"Magma Fincorp Q1 FY18 Earnings Conference Call hosted by Investec Capital Services"

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MANAGEMENT:	**MR. SANJAY CHAMRIA – VICE CHAIRMAN AND MANAGING DIRECTOR, MAGMA FINCORP** **MR. MANISH JAISWAL – MANAGING DIRECTOR AND CEO, MAGMA HOUSING FINANCE LIMITED** **MR. KAUSHIK BANERJEE – PRESIDENT AND CEO, ABF BUSINESS, MAGMA FINCORP** **MR. KAILASH BAHETI – CHIEF FINANCIAL OFFICER, MAGMA FINCORP**
MODERATOR:	**MR. NIDHESH JAIN – INVESTEC CAPITAL SERVICES**

Moderator: Good Morning Ladies and Gentlemen, Welcome to the Magma Fincorp Q1 FY18 Earnings Conference Call hosted by Investec Capital Services. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nidhesh Jain from Investec Capital Services. Thank you and over to you, Sir.

Nidhesh Jain: Good morning everyone and welcome to the Q1 FY18 earnings call for Magma Fincorp. To discuss the financial performance of Magma and to address your queries, we have with us today Mr. Sanjay Chamria, Vice Chairman and Managing Director, Magma Fincorp; Mr. Kailash Baheti, Chief Financial Officer, Magma Fincorp; Mr. Kaushik Banerjee, President and CEO, ABF Business; and Mr. Manish Jaiswal, Managing Director and CEO, Magma Housing Finance Limited. I would now like to hand over the call to Mr. Chamria for his opening remarks.

Sanjay Chamria: Thank you, Nidhesh. Good morning and welcome to the Magma Q1 investor call. The Indian economy has been going through a major transition having started last year. We witnessed normal monsoons last year followed by demonetization nullifying some of the advantages of normal monsoon and again the good monsoon this year followed by higher budgetary support to the rural economy in the form of outlay for rural infrastructure, increased allocation to MGNREGA, focus on affordable housing through PMAY, improved MSP prices, and focus on crop insurance. All of these measures are expected to revive rural economy in FY18 and going ahead. This impact is also expected to be more structural than cyclical.

Magma with 80% of its 300-branch network in semirural and rural markets and more than 65% of its customers from these markets expects to be a significant beneficiary of this expected resurgence in the rural India for its wide range of product offerings from asset-backed products to affordable home loans.

Let me now give an overview on our business and our performance in the Q1. First the asset quality, we have taken series of measures to continually improve the portfolio quality and it is reflected in the marginal reduction in the absolute amount of net NPAs during the quarter. Consequent to the NPAs sale in Q4 of FY17, our NPA recovery team has stepped up recovery of the loan bucket is in our books and achieved good turnaround and at the same time, the quality of new portfolio has also helped in better collection efficiencies.

We have realigned our collection team's KRA to 90 DPD threshold with the objective of moving towards 90 DPD provisioning norms by March 2018. Our 90 DPD focus has resulted in the gross assets in the 90 DPD bucket declining by 4% QOQ in first quarter of FY18.

Overall differentiated approach in addressing business depending upon the branch and the product grading, peaking of NPAs in the older book which was originated prior to December 2015 and quick resolution in relatively younger NPAs post the sale of hard bucket NPAs have led to this improvement in the asset quality. We have given guidance on absolute reduction of net NPA during the year and we are quite confident of the same by the end of the year which should result in lower credit losses and interest, income reversal, and resulted expansion in the NIMs.

Coming to the AUM and the disbursal, with a focus on diversifying our AUM and reducing the cyclicality and seasonality in the business, the sequential degrowth in the AUM of 4% was around expected line. As we have shared in our earlier commentary that we would have AUM degrowth in the first half and we will start growing from the second half, we are pretty much on the same line.

In case of ABF business product diversification and the strict portfolio correction majors based on the branch and the product grading led to decline in the ABF disbursals by 15% YOY, however, we have diversified our portfolio as weightage of used assets and the light and the small commercial vehicle have increased. The disbursements in the used assets and the LCV, HCV contributed 24% of the first quarter disbursal compared to 17% in the corresponding quarter last year. With the implementation of product mix changes in ABF business, the focus has been on building the volume growth from Q2, kicking off early festival season this year will also aid in achieving the growth. Having said that, we remain committed to our moto of portfolio quality first over growth for FY18.

In the mortgage business, realignment of the business towards more direct origination and home loans have led to lower disbursal in the quarter. With Manish on-board as the new CEO and the launch of go-to market initiative, the mortgage business has sharply refocused on the emerging Pradhan Mantri Awas Yojana, an affordable housing opportunity by leveraging on its 300 branches and a million customer network. The objective would be to grow by direct sourcing through the DST route and promote PMAY to provide more affordability to our core customer segment which is self-employed and formal.

The SME financing business continues to perform well both in terms of trade quality and profitability. The SME business is expected to further sustain this performance by expanding business beyond the existing top 50 cities by leveraging Magma’s large network focusing on lending to the micro and small enterprises customers, building geo cluster and industrial segment enterprise expertise to adopt micro-market approach to business growth, shift towards sectors positively impacted by GST and by increasing contribution on direct business.

With the likely improving macro fundamentals of the Indian rural economy due to normal monsoons and the increased expenditure by the government in the rural markets, the company expects to end the year with a positive AUM growth with a significantly better asset quality.

Coming to the insurance business, last two years have seen the insurance business getting stabilized in terms of underwriting guidelines, reinsurance program and the technical team all of which have provided a strong foundation for the business to grow. FY18 is supposed to be an important turning point for the insurance business as the company enters into a growth trajectory. In line with the expectations, our business has grown to Rs 118.7 crores in the first quarter achieving 27% YOY growth. The underwriting decisions taken in the last two years have ensured that our motor OD loss ratios are among the lowest in the general insurance industry. The company which currently has concentration in the Motor business intends to diversify the portfolio into commercial and health lines of business. Accordingly, the first quarter has seen the non-motor business mix improving to 24% from 16% last year.

On the management changes with the joining of CEO for the mortgage and the SME, we have now boosted the leadership team for sharper focus on businesses through three dedicated CEOs who have deep industry domain expertise. Crucial leadership hiring is now largely complete, and the entire management team now operating from Mumbai, our priorities on improving the operating metrics with the first focus on asset quality. Further, shifting to Mumbai has helped us to attract industry-based target for business orchestration.

We have revamped the performance management system covering the top 40 leaders in the organization underlining the corporate objective of qualitative growth and sustainable improvement in ROA with each leader’s KPI and it has resulted in much sharper focus on outcomes.

I would now like to share the key highlights on our financial performance for the first quarter. In the quarter, we reported best ever NIMs of 8.3% which is 143 BPS higher than the same quarter last year. The expansion in the margin was due to the improvement in cost of funds and increase in the share of earning book. Our cost of funds at 9.4 is one of the lowest which Magma is experienced in the recent past. However, we acknowledge there is further scope in improving our margins as there is headroom available in reducing cost of funds. Further, the improving asset quality will also contribute in the margin expansion.

As we had highlighted in the previous call, our cost-to-AUM ratio has increased to 4.3% in the first quarter, largely due to the reduction in the loan book and increase in the employee cost. However, 80 BPS YOY increase in the OPEX has been well absorbed by an increase of 143 BPS in the NIM. The OPEX ratios would improve with the revival in the AUM growth, but it is slightly higher than last year.

Despite decline in AUM, our profits have increased by 4% YOY by margin expansion. We have a total provisioning cost of 91 crores in Q1 which includes additional provisioning of 10 crores which we have made considering migration to 90 DPD in FY18. Consequently, our coverage ratio has improved to over 20% compared to 18% in the preceding quarter. Our PAT at 45 crores is marginally lower than last year, but our ROA for the quarter improved 11 basis points YOY to 1.34% on back of better operating performance. We expect this trajectory of ROA expansion to continue in the coming quarters.

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

Moderator: Thank you. Ladies and Gentlemen, we will now begin the question and answer session. We will take the first question from the line of Nishchint Chawate from Kotak Securities. Please go ahead.

Nishchint Chawate: Three questions from my side, first of all if you could give the number of employees at the end of the quarter? The second was on your outlook for growth for the end of the year, I know you did mention that you are looking at growth in the second half of the year, but if you would kind of give some range or a number to that, it would really be helpful? The third one was on the GNPL side , where I think you did mention that GNPLs have gone up on the LAP side, so just a little curious to understand what happened over here and going forward now what is the outlook in this?

Sanjay Chamria: Nischint, the number of employees are around 9000 and that has remained the same between preceding quarter and this quarter.

Nishchint Chawate: Outlook on growth, you did mention that things will pick up in the second half, but if you could put a number to that?

Sanjay Chamria: When we announced our FY17 results, that time we had shared that with the focus on changing the product mix and improvement in the asset quality, we had the impending rollout of the GST, that in first half of the year we will have a marginal degrowth in the AUM and with all of this having settled down, in the second half of the year we will look at growth in the disbursal with the hope that by the end of the year we will have a single digit growth in the overall AUM, so in the first quarter our AUM has degrown by 4% which we had actually expected at about 2.5% however, with the GST rollout the operating leasing business that we do, there is an incremental GST tax outgo in the hands of the employees working in the top 100 corporates who are our customers so that has resulted in an additional 1.5% AUM reduction. In the Q2 also, we would expect a marginal reduction in the AUM, but from second half of the year with all the product mix and the direct home loan business having settled down, we expect the AUM to grow significantly and therefore we would end the year with a positive growth in the AUM, though it will be in the single digit.

As far as your third point which I was clarifying in the media interaction in The Morning Trade, we have witnessed the reduction in the absolute amount of the GNPA across product categories in the vehicle finance business. In SME, it is marginally higher, the increase in the GNPAs largely come only from the mortgage business and in that the last remnants of the LAP book which we have, so due to the cash flow mismatches some of these customers were in the ticket size of 25 and 75 lakhs are the ones who have moved up and that is what has resulted in the overall increase in the GNPA.

Nishchint Chawate: If you could clarify what you mean by cash flow mismatches?

Sanjay Chamria: In the sense that when we have given the LAP loans these are basically to meet the working capital shortage so while there is an inherent security that we hold having given the loans at about 60% LTV, but then due to the mismatches in their cash flows which has also been accentuated due to the first quarter lower sales on account of GST rollout, this people have not been able to pay the installments and accordingly moved up.

Nishchint Chawate: Anything you could just share on the outlook for this business over the next second or third quarter?

Sanjay Chamria: I have Manish here who is now heading this business and the SME business, so let Manish answer this question.

Manish Jaiswal: I will just take it forward from where Sanjay left, while the GNPA in absolute numbers we could have seen some carry forwards, but I also wish to mention that in terms of settlement which we do once the NPA assets are liquidated or written off, we are sitting on pretty good LTVs and we really do not observe any losses of sales or of such assets, to that extent the question on GNPA resolution on mortgages is, we have some comfort there given the quality of underlying of the security which we have. Second on the outlook we are pretty confident that from current rate of growth over next two quarters, we would see a significant increase specifically coming as Sanjay mentioned in the second half, but we would start to see the uptrend in the next quarter itself which would be the trajectory and the quality of growth would largely come more from home loans and as Sanjay also mentioned about the affordable segment largely around sections around MIG, sections around LIG where we will be availing of the PMAY scheme. As we speak to you, we have actually assured in the PMAY login from this month itself and we believe that the momentum is there to significantly grow. We do not give forward-looking projections, but we can only tell you that there will be significant increase over next two quarters in itself on both mortgage as well as home loan business.

Nishchint Chawate: Just a related part of what you said, are you getting any color, any signal, any sense from your borrowers that their cash flows have started to improve or any reasons when they would improve, a or any color on that would be appreciated? Thank you.

Manish Jaiswal: Early days yet, I think post-GST all I can say is there is lot of wait and watch, but one thing is very clear if the people who have got more organized businesses or where financial symmetry is not so stark, they seem to be headed for a much more rapid business expansion because their ability to venture into contagion states is far more higher while the ones who I believe are not so organized, they will have to go through a business reset or a model shift, but having said that I think overall there is I would say cautious optimism in the sector and our belief is whatever initial understanding we have, it seems to suggest that I think from the SME business it is cautiously optimistic.

Nishchint Chawate: The second segment as you mentioned would be like what percentage of your book or exposure or any color on that?

Sanjay Chamria: I think it is a matter of playing out, it is a matter of at least settling down to the new norms rules, some people settle in fast, some settle in early, but in terms of cash flow mismatches we have not seen anything, post GST buildup in July in terms of actually to look at our collection efficiencies and bucket wise collection, we have done well. In fact this month's trend, the momentum so far is positive and if anything it can only grow better from here because Sanjay mentioned about the early festive season two, so all of that is going to build in demand and we presume that cash flows should keep chugging.

Moderator: Thank you. The next question is from the line of V. P. Rajesh from Banyan Capital Advisors. Please go ahead.

V. P. Rajesh: Could you just give a breakdown of provisions across your ABF, SME and mortgage businesses?

Kailash Baheti: We would not have the breakup readily available with us, you can write to Sanketh and he will provide the breakups.

V. P. Rajesh: Could you comment on what would have been the NPAs we were doing it on 90 day DPD?

Kailash Baheti: We would be about GNPA at 1.8% higher.

V. P. Rajesh: My last question is just trying to understand how you book the revenues, so the LAP book within mortgage is that booked in Magma Fincorp and the housing loans are in the HFC or everything is under HFC?

Sanjay Chamria: Here our underlying principle has been that we are doing housing business in Magma Housing, but housing entity can only have 50% of other businesses, 50% has to be home loans, so if there was any residual we used to book it in Magma Fincorp. In the current year, we have not booked anything in Magma Fincorp, it is mostly in Magma Housing Finance.

Moderator: Thank you. The next question is from the line of Ankit Choudhary from Equirus Securities. Please go ahead.

Ankit Choudhary: My first question is, I just wanted to know what is the share between this LAP and housing loan in mortgage book?

Kailash Baheti: As of now, it is 70% LAP and 30% housing, however, I think Manish would like to add as to what is the plan on this business.

Manish Jaiswal: In HFC, we certainly have preponderance of home loans and overall on the mortgage piece if I look at the combine book very rightly Mr. Baheti mentioned that 70:30 ratio. In medium to long-term, we would look at inverting this ratio, that is forward-looking direction on which we would like to operate, we truly believe that the LAP business sits in pretty well through assessments of cash flows, and therefore, it should sit contiguous to the SME business, so to that extent we certainly believe that our mortgage book specifically should see a sharp take in terms of the direct home loan customers and that especially in the Magma type of customers which has been pretty well-defined that these are customers who are largely self-employed, non-professionals, or customers who are urban poor or customers who are in semi-urban and rural markets which we believe the average ticket size should be around 12 lakhs.

Ankit Choudhary: Basically when you will be shifting towards these housing loans from LAP category, definitely your yields will get impacted due to this, so how would you define this thing?

Manish Jaiswal: Actually, if you really go and tear the customer segment into the type of customer and collateral, the sizes are little different. While it may appear so that as perception would belie, a customer who is salaried commands a very different rate of interest from a customer who is non-salaried or a customer who absolutely has least documentation, so to that extent it is a function of customer profile, collateral profile, geographic profile, and if you a tear it I think we are pretty confident that to say the least our NIMs will be pretty much in order and to say the least already 30% of our sourcing is somewhere in that range of where we are, so we do not expect a sharp compression there but what could also happen is that the twin benefits of PMAY scheme would also accrue and our ability to offer affordable rates to the customer is much more sharper given the kind of subsidy which is being given by the government.

Ankit Choudhary: The second question is in the Agri side, basically the Agri mix in the current quarter in disbursement have gone quite low, it is like only 13%, basically there was a good monsoon this time, so is it because of these farm loan waivers so you have been taking a cautious step over there or is it something else?

Kaushik Banerjee: If you recall from the earlier discussions that we had, the Agri segment for us has faced a certain amount of stress, so we have actually spent the last two quarters in ensuring that we take appropriate measures to improve the quality of business that we generate in the Agri segment, so just incidentally QOQ growth on Agri has been 22%, however, year-on-year has seen a decline. Agri is at about 18% of the disbursement on the ABF book down from 28% year-on-year, tractor remains an important and critical asset in our overall portfolio, so there has been a contraction last quarter on account of management of portfolio issues, but a large component of that has been addressed and we are pretty confident that going forward we would continue to see an incremental improvement in our Agri disbursement quarter on quarter.

Ankit Choudhary: My final question is could you please provide me with the GNPL across all your segments?

Kailash Baheti: Again the details you can take from Sanketh, you can write to him and he will provide all the details.

Moderator: Thank you. The next question is from the line of Chandana Jha from Principal Mutual Fund. Please go ahead.

Chandana Jha: My question is on diversification which you spoke about at the beginning, in the vehicle finance could you share if you have any target or defined objective of the kind of mix you would want to have in the vehicle finance space?

Kaushik Banerjee: It is a very important question and I appreciate it. We would like to diversify our overall asset portfolio where over the long term no single production has more than 20% weightage on the overall portfolio. Key products are used commercial vehicles, tractors, light commercial and small commercial vehicles and cars, so these are the key products that we have and we will continue to selectively fund construction equipment and heavy commercial vehicles. Clearly, we need assets on our book to high yields and which is why there has been a significant focus on managing the quality of portfolio because we are able to run on plan in terms of the high yield assets and continue to control and reduce our credit cost in these assets, the resultant impact on return on assets is quite significant, so yes, we would like to continue to diversify our overall portfolio with focus on high yield profitable assets.

Chandana Jha: Could you also share what are the yields currently on used assets and construction equipments that you are getting today?

Kailash Baheti: The used assets is known to be between 18 and 19% and construction equipment will be between 13 and 14%.

Chandana Jha: One more question, you also mentioned about reduction in NPLs for 90 DPD bucket, is that correct?

Sanjay Chamria: Yes.

Chandana Jha: Could you elaborate a little on that, please?

Kailash Baheti: Our Net-NPA as on June 30 is about Rs. 23 crores lower than NPA March 31. The number was 889 crores as on March 31, 2017, and it is 866 crores as on June 30.

Sanjay Chamria: In addition to Kailash, the question is even at the 90 DPD, 90 DPD the reduction is even sharper than the reduction at a 120 DPD.

Chandana Jha: That is what I was referring to.

Kailash Baheti: I can roughly give you that the gap was 2.2% at the beginning of the quarter between GNPA at 90 DPD and 120 DPD, it has now shrunk to about 1.8%.

Chandana Jha: One more last question what kind of coverage would you be looking to build at, currently we are at 20%, we have seen an increase this quarter, are we looking to provide some extra additional provisioning to take the coverage higher?

Sanjay Chamria: One, as we shared even in our May board meeting call that we are pretty committed that this year we are looking at a very significant reduction in the absolute amount of the NPAs and also migrate to 90 DPD, and first quarter usually which is a weak quarter and in which you see a surge in the NPA, while we have had a marginal reduction but I think we have reversed the trend and to us that is a very promising sign of what we will achieve in the rest of the year. We keep talking, we increase in the first quarter and next three quarters we keep fighting to reduce it, but when you are reducing the first quarter, next three quarters the expected reduction would be very significant, so on one hand we are looking to reduce the gross amount of the NPAs, on the other hand we are also looking to increase in the PCR, so like in the first quarter itself we have increased the PCR by more than 2%, so hopefully by the end of the year we will further increase it.

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

Deepak Poddar: Sir, in your opening remarks as you have mentioned that we expect much better asset quality and gross NPA of the reduction, but along with that we are also planning to increase our PCR to may be 25% level somewhat, so overall how do you see the credit cost basically, I think as per last call we were under the impression that it would be below 2%, so will that still kind of hold?

Sanjay Chamria: We are extremely confident that this year we will exit with a significantly superior asset quality on the overall portfolio, we will have a higher PCR, we will have a lower credit cost and we will have a higher profits.

Deepak Poddar: Lower credit cost in the range of 1.5 to 2%, is that the right metrics to look at?

Kailash Baheti: Yes, that is right.

Deepak Poddar: As you mentioned in this provision 91 crores, 10 crores is additional due to 90 DPD recognition, so is that a continuing thing that we will see going forward into subsequent quarters?

Kailash Baheti: I would like to clarify this, as on March 31, 2018, is when we have to move to 90 DPD, so whatever was our 90 to 180 DPD, one fourth of the required provision has been made in this quarter and we intend making one fourth quarter provision in each of the quarter.

Deepak Poddar: One fourth, so maybe 10 and 10 crores or that run rate might come again in the subsequent quarters as well?

Kailash Baheti: Yeah, if we improve our performance, if our portfolio improves then this number may reduce.

Sanjay Chamria: It has reduced from what it was expected to be at the end of March quarter, we expected this to be about 13 crores a quarter, but it is reduced to 10 crores a quarter because of the improvement in the GNPA numbers, so we hope to improve that and if that happens then the impact may be lesser.

Deepak Poddar: On the operating expense front like we kind of are currently at a run rate of 169 crores, is there any one-off in this quarter or in that operating expense or is this the run rate that is kind of we are looking at going forward?

Kailash Baheti: There is no one-off in this and we expect that this would be the kind of run rate going forward.

Deepak Poddar: My final question is you remark on the ROA front that we are expecting this trajectory of improvement to continue in the subsequent quarters, so we are at around 1.34%, even if we take 10-15 basis points improvement every quarter, we are at about 1.6, 1.7 kind of ROA run rate to exit basically the year, so would that be a right way to think?

Sanjay Chamria: We would not like to give any guidance on ROA etc., but the trajectory should be on the positive, it should be improving.

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

Umang Shah: I just have a couple of questions, first one is for Kaushik where if you could just give us some color on our used assets portfolio in terms of what are the kind of vehicles and what is the vintage and stuff like that, and a related question is that if I look at our CVC portfolio as a proportion, I mean it has come down to probably the lowest ever levels that we have seen, so I realize that you made a comment that selectively we would be still doing HCV and construction equipment, but is there any particular number where it settles down or it would be more opportunistic?

Kaushik Banerjee: Basically, in all our earlier discussions as well and wherever this interaction, we have talked about the fact that our key product that we are looking at in terms of growth is used so the composition of used today is largely used cars with a smaller component of used commercial vehicles. The intent is to continue to grow our used car portfolio, the intent is to build out a used commercial vehicle portfolio as well. Today, 70% of our portfolio is used cars and the balance 30% is another product which is used tractors, CV, CE. We would ideally like to take this up to at least about 50 to 60% of the overall portfolio while continuing to sustain growth in the used car portfolio.

Umang Shah: I am sorry I missed that percentage you said used car currently how much?

Kaushik Banerjee: Used car currently is about 70 and the other products is about 30%. We would like to take the other products to somewhere between 50% and 60% of the overall portfolio by sustaining our growth in the used car segment as well, so what I am saying is we expect the trajectory of growth in the non-car segment to grow faster than the trajectory of growth in the used car segment.

Umang Shah: With a 70% used car portfolio, our average yields currently on used portfolio is around 18 to 19%?

Kaushik Banerjee: 18.5 to 19%, yes. Your second question was in terms of vintage, specifically we do not finance assets where including loan tenure the age of the asset should not exceed 10 years, so that is on the vintage part.

Umang Shah: On CVCE, HCV and construction equipment?

Kaushik Banerjee: As you would be aware HCV and CE are typically low-yield products so we see a parallel growth with the revival in our tractor business and continue to sustain growth in the used commercial, vehicles, we will selectively continue to finance M&HCV and see within the overall target percentages of our blended yield.

Umang Shah: My second question is for Kailash Sir is relating margin, so we have seen our margins expanding considerably over past 4 to 5 quarters with clearly 8.3 kind of being the highest ever that we have seen, where do we see margins sustaining as and when growth picks up that is one and the second part to it is that I have been looking at our borrowing mix and contrary to other NBFCs and HFCs we have consistently had our bank borrowings in upwards of 60 to 65%, whereas others have kind of brought it down considerably so are we seeing any kind of headroom on the cost of fund side given the differential still remains fairly high between bank borrowings and wholesale markets?

Kailash Baheti: Umang, I will give you a small calculation one is that our net interest spread which IRR minus cost of borrowing is right now at 6.9%, then it is a question of leverage so probably we should safely assume that we will continue this year at around 8%. Now on net interest spread, we do not think we will be going beyond this, we would remain at around 6.9%, if at all there could be some kicker from the cost of funds but not very significant in the year. The second point is that we have significant amount of NPAs in our book and as we recover and our NPAs reduce, and earning book increases and therefore which results in direct kicker to NIM, so probably as we improve our book the NIM will get some boost, so these two, one is cost of funds should obviously go down given that only yesterday there has been an RBI rate reduction and second is that we are confident of reduction in our non-lending book which should also give a little bit kicker.

Umang Shah: On the borrowing mix side, we do not intend to move significantly away from the bank borrowing, we will continue to have this kind of bank borrowing mix?

Kailash Baheti: For the year, yes, that is how it is going to be.

Umang Shah: Alright, got it, Sir, just last data point clarification, in the opening remarks, Sanjay Sir mentioned that we would end FY18 at lower NPLs year over year, is it after assuming the 90 DPD migration?

Kailash Baheti: No, the comment was at 120 DPD and our objective would be that we end at around the same level with 90 DPD or if we can achieve something better that would be a bonus.

Kaushik Banerjee: Umang, for Q1 used assets disbursements there was 50% contribution of cars and 50% contribution of other asset to our disbursals.

Umang Shah: You are saying for incremental disbursement in Q1?

Kaushik Banerjee: Yes.

Moderator: Thank you. The next question is from the line of Pallavi Deshpande from Smart Karma. Please go ahead.

Pallavi Deshpande: Just wanted to know if we have been using anything in the SARFAESI Act if we have been able to use that for our LAP portfolio and if any cases have been referred in that act, and secondly in terms of the LAP portfolio what would be the average ticket size currently?

Manish Jaiswal: In fact, SARFAESI after post accession to NBFC have come in pretty handy and in our experience especially with LAP, quarter has been that we have been able to get customer to the table and even though assets may have certain vintage, but the settlements have been pretty fast, we have been able to recover I would say at least the principal outstanding and there have not been any principal outstanding hits largely speaking as a matter of fact and I think this is something which we believe is giving good fillip when it comes to our mortgage businesses and we believe that this traction would continue and is going to help us in this business. As far as our average ticket size currently is concerned in a mortgage business is around 15 lakhs.

Pallavi Deshpande: Sir, lastly what would be in terms of the business origination cost, where would that be classified is it netted off from the interest income or is it in the other expenses?

Kailash Baheti: Business origination cost is amortized over the tenure of the contract.

Moderator: Thank you. The next question is from the line of Praful Kumar from MSD Partners. Please go ahead.

Praful Kumar: One question is the RM team onboard now that we intended to scale up those 200 guys to help us grow the business on the disbursement side?

Sanjay Chamria: We have planned for 300 people, so out of 300 people we have 235 onboard and the rest will be onboard in August.

Praful Kumar: Kaushik, just if you can just give us this data point that six months back what was the classification say out of the total branches, 60% were A&B and today how that number has changed, I am just putting out the number as 60, so how that ABCD classification has changed over the last six months?

Kaushik Banerjee: A valid question Praful, I cannot give you the explanation off line but I will be happy to share it with you separately.

Praful Kumar: One question to Sanjay on the total DSA payout that we do now we intend to be go direct is the next thing I am seeing in what you are communicating so over a three-year period, how much OPEX saving this go direct can bring to the table for us?

Manish Jaiswal: I can certainly mention that I will speak more for SME business and from mortgage standpoint, the journey is not going to be a next quarter phenomenon like I can only assure you that, these transitions take time and we would not want to do any disruption, it will be slow, gradual process. Our belief is that preponderance of business could be on even keel in a matter of couple of years.

Praful Kumar: Final question to Sanjay, in terms of capital allocation now you have one huge vehicle business and two small businesses which are looking to grow much faster, how do you now allocate capital incrementally over the next three years, it will be more that vehicle will get out of cyclicality and other two businesses will grow and more capital will be provided to those businesses or how it will be, what is the thought there, Sanjay?

Sanjay Chamria: There are two ways to answer this one, the capital allocation will be a function of the growth opportunities available maintaining the asset quality intact which is where both Kaushik and Manish based on their 3 to 5-year plan will get the required capital allocation, and two, from a stakeholder perspective while doing the allocation of the capital, if you look at ROE, the ROE that the businesses will generate and accordingly we will do the efficient allocation of capital. The second part of the answer is that we are today with the decline in the AUM and the accretion to the profits are sitting on about more than 21% capital adequacy, and therefore, we are very adequately capitalized and I do not really see any stress factor in terms of allocating capital to any of the businesses which is needed for the purpose of growth.

Praful Kumar: Where I am coming from is that if I look at the ROA mix in all the three businesses today highest would be SME, then housing, and then vehicle, so over a three-year period just wanted to understand what are the growth rates you are looking over a three-year period, I am not talking about just FY18, in each of these businesses, so that we can get some sense on a three-year journey that we should see in terms of ROA trajectory playing out?

Sanjay Chamria: The minimum hurdle rate for any business to remain relevant in our scheme of things would be 1.5%, so even though organizationally, for example, if we have crossed 1.5 it does not mean that we would like to support the business which will give us less than 1.5% ROA. Second is that even though SME today gives us more than 3% ROA, but we do not want to grow that business disproportionately because it is the unsecured nature of the business and we want to avoid any systemic risk to the overall balance sheet.

Moderator: Thank you. The next question is from the line of Ronak Jain from Vibrant Securities. Please go ahead.

Ronak Jain: Sir, my question is regarding the yields on the Agri loan, so what are the average yields that we are making on the Agri loans?

Kailash Baheti: Agri loan yield should be in the range of 18 to 19%.

Ronak Jain: Like which is the highest yielding asset, which segment do we yield the highest?

Kailash Baheti: Highest yielding asset portfolio is used.

Ronak Jain: What is the take on the consumer durable segments, financing those?

Sanjay Chamria: We do not finance consumer durables and we do not have any intention of financing consumer durables.

Moderator: Thank you. The next question is from the line of Harshvardhan Agrawal from iAlpha Enterprises. Please go ahead.

Harshvardhan Agrawal: Sir, my question was to Manish on the Pradhan Mantri Awas Yojana, so what kind of yields do you expect on that book and currently you are operating in which stage?

Manish Jaiswal: We are present in about 16 states right now, 70 odd locations and the rates actually vary right now in our mix from 11% to 13%.

Harshvardhan Agrawal: What is the average ticket size there?

Manish Jaiswal: It is around 12 lakh as I mentioned earlier.

Moderator: Thank you. The next question is from the line of Manish Ostwal from Nirmal Bang Securities. Please go ahead.

Manish Ostwal: My question one is in terms of NPA recognition we have reported 120 days basis in our gross NPA, so could you give us the number on the 90 days basis because I joined late this call so maybe it may be repeated?

Kailash Baheti: We gave this number which will be about GNPA will be about 1.8% higher.

Manish Ostwal: Secondly Sir, in terms of operating efficiencies and operating cost improvement in the current year, so how do you see that pan out in FY18?

Kailash Baheti: This was also covered in Sanjay's statement that our operating expenditure this year will be higher than the last year and any improvement in basically OPEX ratio will be only when the denominator starts growing which will be in the second half of the year.

Manish Ostwal: Lastly, what was the total disbursement number during the quarter, Sir?

Kailash Baheti: We have done disbursement of 1473 crores.

Manish Ostwal: Vis-a-vis last year and previous quarter?

Kailash Baheti: It was about 1757 crores.

Moderator: Thank you. The next question is from the line of Pramod Pande from Reliance Treasury. Please go ahead.

Pramod Pande: Sir, just wanted to understand what is the mix of sourcing of loans from branch vis-a-vis DSA, vis-a-vis referrals?

Sanjay Chamria: I think this would vary product to product, but on an overall basis if we look at then roughly about 20% of the businesses what would come in by way of repeat and referrals and the rest comes in either from the dealers or from the DSS or from the OEM tie-ups like in case of tractors.

Moderator: Thank you. Ladies and Gentlemen, that was the last question. I now hand the conference over to Mr. Nidhesh Jain for his closing comments.

Nidhesh Jain: Thank you very much for joining the call today. We thank the management for giving us an opportunity to host the call. Thank you.

Moderator: Thank you. Ladies and Gentlemen, with that we conclude today's conference. Thank you for joining us and you may now disconnect your lines.