



“Magma Fincorp Limited
Q1 FY 2019 Earnings Conference Call”

August 21, 2018



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Magma Fincorp Limited
August 21, 2018

Moderator: Good day ladies and gentlemen and a very warm welcome to the Magma Fincorp Q1 FY2019 Results Conference Call hosted by Elara Securities Private Limited. As a reminder all participant lines will be in the listen-only mode. 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 “*” then “0” on your touchtone phone. I now hand the conference over to Ms. Ritika Dua from Elara Securities Private Limited. Thank you and over to you Madam!

Ritika Dua: Thank you Ali. Very good morning to everyone on the call. We are here to discuss Magma Fincorp first quarter FY2019 results. From the management we have Mr. Sanjay Chamria, Vice Chairman and MD, Mr. Kaushik Banerjee, President and CEO, Asset Backed Finance, Mr. Manish Jaiswal, MD and CEO, Magma Housing Finance, Mr. Rajive Kumaraswami, MD and CEO of Magma HDI, Mr. Kailash Baheti, Chief Financial Officer and Mr. Jinesh Shah, representing the Investor Relations. I would request Mr. Chamria to please open the call with his view on the results and post that we can open the call for Q&A. Over to you Sir!

Sanjay Chamria: Thank you very much and thanks to all of you to take time and join us on the call for the first quarter results of Magma in FY2019. I would like to start with the performance in first quarter. The performance has been achieved under the strategic building blocks we have put in place over the last couple of years, which was essentially a consolidation phase for us.

We are now looking forward to meaningful and sustained growth in FY2019 and onwards. I would like to make a brief mention of the strategic initiatives that we undertook and the results we have obtained.

First, as many of you would be aware we have been focusing on a few key areas over the past couple of years. Overall improvement in the portfolio quality across businesses focusing on profitable growth, rebuilding our product mix in ABF, focus on affordable home loans in housing, building the highly profitable SME book and our high performance insurance business. Developing and investing in a strong customer service platform and last but not the least making significant investments in our people at every level.

Second, portfolio quality is core to the business we generate. Our collections capability is key to maintaining and consistently improving our portfolio quality. We have made changes to our business structure with the business originating teams being responsible for early stage of the portfolio.

We have dedicated collection teams for tractor housing and SME. We also have fully dedicated teams for 60 plus DPD portfolio across all products. The businesses have been provided by tools in the form of EWI and CPMI indices. Branch and product rating benchmarks have been introduced and rewards linked to portfolio quality are in place. This has resulted in our nonperforming portfolio declining substantially and resulting in a return to healthy business growth across businesses.

Third, in ABF we decided to build the portfolio with a higher weightage on commercial vehicle and the used assets. With a strategic reduction in the weightage of our tractor portfolio to ensure that our portfolio quality continues to track better while we continue to maintain healthy NIMs.

In housing we decided to build our home loan portfolio through a direct origination team, while we reduced our dependence on LAP and DSA business.

In SME our best performance portfolio we concentrated on building our business in the lower tier locations, the locations number 11th onwards in hierarchy in terms of business potential for us to build on our existing presence and reach.

In general insurance business we focused on building OEM relationships maintaining our leadership in motor business with the best OD loss ratio in the industry coupled with best in class service experience with the customers and creating building blocks for our health business.

Finally, the next most important aspect of our building block is the investment in the human capital. You are aware that each of our business namely ABF, mortgage, SME and general insurance is led by fully empowered CEOs. The CEOs together with the peers in the support function and their own leadership team are fully geared to achieve their respective business plans. We have ensured that top management team has industry comparable wealth creation plans linked to the business plan achievement.

Our CEOs are responsible for day-to-day operations and profit and loss of their respective SBUs and to steer the company towards achieving our medium-term aspiration of enhancing significant value to our stakeholders. I continue to mentor and advice the CEOs and the CXOs on the company's strategy in the future roadmap ensuring highest levels of corporate governance at all times. I also invest significant time on our human capital strategic initiatives, digital initiatives and the customer centricity. We have made substantial investment in skill development programs right from the top level to the frontline member



Magma Fincorp Limited
August 21, 2018

of the team to ensure that we have a focus team working in synergy and perfect collaboration to achieve the common organizational goals.

We have transitioned to Ind-AS accounting regime in this quarter. This is the landmark change for the financial services industry and has a far-reaching impact on income recognition, credit loss provisioning, and treatment of assets both on and off book, just to name a few significant changes. The biggest change under Ind-AS regime has been brought in by the provision for ECL, which I feel would have significant response on how do we do business. The industry would need to upfront the expected credit loss which is welcome as it will ensure that the response to any deterioration in portfolio quality as immediate.

During the quarter under review our company had significant volume in profit growth given the micro, macro and the regulatory environment and transition to Ind-AS. The achievement was in line with our annual operating plan.

As we transition to Ind-AS during the quarter quite a few changes have happened.

On our asset quality one, we have made higher credit loss provisioning under ECL regime the stage three asset equivalent to NNPA has significantly reduced and now stands at 4.4% compared to 7% last year same quarter.

Two, our PCR for stage three asset stands at 56%,

Three, our Early Warning Indicators (EWI) have an improvement of 25% Y-o-Y and Continuous Portfolio Monitoring Index CPMI which reduced by 43% Y-o-Y continue to trend significantly better.

Our disbursements have grown by a healthy 25% with a marginal growth in the loan book. We are now at the tail end of higher underwriting in the earlier years and from now on the disbursement growth of 25% will reflect in the loan book growth of 17%, 18% in line with the peers.

We therefore expect to see sharp improvement in stage three ratios in coming quarters from the current level.

Moving onto the business numbers. First the ABF business in Q1 our ABF disbursements grew by 24% Y-o-Y. This was in line with our projections and was led by commercial vehicles at 139% followed by used assets growth at 27%. Further our focus on customer centricity and efforts of continuous customer engagement has led to growth in direct business at 40% of



Magma Fincorp Limited
August 21, 2018

overall disbursements compared to 33% same quarter last year. Our productivity levels have also improved quite significantly over the previous year as the number of cases on an average say about 3.22 units compared to 2.38 units same quarter last year.

Effective second quarter which is July this year we have moved in 60 to 90 collections from the business team to the collections team and we expect a further improvement in the disbursement and collection efficiency with this move.

Mortgage business, we have significantly transformed our mortgage business and deeply embarked our journey to become the national level affordable housing finance company. Over the last one-year we have been able to revamp home loan leadership debt and rolled out product policy processes under strong portfolio management unit. The team's compensation structure and the business model have accordingly been amended to build our thrust on the machine of Go Direct, Go HL.

I am glad to share that results are very encouraging our HL disbursements grew by a healthy 142% Y-o-Y with the granular ATS, the average ticket size of around 10 lakhs. The LAP disbursements were down by 14% Y-o-Y as a conscious strategy. Our direct origination continued with a secular upward journey and now stands at 67% versus 24% same quarter last year.

I am happy to state that our focus on affordable housing finance is in the right direction with the right momentum. We now have 316 people for business origination and 247 people dedicated to collections.

Unsecured SME, SME lending continues to remain an excellent business for us we have 34% increase in SME disbursements this was on the back of increased focus on business in upcountry locations and Tier II, III and IV cities. We launched products for informal segment of customers and we intend to expand our products weight further, starting with preapproved loans on our large existing customer database. We are initiating credit rule engine and Fintech based solutions for micro and small enterprises in this vertical. We propose to build a direct sourcing model and we will build our portfolio through a focused approach on geo clusters and industrial segments.

Our General insurance business was at a tipping point, with having built robust reinsurance capabilities, risk management framework, building efficiencies and increase productivity. Magma HDI registered steady growth of 62% in the first quarter in terms of gross return

premium. Steady loss ratios and increased volumes have all benefited the company in the combined ratio improving by 7.8% over the same quarter last year at 117.8%.

Motor continues to be the dominant portfolio for the insurance business with the contribution being 72% versus 76% last year. The company continues to enjoy one of the lowest own damage loss ratios in the industry.

The company has added new corporate clients in Q1 of this year to achieve 81% growth in commercial business over last year. The business is making good inroads in the OEM and the Banca times and is working continuously towards new partnerships and new products to diversify the portfolio.

Now the key highlights on our financial performance in the first quarter.

These figures are under Ind-AS. The previous year figures have also been aligned with Ind-AS. Disbursal it grew by 25% from 1473 to 1840 Crores continuing the growth trajectory. Our AUM although modest grew from 15894 to 15966 Crores Y-o-Y.

Our NIMs for the year moved by 100 BPS from 7.6 to 8.6 in the first quarter on the back of fresh raise of capital product mix and lower cost of funds. Our opex to AUM during the quarter is at 4.2 against 3.6 in the previous year. The opex has grown at 15% in absolute amount while our disbursements have grown by 25% and we will have a catch up on the opex ratio, as our AUM starts to reflect the disbursement growth in the coming quarters.

NPA our net stage three assets post transition to Ind-AS has decreased from 7% to 4.4% on a like-to-like comparison our PCR significantly improved to 56%. Our stage I and stage II if we ECR provisioning stands at 2.7% compared to 3% in the same quarter last year. The profit after tax on a consolidated basis grew by 75% increased to 68 Crores compared to 39 Crores comparable period last year. ROA, ROE, our ROA has improved from 1% to 1.7% and ROE has improved from 8.9% to 12.2% in the current quarter.

Now Kaushik, Manish, Kailash and myself would be happy to take your questions. Thank you.

Moderator:

Thank you very much. We will now begin the question and answer session. We have the first question is from the line of Rahul Maheshwari from TCG Asset Management. Please go ahead.

Rahul Maheshwari: Good morning Sir. Good set of numbers. I have three questions first of all the PCR which has come to 56% in the quarter one what would be the going forward the trajectory under the Ind-AS? Is it sufficient for time being and are they still step with them for which would be provide further? Second question is what will be the impact of axle load norms and third segment as you told that the strategy was to reduce the mortgage and tractor the loans from the used NCD so going forward still other the percentages to reduce or it would be stable kind of thing and fourth, we found in the current quarter the profit under the joint venture, under the insurance was good enough is this that a sustainable trajectory to be maintain for the coming quarters?

Sanjay Chamria: I think you have asked four questions and if I forget please remind me. So can we now breakup your questions. I think the first question was on PCR, which you wanted to know whether this is the new normal or do we expect any volatility going into the future. On the first question I want to make a categorical statement that under that Ind-AS you are required to make a provisioning not only for the NPAs but also for the standard assets and it is not as per our minimum mandatory 40-basis points, but based on the historical performance of the portfolio of the company. So what we have done is as a part of this exercise we looked at last seven years performance across customer products and geographies and then evolved as to what is the stage one and stage two which is the standard asset portfolio providing that we need to do and what is the stage three which is the NPA level provisioning that we need to do and I want to assure all of you that the provisioning that we have made will result in absolutely consistent performance going into the future and not only that because of the new business model that we assured in from December 2015 and that comprises 80% our total portfolio wherein you have seen the EWV and the CPVI numbers having improved by 30% and 45% respectively the credit cost going into the future will substantially come down. This was my answer to your question number one.

I think the fourth question you asked about was in the profit in the insurance venture. See Our insurance business we have consciously adopted a straggly that we will follow a profitable growth path and as a result of that we have burnt the least amount of capital out of any private insurance company and in the last six years of our existence, our total carry forward losses would be under 20 Crores and we have largely kept our capital intact. So therefore one thing which I would like to share is that our endeavor and the objective given to the CEO and the management team of the insurance company is that we would like grow quickly but not at the cost of profits and therefore we do not expect to get any hit from the insurance business into the profit and loss account of the parent company.

Rahul Maheshwari: Just also in terms of in the recent the Kerala floods and ongoing south in many parts of India the floods issue is going on. Any impact, which you would be, witnessed in your general insurance sector?

Sanjay Chamria: See what happens that mostly the way the insurance business works that is significant part of your portfolio is reinsured and therefore you will get the claims from the reinsurance although you have to first cash out flow and take care of the people who has been impacted by the natural calamity, but you will get the money back from the reinsurers to whom you had reinsured this is one. Second all the insurance companies there is a prudent measure including Magma HDI would make cash loss provisioning at least one or two event every year. And therefore we have also made provisioning for the same. So though it is unfortunate that in India we have every year one on the other natural calamity impacting one of the other state, but we do keep sufficient provisioning for the same.

Rahul Maheshwari: Sir what is your south exposure just not a particular state wise but on a geography overall national business what is the exposure towards the south?

Sanjay Chamria: Our exposure is largely in North followed by west then east and then south. So for us the insurance business is concerned. Otherwise I will forget let me go to your third question which was on the weightages so one I think I want to correct your inflation that is mortgage we want to increase the weightage and not reduce the weightage. We want to reduce the weightage of LAP and we want to increase the weightage of home loan and within home loan we want to gravitate towards the direct sourcing versus the DSAs to reduce the menace of foreclosures because they keep shopping around that our customer will remain the same for two years then they will get the account foreclosed and take into another HFC. And I am happy to share there with you guys that about a year ago less than 30% of our sourcing was direct and now it is more than 60% in the first quarter of this year and within that again in the month of June it has crossed 70% so we are well ahead of our plan for the year that we wanted to reach 70% direct sourcing so mortgage business you will see that it will continue to grow in terms of the overall pie of our AUM.

The second point which you mentioned about the tractor and the increased weightage on the used and the CV. Of course we are going through a product realignment as a part of our profitable growth streaky in the ABF business as well and wherein we find that tractor business to a large extent is dependent upon the vagaries of monsoon and we give a loan for a average period of about four and a half years and it has been typically seen that in a block of five years you have at least one or two droughts which would come and hit due to the deficient monsoon and that does impact the ability of the customer to repay the stock

mentioned. Therefore we decided that we would like to reduce the weightage on tractor and grow on the other side on the used assets as well as the light and the small commercial vehicles to maintain our gross rates at the same level of 17% to 17.5%. So this is a product realignment strategy that we have been working on.

Rahul Maheshwari: Wanted that is this the tractor which is at 14% is this the scope that and the product realignment it would reduce further or it would be in the stated line of strategy which is to be going forward?

Sanjay Chamria: So what I do is Kaushik who is the CEO for the ABF business is also on the lone. So this and the second question that you asked I think was on the axle load norm. So I will let Kaushik take these two questions. Kaushik over to you!

Kaushik Banerjee: I will take the question on the tractor portfolio go ahead so I want to expect this next year concalls as well and I would like to reiterate the point that we are looking at an aggregate growth story of our tractor. Having said that, we are more focused on CVs and used and a low focus on tractors and cars therefore while all products go at a different and therefore my tractors will go at a particular phase as a contributor to the overall disbursement of ABF it will carry a lower weightage. There is a fact that a significant portion of growth is the function of the market performs and therefore while we are more than happy to kind of right to way we in terms of growth across quarters right now we are focussed on ensuring that our tractor portfolio is under control and with the dedicated collections team in tractors we are quite sure that we are seeing significant traction in terms of portfolio behavior and to your point we will certainly grow across all products wherein the growth rate in a couple of products to be more on the growth rate and all the products. In terms of avenue and this has been debated so we do see an impact on the OEMs and there will be impact of an increase in capacity, which will largely happen in, it is perspective, and there is not changes that the OEMs will need to make to the vehicles to address more capacity. So it is very difficult to kind of put it at this point of time what kind of impact it will have in the aggregate TIV on the industry, it will fundamentally benefit the loss we talk which is most we are normally operate within those capacities so the legitimate will have to increase there more they stand that they purchase of new because it get impacted. Magma fundamentally does not operate in the fleet operator segment, CL segment. The impact on Magma it will be fairly minimal. Having said that I would expect freight rates not being impacted too much and if we go to the receivables, receivables with the higher capacity of growth the customers or the operator will improve partially offsetting the higher fuel cost and therefore from the peoples perspective, we might have to see an upside.

Sanjay Chamria: Sir in your this used vehicle and CV vehicle can you just give a broader mix that how much contribution it towards the M&HCV and larger this thing and how much is towards the LCVs where you are going and increasing the proportion or for the going strategy?

Kaushik Banerjee: I will need to be probably send you that data so M&HCVs have a aggregation in terms of used CVs I really do not have a segmental breakup within these products right now but I will be happy to share that offline.

Sanjay Chamria: Thank you so much and congrats once again.

Moderator: Thank you. The next question is from the line of Pratheek Kura, Individual Investor. Please go ahead.

Pratheek Kura: My first question is on the ABF vertical, Asset Backed Finance. As I understand that the tenure of this vertical that is around 40 to 45 months so that implies like around 25% of the book must be repaid during every year. So and it forms a majority chunk of our overall loan portfolio. So like I wanted to understand how do we plan to scale the overall loan book of the portfolio because like this year also, this quarter we made around 1300 Crores disbursement but the ABF book size for Q1 FY2019 versus Q1 FY2018 there is a growth of around 200 Crores on 11000 Crores loan book. So how do we plan to achieve sale on our overall loan book size?

Sanjay Chamria: I think this I had also covered in my inaugural address that we are coming to the tail end of the higher growth that we witnessed till FY2015 compared to the next three years so last three years our disbursal growth had slowed down and now we have started growing as a result of that the run off of the older portfolio is still higher due to which the AUM growth is marginal relative to the growth in the disbursal. Typically in ABF you will see that if you have a 25% growth in disbursal your AUM should grow in the range of 16% to 17% and as you will see that in the case of all peers and which is what we expect that in this year we have given a guidance of overall 25% growth in the disbursal and our AUM growth would be in the range of 15%, 16%. So in the quarter one while we have not grown but in the remaining three quarters because the tail is almost over so we would start recording the growth in the AUM as well.

Pratheek Kura: Sir next question is on your interest income. So like if we analyze this quarter P&L broadly the interest income and it is more or less interest but there is a sharp decline in the interest expense and the provisioning which has filliped our profitability for this quarter, but now going forward Q1, Q3, Q4 first is we are seeing, we are going through a rate hike phase so

the interest expense that we would also go up from here on and the provisioning was also if you look in quarter-on-quarter from Q1 to next quarter the provisioning number also gone be like there would not be a drastic improvement from here on. In that light how do we see the profitability increasing, because this quarter the interest income has not gone up the topline has more or less remained the same?

Sanjay Chamria:

I think you have two questions. First is whether our NIM, which is at 8.6% will be stable and within that you included the question that the cost of funds is likely to increase in the coming quarters. So our cost of funds may increase only marginally by about maybe 10, 15 basis points from the level where it is because of whatever it increases which have happened till date. Last year our cost of funds was on a declining trend so we had started the year at a high and then ended at a low and therefore in the first quarter last year the rate of interest was higher having said that the level at which we have our cost of funds in first quarter it is largely likely to be stable. Number two we are going to get an increase in our AUM and that is obviously going to give us additional net income margin at the rate of 8.6% of course. Number three we would expect that our NIM, which is now, the NIM adjusted for number one the origination income, which is amortized. number two the brokerage and commission which is also amortized these are all existed in our part of NIM and our interest income and the NIM which is right now at 8.6% we feel that for the year it is likely to be in the range of about 8.5% which we feel is quite healthy.

On your assumption that our credit cost is likely to be at the current level I think there it were not exactly correct because our credit cost going forward is likely to decrease and decrease quite sharply from the level where it is right now and how this will happen, I will explain you. You see our 90 plus has been declining since the last year and every quarter you would have seen that our total 90 plus assets have declined and the decline continues even today. Our old portfolio which was originated before November 2015 in that portfolio our NPAs had peaked almost about 15 months back in March 2017 and thereafter the NPAs have been declining our new portfolio in any case it is substantially better as we explained in the opening address also and these two factors taken together will mean that 90 plus book will continue to decline. Our NNPA ratio, which is at 4.4% so we see substantially reduction in the quarters going forward these factors taken together, should bring down our cost of credit to below 1.5%.

Pratheek Kura:

Sir one more question on the asset backed ABF vertical only like majority of our disbursal in that vertical is to vehicles like vehicle as a segment. Now with rise in crude and with rise in the interest rate or do we see major impact there or like what is our outlook on this vertical?

- Sanjay Chamria:** Sorry could you repeat the question it is slightly unclear.
- Pratheek Kura:** Sir my question is on the ABF vertical there majority of our disbursal is to vehicle owners or operators. So now we see with the increase in the crude and with the increase in the interest rate do we see a major impact or like how is the business outlook on this vertical?
- Sanjay Chamria:** You correctly pointed out there are two headwinds we have not seen for the last three to four quarter s. I cost and we have taken as the increase in the entry space so in terms of the entry space you will certainly be a lag. Related to the view of this in fact, tractor operator profitability will be there, compared to and the lender that seem to ensure that the portfolio quality is continue to show an improvement we will be cautious in the current environment. I think the huge growth opportunities and a significant investments in infrastructures, there is a good growth in the rural side therefore we will certainly see growth that we cannot measure that growth with the cautious approach in the overall portfolio in terms of our lending at the two and we are very cognizant of the fact that there has been two which one is the shift in terms of fuel cost and the other the shift in terms of the interest rates, but having said that I am still cautiously optimistic about the overall growth opportunities in those prospects FY2019.
- Pratheek Kura:** Sir my last question is on the geographic mix of our loan books where like and I seeing 25% of the loan book comes from the Southern part of India so with the floods in Kerala on an how much impact do we see on the business outlook for this year?
- Sanjay Chamria:** This is part to recent development and right now we are just praying and arranging for the safety of our own employees and we have over 400 employees working in the state of Kerala. In terms of business we do not have SME presence there too much and our business in ABF is largely on the passenger vehicles and on the light and the small commercial vehicles again in the tractor Kerala does not sell any tractors and in terms of construction equipment the presence is very marginal. So I think once the situation settles down in the next couples of weeks is when they will asses as to what is the kind of impact it has had on the lives of people and particularly the one that we are catering to in the tier towns and they evaluate. In terms of the weightage the overall portfolio of Kerala is below 5% in our overall portfolio on a national basis so whatever impact comes we will absorb this and we will have to see and evaluate.
- Pratheek Kura:** All the best. Thank you.

- Moderator:** Thank you. The next question is from the line of Ankit Choudhary from Equirus Securities. Please go ahead.
- Ankit Choudhary:** Thank you for the opportunity. My first question on this EWI so if you see on the quarter-on-quarter basis the EWI has increased so what is the reason for the same?
- Sanjay Chamria:** It is always that exactly adverse in the performance in the Q4 but it would be rightful to see from a Y-o-Y perspective that to look at it on a Y-o-Y basis and the overall tracking of EWI is actually happening very positively and we are seeing a consistent improvement in terms of overall portfolio behavior and it is completely under control.
- Ankit Choudhary:** So because on the other hand the CPMI has declined on quarter-on-quarter basis so whereas the EWI has increased?
- Sanjay Chamria:** Kaushik I will take this question. See early warning indicator as we define it is zero plus at the end of one quarter whereas CPMI is an average of CPMI one, two, three, four and these are 60 days past the second quarter then third quarter then fourth quarter so CPMI is a longer duration index and CPMI has been trending well and even in the current quarter it has gone down this is because overall the portfolio over a longer-term is improving now EWI is here and now whatever you would have written in January, February and March how much has this is zero plus as on the end of first quarter and that is where you would know that for the asset backed finance industry the first quarter usually is the worst quarter in terms of collections and this has been experienced year-on-year so we are not putting too much of weight on this March to June increase in EWI this was expected and it is quite usual and when we compare we should compare with the earlier year's same period so last year June it was over 10 now it is at 8 there is a 20% improvement there also and going forward you will see that this number again will trend in the same line as it had trended in the last year.
- Kaushik Banerjee:** Even at 10.5 last year we were at 8.3 this year so there is a slight significant improvement Y-o-Y and we will see this element will come back to a better position post that and as the overall benchmark for EWI so your inflation is 8% against 8% we are at 8.3% so it is almost all the benchmark in terms of EWI whereas we would significant higher with the benchmark last year.
- Ankit Choudhary:** If I may understand correctly in while calculating the EWI the denominator we need to take into consideration is our January to March whatever the disbursements was done is it correct that as a performance of those results?



Magma Fincorp Limited
August 21, 2018

- Sanjay Chamria:** I thought Mahender on the line we will meet Mr. Mahender is the Chief Creditor of this Magma Fincorp on that. Mahender would you like to answer.
- Mahender Bagrodia:** See the one quarter lag so the portfolio which we have had one quarter will be static to so that quarter we put our portfolio which we updated that it is zero plus as on June 2018.
- Ankit Choudhary:** So Mahender I think in other words what you are saying is right it is a portfolio originated in January, February, March the performance of that is on June 30, barring in case of tractor where we have quarterly or a half yearly EMI that it is with a two quarter lag as it also explained in our slide #22.
- Mahender Bagrodia:** Yes we apply a trigger AWI but this tractor in terms of the overall portfolio quality is actually the CPMI that is the benchmark that we follow in this aggregate portfolio behavior.
- Ankit Choudhary:** The second question was related to the borrowing so over there 70% of our borrowings through the bank so just help me understand what would be on the three month MCLR, six months MCLR, one year MCLR, if you can share to understand that thing?
- Sanjay Chamria:** Can you repeat the question little garbled? You were talking about cost of funds can you just repeat 70% is bank borrowing but then what did you say?
- Ankit Choudhary:** Yes so I just wanted to understand what would be on the three month MCLR, six months MCLR, one year MCLR, if you can share to understand that thing.
- Sanjay Chamria:** I think these details we can share with you offline. I would not have everything right now handy.
- Ankit Choudhary:** My third question was regarding the GNPA so if I understand in 1Q FY2018 our GNPA was around 1000 Crores whereas now as per IMDS it has become 1600 Crores one reason could be because at that point of time we were at going to 80 DPD now we have move to 90 DPD so the impact so is that the only impact because of this or there are some other results for the same?
- Sanjay Chamria:** One is at all the numbers are apple-to-apple comparison the comparison is not with 90 or 120. The second is that the change, which has happened if you would compare with I-GAAP, is that earlier we use to have the securitized, PTC securitized book completely outside and therefore if there was anything in 90 plus it used to be outside. The credit cost impact used to come through a concept called excess interest spread if we had lesser if some installment had gone into say zero plus not 90 plus zero plus we will receive lesser excess

interest spread, EIS so that was the treatment and these numbers the 90 plus in securitized portfolio was not included here; however, with Ind-AS coming in the securitized portfolio except for direct assignment has come on book and whatever 90 plus was residing now gets added to this so that number is in the range of about a 100 Crores. The second is earlier we use to give interest on 90 plus, we were not riding any interest on 90 plus under Ind-AS we have to first provide and then make provision as per ECL so that amount on 90 plus is also coming into GNPA figure so these are the two adjustments due to which there is about 270 odd Crores difference. Now the number which you said was not really reconciling with me but as per I-GAAP our GNPA was 1117 and as per Ind-AS it is 1422 as on June 30, 2018, I hope that the numbers are the same we are talking.

Ankit Choudhary: The last thing was so what led to the change in the AUM of 1Q FY2018 so if I correctly understand there is an addition of around 350 Crores in the AUM part of 1Q FY2018. So earlier it was just about an increase about 480 and now it has moved to increased about 800 something we have an addition of 350?

Sanjay Chamria: Yes correct, you are absolutely right so the additions are number one interest on NPA assets and number two the brokerage and commission, which earlier used to come as a item separate item now it gets adjusted with the AUM and number three the origination cost which is deferred is actually reduced so these three are the new factors. We have interest on NPA assets getting added we have unamortized loan origination cost getting added and unamortized loan origination income getting reduced.

Ankit Choudhary: Thank you.

Moderator: Thank you. The next question is from Dhaval Gada from Sundaram Mutual Fund. Please go ahead.

Dhaval Gada: Couple of questions; firstly on the standalone Opex of roughly 150 Crores could you explain at what point, we would stagnate on opex in terms of sub 10% growth that is in the plan. And the second part is in terms of operating leverage in the business if you could just throw some colour of what are the drivers for operating leverage since the large part of it would be employee linked cost? So that is the first question on operating cost the second question is on slide #37, there is one item of 54 Crores effective interest rate impact so it is like 46 if you could just explain what is going into that number? Thanks.

Sanjay Chamria: I will take up your first question, which is on the operating leverage and the opex. You see the opex has grown by 15% in absolute amount in the first quarter on the back of a disbursal

growth of 35% so the operating leverage has already started kicking in for the various initiatives that we implemented over the last 24 months and our entire leadership debt is complete. I also mentioned in my opening comments that now our entire focus is on improving the productivity and ABF, which is the largest vertical, I shared that we have moved in by 2.5 cases per person per month to about 3.2 cases per person per month in the first quarter this year compared to same quarter last year. The lag effect of a higher underwriting that we used to have until FY2015 is now at the tail end because our total door-to-door is about 44, 45 months so therefore from now on the disbursal growth of 25% for it to AUM growth of 16%, 17% and the moment you have a 16%, 17% AUM growth and you have an opex growth which is lesser than that you start seeing the operating leverage. On top of that there are several initiatives and efforts being made by the leadership team across businesses to improve the productivity so that will be the next level of leverage operating leverage which will kick in and that I expect only next year so this year I will be very happy that we have an AUM growth of 16%. 17% and we have an opex growth of 14%, 15% that would be my answer to your first questioning and Kailash will explain the second point.

Kailash Baheti:

This effective interest rate impact on financial assets and financial liabilities, 54 Crores negative number is what you are referring and as I explained the effective interest rate under Ind-AS in the interest income you have to include amortized upfront income and you have to exclude amortized brokerage and commission which you pay or origination cost which you pay. Now in past we used to amortize subvention income which we use to receive from OEMs; however, we used to upfront any income which was received on account of management fees, as we would also upfront any expenditure, which was related to loan origination and the origination expenses, which we use to pay as brokerage that we use to amortize. Under Ind-AS everything has to be amortized so that is the intent.

Dhaval Gada:

Just a follow-up on the first question you mentioned about mid-teens growth for this year on operating expense, I just wanted to understand going forward what is the kind of opex growth you are seeing in this standalone business beyond FY2019?

Kailash Baheti:

Right now we will restrict ourselves to the discussion for the current fiscal and there we expect a disbursal growth of 25 AUM growth of 16, 17 and the opex growth of lesser than 15.

Dhaval Gada:

Thank you.

- Moderator:** Thank you. The next question is from the line Roshan Chutkey from ICICI Prudential Asset Management. Please go ahead.
- Roshan Chutkey:** Thanks for taking my question. Firstly what is our attrition rate now?
- Kailash Baheti:** Sorry attrition rate of what?
- Roshan Chutkey:** Employee attrition rate.
- Kailash Baheti:** It is high at about 25% at the field level, 15% at the first line supervisor level and obviously it low single digit in the senior management.
- Roshan Chutkey:** Just going back to this question of the previous gentlemen asked, the GNPA of Q1 FY2018 can you just explain the movement between I-GAAP and Ind-AS once again?
- Kailash Baheti:** I think let us talk conceptually. Figure wise I think we can always do offline separately as Kailash mentioned that between the Indian GAAP and the Ind-AS the two largest items of bridge is one recognition of interest income on the NPA accounts which gets added under Ind-AS but is not added into the Indian GAAP and the second one is the NPAs on the PTC issuances under securitization which is treated as off book under Indian GAAP is treated as on book under Ind-AS. This is what explains the difference. Is that conceptually clear? Then I think Jinesh can subsequently share with you further details.
- Roshan Chutkey:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Sangam Iyer from Subhkam Ventures. Please go ahead.
- Sangam Iyer:** Sir just wanted a clarification first in terms of the outlook for credit cost that we guided at around 1.5% from the current run rate is it the exit run rate that we are alluding to or is this the average credit cost for the year that we are telling?
- Sanjay Chamria:** We are alluding to the average cost for the year.
- Sangam Iyer:** So that means we are talking about a substantial dip in the credit cost in Q2 onwards?
- Sanjay Chamria:** That is right.

Sangam Iyer: Sir, secondly on the cost to income ratio when we look at as the AUM growth picks up from this financial year, is there any cost to AUM target that we are having in mind say over the next one or two years where you would want to achieve?

Sanjay Chamria: Of course and that is what I was alluding to the question by the other colleague that this year we are aiming at sub-15% growth in the opex but 16%, 17% growth in the AUM and that is where we would start getting the operating leverage but it is work-in-progress and therefore over the next two years as we get better productivity in the ABF business, which has 70% weightage in the topline and even in the mortgage where I shared that we have now a full team of close to 600 people of which 350 people are in the sales function and out of those 350 about 200 people have come on board over the last six months obviously they are at suboptimal productivity so going into the next year we will really see that all of them playing out pretty well and that gives us the operating leverage. In terms of the leadership debt, entire investment have been made and even if I grow from 16000 to 20000 Crores, we do not need to invest more in the incremental leadership. It is all improving the productivity at a field level plus with the improvement in the portfolio quality where we spoke about the new origination from December 2015 onwards, which is 80% of the total portfolio the servicing cost would be lower because that portfolio is substantially sitting in the standard assets and also within that in the stage one assets. So the combination of all these factors these results in the operating leverage. Now in terms of what is the guidance or a target that we have I think there is a significant upside that we have so all that I am talking is on behalf of my entire team of leadership and the CEOs that if we are able to execute all the planning that I am sharing with you then at least we should have about 1% reduction in our opex to AUM but it will happen over a period of next two to three years.

Sangam Iyer: Congratulations and all the best.

Moderator: Thank you. The next question is from the line of Ritika Dua from Elara Securities. Please go ahead.

Ritika Dua: Sir just one question I was just looking at the way we give our rural, semi-urban and urban breakup has there been a change there Sir on a quarter-on-quarter basis?

Sanjay Chamria: I think yes, but exact question I think I will take offline there is a little bit of change in I think number of contracts or number of the amount some change has been done there.

Ritika Dua: Sure Sir. I will take it offline. That is it from my side. Thank you.

- Moderator:** Thank you. The next question is from the line of Sangam Iyer from Subhkam Ventures. Please go ahead.
- Sangam Iyer:** Thank you for the follow up. Sir just wanted to get your view in terms of given that after two years of consolidation and restructuring the way we are doing the business, we have now talking about the growth path coming back so is there any internal targets in terms of what is the kind of ROE, ROCE, ROAs that we are targeting over the next two years when we are in the up cycle of this growth with all the other levers playing in your field?
- Sanjay Chamria:** First, I would like to correct the impression that we are not talking of growth. What we are talking is that 25% disbursal growth in what we have given guidance for the current fiscal FY2019 and this as I shared with result in the AUM growth of 16%, 17%. So I would like to want correct that impression that we are not talking of we are in the talking of growth.
- Sangam Iyer:** No, I actually said that we have now talking about growth not talking that it is now talking about, yes.
- Sanjay Chamria:** So then what is the question?
- Sangam Iyer:** So my question was it is now that all the other levers are also falling in place what is the ROE, ROA target that you might have in mind for the say next two years or three years if you can share that?
- Sanjay Chamria:** First I think we will talk about the current year. One, again I want to categorically state that we have put the entire past payment and for now we are embarking on a very healthy stage where all these businesses have started firing on all cylinders but we are very cognizant of the risk involved in the business and therefore they will pursue the path of profitable growth and we have seen that despite dilution in the equity, which has happened in the first quarter through the range of 500 Crores our ROE is at about 12.2% with the ROA of 1.7%. So once we would improve the guidance on the ROA, which earlier we had spoken about 1.6% to about 1.8% to 2% for the current year. This would translate in the ROE of between 13.5% and say 14.5% for the current year. Now having achieved 12.2% in the first quarter and for the year between 13.5% and 14.5% means that the rest three quarters we would be looking to touch and cross 15% ROE and once we have achieved that then I think we will talk about next year so let us leave something for the second and the third quarter.
- Sangam Iyer:** Thank you.

- Moderator:** Thank you. The next question is from the line of Jitendra Upadhyay from Bonanza Portfolio. Please go ahead.
- Jitendra Upadhyay:** Thank you for the opportunity. Sir can you please share the yield on various products you are offering like commercial finance what will be the average yield on that?
- Sanjay Chamria:** I think this is a specific some detailing so Jinesh has noted your details and he will share with you offline.
- Jitendra Upadhyay:** Could you please provide me how many employee addition you have done in last two quarters?
- Sanjay Chamria:** I do not remember the numbers.
- Kailash Baheti:** That also I think Jinesh will share offline.
- Jitendra Upadhyay:** Thank you. That is it from my side.
- Moderator:** Thank you. That was the last question I now hand the conference over to Ms. Ritika Dua for closing comments.
- Ritika Dua:** Thanks Ali. On behalf of Elara Securities I would like to thank Magma Fincorp management for giving us the opportunity and to all participants on the call. Sanjay Sir do you want to add any closing comments!
- Sanjay Chamria:** No, thank you very much for all of you having taken timeout on the morning to join on this call and look forward to seeing and hearing you all again next quarter. Thank you and thank you Elara for hosting the call.
- Moderator:** Thank you very much. Ladies and gentlemen on behalf of Elara Securities Private Limited that concludes this conference call for today. Thank you for joining us. may now disconnect your lines.