



## “Magma Fincorp Limited Q4 Financial Year 2014 Earnings Conference Call”

May 08, 2014



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**Moderator:** Ladies and gentlemen good day and welcome to the Q4 FY'14 Earnings Conference Call for Magma Fincorp Limited, hosted by Edelweiss Securities. As a reminder all the participants' 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 this conference call, please signal an operator by pressing "\*" followed by "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nilesh Parekh from Edelweiss Securities. Thank you and over to you Mr. Parekh!

**Nilesh Parekh:** Good morning everyone. On behalf of Edelweiss, I thank you for joining us on the Magma Fincorp Limited Q4 FY 2014 earnings call. I have with us, Mr. Sanjay Chamria, Vice Chairman & Managing Director, Mr. V. Lakshmi Narasimhan, the CFO and Mr. Kailash Baheti, Chief Strategy Officer to talk about the company's performance and important events during the quarter ended March 31, 2014. Without further ado, I will hand it over to Mr. Chamria for his opening remarks and then we can move on to the Q&A session. Over to you Sir!

**Sanjay Chamria:** Thank you Nilesh. Good afternoon everyone. I thank you all for joining Magma's quarterly conference call for the audited results for year ended March 2014. It has been an eventful financial year gone by. Some of these events for a ready recall have been the second lowest GDP growth in the last decade. Persistent high inflation since FY 2011 in spite of these efforts of RBI, degrowth in commercial vehicle and construction equipment as well as passenger vehicles. Depending upon the stake involved around Rs.6 to Rs.9 per liter increase in the diesel price. Virtual standstill on policy initiatives and steep increase in the NPA in the banking industry while these have been not so favorable developments it is a pleasure for me to add a positive in spite of the ever impediments that Magma has recorded its highest profits ever in its existence thus far and it is poised to better that going forward.

I will attribute the following initiatives and actions being the underlying causes for our robust performance. Calibrated growth in disbursements of new loans with the structural alternation in the product mix designed to fetch the optimum risk reward benefit. Therefore the tractors, mortgage and the SME have been immense contributors in our business for the year. While disbursements in tractor and SME lending increased by 26% YOY each, mortgage lending made a disbursement of 767 Crores in its first year of operations we have also initiated steps to restructure the sales process and the organization structure with a view to ensure that our channels and customers are serviced faster and appropriately and the same time our opex on sale function reduces.

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These efforts have just started delivering our objectives and the runrate on the disbursal growth reflects the same. Of all the quarters during the last fiscal the disbursement growth for us during the January to March quarter was highest at 28% indicating a healthy runrate. Second, constant and consistent reviews and changes in our customer selection criteria and terms for financing to improve the portfolio quality has resulted in better performance of portfolio originated in the last one year. Third, prudent and firm measures on the collections front including working with our customers to enable them overcome a very difficult phase in our existence.

As mentioned by me in the earlier calls, I have been involving myself in the collections by touring intensely in the interiors of the country, meeting our teams, customers and reviewing the quality of implementation of various process corrections. While all the processes have been instituted the implementation quality has room for improvement and with the steps taken, I am confident that in the current fiscal we will witness the full results of all the collection initiatives undertaken by us.

Fourth, I am pleased to share the successful integration of the mortgage business acquired by us one year ago from G-Housing in terms of cultural integration of the team, servicing of the existing customers, launch of mortgage lending using the acquired platform, success in first year of operations and leveraging Magma network of branches and ABF customer relation services. We are quite upbeat on building on the synergies of the vehicle finance and mortgage business in the coming years.

Sixth, our general insurance business has also turned out an impressive first full year of performance and effectively leverage distribution network offered by Magma and it has resulted in a spreading of opex by both the finance and insurance business. We look forward to strengthen the synergies of retail finance and insurance business so that we can service our customers better and have better operating leverage.

Finally tight control of opex and in spite of significant investment in reengineering various processes in sales underwriting and collection verticals all designed to create a platform to reap the benefits of an expected buoyant economic environment during the ensuing years. Also I wish to add that with the mortgage and general insurance business set to grow further in the coming years, the defraying of opex will further be enhanced so the sharing of expenses on an arms length principle.

A combination of above seven factors has resulted in a satisfying performance during the year and the highlights of the same in brief are as follows:



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Our disbursements have grown by 6% in spite of a conscious degrowth of the commercial vehicle and the equipment business with the tractor mortgage and the SME lending being the standout performers. Our overall loan book has grown 10% to reach 17877 Crores. Our net interest spread for the full year has grown to 5.8% up from 4.9% and the Q4 NIS in excess of 6%, which has contributed an equal measure by reduction in the cost of funds and increase in the gross sales.

In an extremely tough environment, thanks to our collection team's commitment, we have been able to control the NPAs at the same level as in Q3 FY 2014. I would also like to add that Magma recognizes NPA at four months default as compared to the requirement from RBI of six months and also makes higher provisioning for the standard assets. As a result including the reversal of income on such early recognized NPA contracts, the company has made an additional provisioning of Rs.87.34 Crores till date which includes the impact of Rs.40.47 for FY 2014. In addition to the above and inline with the RBI guidelines, Magma also recognizes income of securitization and direct assignment transactions only when redeemed in cash even if they are standard assets and as a result the gross income on securitization and assignment of loan is lower by Rs.74.36 Crores on a consolidated basis.

The cumulative impact of both these factors for FY 2014 comes to Rs.114.83 Crores, while the cumulative impact as on March 31, 2014 is Rs.165 Crores. The better than expected performance by the mortgage in the general insurance business has supported efforts to keep opex under control during the year. Our overall revenues have gone up by 24% to Rs.2117 Crores and the PAT is up by 10% to Rs.160 Crores during the year.

On a closing note, I would like to add that while the last few quarters have been challenging for the entire financial services industry we have used this opportunity to implement various initiatives and best practices. All the economic revival is a few quarters away, the recent changes in the organization have equipped us to grow our business in a sustainable and profitable way as and when the opportunities arise. In my view, the worst on the portfolio quality front is behind us and we should see better performance during the current fiscal year resulting in claw back of the NPA provided for in FY 2013 and FY 2014.

The improvement in yields for us will yet work-in-progress and will continue to improve further during the next few years with our constantly evolving product mix further growth of the mortgage business and the general insurance becoming profitable during FY 2015, I hope to remain in touch with you all during the current year with an extremely positive frame of mind. We will also revisit our plans to capitalize the company when we detect early signs of growth revival. Now Lakshmi, Kailash and I would be happy to take any question that you all may have. Thank you.

**Moderator:** Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Chunky Shah from Credit Suisse. Please go ahead.

**Chunky Shah:** Thanks for the opportunity. I had a few questions. The first question would be on the loan growth for FY 2015 what kind of, this quarter was muted number at 10% for the year, so what number are we looking for say next year and the next two to three years? The second one was on the collection initiatives. Sir you mentioned that you personally have been going and visiting area, so any particular interesting feedback that you want to give as are people skeptical or are they improving in collections or any light on that front? Third and last one was on CVs. We have consciously gone slow on the CV disbursement, when do we see our revival on that front?

**Sanjay Chamria:** Mr. Shah, you have asked three questions, so the known growth on YOY basis is 10%; however, if you look at the average loan book growth that is about 19% in FY 2014 and the reason was we have acquired the mortgage business and which was consummated in February 2013, so the 10% growth does not share the full story. Having said that in the current year of course we are lot more positive than what has happened last year one with the mortgage now being in full bloom and therefore is expected to grow more handsomely with the base being low and second we also expect the economic revival from October 2014 and therefore while in the first half the growth in the asset finance business may be muted on a little here and there compared to last year, but from October onwards we really expect better growth. So on an overall basis I would guess that it could be anywhere between 15% and 20% during the current year, so far as the loan book growth is concerned. To your second question which was on the delinquency trends and more at an industry level as I shared that the various efforts we took which started showing results from December onwards. In fact our overall collection efficiency for FY 2014 is 95.7%; however, for Q4 it is in excess of 98%. Having said that I would like to share with you I do not see a revival in the economic situation or the cash flows of the individual customers that most of the NBFCs including ourselves are catering to and so the situation be it a transporter, be it a farmer or a machine operator largely remains the same one because the deployment opportunities are lesser and the capacity utilization of the equipment and the commercial vehicle has remained still low at around 60%. As a result of this despite the increase in the diesel prices you do not really see the freight rates or the hiring charges going up and therefore the free cash flows in the hands of the customers have also been lesser. So therefore the improvement that we have witnessed in the collections is largely due to the tightening up of the internal initiatives and the efforts being made; however, I do not really see great revival in the market as such. So this is my answer to your second question. Can you repeat your third question, I forgot?

**Chunky Shah:** The third question was on the CV side?

**Sanjay Chamria:** CV has done pretty bad last year and all the three segments which is the LCV, HCVs and small commercial vehicles have registered a degrowth. Medium and heavy commercial vehicle has registered a sharper degrowth and today they are almost at a decade low and with the 60% capacity utilization in the trucking industry the SIAM forecast of the CV business this year is that it will remain flat, which means it is neither expected to degrow further nor it is expected to grow from what it is last year and in construction equipment the industry forecast is that there will be a 5% degrowth and which would be the third consecutive year of a degrowth in the primary sale of construction equipment. I can well imagine and this ties in well with my feedback on the delinquency that I do not really see the deployment avenues improving for the machine owners or the truck operators, and therefore in FY 2015 I would continue to remain underweight on the commercial vehicle and the equipment and therefore given the diversified nature of the asset book that we have which is tractor, SME, used vehicles and the mortgage we will ride on these four products to achieve the growth in the loan book rather than on CV but I do not think that in this year it will be positive, may be in FY 2016 or if there is something dramatic that happens from October we may see some revival in the fourth quarter of this year.

**Chunky Shah:** A couple of housekeeping questions. First one on securitization so as on March 31, 2014 our number on securitization and what we have done for the quarter and for the year? Second one is if I see used assets, I think you have reclassified that number so earlier is to be used CVs and now it has been classified as used assets, so what other asset class have we included there or which asset class are we focusing on the used asset side? Thank you.

**Sanjay Chamria:** So in our investors PPT on slide #8, we have given that out of the total 17877 about 6500 is represented by the securitized or the assigned assets, which is roughly about 35%, balance 65% is on books. During the last year, we have securitized or assigned fresh worth about 4800 Crores, so that is how the breakup is and reclassification as we are underweight on the commercial vehicle so earlier the used that we were doing were largely the commercial vehicles, but about 18 months ago we also started developing our used passenger vehicle business as well as the used equipment's, so therefore during the last year we find that out of the disbursement that we did in the used assets the contribution of commercial vehicle actually went below 40% and more than 60% of the contribution from the used asset came in from the passenger vehicles and the equipment and that is the reason that there is a marginal reduction in the gross sale that we witnessed in case of the overall used assets because the profile of the truck drivers being more modest than that of a machine operator and the person who is buying the used passenger vehicle the rates are a little lower by about 1 to 1.5%.

- Chunky Shah:** So, the securitization number for the whole year it is 4800 Crores, for the quarter it would be?
- Sanjay Chamria:** That is an excess of 2500 Crores because it is usually in the Q4 that you see a for doing the securitization deals as there is a greater degree of appetite even from a banking sectors which is the large bar in the investor for the securitization assets.
- Chunky Shah:** Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Ankit Hakhu from CRISIL Limited. Please go ahead.
- Ankit Hakhu:** Good morning Sir. Sir my question is that does Magma follow any foreclosure policy? Is there any length of time when you decide that you have to actually repossess the asset? Is there any internal benchmark?
- Sanjay Chamria:** Mathematically, there is a benchmark, Ankit that any contract which is in 90+, just merely a promise to pay is not acceptable unless there is an assessment of that customer by a senior guy from the company who would have to go and visit and meet up and also do the inspection of the asset that there are valid reasons for the customer to delay the payment and there are valid reasons for us not to foreclose the contract or not to repossess the asset despite three installments being outstanding. This is the policy; however, it does not mean that all the contracts which are in 90+ would of course get repossessed because that is also not a practical scenario, so therefore what we do is any contract which is beyond 90+ ensures that there is a team leader's who would be going and visiting the supervisors and then record the reason in writing and then either go ahead with the repossession or to start the legal proceedings leading to the foreclosure of the contract and demanding the entire principle outstanding upfront and then selling the asset upon repossession if the customer does not come forward for the release of the asset.
- Ankit Hakhu:** The next question is do you see number of such contracts rising or at the stable level contracts coming for foreclosure?
- Sanjay Chamria:** Foreclosure what you are talking, if I refer to it as a voluntary foreclosure where the customer would come forward and would want to preclose, I think that number has been fairly stagnant between 5% and 7% during the year and I do not really see a spike in the same. So for as the involuntary foreclosures are concerned which is where we would repossess and close the contract not convinced about the customer's either the ability of the intention that of course number was rising but from December onwards and what I think in your parlance call as the role rates as we see not only stabilizing, but actually going down,

so there I see an improvement which is very, very significant in the last five months and that is where I am more bullish that with the various internal measures that we have instituted of which we have not received the full benefits, I think in the current year we should see the role rates stabilizing even more.

**Ankit Hakhu:** The next question is in terms of the resale prices of such vehicles do you think that resale prices are they firming up or it is difficult to actually resale in the market?

**Sanjay Chamria:** I maintain the position, which I shared in the last quarter call that in conditions like this the resale prices will not firm up and the market for the secondhand vehicles also have gone down and usually whenever a financier would sell a repossessed vehicle there will also be more loss than if an individual operator who would sell the vehicle and therefore we encourage the customers whose vehicles we have repossessed that why do not you only find a buyer and sell it because in that way you will realize better price than if we were to do the auction. This is in terms of the process and in terms of an experience it has not been any different in the Q4 whether we have realized the better pricing. I find it is to be the same.

**Ankit Hakhu:** What is the average loss that you would make on a reselling of a vehicle just for my knowledge?

**Sanjay Chamria:** That actually varies from asset class. As on debt it is highest in case of commercial vehicle and then followed by the passenger vehicles and interestingly in case of equipment it is the lowest.

**Ankit Hakhu:** Sir one last question. I missed the commentary before you mentioned that the securitization income was lower and if you could just repeat the reason why was it lower?

**Sanjay Chamria:** The securitization income as a whole was higher because we have 35% of our loan book which is by way of securitization, so therefore we have higher proportion of the securitization income compared to our peers; however, due to the recent guidelines of RBI in August 2012, which in my opinion is quite regressive and therefore even in respect of the standard contracts, the income as to we recognized on a cash basis and not on a accrual basis which you do if the contracts where on your own book and therefore our income for FY 2014 is lower by Rs.74 Crores in respect of the contracts where the income has been recognized on a cash basis.

**Ankit Hakhu:** Thank you very much and all the best.

**Moderator:** Thank you. The next question is from the line of Chinmay Sathe from Bajaj Allianz Life. Please go ahead.



**Chinmay Sathe:** Thank you for the opportunity. I have a question on the ROE. I am just referring to your presentation wherein the ROE mentioned is 9.5% for FY 2014. Sir my question is when do we see the ROE improving to 15% plus and what would be the line items which will start contributing, so basically whether it is the asset mix which will change, which will result in higher yields or whether it is a change in funding mix, which will bring down the interest cost for us or whether it is the operating leverage, which will be driven because the loan book will expand for us as a result of which the cost per asset that ratio will come down for us which will result in ROE improvement, so can you just throw some light on that?

**Sanjay Chamria:** So I think one we should see a healthy improvement in the ROE in the current year and there are three principle reasons as to why it should happen. The first and the foremost while our spreads have improved from 4.9% to 5.8% which is the 90 basis point increase in an otherwise tough year the net interest margin has remained stagnant from 5.48% to 5.51% and the principle reason for the same is the hit on account of the excessive spread, which is recognized on a cash basis on the income reversal due to the current NPA position, which in my view will significantly improved in the current year, so therefore all the efforts made by the management towards realigning the customer product and the market mix to improve the yield will show up the results. So that to me is the first line item, which should start showing at least 50 to 75 basis point improvement in the current year on account of this measure. This is beside the further improvement in the gross assets that we expect in the current year through the further refinement of the customer segment and the product mix. The second line item which should show and contribute to the improvement in the ROE is the sharing of infrastructure and the positive contribution from the mortgage and the insurance business. Mortgage is a 100% subsidiary of Magma and this was the first full year and obviously the ROE of that business was less than 2% and which is factored in the 9.5% ROE for the consolidated business, so with that improving in the current year, it will have a positive impact. Third one, insurance is said to become profitable in this year. This is the third year of insurance business and we have seen the improvement in the claim ratio and the combined ratio on a quarter-on-quarter basis. So therefore the associate businesses of housing and insurance rather than being a drag will be a positive contributor during the current year and the third reason in the line item would be the provisioning and the credit losses which as a percentage of the total asset is 1.4% and which in my opinion should further improve during the current year. So combination of these three should show an improvement in the ROE during the current year quarter-on-quarter basis.

**Chinmay Sathe:** Sir with respect to asset mix or product mix change can you just share some thoughts on that what product you think will improve the yields for you and where you will see the focus is for us?

- Sanjay Chamria:** One the drag on the profitability is on account of the vehicle and equipment, which as I was saying that we are underweight, so imagine in FY 2012 we had more than 55% contribution coming in from these two products, which is now less than 35% in FY 2014 and will further go down to around 30% in FY 2015. These are low margin and are contributing more to the credit losses. On the other hand, we are more aggressive on the tractors, SME and the mortgage and used in which the SME, used and the tractor contribute quite healthy in terms of the margins whereas mortgage has a much lower credit cost, so on a blended basis these four would drive up the product, and customer, and the market segment mix to improve the ROE.
- Chinmay Sathe:** In the mortgage book how much would be the LAP portion for us or is it totally LAP?
- Sanjay Chamria:** It is about 70% LAP and 30% home loan.
- Chinmay Sathe:** When do we expect 15% ROE actually which year you think you can based on the steps that you said when we see a 15% plus kind of ROE number?
- Sanjay Chamria:** That would be difficult for me to comment and give a projection on the same.
- Chinmay Sathe:** Thank you.
- Moderator:** Thank you. The next question is from the line of Anuradha Porwal from ICICI Bank. Please go ahead.
- Anuradha Porwal:** Two questions from my side. Firstly on the ALM front what is the kind of mismatch that we see in the next five-year timeframe? Second is as we see in FY 2014 your gross, net NPA, provisions and as well as on the absolute level they have gone up significantly? What is the kind of trend that we expect in the next financial year on the front?
- Lakshmi Narasimhan:** As far as ALM is concerned if it is a five-year question in terms of a mismatch and without getting into what the Companies Act presently says in terms of bond raising and all that I do not visualize the mismatch in terms of the tenures.
- Anuradha Porwal:** May be on a short term timeframe in the next one year would that also be positive?
- Lakshmi Narasimhan:** I think the answer holds good for both situations.
- Anuradha Porwal:** For the NPA side Sir?

**Sanjay Chamria:** As far as the NPA is concerned it has seen a rise in the last year as I said has been the trend faced by every financial player and so the next year we expect, see what has happened between Q3 and Q4 the NPA ratios have stabilized at a gross level and at a net level also, so going into the current year FY 2015 we expect moderation in the gross level because while we expect the loan book to grow but the NPA absolute numbers to be lot more moderate in terms of growth and thereby the percentage is to go down.

**Anuradha Porwal:** So would that be in the range of around 2.5 or would that still be in the range of 3 at the gross level?

**Sanjay Chamria:** Again difficult to really give a projection. Our endeavor of course would be to bring it below 3 from 3.6 currently, but what will happen is difficult to say because, so far as internal measures are concerned, I am confident with all the measures taken. It is only the quality of implementation and which in my view should get fully completed by September, but for the overall NPA position to improve the external environment also has to undergo a change and be supportive so that is something which is very difficult to hold out, although we expect that from October the scenario should improve, but given the predictions that the monsoons could be below normal this year and when the government will take policy reforms and kick the investments off and all of those things is very difficult to speculate.

**Anuradha Porwal:** Just one more thing on your front what is the 90+ as you mentioned that after 90+ you take additional steps so what is the 90+ overdue as on FY 2014 March 31,201 if I could get a number?

**Sanjay Chamria:** Well I do not know it as of now may be separately Lakshmi and his team can contact with you and provide the details. Although at 120 we have shared it is 3.6 while at 180 it is 2.7 which is there in the investors PPT already.

**Anuradha Porwal:** Thank you so much.

**Moderator:** Thank you. The next question is from the line of Amey Sathe from JM Financial. Please go ahead.

**Amey Sathe:** Two questions Sir. One is on the 47 Crores number that you talked about because of provision reversal as we follow of 120 DPD policy for gross NPL what will be the interest income reversal in that?

**Sanjay Chamria:** Just a second we are giving those numbers.

**Amey Sathe:** Can I ask another question?

- Sanjay Chamria:** Please go ahead with the other question.
- Amey Sathe:** Your tier I have improved on sequential basis. So, is it because of infusion of profits or we raised some perpetual debt?
- Sanjay Chamria:** It is a function of the profits, which have been retained and no perpetual debt has been raised during the quarter and also it is the impact of the sell down of the assets.
- Amey Sathe:** Sir, what will be the proportion of LCV of your total CV book?
- Sanjay Chamria:** LCV is quite a small as of now.
- Amey Sathe:** Another question is distribution network strategy. So, do you expect your branch network to increase going forward or you think that it will stabilize at current levels? Are there any plans to increase our branch network?
- Sanjay Chamria:** We are not looking at expanding the physical infrastructure by setting up more branches. Therefore our branch network has been pretty much constant over the last two years, but what we are doing is penetrating the markets more deeply and which is where we have taken certain sales initiatives wherein our guys are positioned more into the sub-districts rather than in the branch offices and that would help us to cater to our customers and channels more effectively. So we are looking to use each of our 280 branches as a hub and the guys who are working in the field as a spoke and thereby cater larger number of sub-districts and districts that we are present in.
- Amey Sathe:** Just a question on LCV. Are you witnessing any higher delinquency in that portfolio? I know it is a very small proportion, but what is your sense on that?
- Sanjay Chamria:** The delinquencies have seen a rise across product segments, but it is less pronounced in case of the LCV and the SCVs as compared to the medium and the heavy.
- Amey Sathe:** Is that possible to get that number, interest income reversal?
- Sanjay Chamria:** Chunky it is about 1.54 Crores is the income reversal on 40 Crores to 47 Crores.
- Amey Sathe:** Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Rishendra Goswami from Locus Investments. Please go ahead.

**Rishendra Goswami:** Could you share what was the securitization income booked for the whole year? Just another data question is what is the absolute number of GNPA and NNPA, if you could just share that?

**Sanjay Chamria:** I think that is there in the investor PPT, 3.7.

**Rishendra Goswami:** That is on the on-book loans?

**Sanjay Chamria:** It is from the overall because we calculate the numbers on the total loan book.

**Rishendra Goswami:** Meaning that would be on the consol AUM?

**Sanjay Chamria:** It maybe about 600 plus Crores or 550 Crores, 3.6%.

**Rishendra Goswami:** Got it.

**Sanjay Chamria:** Income on securitization is 103 Crores and there is some flow that we get through support the collection fee and all that. That is another 62 Crores.

**Rishendra Goswami:** 103 Crores was the total income booked?

**Sanjay Chamria:** I think the total, if you just write down the total it will be fine. That is about 165 Crores.

**Rishendra Goswami:** What was the total amount of preference dividend declared this year?

**Sanjay Chamria:** I think 13 and 13.5 Crores should be the amount of preference dividend.

**Rishendra Goswami:** 13.5 Crores?

**Sanjay Chamria:** Yes, approximately.

**Rishendra Goswami:** Thank you. That is all from my side. Thank you.

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

**Umang Shah:** Thanks for taking my question. One was on the mortgages portfolio, if you could give us some more color in terms of what would be the customer profile across LAP as well as mortgage segment in terms of salaried, self-employed and what would be the yields on each of these products?



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**Sanjay Chamria:** More than 70% of our customers are self-employed in both the home and the LAP and that is what we see as our customer segment. What we are dealing in the Magma AVF business as well and we are using the branch network and the distribution infrastructure to reach out for the mortgage business as well. So in future as well we hope to cater to largely the self-employed with a relatively lesser percentage of the salaried segment. As a result of that the overall gross savings are also higher with a combination of 70% LAP and 30% home loan in excess of 30% at a blended level.

**Umang Shah:** So, typically what would be the yields on LAP and what would be on mortgages?

**Sanjay Chamria:** Mortgage would be more than 12.5 and the LAP would be closer to 13.75% to 14%.

**Umang Shah:** Even in LAP would it be fair to assume that a large part of loan against property would be again self-occupied properties?

**Sanjay Chamria:** Yes.

**Umang Shah:** Second in terms of used CV and used passenger business, what would be our yields on these and typically you mentioned that closer to 30% of our assets in the overall assets are in the used category, if I am not wrong?

**Sanjay Chamria:** In fact the yield wise, in case of the commercial vehicle it would be around 19%. So far as the passenger vehicles it would be between 16% to 17% and in the same range for the construction equipment and therefore on a blended basis for the new disbursements the targeted yield in the used segment would be around 18% to 18.5% and that is where I said that there is a drop of 1% that we expect happening because of the mix changing. What was the second part of your question?

**Umang Shah:** In our existing assets base how much would be used?

**Sanjay Chamria:** Right now it is about I think another 15%.

**Umang Shah:** That would include all the products?

**Sanjay Chamria:** That is there in slide #9 and so it is about 11% actually. That is all the three products put together.

**Umang Shah:** Sir, just one last bookkeeping question. Our FY 2014 PPT shows our full year disbursements of 9081 Crores whereas the corresponding number in the third quarter PPT

for nine month was 6616 Crores. So my sense is that the fourth quarter disbursement number in the PPT is slightly on the higher side of 2639 Crores?

**Sanjay Chamria:** Which is what I shared also that with the various initiatives that we took on the sales front, even the market was flat, we actually had a growth of 24% over the previous quarter, and overall we have been growing and that is contributed by the tractor SME and the mortgage, and which is the trend we hope to continue in the current year and that is how we expect the loan book growth in the current year to be higher than last year.

**Umang Shah:** I was coming from the point that if I was to add on the 4Q disbursements number and the nine month number, ideally our full year disbursement number should have been something closer to 9200 Crores or 9300 Crores. So, I just wanted to double check on that?

**Sanjay Chamria:** Maybe when gold is something which might have been included in Q3, but that to me is an anomaly because the tenure is about four months. So therefore we said that what used to be reorganized and the disbursal now we are showing only for those assets which are more than one or two years and therefore we would have regrouped the figures.

**Umang Shah:** Just one last question. Again pertaining to loan against property and mortgages, how much of the sourcing would be in-house and how much of it would be through DSAs?

**Sanjay Chamria:** This is largely channel driven and so therefore you get it from the connectors or the DSAs, but we have also been doing the cross selling to the existing customers of Magma for the home loan requirement plus as well as the top ups to the existing customer of the book that we acquired from GE. So therefore that initiative has started only after October. So in the last quarter I think around 15% or 20% of the business would have come in by way of direct origination by the sales team or the accounts team, of the heaviest customer as well as the top up to the existing customer and the balance would have come in either from the different types of channels, which is the DSAs or the connectors.

**Umang Shah:** Sir, just one last, more a connected question. So when you say top up loan to existing customer, it would be classified into loan against property category right?

**Sanjay Chamria:** I guess so. I do not really know exactly. It should be, but like that only.

**Umang Shah:** Thank you so much for taking my questions. Thank you.

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

**Vikas Garg:** Thank you very much. I think, most of my questions have been answered already. Just one qualitative commentary on the asset quality in the very first month of this quarter in April; how has been the experience on the collection efficiency front vis-à-vis the first quarter of last year?

**Sanjay Chamria:** Usually what we call in our industry is the April syndrome that after the March people relax and therefore you see the collections dropping in the month of April and coupled with that the elections that take place in although there are six phases out of which about four phases to hit us in April, so we were very, very apprehensive that again, it might hit us. So there were lot of planning, which was done coupled with the holidays like we have Ram Navami and then Good Friday and the Poila Baisakh. So we wanted to ensure that we beat the April syndrome. So what has happened is the performance of collections in April in terms of collection efficiency, luckily has remained the same as April of last year, but in terms of the roll back it has been significantly better than April of last year.

**Vikas Garg:** Will it be safe to assume that the collection efficiency would be 92% to 93% in April?

**Sanjay Chamria:** More than that.

**Vikas Garg:** More than that. Just one more observation on the comment of yours that some sales restructuring was done in the last quarter, and also the observation that the operating efficiencies have improved for the whole of last year, so in terms of the operating expenses there was a surge in the last quarter, I was just wondering if it is a kind of a one-off thing, which was a result of the sales restructuring and going forward those operational efficiencies will continue to come?

**Kailash Baheti:** Basically the last quarter we give a push to the sales as also the connections and usually the incentive is distributed to the sales and collections people is higher. That is one. Second is there are annual components, which come into place. So these are the factors, which contribute to a little higher expenditure and which will continue to happen even in the last year also, if you see the last quarter will be higher than the previous three quarters. So that is how it is.

**Vikas Garg:** Thank you very much and best of luck for your next coming quarters.

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



- Srinivas Rao:** Thank you very much. Just wanted your feedback on the collection ratio. I know that you have commented briefly in your opening remarks, but if you could throw some light on how the various segments are behaving with respect to the collection ratio?
- Sanjay Chamria:** I actually find amongst the vehicle and the equipment category the stress is more in respect of the equipment and the commercial vehicles compared to passenger vehicles and tractors. In terms of the better class of performance is from the SME and the mortgage and this is how see it.
- Srinivas Rao:** Sir, what is the level of the collection number? I am sorry if I have missed the number? Is it in then 97% range or lower now?
- Sanjay Chamria:** Sorry, I did not follow your question, can you come again?
- Srinivas Rao:** What is the current ratio is it like 96% or 97% or is it lower than that?
- Sanjay Chamria:** If you look at the slide #12 of the investors PPT so we have given that collection efficiencies is 95.7% and I was sharing in response to another question that in Q4 it was in excess of 98%.
- Srinivas Rao:** You had mentioned in your last quarterly remarks that you were seeing some degree of negative impact of the stress on states like MP particularly which are more industrialized. Would you throw some light on what is the status now in terms of geographical so to say color with respect to the financing?
- Sanjay Chamria:** I think what you are saying is partially correct and partially incorrect. As the industrialized the states are seeing more stress. States which are more agri based, they are more distributed. The stress is less. You are partially incorrect, but partially where you are correct is that MP has seen a stress despite not being an industrialized state. It is largely an agricultural state. MP last year has become the highest tractor selling state in the country and it has overtaken UP. Otherwise UP was the largest state. Last year MP has overtaken UP. However, despite that MP has seen a stress that is largely because of the two successive crop failures. So naturally if you are lending in a state where the economy is based on agriculture and if there is a one crop failure, it can be backed by four to six then when there are two crop failures it can settle back by about eight to nine months. You would all be aware that again after the failure in November in February and March also due to the hailstorm some of the crop in regions like Gwalior, Jhansi and Morena and all got damaged and there was a 45% realization of the soya bean crop resulting in inability of the farmers to make the payment of installments and thereafter the MP government also shot to give a relief by allocating awards of 4000 Crores, but as we speak till now the money has not been

disbursed, and we keep a very close eye because if they get their disbursal, we will get our EMIs.

**Srinivas Rao:** Any feedback on Maharashtra and the larger states of AP, Karnataka?

**Sanjay Chamria:** In Maharashtra there is an improvement. Like last two years there was a problem in the Aurangabad Nasik belt, but this year I find that as in the last several months, I find that there is an improvement in Maharashtra and Andhra of course did suffer in the previous two to three years. So our exposure really is pretty low in the agriculture belt in Andhra so it has not really impacted us much. On the other hand, UP, which is the second largest state there was again of course a problem because of the non-release of the dues by the sugar mills but ahead of the elections there was a lot of money being released by the government to the sugar mill as an interest free loans and that money has found its way to the farmers and thereby it has helped in the improvements in the prepayments and the portfolio quality in UP in the last three months.

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

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

**Pankaj Agarwal:** In terms of your ROA improvement do you see any contribution from operating cost, because still your operating expenses as a percentage of AUM still 120 to 130 basis point higher than your competitors?

**Sanjay Chamria:** So Pankaj, I would dispute your statement being higher than the peers. So that is something which Laxmi and his team can take up separately with you, but we have not received any operating leverage benefit per se in the FY 2014 on the operating expenses, but as I was answering to some other question as to how do I see the ROE or the ROA improvement wherein I said that there are three reasons why there should be an improvements in the ROE or ROA, and that was largely on account of the margin improvement, which I said despite last year the spreads going up by 90-basis point, our NIM has remained stagnant at 5.51 and second I mentioned was the two new businesses mortgage and insurance, now going up to scale from incubation stage so therefore they will also contribute on a positive side to the ROA and ROE and the third one I felt was the credit losses, which should positively go down in the current year and should again contribute to the improvement in the ROA. I do not expect that there will be benefit on account of opex during the current year because unless there is an improvement in the economy which results in a higher loan book growth and right now the improvement in the collections and credit losses are happening more because of the internal processes and the efforts and investments being made, but when the

external economy also starts supporting then you will see that the improvements in collections and the overall assets quality happens despite your opex and the investments remaining the same and that is where we will see the benefit of the operating leverage. So, I do not hope that in FY 2015, I will see an operating leverage benefit that may come through in FY 2016, but FY 2015 these are the three reasons as to result in an improvement in the ROA.

**Pankaj Agarwal:** On ROA you are saying that due to the economic situation, you need to spend more on collections, right so because of that it is not reflecting in operational efficiency.

**Sanjay Chamria:** Because what has happened you see my NPA, which is sitting at on 120 days DPD at 3.6% ideally, I would like it to see go below 2%. So when my NPAs are 3.6 as against my tolerance of 2 and IGT contracts was in the higher bucket, I allocate less number of contracts to the same guy because he has to meet the customer more often and these are more senior guys. So therefore you spend more and you do not want to economize on the infrastructure and collection cost because the money at stake is much higher and that is the reason that you will have a higher opex and I do not see that going down in the current year. It may go down in the next year, once the overall internal effort results in the improvement in the asset quality and roll back and second there is an improvement in the external scenario.

**Pankaj Agarwal:** Thank you very much.

**Moderator:** Thank you. The next question is from the line of Samarth Sanghvi from Philip Capital. Please go ahead.

**Samarth Sanghvi:** Good morning, Sir. Thank you for taking my question. Sir, just wanted to understand the impact of the impending El Niño expectation, I mean you mentioned that we will grow by 15% to 20%, but what if we see the El Niño impact coming about. So do we still expect to grow at that rate?

**Sanjay Chamria:** El Niño I do not really know as to how and when it will hit us, but I think the IMDs prediction of the below average monsoon is being at the last count is about 94% of having 10 year or 50 year long-term average of the monsoons and what I am told I am not an agri expert that as long as the expected monsoon is below 95% of the long-term average, it does not impact the crop. However, the El Niño could be geographically it could be diverse in its impact. So, therefore it could be that while on an all India basis you could have 94% or 95% but if there are certain states, which receive excess rainfall or certain states which have scant rainfall then they could get impacted. Now which are the states where you will see the bounty of this scarcity is a million or a billion dollar question and on which I do not think

anyone of us really know the answer. So coming to the second part of the question that I think gives us the lever that since we are present in seven products, so therefore if one or two products do get impacted due to the El Niño or equivalent thereof or the slowing economic situation, we will be able to make up that from the other products and that is where we are more optimistic this year in terms of the loan book growth than last year.

**Samarth Sanghvi:** The reason why I asked this question is purely looking at when we say that tractors have done 26% and above this year just wanted to understand as to if El Niño impacts and we could see an impact from the tractor sales and hence that could impact our growth, but then do we assume or do we believe that we will be able to overcome that drop by mortgage or maybe an SME loan?

**Sanjay Chamria:** Well to some extent if there is a drop you can make it up, but if it is highly indiscriminate then it would be difficult, but you see the TMA has released the trend. They expect the 10% growth in the tractor sales this year on the back of a 21% growth than last year, but of course last year they thought it will grow 10% to 15%, but actually it grew by 21%. It is very difficult. So what we do our projections, we look at what is the industry bodies are projecting. So SIAM for the passenger vehicles and commercial vehicles, CIDC for construction equipment, TM is for tractors and based on that we do our own estimate. So, eventually there is a huge amount of interdependence and correlation between these estimates.

**Samarth Sanghvi:** Any particular steps that we are taking to maybe foresee this event or we will look at once it happens and then we decide our plan of action?

**Sanjay Chamria:** Very difficult question.

**Samarth Sanghvi:** Sir, one more question is with respect to when we said that there are some rollbacks that you are expecting. Any commentary on to what amount or to what extent would these rollbacks happens?

**Sanjay Chamria:** We are already experiencing rollback and interestingly as I shared I do not know if you asked or someone else, I said April performance also in collection while efficiency wise it was the same as last year April, but the roll rates have been far, far better so that pulls out the optimism that the trend that has started from December onwards hopefully will continue and therefore we will see a moderation in the NPA numbers in the current year even if the economic situations were to remain the same as it is largely due to the internal processes and the improvements that have resulted in it.

**Samarth Sanghvi:** So, it will be better than the previous years. That is what we can work on as a base case.



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**Sanjay Chamria:** We need to be optimistic.

**Samarth Sanghvi:** Thank you so much. All the best for the future.

**Moderator:** Thank you. Ladies and gentlemen due to time constraints that was the last question. I now hand over the conference to Mr. Nilesh Parekh for closing comments. Thank you.

**Nilesh Parekh:** Thank you everyone for being on the call. I thank the management for giving us the opportunity and patiently answering the questions. Thank you very much.

**Sanjay Chamria:** Thank you.

**Moderator:** Thank you. On behalf of Edelweiss Securities Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.