share of the customers' wallet and offering these products over the life cycle of the relationships with the customer. It will also improve the asset quality through repeat funding to the existing customer and reduction in the customer acquisition cost. The significant investments made by us in the technology upgradation along with process simplification has started yielding results in the form of reduction in operating expenses and higher level of business with the existing customers. Today, our field executives are fully tech enabled and do not need to operate all of our physical branch. The online transmission of the customer application or documents and automatic tracking of end-to-end loan appraisal process has dramatically reduced travel requirements thus enhancing productivity. On the other hand, it has also resulted in reduced turn around time on the transactions bringing customer channel satisfaction. We expect to reap the benefits of these changes over the coming few quarters. We have been also placing continuous efforts on improving our asset quality. We intend to reduce our credit losses with judicious management of product customer and geography mix, the existing robust risk management framework is the backbone of this endeavor. We have also introduced an implemented product wise early warning indicators and loss tracking mechanisms. Recently, we have raised capital to the tune of Rs.500 Crores by raising new equity shares at Rs.108 per share that is to the premium of Rs.106 per share, to the new investors which is India Value Fund and LeapFrog Investments and to our existing shareholder KKR. We welcome the confidence and safe place in us. The entire process is now completed and the increase in the network is reflected in our Q1 FY 2016 financial. This capital infusion positions as well with sufficient visibility in our growth for the next couple of years. I would now like to say the key highlights of our

performance for QY 2016 and its impact on our results. I shared with you during the last quarter results call, w set ourselves a strategic direction six months back and now we are benefitting from the implementation of various initiatives implemented since then. In line with our strategy to increase the share of used assets, tractors, SME and the mortgage, the disbursals have grown to 65% of total disbursals and the share of new car CV and CE has gone down to 35%; however, we had opted cautious approach in lending going to the tough business scenario. This continued correction in the disbursal is expected to result in more profitable loan book. Our total loan book has grown marginally 5% YOY to Rs.19,009 Crores from Rs.18,295 Crores, the share of mortgage, tractor, SME in the used assets further increasing to 53% after having crossed 50% in Q4 FY 2015. It is expected to cross 65% to 70% in the next two years timeframe. Due to our continuing focus on yield improvement driven by a change in product customer mix the overall NIMS have grown by 63 basis points from 5.76% to 6.39% and we are on a target to achieve 6.5% to 7% NIM during the next two years. As a result of various initiatives in collection efforts and continuing investment in upgrading the technology intervention for process improvement, we have reported a drop in the opex ratio in Q1 FY 2016. The opex to loan assets ratio has dropped by 13 basis points YOY and 26 basis points QOQ to 3.4% while the opex to income ratio has dropped from 61% in Q1 FY 2015 to 53% Q1 FY 2016. I shared earlier the opex ratio will now continue to drop with increasing adoption and implementation of new processes as all investments have already been made and it will provide operating leverage. With improvement in economic scenario, the additional investments made in collections vertical will also reduce and should result in further opex savings. We continue to focus on increasing our share of direct business, increasing cross-sale opportunities, right sizing the organization with greater autonomy and ownership and using technology to increase efficiency so that the opex is brought down further. On the collections front tough market conditions continue to hamper our efforts; however, with the tightening of creditor screens and processes and reduction of the new business in certain product, customer and geography, the quality of the new portfolio origination is quite stable and the pain in the existing portfolio was continued for couple of quarters and thereafter it is expected to result in lower credit cost. The credit cost may improve earlier if the economic situation show signs of improvement earlier. Our credit cost has increased 78% YOY to Rs.88 Crores. On a 120 day DPD recognition basis the GMP has increased from 4.9% in Q4 of FY'15 to 5.9% and NPA has increased from 3.9% to 4.7%. The company is fully compliant with the RBI guidelines on NPA provisioning right up to March 2017 and there is no overhang of any tightening of the NPA policies by RBI. A consolidated PAT for Q1 FY'16 is stands at Rs.46.5 Crores marginally of 2% YOY where the standalone PAT was stands at Rs.40 Crores of 16% YOY. A consolidated ROA and ROE stands at 1.23 and 8.88% respectively, as we used Rs.500 Crores equity raise in the Q1 of FY'16 to fund growth over the next two years till FY'17, the benefits will flow into the P&L and the profitability metric should

improve. Our entire focus during FY'16 continues to be on improving the operative effectiveness through more direct business sourcing from existing customers, reduction in opex through faster adoption and implementation of technology lead process simplification and superior portfolio origination through product, customer and geography mix, all these should be resulting in higher NIMs, lower opex ratio and improved profitability. The risk factors in the entire plan is on account of deterioration in the economy resulting in the higher credit losses, if the customers are not able to pay the installment despite vastly improved collection efforts. We are confident that the benefits of changes will get reflected in the ensuing quarters. Atul, Kailash and myself will now be happy to take any questions that you all may have.

Moderator: Thank you very much sir. Ladies and gentlemen we will now begin the question and answer session. Anyone who wishes to ask a question may press * and 1 on your touchtone telephone. If you wish to remove yourself from the question queue, you may press * and 2. Participants are requested to use handsets while asking a question. Ladies and gentlemen we will wait for a moment while the question queue assembles, thank you. We have first question from the line of Ashwin Agarwal from Akash Ganga Investments. Please go ahead.

Ashwin Agarwal: Good afternoon to the management team. Thanks for giving a detailed overview on the business and we appreciate on the various initiative as explained, which has resulted in improved inherent profitability of the business and we believe that as credit cost come down the profitable jump that alpha jump should be quite huge, could you give us the feel on the provisioning the credit cost has, it was said that for the full year assuming the economy does not recover, credit cost will remain at a higher level, so what kind of cost can we expect for the full year?

Sanjay Chamria: Mr. Agarwal, thanks for your comments, as you can see that all other levers of the operating performance, which is the improvement in the NIM, reduction in the opex have now all started showing up and the only beast in the entire performance is the higher credit cost and this has been higher than what we have budgeted, otherwise our profitability even in the Q1 would have been higher, so the credit cost is the one which was gone up and as I said now we have taken all the efforts in the collections to improve the performance. Usually in the Q1, there is always a increase in the credit cost after the Q4 during which the credit cost is the lowest and therefore, my fear is that if there is a further deterioration in the economy, which will lead to lower cash flow in the hands of the customer that is what may further increase the credit cost or else if we assume that the economy will remain the way it is in the Q1 then in the second and the third quarter the credit cost may still remain higher than our budget, but would be lower than our Q1 and Q4 typically is better, so therefore, in the

rest of the three quarters of this year, the credit cost is expected to be lower than what it was in Q1, but it will depend entirely on the overall economy.

Ashwin Agarwal: Great, could you tell us where did you get the negative surprise in the credit cost, is it mainly because of tractors or what was the segment contributing the most to this increase?

Sanjay Chamria: The major hit in the credit cost or the surprise has come in largely in the tractor because of the erratic monsoon that was faced during January and February, which is what one resulted in the high credit cost in the tractor, which was higher than budgeted. While we had budgeted higher itself, but it was still higher than the higher budgeted. So far the other products are concerned they have largely behaved in line with our budget.

Ashwin Agarwal: Great, could we assume a recovery assuming as you said in the next fiscal and as we see the loan book also increasing and the operating cost has been reduced significantly we should see a significant jump in profitability assuming a growth in the economy from next year?

Sanjay Chamria: Absolutely, in fact our focus during this year and the next year after the average Rs.500 Crores capital during this quarter is rather on improving the operating metrics, which will be measured by increase in the NIM reduction in the opex to of which you already seen the trends in the Q1 and also the credit cost going down; however, a credit cost going down is a function of three things, one is the overall economic scenario, which is not in our hand, two is the new sourcing that we do how stable and tightened credit is that we have, which is what as I said that in view of the strategy that we adopted six months ago from January 2015 the new sourcing that we are doing the quality is stable, it is now the older book, which is where we are seeing the stress, so therefore the third step that we have is how intensified our collection efforts are to be able to deal with the existing customer, which is where from the management side we have taken all and there can always be a scope for improvement, but I think we have already reached more than 90% of what kind of efforts are required, so therefore if the credit cost is higher it will remain higher in respect of the existing portfolio, the other stimulation that we have done that by the time we end FY'16 that is March 2016, our portfolio even at current rate if it is Rs.20,000 Crores more than 55% of this would be on account of the sourcing done from January 2015 where the asset quality is quite stable, so therefore, in the current year if the economic scenario does not deteriorate further from what it is then like in Q1 our credit cost is about 2.3% up from 1.7% for FY'15 I would expect that to go down and if the scenario improves then it could substantially go down. However, in the next year I would expect the credit cost to be much lower because more than 55% of the total portfolio will be the new originated portfolio from January 2015.

Ashwin Agarwal: Right and as we see the credit cost coming down you will see a sharp improvement in rise in ROA and ROE?

Sanjay Chamria: Of course that is what should contribute ultimately to the ROA and ROE.

Ashwin Agarwal: All the very best and appreciate all the initiatives you have taken to improve the fundamentals of the business.

Sanjay Chamria: Thank you.

Moderator: Thank you. Next question is from the line of Anita Rangan from HSBC Asset Management. Please go ahead.

Anita Rangan: Hi, good afternoon. The first question is if you can give some comparison between the gross NPA at 150-day DPD which is stated in your presentation is 5.3% and net 4.1%, how would that look at Q4 of FY'15?

Sanjay Chamria: Are you referring to the NPA graph?

Anita Rangan: Yes, NPA graph that 150-day DPD how would that look at Q4 like quarter-on-quarter comparison if you want to make?

Sanjay Chamria: This was 4.3%, which has gone up to 5.3 at a gross level and it was 3.4%, which has gone up to 4.1% at the net level.

Anita Rangan: What about the 19 billion; close to 190 billion is the total AUM right, what would the on book AUM be here?

Sanjay Chamria: On book AUM is about Rs.13.500 Crores and about Rs.5600 Crores would be off book.

Anita Rangan: Thank you and can you throw some light on the collection efficiency percentage which you have seen over the last couple of months or five, six months now since there is a lot of stress on collection efficiency, you can throw some light on the same.

Sanjay Chamria: So the collection efficiency is largely stable, which is at around 94% in the Q1 of this year compared to the same Q1 of last year, which also was 94% or so, however, as I was responding to the earlier question, the collection efficiency went down in the tractor business during the first quarter of this year and that is what resulted in the higher accretion to the NPA then what was budgeted. On the other hand, the collection efficiency was superior in SME mortgage and the CV business as well.

Anita Rangan: When you are saying that tractor book is like largely stressed, but agri financing continues to like dominate the overall portfolio mix like at 18% and just grown significantly. In Q1 of last year, it was 16 and FY'14 also it was 17, what I am trying to say it is not trending down, so want to understand what is that?

Sanjay Chamria: So therefore we believe that one you cannot take a short-term outlook on a particular product where you are present and right now because of the erratic monsoon there has been a pressure on the tractor portfolio, so what we have done is at a product level we have introduced certain stringent credit screens, but then we do not want to reduce our focus on the business and what we are looking at is the lifetime profitability on lending in this particular line of business, so there would be one or two years in which there could be a stress, but then overall we are seeing that the risk adjusted return in the tractor business is much higher as to compared to the other lines of business, which is the new car, new CV and new CE and therefore we have chosen agri finance along with SME mortgage and the used asset as the four focus areas on the four product segments.

Moderator: Thank you. Next question is from the line of Nishchint Chawathe from Kotak Securities. Please go ahead.

Nishchint Chawathe: Couple of questions from my side, one is it possible for you to be give a breakup of provision for tractor separately just to broadly get a sense us to how much was the impact on tractors because of the tractors?

Sanjay Chamria: Well I do not have Nishchint right now readily available with me, but I guess Atul and Ujwal will provide it off line later on to you, suffice to say that the incremental provision in the tractor is higher than the products.

Nishchint Chawathe: On the securitization income side if you could give some color what is really happening out there, I believe you are kind of ring fenced the EIS impact etc., so just trying to understand how is that playing out this quarter?

Sanjay Chamria: Yes, but that is only a temporary cash flow mismatch which results in the EIS which can be cushioned to an extent; however, with the portfolio quality getting impacted it does impact even in the scenario of the liquidity facility, so even during the Q1 there has been impact on account of the overall securitization income, so you have one by way of EIS2 you also have the income. When you are doing a direct assignment because the EIS comes in the case of PTC, but the direct assignment route and which is where now we have a larger part of the portfolio, there also we get the income.

Nishchint Chawathe: But in case of direct assignment, I guess it will be just to the extent of your exposure to the portfolio?

Sanjay Chamria: That is right and that is why under the current scenario we find it is judicious to do more of direct assignment then doing the PTC because that sort of insulates you from the portfolio performance, although you end up paying a higher discounting cost.

Nishchint Chawathe: And this would also mean that the discontinuing cost for the direct assignment would actually tend to kind of go up in the scenario like this?

Sanjay Chamria: That is dependent on the demand supply, so in fact even in the Q1 this year we have done closed to about Rs.600 Crores worth of deals and which largely happen the direct assignment and pricing wise we have not really seen much of difference that is also Nischint, the results of the benign credit environment prevailing in the industry where there is a good appetite for a good quality portfolio available in the market and especially which is meeting the priority sector norms, so we have been able to get the buyers at the similar cost that we have incurred in the earlier quarters. Of course Q4 is exceptionally different and in the Q4 the cost is always much lesser, but if I compare this with Q3 or Q2 of last year then the cost is not very different.

Nishchint Chawathe: Okay, just on the disbursement front, there was a marked slowdown in this segment, I believe a large part of it was more voluntary from your side, is it possible for you to give some guidance as to how this would play out for the rest of the year or so?

Sanjay Chamria: I will give the guidance in the form that in fact even in the last call that we had I mentioned the focus now on the entire company will be to grow the ROA and profitability side, so therefore what we would rather look at is the loan book which we had started about 19,500 Crores, so that could move in a single digit, so may be another 1000 to 2000 Crores if at all we would add but then our entire focus will be on making sure that there is a higher profitability on this, so like in Q1 on a quarter-on-quarter basis there is a marginal reduction and on a year-on-year basis there is a 5% increase in the loan book, so the mix will alter and it will be more in favor of mortgage SME used in the tractor and sale of new car CVCE will go down and which has already gone down to 47% in Q1 as compared to 50% at the end of Q4 and our focus will be further less going in to the next few quarters in terms of new car CVCE because till we see that there is a stress there and the returns are not commensurate with the opex that we incur and the credit losses that one has to take dealing with the customers that we are lending to.

Nishchint Chawathe: Just trying to look at your cost to income ratio and there is a definite market improvement in this ratio this quarter I was just trying to relate this with the disbursement numbers that you have put out. Now if the disbursement numbers per se let us say goes up in the next two quarters or so, basically broadly talking about the same guidance that we gave on loan growth, then does it really mean that the cost to income or cost to assets ratio would tend to kind of inch up a little bit from your or are we kind of saying that this is what it is and we will ensure that it will not go up from here?

Sanjay Chamria: If the disbursal goes up in the next few quarters from what it was in Q1 and if the opex remains at absolute amount the same as it was in Q1, then actually speaking the ratio will become even more favorable, this is one straight mathematical answer, however from the initiative front what I would like to share with you and everyone on the call is that over the last two years I have shared that we have been making investments, now actually we have completed our investments in to the technology upgrade and the process simplification and I had also shared in the last call that now the various initiatives that we have taken on improving the profitability should start showing up from Q1 in terms of the reduction in the opex. While you see a 13 basis points reduction compared to last year but on a year-on-year basis if you see then it is 26 basis points, so this effort, Nischint, is continuing and during the next three quarters of this year, overall we will see a more reduction in the opex coming on the back, even if the disbursals remain the same as it was muted in Q1 even then we would like to see the opex reduction going in, however if the business improves we are not looking at the increase in the opex and therefore the reduction in terms of ratio should be even more in the next three quarters.

Nishchint Chawathe: So broadly what you are saying is that the variable part of the opex is something that you have kind of ring fenced to quite a large extent?

Sanjay Chamria: Yes, we have arrested the variable part, you are absolutely right, in fact I also feel that if the economic scenario improves then the usual incremental expenses that we had to incur in the collection that also will start clawing back, so that is what we have not factored because honestly in our guidance for the year we are not estimating that the general economy will improve before Q1 of next year. If the general economy does not improve before the Q1 of next year I cannot factor in that there will be a saving on the collection expenses. Should the economy improve maybe from third quarter of this fourth quarter then on the one side the disbursal should improve and on the other hand the collection cost should go down and thereby making the opex ratio look more favorable than what we have visited.

Moderator: The next question is from the line of Kaitav Shah from SBICAP Securities, please go ahead.

Kaitav Shah: Sir can you give us the securitization income for the quarter?

Sanjay Chamria: Kaitav, I do not have it right now with me, what I will suggest that Atul and Ujwal, they can provide it offline to you.

Kaitav Shah: Sir I am just trying to get some sense on the disbursements, while I understand that there has been a voluntary slowdown but what do you think would be the disbursements in your used CV mortgage book going forward over the next three quarters?

Sanjay Chamria: Again, my answer is actually the reduction in the disbursal has happened largely in the new car, new CV and new CE segment and SME in fact has grown, mortgage has remained pretty much the same and tractor has degrown because the market itself has degrown by about 18% in Q1 with primary sale of tractors, so having said that the sale of these four products will actually increase from the current 53% in the overall loan book, maybe to award, 57-58, our idea is to take it to 65-70% in the next two years and share of new car CV and CE will go down which is currently at about 47% down to maybe about 35% in the next two years.

Kaitav Shah: Sir within the CV and used CV space have we started traction more in smaller and medium vehicles, sorry SCV, because that is where basically we did not have too much traction, are we looking at that space now?

Sanjay Chamria: The small commercial vehicle, clear no, because there is a huge oversupply in the market and this has become one of the most delinquent product segment, so we have a very strict way to screen and only the customers who have a prior experience and a track record that we are able to fund and not otherwise. Even the primary sale if you see the growth is happening in the medium and heavy commercial vehicle and which is where our focus area has been, however again the growth is happening more in the large fleet operator segment which is catered by the banking system. We as NBFC largely cater to the first-time buyer, a truck driver becoming a truck owner or a small fleet operator owning between two to four vehicles, still you don't really see the traction happening in that segment where people are going and buying new medium and heavy commercial vehicle and therefore we have decided to retain the lower exposure in the new CV segment also and I do not see that improving in the next two, three quarters because at a macro level the fleet utilization in the Indian market of commercial vehicle in my view is around 60% and the demand will kick in only when it crosses 75%.

Moderator: Thank you. The next question is from the line of Deepak Poddar from Saphire Capital, please go ahead.

Deepak Poddar: Thank you very much sir for the opportunity, my first question is on NP, currently we have reported 5.3% as on 150 days, and so what could that number as on 120 days?

Sanjay Chamria: On 120 days it will be 5.9%.

Deepak Poddar: Any kind of outlook that you want to share that this is what we want to achieve in terms of our gross NPA over next one to three years, any kind of NP outlook given the stress in your loan book?

Sanjay Chamria: See, the stress in the loan book is quite universal and nobody is an exception including Magma, so in terms of the outlook as I mentioned that I do not expect the economic recovery to happen at the end of this year. If the total portfolio can be divided in to two parts one is the existing portfolio created till December till 2014, there is a new portfolio created from January 2015, so the new portfolio created from January 2015 is quite stable. Although you will not see, even if it is not stable, you will not see the NP accretion in the new portfolio, therefore what we have done is evolved certain early warning indicators which have been developed based on the historical linkages in the early indicators to the eventual credit losses that we have suffered and when we tighten up the screens and starting reducing the disbursal the benefit that we were looking for is the improvement in the credit quality, for other factors remaining as is in respect of the portfolio originated from January 2015 the NPA should be much lesser and that obviously will be seen only in FY 2017 and in the current year as we trend down the next few quarters about 55% of the total portfolio will be the new origination and in the existing portfolio I would not expect a major improvement in the NPA because I am finding still the customers are quite stressed in terms of their ability to pay more than one installment, however with all the collection efforts, that is the third point that I shared to an earlier question there are three steps that we take. On the existing portfolio we have made highly intensified efforts and investment in the collection set up and I don't think now we can further take it beyond, otherwise it reaches a breaking point, so we will have to endure on the existing portfolio the heightened NPA level for the next couple of quarters unless the economic recovery happens, so now coming to your question in terms of the number part, I think the credit cost this year will remain higher than last year. In terms of the NPA percentage it may be lower by the end of the year because the new book will be 55% of the total book but in terms of the credit cost FY 2017 and FY 2018, these two should be lower because then the new book will start contributing to the lower credit cost, hope I am able to answer your question.

Deepak Poddar: My second question is on your opex front, like in the earlier call you had guided that you would be looking at 3.3% of opex the level which you achieved in FY 2014 by this year

end, so we are largely on track, so any kind of vision that we have that we can reach to about FY 2013 level which used to be about 3%.

Sanjay Chamria: Actually you know we want to take one step at a time, so as I was sharing that all the investments that we made in the technology that have been completed and now we have started getting the benefits thereof because over 7000 field executives that we have they are placed in 1600 talukas and they do not need to come to office and they can on the cell side process the customer application, scan the documents, send it from the field and they get the decision also after the de-duping with the internal database as far as the external credit information bureau and that way we are able to provide the service with the guys remaining in the field. Similarly on the collection which we had done much earlier the guys are able to issue the cash and receipt from the system at the customer's residence when they collect the installment, so all those things have happened, so now is the time when we are seeing the reduction in the opex because all the investment cycle has been completed, so the benefits have started flowing in. The second thing is now we are looking at once the disbursals start stabilizing and the loan book starts going up on the absolute side variable side we have controlled the opex, so therefore the percentage should go down and the third one is once the collection scenario improves, and NPA scenario improves the additional expense that even now we are incurring in the collection that should go down and as I told you that next year we are starting with 55% of our loan book from the new origination, so there my collection cost should be lower, so anything below 3.3% would probably kick in next year with these two things, one the collection cost going down and two the loan book increasing, so we want to be poised actually to partake in the economic recovery as we expected to happen from Q1 of next year and until then and this year our complete focus will remain on improving the operating efficiencies.

Deepak Poddar: On track to improve our NIMs operating expense are going down, so do you have any kind of vision that we would like to achieve an ROA of 2 to 2.5% in this timeline from currently 1.2%.

Sanjay Chamria: We have a vision that in terms of NIMs we would like to reach 7% which is were a good number of our peers are in and having much better ROA and the ROE and the guys who are having 7% are all in the range of 1.5 to 1.7% ROA of some who have a lower leverage have a ROA of more than 2% also, ROE all these guys are making 15 and 18% in the current stressed scenario, otherwise they have an ROE of more than 20%, so far as we are concerned this year we have given a guidance that we want to reach on our entire portfolio of 20,000 Crores 6.5% plus NIMs where we have already reached 6.39 in Q1 itself, so I think we are well on track so far as the NIM part is concerned, so far as the opex part is concerned we had the highest opex in the industry and we said that we had taken definitive

steps and this year we said we will target to bring it below the year before which was FY 2014 at 3.35 as you mentioned and in Q1 we are there and one we want to make sure that we do not lose track of this and we are able to bring it further down if now at least maintain it at 3.35. The third element which will have an impact positive or negative on the ROA and ROE is actually the credit cost which this year I do not expect it to go down, but next year I certainly expect this to go down because 55% of our portfolio will be from the new book, then I think you can see a significant traction in ROA and ROE.

Moderator: The next question is from the line of Amit Premchandani from UTI Mutual Fund, please go ahead.

Amit Premchandani: Good afternoon sir and thanks for the opportunity. I have a question in terms of number of contracts which are overdue, how has that moved over the last one year?

Sanjay Chamria: Thanks, actually the number of contracts have moved up because that is how the NPA percentage has gone up and this is despite the fact that the average ticket size is going down, if the average ticket size goes up and the NPA numbers go up then it could be also that still the number of contracts are not going up but right now even the number of contracts going up are higher as the average ticket size we have been derisking by bringing it down. The other reason also why the ticket size is going down is the new CV and new CE where the ticket size is about 18 to 22 lakh, that business we are decreasing and we are increasing the contribution of passenger vehicles and the tractors and the used assets where the ticket size is about 6 to 8 lakhs, so the combined effect of all this is when the NPAs are going up with the ticket size going down there is an increase in the number of contracts going up in the NPA bucket.

Amit Premchandani: Any sense of the actual number if you can share or do you think it will not give a true picture.

Sanjay Chamria: Well, actually I do not have it offhand with me, maybe Atul and Ujwal they can have offline conversations with you and provide you trendline in terms of the number of contracts going up.

Amit Premchandani: Sir, how many of the contracts are actually paying at least one installment, you said some of them are actually paying installments, so any sense of that?

Sanjay Chamria: Yes there we have a sense and which is why Amit we have made one more change from last month, so earlier even in the NPA bucket, supposing if I have 20,000 contracts so about 8000 to 10,000 contracts will pay at least some money, I will not say one installment but some money which could be even part of the installment, so that we said that now we need

to increase that because it is not that a customer who has moved in to the NPA bucket has no money and therefore now we are looking to increase that from around 50% to about 70-75%, it of course remains to be seen as to what results we shall get out of these initiatives but the idea is when in such a tough scenario you try to look at all the areas of improvement and as I said sometime back that we have taken more than 90% steps required to improve the collections performance, so now there are small, small little, little areas including the one that you pointed out and even if a customer who will stay more than one year delinquent can I go and collect at least one installment, at least that will reduce my credit losses to that extent and the focus is clearly on that from last month.

Amit Premchandani: Any sense of numbers Sir, if you can, broad numbers, 50%, 60%?

Sanjay Chamria: Right now below 50 as I said but then we have taken initiatives where we want to grow this to about 70-75% but this is more aspiration and we are working towards the target but eventually where do we land up we will only know once we end the quarter, maybe next call I should be in a position to throw some light on this.

Amit Premchandani: Sir if these are 36 month contracts and if they kind of pay one month EMI and although they are due for six months, generally is it fair to assume that in the 44th or 45th month they may have already paid everything and you will see recovery, so loss and default will be lower, this is how we should look at it?

Sanjay Chamria: Let me answer your question in two parts, one the tenor is not 36 months, tenor is usually about 40-43 months on a weighted basis for tractors it is about 48-51 months, the second observation of yours is right, we typically see the contracts which are say 42 months would get over in about 50-51 months, so that will dragged by additional one year due to the tough scenario that the customers may be facing and therefore like last two, three years there is increase in the NPA, so therefore once the economic cycle would turn one you will see lesser accretion to the gross NPA and two the customers who have already gone in to NPA and the companies have taken a hit you will see the recoveries flowing out of that and which will add to the income line, so you will have a double positive impact but we are all waiting to see that and it may happen maybe FY 2017 or 2018, not before.

Moderator: The next question is from the line of Rashi Talwar from Ashmore India, please go ahead.

Ashwini Agarwal: Hi Sir, this is Ashwini Agarwal here. I had a question, if you were to look at normalized credit cost, what should that number be for a healthy business, 130-140 basis points, should it be higher lower, what do you think it should be on a long term basis?

Sanjay Chamria: So Ashwini, I think this question can be answered in this manner that the credit cost on the long range, say if I take a block of five years wherein you will have the tough years and the good years the percentage will actually depend upon the product composition, so earlier my product composition in the good times and over a longer period we saw that the credit cost was about 50 to 70 basis points on an annualized basis which was in the new CV, car and CE business which was 80% of the total book. When we have changed the track and gone to the higher yielding because if you get between 8 to 11% NIMs the credit costs are typically higher on an annualized basis, so there like right now for example I am incurring the credit cost which is in the range of, till last year it was 1.7, 1.8 and now it has crossed 2% which in my view is an extraordinary situation, however, on this portfolio mix which I have which is mortgage doing 20% and tractor doing 17 to 18 % and used asset doing 11 to 12 % and SME if you add up and then four doing about 60% and the new car CVCE doing 40% in or simulation in an ideal world we would be happy with about 100 to 125 basis point credit cost, so to that extent I feel clearly there is 80-100 basis points improvement that I would like to see if I look at on a lifetime basis of the entire portfolio in a block of five years.

Ashwini Agarwal: But similarly right know you have very favorable credit environment so as the environment turns you will have to give up some of that gain on the credit cost, is that a fair comment on my part?

Sanjay Chamria: No I would rather say the reverse, right now we are in a very unfavorable credit environment and therefore the credit cost is at a very heightened level, till about FY 2012 the credit cost was actually below 40 basis point, FY 2013 it went up to about 70 basis point, 2014 it crossed 1%, 2015 it crossed 1.7% so therefore right now we are in a very, very hostile credit environment. The customers simply do not have cash flow to pay.

Ashwini Agarwal: No, No I was referring to cost of credit.

Sanjay Chamria: Cost of funds.

Ashwini Agarwal: So will you have to give up some of the gain that you will get on the credit cost side on the cost of funds because this is a relatively benign environment for you to either settled down your priority sector loans or to be able to borrow, would that be a fair comment?

Sanjay Chamria: So, I think the credit cost over the last two to three years have been fairly stable and rather you are right there it is going down by about 15 to 20 basis points, if there is a recovery in the market and if the credit environment rather than benign becomes a little tighter then you could see an increase in the cost by about 20 to 25 basis point and about 60% of our total

balance sheet is lying locked in terms of the cost of funds and about 40% is variable, so when the cost of credit goes down then we get the benefit on the 40% of the balance sheet, so when the cost of credit will go up we will have the impact on the 40% of the total balance sheet, so if the cost goes up say by about 50 basis point then it could result in a 20 basis point hit to the cost of funds on an overall basis, hope I am able to answer.

Ashwini Agarwal: Last question is the shift from new assets to used assets that you have done in the portfolio I am assuming that as the environment improves you will change your stance here?

Sanjay Chamria: I would like to do a correction that used asset is even now at the end of Q1 only 14% of my total balance sheet, so the shift that we have done is on account of four products put together which is SME, used, tractor and mortgage, and as I said the rationale for increasing the contribution of these four which on an incremental basis contributed 65% and in the overall loan book basis it contributed 53% these are all either higher ROA or higher ROE products and this we will increase from 53% weightage over the next two years to 65% to 70% weightage and therefore to that extent the share of the new vehicles and equipment will go down from the current 47% on an overall loan book basis to about 35% or 30% over the next two years.

Moderator: As there are no further questions from the participants. I would now like to hand over the floor back to Mr. Aadesh Mehta for us closing commands. So over to you Sir!

Aadesh Mehta: Thanks. On behalf of Ambit Capital I would like to thank Mr. Chamria and the management team of Magma and all the participants for the call. Thanks a lot.

Sanjay Chamria: Thanks very much Aadesh and to everyone on the call for your active participation. Thank you.

Moderator: Thank you. Ladies and gentleman on behalf of Ambit Capital that concludes this conference call. Thank you for joining us. You may now disconnect your lines.