“Magma Fincorp Limited
Conference Call”

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MODERATORS: **MS. CHINMAYA GARG**
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Moderator: Ladies and gentlemen good day and welcome to the Q4 FY'12 Earnings Conference Call from Magma Fincorp Limited hosted by IDFC Securities. As a reminder for the duration of this conference all the participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during the conference, please signal an operator by pressing "*" followed by "0" on your touchtone phone. I would now like to hand the conference over to Ms. Chinmaya Garg. Thank you and over to you Madam.

Chinmaya Garg: Good morning everyone and welcome to Magma Fincorp Limited FY'12 Results conference call hosted by IDFC Securities. I have with us Mr. Sanjay Chamria, Vice Chairman & Managing Director and Mr. V. Lakshmi Narasimhan, CFO and Mr. Kailash Baheti, Chief Strategist of Magma Fincorp to talk about the company's performance and important events during the year. We will begin the call with opening remarks from Mr. Chamria following with we will have open forum for interactive Q&A session. Floor over to you Sir, please kindly make your opening remarks and then we can take it from that.

Sanjay Chamria: Good morning everyone. This is Sanjay Chamria and I thank each one of you for joining on the Magma's conference call for the audited results for the year ended March 2012. I will now briefly take you through the key highlights and performance indicators for the quarter and the year. After two successive years of robust growth of 8.4% the GDP growth in the April to December is estimated to have decelerated sharply to 6.9% even as services sector appeared to be the silver lining growing at about 8.8%. By doing the first six months of FY'12 the policy rates were consistently increased at the backdrop of stubborn inflation the second half of the fiscal year saw tight monitoring condition even though policy rates stabilized. During the Q4 of the last fiscal growth inflation dynamics prompted the Reserve Bank to lower CRR by about 125 BPS apart from intervening on the liquidity front through regular open market operations.

Beginning to the current fiscal 13 has been positive. As in the latest policy review in April 2012, the Reserve Bank has reduced the key rates by 50 BPS to help establish the growth rate around post crisis trend rate of 7%, GDP for FY'13. The regulator has however underlined that there are significant upside risks to inflation and unless the government takes credible steps to contain subsidies scope for further reduction in the key rates are limited. As against performance of the automobile industry this is the Q4 for the primary sale of cars recorded a growth of 15%, which already achieved 5% growth in fact 4.7% to the precise for the entire year. Growth in commercial vehicle has remained stable at 16% for Q4 and 18% overall.

The non-commercial vehicle and the light commercial vehicle have been the main drivers for growth in the CV during fiscal 2012. Tractor industry grew at 11% for the whole year; however, in the last four months, which is December-March it had degrowth of 5% and April to November it grew at 17% to 18% and thereby moderated the entire annual growth by 11%.

Now I come to the key highlights of our business and financial performances for the year. Our disbursements have grown by robust 37% over the previous year in the backdrop of a very moderate rate of growth in the primary sale of the products. To help us close the year stronger with the disbursal of Rs.7404 Crores. Sequentially though we have kept a momentum going with a growth of 31% over the Q3. As informed during the third quarter call we have also expanded on network during the fiscal by adding 29 new branches all of which are in rural and semi-rural locations and as on date we have complete 200 branches. Now on some product wise I like further year disbursement in the used commercial vehicle product has grown by a remarkable 97% followed by tractors at 76%. In fact in tractor we have beaten the industry growth by a wide margin, which was 11%. Similarly in cars and utility vehicles we have recorded a 70% growth against a very nominal growth of 4.7% enjoyed by the industry. Needless to say in all of these three products we have improved our market share by 50% in FY'12 over FY'11.

I am happy to share that in construction equipment segment wherein we degrew by 5% in FY'11 we have reclaimed some ground and registered a 19% growth in FY'12. So the third year end we have achieved 100% plus collection efficiency and notched up 100.5% for the full year. Similarly better the collection efficiency lower the right offs and the same have reached yet another historic low of 20 BPS of the AUM, which is better than the right off percentage for FY'11 which was also very low at 24 BPS. You shall be aware we have altered our accounting policy beginning April 2011 and now we have amortized the income of securitization. Over the tenure of the respective loan contracts and I think again there off the overall loan book which is now 12,040 Crores, 82% is earning asset against 48% when we started the fiscal year.

To optimize the cost of funds as also with a view to derisk the liabilities profile we have worked on diversifying our sources of debt and as on March 31, 2012 banks contribute only 64% of overall borrowings and the debt market players like mutual fund and insurance companies they provide 23% and the balance 13% is by way of sub debt and trustees and perpetual debt. We have to further diversify this mix next going forward in the next year with the growth in the AUM and the balance sheet.

Now I will move to the financial aspects of the results; consolidated revenues during the quarter increased by 16% to Rs.312 Crores as compared to Rs.270 Crores in Q4 of FY'11. For the year it increased to Rs.1063 Crores as against Rs.874 Crores in corresponding period last year, registering a growth of 22%. Our blended cost of funds for the year was 10.45% and our blended yields net of channel pay outs was 14.78% thereby giving us a spread of 4.33% for the year. With the interest rate now set for a decline we believe going forward the incremental spread would improve. Largely due to the change in the accounting policy for securitization income and expenses implemented at the beginning of the year the profit before tax for the quarter is Rs.28 Crores against Rs.66 Crores during the corresponding quarter last year and for the full year it is 104 Crores as against 182 Crores for FY'11.

PAT is lower by 36% to Rs.78 Crores during the year against 122 Crores for FY'11. Out PAT for the year ended March 2012 would have been Rs.155 Crores exhibiting a growth of 27% over FY'11 PAT of Rs.122 Crores but for the change in the accounting policy for recognition of gains on securitization. We have elaborated the calculation in the investors presentation exhibited on our website, which would have already been accessed by all of you or you can access it now.

Our outlook for the current fiscal 2013, there has been a smart recovery in the automobile industry the second half of the fiscal 2012, with the reduction the policy rates RBI has further signaled that adopting a balanced approach towards reviving GDP growth along with managing inflation at an acceptable level is a priority. Hence it is expected that growth in the retail volume of car, commercial vehicles and construction equipment shall be in the range of 8% to 12% for the current fiscal. At Magma we have implemented several customer-centric initiatives resulting in qualitative improvement in our service levels. With a view of further improve our turnaround time to our customers we have enabled out IT infrastructure and enhanced the same to ensure credit delivery directly in 130 plus locations, which was up from 35 locations. We have also significantly added to our leadership bandwidth in the last six months and inducted quite a few high quality performances from the industry into the team as a consequence of the above we estimate our disbursals to grow by around 40% during the current fiscal we also estimate our spreads to improve by a combination of a product mix and reduction in the cost to reach 4.5% for the fiscal.

With that I would like to end my opening comments. Lakshmi, Kailash and myself would now be very happy to take any questions that you all may have. Thank you.

Moderator: Thank you very much. We have the first question from the line of Shri Karthik from Espirito Santo Securities. Please go ahead.

Shri Karthik: Good morning everybody. I have a couple of questions. We just wanted to get some understanding on how the growth has been on the urban and metro side versus how degrowth has been on the rural side of things as far as the industry as such?

Sanjay Chamria: From the primary sale of the product that we finance you do not really get the organized data in terms of what is the growth in the urban markets and what is the growth in the rural and the semi-rural market; however, if I look at our own disbursals then about 80% of our branches are located in the rural and the semi-rural branch locations and the overall disbursal more than 65% of the same come from these locations. So a large part of our growth is coming from the rural and the semi-urban markets.

Shri Karthik: Could you give us some sense on how the competition outlook is for the next couple of years given that the number of banks has been actively getting into this particular segment?

Sanjay Chamria: The banks have been there over the last 20 years in the retail lending space and the number of banks and the name of banks have kept changing. So earlier it was foreign banks in the early 1990s and late 1990s followed by the private sector banks like ICICI and HDFC and post 2007, it was SBI, AXIS and HDFC. So therefore I think the name keeps changing. The banks have already been there as competitive force; however, I think the markets are broadly divided into two segments. One which is extremely rate conscious and the formal segment where the customers could have income statements, PAT records, ITRs and rest of it. So therefore banks generally would tend to lend to them at lower rates because their cost of fund is lower. On the other hand, your earlier question the growth in the rural and the semi-urban markets and which is where your large part informal segment of the customers living in and the last mile connectivity is important there. So I think broadly today the market has got polarized wherein the formal segments banks have a dominant and the informal segment the NBFCs have a dominant share.

Shri Karthik: Have you seen any signs of banks like HDFC or IndusInd trying to penetrate the unorganized space, which is not very rate conscious?

Sanjay Chamria: In fact IndusInd in its earlier avatar, the NBFC ALFL with they merged with itself it is always present there so therefore they have a domain expertise and post merger of ALFL with IndusInd they will also be present now in these markets and HDFC over the last few years have also penetrated in these markets and as I said like earlier ICICI Bank had also penetrated quite a lot into this markets, which has been the domain of NBFCs. So I am not saying that the formal segment is completely catered only by the NBFCs, dominantly catered by NBFCs. Similarly the formal segment is not only catered by the banks but dominantly catered by the banks.

Shri Karthik: Just one final question from me what is your expectation for the growth for CV segment for the next year for the industry?

Sanjay Chamria: I guess the industry is expected to grow anywhere between 10% and 12% having recorded a pretty good growth last year 18.2% because if you further dissect the 18.2% growth then you will find that the medium and heavy has grown at 5% whereas the small and the light commercial vehicle they have grown at more than 25%. So this year we expect based on the forecast issued by the manufactures and the industry body that it is likely to be in the range of 10% to 12%.

Shri Karthik: Alright that is from my side.

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

Srininvas Rao: Thank you very much Sir. Mr. Chamria I just have two to three questions. First we have seen your collection efficiency being fairly high and your NPA levels being low, and it seems that this is true for peer group also. What I wanted to understand this is reasonably disconnect between the macro pessimism, which we keep hearing versus the bottom up of performance of retail portfolio if I may say and portfolios which we typically think to be more risky. Why is this apparent disconnect there is it because I would love your thoughts from this particular aspect?

Sanjay Chamria: I think Srinivas that one what we do at Magma we understand and therefore we take care that each of our customers is connected by our collection team every month through the telecalling system and through the personal rigid by our runners so that we can collect our installments because more than 75% of the customers who rebuilds it either they do not have a bank account or they have the account they do not have the banking habit. So therefore you need to have an infrastructure at place to be able to reach out to the customer to pick your installments and cash from them. Having said that it is true that overall the collections have held up in the industry although I think last six months in the last fiscal year there was some level of stress being experienced by some of the players but then at Magma our collection efficiency has held up for the third year consequently at 100% and once you cross 97 and 98 then I think 0.5% or 1% significantly makes a difference and that is where I think we standout and clearly set out a benchmark in the whole industry.

Srininvas Rao: Also wanted to check is to also to do with the fact that the cash flows are less stressed for the customer base which you are catering?

Sanjay Chamria: Relatively yes because they operate in a market where it is more of a necessity so they are able to collect their receivables from whether it is subcontractor that they operate with or lose their transportation segment that they work with and therefore they are able to make the payment and secondly even if they are what we are seeing the user technical jargon in our industry called FCA, which is a free cash flow analysis, which we have seen also has experienced in its stress and it has gone down from 1.4 to 1.25. What happens how do you ensure that you are on the priority of the customer for your payment as against the payment for the other consumer who lives on an household expenses and that is where I think last mile connectivity and a strong connection and reaching out to the customer becomes the distinguishing factor.

Srininvas Rao: If I take one or two more questions. You have the segment which you define as construction equipment. Do commercial vehicles or trucks finance under some kind of used for projects are they classified under this particular head? This is purely construction equipment in terms of loaders and all that?

Sanjay Chamria: We do purely the construction equipment and we have zero exposure on any projects because we essentially position Magma as a retail player where we are diversifying our risks across retail customers and we take what we call as asset bank exposure rather than the client based exposure. If you look at we have one slide into the investor's presentation in which construction equipment the ticket size would be about less than 30 lakhs. That would be possible only when we take small, small asset exposures.

Srininvas Rao: That construction equipment could include, I mean the trucks would not been part of that that disbursal or how you classify, right?

Sanjay Chamria: It is a very small part, because the trippers that we finance which is used in the mining side that would be classified, because from the end use we would classify it as a construction equipment but I think a significant portion of our truck financing comes under CV funding and not into construction equipment.

Srininvas Rao: Finally one question the tractor as you said a bit of a dichotomy in the performance between the first and second half. What is your kind of sense of the market for the next 12 months? The second thing which we always grapple is the usage of the tractor on a non-agri application, does your loan book kind of numbers throw up any numbers on that as to I am assuming when you do non-agri kind of a tractor, which is primarily for non-agricultural, you would ask for a EMI rather than quarterly payment. Any color on that would be useful?

Sanjay Chamria: I think your last point us very, very significant I touched it upon in sequence. The one tractor industry face if you profile, Srinivas, over the last 10 to 12 years can you find that after about 7-8 quarter it actually nosedives and last two-three years it did phenomenally well and from December onwards it has started seeing a deceleration. Although now, we are having different trends in the monsoon and today only the IMD has forecast a normal monsoon for the ensuing period, but again TMA which is the industry body for tractors and the leading manufactures have done a lot of forecast where they feel that the industry is likely to grow between 5% and 7%. Coming to the second part of your question I think today I would be fair to say that overwhelming majority of the tractor sale that happens goes for the mixed uses. It is neither exclusive agri, nonexclusive commercial application, because typically farmer having a six acre of land and which itself is on the higher end of the land holding farming in India he can use the tractor for a max 90 days in a year. So therefore the balance 270 days of the year you end up using it either for hiring to the other fellow farmers who do not have the tractor or for the commercial application and secondly under the NREGA scheme booking these farmers also deploy their tractors whenever they are not used on the farm land for carrying the construction materials or overburden or sand and other things to the site which is in the near vicinity. Coming to your third part of question in fact I believe that we that mean as a financing industry for the better growth and orderly growth of the tractor industry should gravitate to the monthly EMI although I would qualify my statement that we get a lot of competitive pressure wherein we find the leading financiers they would put our half yearly installments whereas I mentioned that it is rare to find the tractor being used exclusively for agri purposes and today again, personally interacted with some of the farmers during the last fiscal when I visited their farm and their houses that most of them if not all have more than two crops for a year and if they have two crops a year they have also got revenues flowing and plus all of them would have that "*eent ka bhatta"* you will also may get revenues. So therefore there is no reason as to why he should we have half yearly installment and that has an impact we have looked at our data that delinquency trend are higher in case of half yearly installment as opposed to the monthly installments.

Srininvas Rao: Fair enough sir and you would be doing any half yearly installment either because of competitive pressure or because of the nature of cash flows as of now?

Sanjay Chamria: We do it more out of competitive pressure if the cash flows are matching with the farmer.

Srininvas Rao: That would be the any number and what percentage could that be?

Sanjay Chamria: It is less than 10%, but we are not happy about it, in fact I would like to have it altogether but I am not a leader in the industry.

Srininvas Rao: Fair enough sir. This is very helpful. I will come back for more questions. Thank you so much.

Moderator: Thank you. We have the next question from the line of Parag Jariwala from Macquarie. Please go ahead.

Parag Jariwala: Sir just wanted to know roughly your presentation says that tractor industry is around 9,500 Crores of disbursement, so out of this how much could be done by banks roughly?

Sanjay Chamria: Parag, while you do not get a formal data which would kind of say that how much is done by NBFCs and how much is done by banks, but there was a report about a year ago, which in one of the seminar organized by CRISIL, we had a chance to look at. It is over a period of last two three years the share of banks in the tractor funding has been steadily coming down and that of the NBFCs and some of the private banks has been going up and if you also look at the top five players you will find that largely it comprises of the NBFCs and the private banks.

Parag Jariwala: But sir I am just trying to look at it if you take one of the large players in tractor industry if you take FY'12 disbursements it roughly accounts around 40%-45% of 9,500 Crores. So roughly if you say 60%-70% is through organized players, so I find it very difficult for any I mean as an organized player as the pool to gain market share in tractor finance industry?

Sanjay Chamria: I think one I need to point out some correction in our statement. I think you are referring to Mahindra Finance as a leading player when you say 40%?

Parag Jariwala: Yes.

Sanjay Chamria: They have a 40% or 45% share in Mahindra Tractor and Mahindra Tractor enjoys about 42% 0r 43% of the tractor industry, so therefore in the financing pipe, Parag, they will about 17%-18% share. Am I communicating correctly?

Parag Jariwala: I mean your statements are clear but when I see Mahindra's presentation that FY'12 disbursement towards tractor is around 4,000 Crores total?

Sanjay Chamria: If you look at the industry side we have given is not 9.5,000 it is 16,000. We are saying that we are currently addressing 9500 universe out of 16,000. So if you look at slide eight which is the one that referring I think we have put out the industry side.

Srininvas Rao: So 9500 does not include Mahindra. Sir you are going through a lot of accounting kind of adjustment, so if I have to take not on pro-rata but say normalized credit cost and on normalized margins so are we set to read somewhere around 20% kind of ROE in FY'14 somewhere?

Sanjay Chamria: Actually we would not give guidance in terms of ROA or ROE but I will answer your question on the accounting adjustment. I think we have been pretty consistent in terms of our guidance and the forecast as to the change in the business model, about a year ago we have said that we want to know migrate away from securitization as a business model for doing business. We will rather use it more as a treasury tool and not as a business model to fund our business which is what we did last year and if you see we have actually done securitization some in the third quarter and largely in the fourth quarter and this was basically after having done capital infusion we wanted to build our own balance sheet and the loan book which would give more stability in terms of income and profits over the next few years. So I think that is the change in the business model and consequent change in the accounting policy which even in September 2011 when RBI had come out with draft guidelines on securitization which is now expected to be finalized by June 2012 there again RBI has also recommended that even in respect of a assignment or a direct sale the income should get amortized as opposed to being up-fronted.

Srininvas Rao: On this securitization how much credit enhancement has generally been provided, if you can break it up into first and the second last it would be great.

Sanjay Chamria: I think there again has been a declining curve over the last two years and that is to say that the rating agencies have taken on board the significant improvement in the asset quality including assets like tractors or used commercial vehicles.. As far as my recollection goes credit enhancement on a overall business which is both the first and the second last till about two years ago used to be 13% to 15% which would vary again depending upon composition of product and the positioning that it would have in our balance sheet as low as 8% to 9% during the last year that we have done, this is the first loss and has gone as low as 3.7% to 4.5% and that we believe is actually the lowest in the industry.

Srininvas Rao: Okay and sir just one clarification, whatever the industry FY'12 disbursement which you have been showing in your PPT is the loan amount right it is post haircut you provide on the LTV right.

Sanjay Chamria: When we talk about the disbursement pie it is actually after the criteria based on the loan amount, not the asset cost.

Moderator: The next question is from the line of Shweta Mane from Arihant Capital. Please go ahead.

Shweta Mane: Good morning sir. Sir few questions, firstly sir given your aggressive ride of policies do you seen your credit cost going up.

Sanjay Chamria: Shweta we have been interacting for quite sometime now our paid cost has fallen from 54 basis points then to 45 then to 24 and now to 20 in light of all of this I think anybody in my position would be pretty confident to say that we would like to now maintain the historic low year-on-year.

Shweta Mane: Secondly did you seeing any incremental slippages surfacing since we are into high yielding segments and then do you see this collection efficiency sustainable.

Sanjay Chamria: So you we have done away with the any segregation between high yielding and the non high yielding and all of these are now become quite sizable and tractor for example we started in FY'08 which was part of the year so FY'09, 10, 11, 12 now we have completed four years, which is almost one cycle in case of used vehicle we started that in FY'05 so now we have done eight years so we have done two business cycles. So after having done one business cycle in tractor and two business cycles in Used CV we have seen that out of 100% collection efficiency that we have achieved in the last three years UCV has given a 100% plus in the last three years tractor of course was lower and which is what I think we have spoken even earlier and I think sometimes back one of the analyst friend asked a question on this and I shared that I am not very happy about it, so there again we have improved our collection efficiency from 94% that was in FY'10 it was 97% in FY'11 and 97.2% in FY'12 just concluded so what we are trying to do we cannot avoid doing altogether quarterly and half yearly but we are trying to mitigate the additional risk of delinquency on the non-monthly installment by justifying our connect with the customers.

Shweta Mane: Sir I am looking at your slide #26 with respect to spreads in ROE the pro-forma estimates or the proforma numbers see your interest cost have always been on the higher side, correct me if I am wrong since FY'09 for that matter and that has actually pressurized your spreads and in turn your ROE so what do you see going ahead.

Lakshminarasimhan: I do not think it is quite a balanced view in terms of our interest cost always being high, having said that I would not deny that there is scope for improvement in terms of wearing very appropriate levels in terms of interest cost, if you look at the historical cost that we have put out this year we ended about 10.5 which virtually is slightly better than what the bank's base rate is, most banks base rate operates in the region of about 10.5 to 10.75 we kind of keep reinventing different tools in terms of managing the cost of funds efficiently, I think two things I would like to mention, one is on the asset side as you are aware the spreads are quite fixed, in the sense our lending rates are fixed and we are possibly entering an environment in which the policy rates are expected to drop 50 basis points has been announced 25 bps has come through from different banks so hopefully next year the spread should look better than what you have seen during this year. But I would kind of considerate more as an input we would kind of look at the cost of funds more efficiently now.

Shweta Mane: Okay, sir and I am sorry you mentioned you would not give targets but where do you see the ROEs panning out?

Sanjay Chamria: So I have said with the same that we would not give guidance on the ROA, ROE we will talk about general business prospects on the growth in the disbursement.

Moderator: We have the next question from the line of Chandan Gehlot from Deutsche Asset Management. Please go ahead.

Chandan Gehlot: Good morning sir my first question is related to the write-off and the provision which is current 0.4%, generally this write-off is compared to which asset class.

Sanjay Chamria: Well I do not know if I got your question right. But it is a pretty best on the total AUM in the company which includes both on book and off book and asset class wise there are six products that we finance which is cars, commercial vehicle, construction equipment, SME tractors and the used vehicles. So this 30 basis points is on all the six products put together and the AUM of all the six products put together. Does that answer your question?

Chandan Gehlot: Yes, I just wanted to understand the main contribution is coming from which asset class?

Sanjay Chamria: Okay, I think in that we have tractors as one and commercial vehicles, these are the two product class where we would have higher contribution compared to the other products.

Chandan Gehlot: Secondly my question is on ALM side, how is the ALM as on end of March 31, 2012 look like.

Lakshminarasimhan: See ALM largely is quite well matched considering that any money that we pickup from the capital market is more of a spinoff between three and five years and there is some part of our money which comes in through the limits from the banks, now at this point in time in the last 20 years we have kind of seen those limits going up year-on-year so the borrowing from the banks which is from the limits we consider it more like matched with the tenor, when you look at it from that perspective there is really no mismatch but about 2000 Crores is the one year money from the bank limit so any which way that you look at it I think we are quite well matched on the tenor, as far as the interest is concerned if you look at my PPT, about 60% of the borrowing comes in from the banks and largely that is variable cost so I think during this year it should work in our favor considering price from banks will come down and the asset side is locked.

Chandan Gehlot: Okay so as I understand there is no a negative mismatch if we considering the bank clients.

Lakshminarasimhan: Absolutely.

Chandan Gehlot: Second thing currently the gearing is around five times so is there any policy to cap, we will not go beyond this kind of gearing?

Lakshminarasimhan: Yes, in any case I think you got to be within 15% capital adequacy so I do not think gearing is going to look any different going forward.

Chandan Gehlot: Okay, sir one suggestion from my side is it possible for you to add the ALM into your presentation.

Sanjay Chamria: Yes, makes sense was a good suggestion.

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

Pankaj Agarwal: Good morning sir. Sir in this quarter the securitization deals you did what kind of rates we got from the bank?

Sanjay Chamria: Pankaj these are deals that we have done bilaterally with the banks and we would not like to comment about the rates at which we have done this, but these are definitely very efficient rates.

Pankaj Agarwal: Okay, so it would be fair to say it would be lower than the base rates so far by the way.

Sanjay Chamria: Well I would refrain from commenting on it Pankaj.

Pankaj Agarwal: Okay, and second thing sir I mean your securitized portfolio was coming down over the last quarter as per your strategy now it has gone back again, you increased again this portfolio due to for the easy availability of funds got so funds or from the capital adequacy side I mean?

Sanjay Chamria: It was more to satisfy you, last quarter you told me why you are not securitizing I said okay let me securitize so that next time you will ask me why you have securitized for what reason and that is exactly you are asking me now. I think Pankaj jokes apart what I said last time that we will use it as a treasury tool and you know it pretty well that in the last quarter if you get good terms then you will do it and additionally it also helps you in the capital adequacy side you see even after having done business of about 7500 Crores and building such a strong balance sheet we sit on a comfortable capital adequacy of 21.2% on March 31 of which tier 1 itself is 14% so I think that shows how we are geared up during the current fiscal to grow our balance sheet even further it without bothering about the capital adequacy.

Pankaj Agarwal: Okay, and sir in terms of your higher yield portfolio it is already 20% of your balance sheet so going forward what is the strategy you are planning to increase the proportion of high yield assets are 20% is something you are comfortable with.

Sanjay Chamria: Pankaj just now I said that now we have done away with the distinction between the high yielding and the non high yielding and because earlier we did it as we were also wanting to see how would this portfolio perform and now that we have been in this business for one cycle we completed for tractor 2 for the used vehicles and I think we have reasonably learnt how to look at the underwriting for this kind of portfolio and how to uniquely deal with the collections depending upon the peculiarity so we are very comfortable so I think now we will rather than distinguishing between the high the non-high yielding we will rather look at market opportunities which are the products and take a more selfish view wherever we can grow our book and earn good income we will do it.

Pankaj Agarwal: But would it be fair to say that UCVs and tractors would still grow faster than your other products because of the lower base.

Sanjay Chamria: Yes that may apply like in fact last year what you are saying is burnout like my used vehicle grew by 90 plus percent and tractor grew by 76% however car also grew by 70% so therefore we have not discriminated against so called not non-high yielding products so we have be more opportunist and I think we will continue this opportunism even during the current year and we may find some joker in the pack springing a surprise and according a very high rate of growth.

Pankaj Agarwal: Sir last one on your new ventures housing finance and gold loan so can you throw some more light what would be your strategy on these two products?

Sanjay Chamria: I think these are all pretty initiatives that we have now taken effective steps so this will get launched during the current year and I think in our overall scheme of things where we are currently setting on 13000 Crores AUM this is going to be unlikely a major contributor in the next two years or so. So I think we would rather like to talk about it after one or two quarters once we have booked some business and then talk about our experience.

Pankaj Agarwal: But any second thoughts on gold loan business after all these regulatory changes?

Sanjay Chamria: Well we just one thought that regulator keeps issuing policies keeping in view the emerging trends in the market and we also then make corrections in the policies depending upon how the trend line is after a couple of years, but I think as entrepreneurs we take a 20 year view on the business and not a three or a five years view so therefore that is unlikely to change in one year or two years. So I think our view still remains the same on both the businesses of housing and gold.

Moderator: The next question is from the line of Srinath Krishnan from Sundaram Mutual Fund. Please go ahead.

Subramaniam: Hi sir this is Subramaniam from Sundaram Mutual Fund. Just a few data queries, I wanted to know how many employees you had on roll at the end of the year and what was it the last year?

Sanjay Chamria: Including the associate company where we have the employees also working it was 5800 approximately as at the end of the year. In fact that is there in our slide #12 and beginning of the year it was around 5200 so about 600 people have got added that is a very good question Subramaniam you see we have grown our balance sheet by more than 33% our disbursal grew 35% but we have added just about 11% to our strength.

Subramaniam: Okay, secondly sir on your advances portfolio if I look at the geographical mix fair portion seems to be coming from Andhra Pradesh, what is your outlook on the asset quality in that portfolio, some financiers have been talking of some stress in that portfolio?

Sanjay Chamria: You are right but then when we are sitting on 100% collection efficiency so what we do is we look at our portfolio in terms of geography and in terms of the product mix. So like last year we have achieved 100.5 in which four products have done 100% or more than 100 that has done 99.4 and tractor did 97.2 so what I find that it is actually difficult for us to achieve 100 in somebody is right off the mark and even in terms of zones if I look at in fact three zones have done 100 and one has done 99 plus and we are not experienced luckily so far any issues in Andhra as well particularly South in fact did 100.2% as against the all India average of 100.5%.

Subramaniam: Okay that is useful. And one last question sir if you are looking into FY'13 what do you think could be a greater challenge would it be growth or competition or asset quality, what do you think would be the biggest challenge for you?

Sanjay Chamria: I think we are reasonably confident on the asset quality front and in terms of growth I think again we have demonstrated last year which was dogged by high interest rate regime, declining growth rates in primary sale of the products that we financed and we grew at a delta of almost 4 to the industry sales, this year as I said has started on a better note in terms of softening of the interest rate and the regulatory concern that they want to also help growth while maintaining inflation I think we are reasonably very confident that we have added now about 29 branches last year we have taken lot of initiatives on the process improvement and IT as an enabler wherein about 130 plus branches now are acting as the hub as against 36 branches that were acting as a hub about a year ago so therefore our last mile connectivity has significantly improved so due to all of this we hope to clock a very high disbursement growth rate this year as well.

Subramaniam: Okay and one last question sir of your total loans that you disburse what would be the sourcing mix in terms of in house and that portion on which you have to pay commissions.

Sanjay Chamria: Actually I did not finish my answer to your last question so I mentioned that these two I am not worried, what am I worried about, there are certain things that I am worried about so that I think would be the cost of funds because that is something which we would definitely like to further bring it down and improve our margins so that we can have more profits and the question that you asked just now you see in case of certain products this is completely direct and there is no payouts involved these are a strategic construction equipment these are tractors and good 20% of our commercial vehicle and about 40% of our construction equipment however in case of cars over 93%, 94% is through the channel on which there is a payout and that is the industry trend.

Moderator: We have the next question again from the line of Srinivas Rao from Deutsche Bank. Please go ahead.

Srinivas Rao: Sir thank you very much I just wanted to have two questions on your commercial vehicle side. You mentioned that you do not finance the body and that is the reason why LTV in reality is lower, how do you ensure that the body is not in effect being financed by someone else or the buyer is not taking some other loans, is there some way to check on that.

Sanjay Chamria: No there is no way we can ensure that the body is not funded by anyone else, what I think we can do as a financier is to ensure that we have the endorsement of our company on the RC book as the financier and therefore the collateral value is not impaired but after that if the customer has taken a loan from a friend or a dealer or some other financier he has taken unsecured exposure well it is no way that as a financier I can do the check.

Srinivas Rao: Okay and the second question sir is again I would go back to industry peers and yourself, given the robustness in collections cash flows and the low NPAs is it fair to assume that what we normally call as hinterland continues to do well, that is one comment that I wanted to check from you, second is if there is any deterioration in the cash flows would it reflect first in a rising LTV rather than NPAs?

Sanjay Chamria: In fact if I take your second part first 2008 September when the crises hit that time what all the financiers did including ourselves was to tighten up our screening norms in the apprehension that delinquencies may go up and if you look at also that 5% to 10% LTVs went down immediately post October 2008 and when the market relaxes and competitive pressures begin the first time is LTV go up because that is how people say that I am offering better loan to value then my competitor and therefore I can get this business . So I think more than the delinquency it is the perception about the declining of the improving risk and the competitive pressure which would determine the LTV that is the reality.

Srinivas Rao: Fair enough, the cash flow in general, the activity levels in the rural area in which we have footprint and also the footprint for some of your peers that seems to be exceptionally well again I go back to the overall macroeconomic pessimism that you continue to hear?

Sanjay Chamria: So I think we have about 35% of our portfolio in the urban markets and that also is holding up as well as the rural and the semi rural markets so I would not say that per se hinterland has superior quality of cash flow as compared to the other markets. We are not experiencing stress in the other markets as well where we deal with the so called urban poor or the urban segment living in the other markets I think largely it is a function of one how do you do this screening and secondly what robust collections infrastructure you have created in order to collect your installments.

Srinivas Rao: Fair enough sir and just one final question you have mentioned one product was 94% collections what would that be?

Sanjay Chamria: So that was tractor but three years ago in FY'10.

Srinivas Rao: Okay so you just mentioned this year you said four products had 100% tractor is at 97% so did I get that wrong or right?

Sanjay Chamria: No you got it right as the tractor was 97.2%.

Srinivas Rao: Yes, and four you have said done about 100% plus.

Sanjay Chamria: Yes, and one did 99.4%.

Moderator: We have the next question from the line of Nishint Chawate from Kotak. Please go ahead.

Nishint Chawate: Yes, most of my questions have been answered I just wanted your thoughts on one specific issue with regards to regulations. We all sense that RBI is looking at various aspects of NBFCs, a couple of days back there was a news article which said that RBI is also looking at the cash dealings in the economy and NBFCs involvement in that, maybe this is more true from trying to regulate gold loan companies in terms of cash that can be dispersed or collection that we can do in cash vis-à-vis which you can do through bank accounts, we just wanted a sense as to what is the extent of cash involved in collections and disbursements and I mean if at all there is any regulation or any interference from the regulator how would you react and more importantly what would be the impact of that on the economy?

Sanjay Chamria: So far as the RBI concern is there they do it. I think they are also from the prevention of money laundering practices point of view they need NBFCs also to look at in terms of the KYC norm as to where the money is coming from and we also have to provide some statement on a regular intervals to RBI with regard to the cash dealing. Coming to the specific question on Magma there is not a single rupee of disbursal which is done in cash because all the disbursals we do to the dealer or to the manufacturer prefer to deal in the used vehicles. It is in the SME that we do a disbursement to the customer directly where it check and nothing by cash. On the collection side a large part of our collection is in cash that would be roughly about 75% and over 80% of our customers if they have bank account, they do not have banking habit, we collect cash from them by visiting their home or the nearest point so they maybe plying their vehicle and collect the money so that is what it is.

Moderator: That was the last question from the participants. I would now like to hand the floor back to Ms. Chinmaya Garg for closing comments.

Chinmaya Garg: Hi I would like to thank all the participants and management of Magma Fincorp for doing this call thank you everybody.

Moderator: Thanking all on behalf of IDFC Securities that conclude this conference call thank you for joining us you may now disconnect your lines. Thank you.