"Magma Fincorp Limited Q4 FY-15 Results Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Magma Fincorp Limited Q4 FY15 Results Conference Call hosted by Ambit Capital. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask question at the end of today's presentation. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Pankaj Agarwal of Ambit Capital. Thank you and over to you sir.

Pankaj Agarwal: Thanks. Good morning everyone. I welcome you all on 4th Quarter FY15 Earnings Call of Magma Fincorp. The officials who are representing Magma on this call are Vice Chairman and Managing – Mr. Sanjay Chamria, Chief Financial Officer – Mr. Atul Bansal, and Chief Strategy Officer – Mr. Kailash Baheti. Thank you gentlemen for joining this call and over to you.

Sanjay Chamria: Thank you Pankaj. This is Sanjay Chamria. Good morning everyone. I thank all of you for joining our conference call for the Q4 results. Before getting into the specifics of financial results for the quarter, I would like to spend a couple of minutes to discuss the overall economic environment and the financing business.

The Indian economy has exhibited mixed trend last year and while on one hand the inflation has moderated due to lower oil and commodity prices, the fiscal deficit has been under control as budgeted. The interest rates have not come down despite reduction in base rates by RBI and the credit growth has been at a two-decade low, indicating lower levels of industrial activity.

We have also witnessed mixed trends in our business and medium and heavy commercial vehicle sales have grown on a low base while LCV and the SUV and the tractor sales have registered de-growth during FY15. Passenger cars have registered muted 5% growth in sales. On the regulatory side, there have been significant changes announced starting with NPA recognition and RBI announcing a three year roadmap to align the NPA recognition at par with what is applicable for banks and it will have a significant impact on the business models followed by NBFCs. Further following announcement of a guideline for small and the payment banks, number of applications have been filed and finally revived guidelines have been issued on PSL recognition norms. All these changes will have a profound impact on the way NBFCs operate and the next few years we will see competitive landscape changing and the players with innovative business models, higher risk management and the Fin Tech solutions are likely to emerge as a stronger and successful at the expense of others who are more traditional in terms of product suite, prophecies and the technology adoption.

At Magma we have had the extensive engagement with our stakeholders and recognising the changing face of the business and the low pace of economic revival in the Indian market we have decided to follow a four-pronged approach to improve the profitability while cautiously growing of our loan book. We have already embarked on implementation of the new approach from February 2015 and are confident of seeing its impact from the 1st Quarter of FY16.

I will now like to share the key highlights of our performance for FY15 and the impact on our results. We have cautiously grown our disbursals and mortgage tractor, SME and the used assets during the year increasing its share to 58% during FY15 compared to 49% in the previous year and during Q4 it has further improved to 63%. Our overall disbursals have grown by 11% from 9081 crores to 10,115 crores during FY15. Total loan book has grown by 9% YOY from 17,877 to 19,567 with the share of mortgage tractor SME and the used assets having cost 50% and now at 51% with mortgage itself contributing 15%. Due to continuing focus on yield improvement despite mortgage being the second largest in our product disbursal, the overall NIMs have grown by 65 basis points from 5.51 to 6.16 and we are on our target to achieve 6.5-7% during the next two years.

As indicated at the beginning of the year due to investment in collection efforts to deal with rising delinquencies and continuing investment in upgrading the technology intervention for process improvement, our OPEX has gone up during the year by 23% largely on account of salary cost. However, the cost to income ratio has remained constant at 59% and with gradual improvement in economic scenario during the current year and slew of measures taken during Q4 of FY15 we should be experiencing reduction in cost to income ratio during the current year. Due to tough market conditions continuing during the entire fiscal 15 our customers had experienced lower deployment, utilization of assets causing reduction in cash flow after meeting expenses and therefore rising delinquencies and as a result our paid cost have risen by 33% during the fiscal year and the collection efficiency as a whole has marginally dropped from 95.7% to 95.2% during the year.

Similarly GNPA at 180 days past due has increased from 2.7% to 3.9% and NNPA from 2% to 2.9%; this is despite an intensified efforts made by the management in collecting money from the customers through increased visits and greater supervisory involvement. The largest contribution to our NPAs have come from CVC, utility vehicles and tractors and with changing product contribution coming in from mortgage SME used asset and the tractors. We are confident to see reduction in the overall NPAs over the next couple of years. RBI has announced new NPA recognition policy during November 2014 applicable from FY16 and has advised NBFCs to migrate from 180 days past due to 90 DPD on a gradual basis by FY18 and encouraging the standard asset provisioning from 25 bps to 40 bps on a gradual basis by FY18. We at Magma had the advantage of early adoption of these NPA guidelines and have already complied till FY17 as we already recognise NPA at 120 DPD and already provides for standard assets at 30 bps. Therefore there will not be any additional hit to our P&L because of NPA provisioning due to new RBI guidelines during FY16 and FY17.

Our mortgage business has stabilised in terms of competitive presence in chosen markets owing to superior coverage, customer segments dealt by us, cross sell to our existing customers and we have already built a profitable loan book of close to 2900 crores with the disbursal growth of 125% albeit on a lower base and yielding a healthy NIM of 5%. We will continue to build on our mortgage franchise and given its nature of long tenure and high ticket size, it will also help to reduce OPEX in the next couple of years.

Our insurance business is also stabilised and we have completed the second full year of operation with overall premiums growing by 29% to 555 crores. While we have recorded profits on a full-year basis, the Q4 has witnessed loss on account of higher provisioning for TP claims compared to earlier years. We will continue to build the insurance business on profitable growth strategy rather than the top-line.

Our consolidated PAT for FY15 stands at 187.3 crores up 17% YOY while standalone PAT stands at 149.1 crores up 10% YOY. The consolidated ROA and the ROE stands at 1.33% and 10.7% respectively for the year up 12 basis points and 115 basis points respectively. We have entered the New Year FY16 on an optimistic note and raised additional capital of Rs. 500 crores by issuing new shares at Rs. 108 per share at a premium of Rs. 106 per-share to two new investors which is India Value Fund advisors and Leap Frog Investments and our existing investors KKR. This fund infusion has increased our capital adequacy to more than 19% and it will be sufficient to fuel our business growth over the next two years till FY17. As we build our profit improvement initiatives through several measures and hope that the external environment will improve from the second half of the current fiscal year.

Now Atul, Kailash and myself would be happy to take any questions that you all may have. Thank you.

Moderator: Thank you very much Sir. Participants, we will now begin with the question and answer session. The first question is from the line of Ashwin Agarwal from Akash Ganga Investments. Please go ahead.

Ashwin Agarwal: If Mr. Chamria you can throw more light, as you rightly said we see very high increase in the employee benefits expense which you have also mentioned in your opening comments. Should going forward situation becomes better in the second half, we can see disproportionate growth in profits because the cost would probably not grow as much and what kind of disbursement growth can we see over the next two years?

Sanjay Chamria: With regard to your question on the employee benefit expenses, I think as I have consistently shared in the previous calls that due to the tough situations prevailing in the market it requires much more intense efforts to be in touch with over 600,000 live customers that we have and increased touch points with them to be able to collect the money and to remain on the consideration set of the customer as many have the cash flow has resulted in the higher than budgeted expenses on account of the salary cost. So as the gradual economic situation improves I think the intensity of efforts required in collections will go down and that should reduce the employee expenses on one hand.

On the other hand with the economic recovery, the demand should grow and that should result in a higher loan book growth, like we have seen last year the loan book has grown by about 9% YOY whereas the disbursals have grown by about 11%. Typically the NBFCs like Magma have grown between 15% and 20% in terms of loan book annually and about 25-30% in terms of disbursals. So when you grow higher then obviously your expenses are spread over a larger denominator. So these are the two positive impacts that one can see in terms of the employee expenses being amortized over a larger value and therefore the percentage going down. In addition there to also the various other measures taken by the company should… which I mentioned also in my opening comment that we have taken from February 2015 so therefore one should be able to see the benefits thereof in terms of the reduced OPEX from the Q1 of this fiscal year itself.

Ashwin Agarwal: Lastly any comments on the target for ROA over the next two years?

Sanjay Chamria: So both in terms of the ROA and the ROE we are lagging behind our peers so while there has been an improvement last year which is about 12-15 basis points in the ROA and about 115 basis points in the ROE which I think should be seen in light of the fact that most of our peers are either being stagnant or had gone down I think therefore it's the step in the right direction is still we recognise that we are lagging behind and that is where we have been realigning our product, customer and the market and in terms of the risk-adjusted return and improving our net margins which used to be in the range of 5.25% to 5.5% and as you see in the last year it has gone up to 6.15% whereas in Q4 it has gone up to 6.41% and therefore we are confident that with this continuing realignment it will go up to 6.5 to 7% during FY16 in FY17. So therefore I am of the view that with the gradual improvement in the economic cycle once the credit cost comes down and the OPEX comes down on the other hand the margins improve which still will be at par with the peers and not better than them I think that itself will pave the way for a higher ROA and the ROE.

Ashwin Agarwal: Lastly post the dilution as on April what would be the book value accounting for the dilution of 500 crores?

Sanjay Chamria: So the book value at a consolidated level will be Rs. 91 per share.

Ashwin Agarwal: This includes the dilution because this is as on March.

Sanjay Chamria: This is post-dilution.

Ashwin Agarwal: Okay.

Moderator: Thank you. Our next question is from the line of Deepan Shankar from Trustline PMS. Please go ahead.

Deepan Shankar: Basically just want to understand the NPA impact which will happen due to this unseasonal rain which has happened last quarter so when do we actually see this impacting our books?

Sanjay Chamria: There was the unseasonal rain that impacted also in the Q4 like for example in January and February there was unseasonal rains in MP and Haryana and that damaged the crop and now again we are seeing that monsoon will be at 93% so therefore 7% below normal. More than that what we are also seeing that while it looks that the 93% is good but there are pockets where it is 20-40% lower than last year or 20-40% lower than normal and that damages the crop in those states or the regions. So we are seeing that traditionally in the tractor financing, now that we have completed eight years and our focus and thrust is growing on tractors despite the impact of the weather vagaries or the minimum support price volatility that each year there are two or three states which face the problems in terms of the crop failures or the price realization not been sufficient and we see that there is an impact on the NPAs.

From a seasonality standpoint I find that the NPAs do tend to go up and in the July-August and September season which is the rainfall because the post-harvesting one harvesting would happen now an second will happen post Durga Puja and around Diwali time so in between the NPAs do tend to rise and that will be more pronounced in respect of the states whether its unseasonal rain. So this is the occupational hazard that anyone financing tractors will have to confront and deal with.

Deepan Shankar: So what kind of impact you are expecting for Q1 and Q2 of next year?

Sanjay Chamria: It is difficult to quantify as to what impact it will be but we continue to remain bullish on tractor financing because the return offered by the tractor finance is a lot higher and even after adjusting further higher NPAs in tractor compared to the other product, it is a profitable business and therefore we will continue to remain engaged in this business but it is difficult to quantify as to what impact it will have on the NPA in the Q1 and Q2.

Deepan Shankar: This recent RBI on provisioning norms and also the NPA recognition so we are glad that we are ahead of industry but just want to understand one thing like what kind of business model changes as such required if we are going to match up 90 days recognition pattern as such for banks so how would you see this trend happening and what kind of changes if required at the NBFC level?

Sanjay Chamria: So as I mentioned that there are quite a few landmark guidelines announced by the RBI, one is of course the NPA announced, the other is the PSL recognition norm as to what kind of lending will qualify for the priority sector. There again one would see that there are certain products which are now excluded from the definition of PSL and there are certain others which are included so somewhere it becomes easy and somewhere it becomes inconvenient for the banks to fulfill their priority sector norms. And the third one is the trend on the small and the payment banks for which the licenses hopefully will be issued in the next few months so I see a competitive landscape changing considerably and it may require the business model of the NBFCs to undergo a significant change.

Until now at 180 days you could recognise the NPA but over the next three years a customer who has defaulted by three installments also will become NPA now it is not a question on just a NPA unit need to derecognise the income for three months which you have recognised in your books and also you need to make a provisioning on the entire outstanding principle of the loans outstanding to that customer. So when I said the business model change I think the companies will have to derive from of risk management perspective as to how much weightage they will give on certain product-lines which are susceptible to the irregular cash flows and then compensate that with the funding on the product which are more consistent in terms of the cash flows which is where I meant that people will have to look at their business model and therefore the companies which have a wider products suite which have a more Fin Tech solutions are more likely a process oriented or more likely to succeed in this kind of a competitive of environment rather than a traditional way of lending and recovering money.

Deepan Shankar: In this case do you see that even the gap or ROA between banks and NBFC's will also be narrowing because of these kinds of norms being established.

Sanjay Chamria: As we can see the trend over the last 2-3 years where 25% ROE and a 20% growth year on year was pretty much given but that has all disappeared and now you find rarely a company having a ROE of 20% even, forget about 25% and in terms of the loan book growth it has moderated down to around 15%. So therefore in the coming future I would see that the ROEs for the sector would remain below 20, I don't think it is going to cross that and in terms of a loan book growth as I mentioned it will be directly linked to the economic situation in the country and therefore even in the current year I don't expect that the loan book growth for the sector will be more than 10%. While as in terms of the ROE depending upon at what trajectory each company is, it will see that it will all mature and maybe reach over a period of next 2-3 years between 17-18% and that will be a very good achievement for any player.

Deepan Shankar: Thank you very much.

Moderator: Thank you. Our question is from the line of Jai Prakash Toshniwal from IndiaFirst Life Insurance. Please go ahead.

Jai Prakash Toshniwal: My first question is the recent dilution which we've had and which brings down the promoter's shareholding, up to what level you will be comfortable, a promoter will be comfortable holding the share in the company?

Sanjay Chamria: We are in the financing business where capital is a constant requirement based on the growth that we achieve in the capital adequacy requirements laid down by the regulator. So therefore depending upon how the business grows we will have to raise capital and get diluted. The focus although in the last two years stressing the downturn in the tough situation in the industry, focused in Magma is that rather than the top line growth we need to be more profitable and build the gap between the companies earnings versus the industry median earnings and even the current capital raise that we have done which is quite significant at 500 crores we have taken all our existing institutional investors as well as the new investors who have come on board that the company is going to follow the strategy of a profitable growth rather than grabbing the market share. So from that standpoint and the fact that if the profits grow then at about 15% loan book growth year on year you don't need to raise more capital and even the current capital that we have now with the adequacy at more than 19% and given the growth trajectory we are adequately capitalised the FY17 and then depending upon how the market behaves, how the company performs the next capital call will have to be taken only in FY18.

Jai Prakash Toshniwal: And with this new capital any talk for the rating agencies to increase the rating?

Sanjay Chamria: We have just announced our results on Friday and during the same meeting we have also done the allotment of capital so obviously now these set of numbers we had to submit as a part of the annual performance review and the rating review by the rating agencies and as a rated entity our endeavor will also be to seek an upgrade if the performance is better and good compared to the peers and if the capital adequacy has been improved. However, it will be the discretion of the rating agency and their evaluation of the performance of the company and the stress that each balance sheet is going through and based on that they will take a call so it is not possible for me to predict but although we will make an effort.

Jai Prakash Toshniwal: Sir last question again on the dilution, why we chose to be a new investor we could have gone for right issue also so what is the thought between these two?

Sanjay Chamria: So it is always a toss-up between whether you bring the new investor or you do a rights ratio and we believe that as a promoter we are ourselves at about 34% prior to the dilution and then we are going to get further diluted. To build an institution it is always better to have a diversified set of shareholders so that that provides one in the medium term good liquidity also in the stock and it is possible for the investors who are financial investors be able to exit and for the new investors to come in. However if we have only the chosen few investors who sit on very high level of the stake in the company it does not lend enough liquidity in the market.

Jai Prakash Toshniwal: Thanks.

Moderator: Thank you. Our next question is from the line of Kunal shah from Edelweiss Securities. Please go ahead.

Kunal Shah: Sorry sir if I missed this on in the earlier part of the discussion. But in terms of the overall strategy of the product mix maybe what is internally going on in terms of evaluating how the ROA performance has been across the products and across the geography and what would be our strategy going forward? So would SME mortgages and the used vehicle continue to be the key growth drivers and we will see the proportion of CVC, tractors and cars are coming of over the next 2-3 years odd.

Sanjay Chamria: So I will add Kunal to what you said the share of mortgage SME used asset as well as tractor will continue to grow and to that extent the share of car CV and CE will continue to fall and that is how we believe that we should be able to improve our earnings profile over the next 2-3 years on a gradual basis.

Kunal Shah: But it's like what has been how far exactly have been the change in strategy, why have we actually seen so much of a decline in the disbursements in this particular quarter. So almost like ex-SME and the mortgages if we look at it there is like 25-30% kind of a quarter-on-quarter decline so what has actually led to that?

Sanjay Chamria: So one is that in case of CV and CE I find that the conditions continue to remain tough despite moderation in the diesel prices for the customers whom we have financed and the barometer of that is if I have about more than 100,000 customers in the CV and CE their ability to pay the monthly installments within the month itself is a good enough indicator of what they are going through. So there what we realised that these customers have an utilisation of between 60% and 65%. Now when we finance, we assume the utilisation of 85-90% so if we assume 60-65% you find that there is not viability in financing a new asset. So existing customers who have a 65% utilisation there we find that they move in the higher buckets and therefore we wanted to reduce our exposure so as to be able to control the delinquencies.

On the other hand in the good times when the customers are able to make the payment the pricing available in respect of the new CV and the new CE and I am lastly talking about the medium and heavy as well as the construction equipments at large, the pricing is such that it will give you a spread of less than 4%. Given the collection cost and the sourcing cost, a 4% NIS for the product doesn't give you the required ROA which is required to sustain the profitable nature of the business. Therefore we have decided to cut down on the exposure and moderated by having a wider set of basket wherein tractor, SME and the used assets on one hand will give a higher NIMs which is more than 6-7% and in case of few products going up to 9-10%, on the other hand lending stability to the loan book by having mortgage which is of a longer tenure while it offers a lower spread. Also, the credit losses and the NPAs are much lesser in the mortgage book so that way you are able to balance.

Kunal Shah: But sir in these times maybe when you look at it, would it be better in terms of financing CV and CE which are already under stress and we could see the utilisation levels moving up going forward so maybe on the new book which we write in fact the performance could be relatively better and in case of SME and mortgages I think today almost all the players are focusing on that so in terms of the pricing power also maybe it may not be that lucrative and if the market stand maybe you could see the higher delinquencies in these segments once the portfolio seasons so is there a risk in terms of growing the portfolio at this point in time and de-growing in CV-CE?

Sanjay Chamria: So what we are seeing that and we also looked at it that the increase in the primary sale of the medium and heavy commercial vehicles who are the buyers because still we are not growing, we are rather de-growing then we find that these are the large fleet operators who is a part of their contract with the principles have to replace their fleet over 4 to 5 years timeframe. So they have no choice but to replace the fleet and those customers they borrow in the range of 11% to 12%. Given my cost of fund at about 10% I will have a spread of just about 2% so it doesn't make sense for me to lend to those customers. We typically lend to a truck driver who becomes a truck owner and maximum 2-3 vehicle owners who would offer me a rate of 14-15% so therefore that segment of customer is not buying even today.

So far as construction equipment is concerned, the position is worst than commercial vehicle and the deployment is even poorer than commercial vehicle and the sales are also continuing to fall even in the month of April for most of the construction equipment manufacturers. So therefore we are not enthused with what we see as the growth in the sale of medium and heavy commercial vehicles. So for is the other point on the mortgage and the SME is concerned, see we all have our own monitoring mechanism of the early warning signals on the new portfolio originate and also on the seasoned portfolio how the customers are repaying so therefore as and when if there is a stress being visible then one will have to moderate the portfolio growth and again look at customers and the geographical segments where you can operate with better risk return rather than on your overall basis.

Kunal Shah: Okay and sir anything particularly to geography, any geography which we would have exited or we would have gone slow?

Sanjay Chamria: So we have gone underweight in certain markets where we particularly find that our experience has not been as good or we’re a marginal player, on the other hand certain geographies where we are doing better, we have decided to go overweight. So that each one plays to their respective strengths so the markets where we have gone underweight is Tamil Nadu. The markets we have gone underweight is Gujarat and the markets that we have gone underweight is the Jabalpur part of Madhya Pradesh whereas the markets like UP, Haryana, Rajasthan, the Indore part of MP and Bihar and Jharkhand is where we have decided to go over weight and accordingly rebalance out portfolio composition.

Moderator: Thank you. Next question is from the line of Bhavyesh Divecha from L&T Mutual Fund. Please go ahead.

Bhavyesh Divecha: Thanks for taking our questions. I think all the questions have already been answered. Just one data point, if were to follow the 120 day provisioning or the NPA classification norms, so what would be the comparable numbers of gross NPAs and the net NPAs as in March 15th?

Sanjay Chamria: It is 4.9 and 3.9.

Bhavyesh Divecha: Okay. So I suppose last quarter also the numbers were similar, so there is no movement at all on the 120 day level as well?

Sanjay Chamria: There is no movement in terms of percentage but in absolute amount there is some movement.

Moderator: Thank you. Next question is from the line of Aditya Singhania from Enam Holdings. Please go ahead.

Aditya Singhania: I just wanted to check if you have any comments on collection efficiencies at various buckets and how they are progressing especially in the lower buckets? And I just wanted to confirm 4.9 and 3.9 is the 120 day gross and net NPA?

Sanjay Chamria: Yes. I reconfirm the gross and the net at 120 DPD, it is 4.9. In terms of the overall collection efficiency during FY15 it has marginally dropped from 95.7% to 95.2% and I think bucket-wise I don't have it right now with me. Maybe offline Ujwal and Atul can provide that information to you Aditya.

Aditya Singhania: Just to in terms of commentary, you have been talking about Roll Forwards.

Sanjay Chamria: I will talk about the qualitative part of it. Qualitatively what I find that the zero bucket has started doing better and in the lower bucket 1 to 30 is doing a little worse but 31 to 90 is doing somewhat better. The problem that we are seeing is in the last 4 to 5 months especially from December onwards there has been somewhat improvement in the CV and CE from the existing customers. But the cash flow is not enough wherein he can repay more than one instalment and, therefore, if a customer who is sitting in the say, 90-120 DPD he can pay two instalments and come down to 61-90. What we are able to do is to stabilise the customer in that bucket by collecting one instalment per month. And this is where the issue is that the higher buckets which are buzzed, they need to reduce and slim down and that will happen only when the customers are able to pay more than one instalment and over a period of 5-6 months, then they can normalise. That is still not happening. This is what qualitatively I can offer.

Aditya Singhania: Right. And the improvement that you see from December onwards could you give us some sense whether it is driven by say, lower diesel prices or an improvement in utilisation of the fleet or whatever combination of the two?

Sanjay Chamria: So the improvement that we saw in December and more so in January, that was on account of a steep reduction in the diesel price that happened. However, as you know again the diesel price went up in March and also in April. Secondly, the fleet utilisation also was somewhat better in December and January but again, unfortunately the fleet utilization was poor in March and April and therefore you find that the collection is not yet stabilised wherein one can say that it is gradually improving may be by about half a percentage point each month. So there is volatility that we are seeing. So overall if you look at diesel price over the last 12 months so with the volatility of increase and decrease, net-net there is I think 11% decrease that has happened in the diesel price. But that is getting negatively compensated by the lower fleet utilization, which is still not notching up beyond 60-65%. And that is what is curbing the ability of the customers to pay more than one instalment. And if there is any exigency that happens with the customer then obviously he is not able to pay during that month.

Aditya Singhania: Right. And just the clarification in the notes to accounts there is some comment that there is a 10 or 11 crore lower provision because you have moved to RBI norms. Could you just clarify exactly what is that?

Sanjay Chamria: As I mentioned that we are compliant with the RBI norms in terms of the 120 DPD till FY17 because the RB7I gradual tightening up of the NPA norms is in FY16 it has to be 150 and FY17 it has to be 120. So we are maintaining 120 DPD. In terms of the provisioning rate we were providing a higher rate of provisioning in terms of the NPA and which also we were doing in line with the Usha Thorat Committee recommendation which as I shared in the initial comment that December 2012 the report came and in January 2013, when we had our Board meeting so we had migrated to that. Now that the uncertainty over the RBI guideline on the NPA has ended, in November 2014 when they came out with the guideline, so therefore we discussed and felt that now we should align and 120 DPD will retain as is so that there is no incremental hit that comes to the P&L during these two years on account of the RBI guidelines. However, the additional provisioning that we are making that we do not need to make any more. So that what we have done is again till December we have not touched it. So whatever additional provision that we have made that continues but from January 2015 onwards we have aligned our rate of provisioning along with the RBI rate, so therefore, the difference on account of the same is close to about 10-11 crores.

Aditya Singhania: And this is only on incremental slippage beyond December?

Sanjay Chamria: Yes.

Aditya Singhania: Could you tell me what is the rate of provisioning now at 120 day?

Sanjay Chamria: It is 10% as against 15% that we were making earlier.

Aditya Singhania: Just to be clear on this you are still recognising NPA at 120 day, the provisioning on incremental is now at 10% versus 15% earlier, and on the stock you are retraining your old provision?

Sanjay Chamria: That's right.

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

Deepak Poddar: My first question pertains to your Cost-to-Income ratio. You mentioned that it will start declining from this 1st Quarter of FY16, so basically is there any kind of target that we have set that this is where we want this Cost-to-Income ratio to reduce from 59% in FY16?

Sanjay Chamria: See Deepak we have a higher Cost-to-Income ratio which in typically NBFCs is measured as an OPEX-to-AUM and OPEX-to-AUM last year we went up from 3% to 3.7%. So when we compared it while doing our Annual Results, we found that in terms of Cost-to-Income it has remained stagnant at 59%. But if I compare it with the peers in the industry we are good 30-35% higher than the other players in the industry or the medium rate in the industry. Therefore, we have taken a whole set of measures from January onwards which we have implemented from February because whenever you take these measures there is always a lag effect of 2 to 3 months before which the benefits become visible. And therefore I said that because we have taken these measures so one should be able to see the impact from Q1 of this year.

Now in terms of what is my target, then obviously this 30% reduction we cannot achieve in one year. What we are intending to do is first of all whatever increase that happened last year we want to claw back that increase if not entirely then at least substantially. So therefore in terms of the OPEX-to-AUM, like we were at about 3.3% in FY14, so at least bring it there and then probably we can think of further improving to bring it in line with the other players in the industry.

Deepak Poddar: Okay understood. So do we have a vision that lets say next 3 to 4 years we might see Costs to Income ratio in the range of 30-40% which may be other peers might be having?

Sanjay Chamria: So I think when I am talking on a call with all of you then I would rather look at one year at a time. So this year first of all what we intend doing is to be able to claw back whatever increase that we have had to endure last year on account of the market scenario and therein given the various steps that we have taken, we should be able to achieve it and one should be able to see the impact from Q1 progressively over the next 3 to 4 quarters. That is what I would restrict myself to saying at the moment.

Deepak Poddar: Understood. My second question would be on the Credit Cost. In your earlier calls you have mentioned that you would be happy to see kind of 1% Credit Cost level, stabilising at 1%. So are we on track for that kind of level in this year? We are targeting that or it will take more years to reach that level?

Sanjay Chamria: There is no question of that level being achieved at the moment because the industry and the market is passing through one of the worst credit cycle. So last year I think it has gone up to 1.4-1.5 and I would guess that in the current year it will be a little higher because just now to your previous person who was asking me a question, I was saying that the buckets are bulged in the higher buckets and therefore until the scenario improves whereby the customers sitting in the higher buckets pays me more than one instalment, the buckets will not lighten up and therefore the accretion to the NPA will continue to be there while the new portfolio may improve. So therefore the improvement that I would suspect will only come in from FY17 and that is predicated on the assumption that the economic scenario will improve from October 2015 onwards.

Deepak Poddar: I understood that. My third question would be on your NIMs. You mentioned that NIMs from 6.2% we might see an improvement to 6.5-6.7% in the coming fiscals. Am I correct?

Sanjay Chamria: Yes. Go ahead.

Deepak Poddar: So what are the 2-3 key factors that you would like to identify that would kind of drive this NIMs expansion?

Sanjay Chamria: One is the product mix contribution and there has been I think a transformational change that has happened in our product bouquet over the last 3 years. Traditionally we have been known to be a CVC company and more than 50% of our portfolio till about 4 years ago, comprised of commercial vehicle and construction equipment. So these two are highly cyclical products and also punctuated by the fact that even the best of the times the spreads are up to 4%, not more than 4%, so there is no question that you could have more than 5% NIM taking the advantage of equity.

So today the contribution of these two is fallen in the loan book below 25% and in the incremental dispersal it has fallen below 17%. And we have grown the contribution of SME used assets and tractors, all of which have a spread which is more than 7% and therefore the NIM expansion would happen due to that. And continuing into the future also we will grow the contribution. On the other hand, mortgage which has a lower NIM therein also we are growing because that lends a lot of stability to the credit profile of the loan book as well as because of the higher tenure and the higher ticket size, it also helps us to bring down the total operating expenses as a ratio.

Deepak Poddar: So basically in spite of higher contribution from mortgage because I presume as a percentage of our loan book it will keep increasing. My overall spread might still improve.

Sanjay Chamria: Which is what I was just trying to clarify, there were some mistake in your numbers. So we have achieved for the year a NIM of 6.15 but in the Q4 it is 6.41 already. So therefore on an incremental basis we would want to further grow and that is where I said that during '16 and FY17, we are well on side to achieve the NIM of between 6.5% and 7%.

Deepak Poddar: Fair enough, understood. And my last question would be a 15% AUM growth is what we are targeting this year as per your comment or it is very optimistic?

Sanjay Chamria: I don't think 15% loan book growth is what we are targeting this year because I don't expect the recovery to happen before October 2015 and therefore this year again the loan book growth may be like last year. However, our thrust will be more on a profitable growth through the various initiatives that we spoke about and be ready to partake in the growth story for FY17 which I would imagine would be a blockbuster year for the Indian economy if the government is able to implement various reforms that it has announced.

Deepak Poddar: Understood. Thank you so much for all that answers and all the best.

Moderator: Thank you. Our question is from the line of Karthik Gada from Valq Investments. Please go ahead.

Karthik Gada: My first question, in one of the earlier answers you mentioned that the business model for probably the entire sector may undergo change in future and certain segments may get excluded. So in which segments you would be looking and so you are expecting that almost all the peers including yourself would just move out of certain segments? How are you looking at that?

Sanjay Chamria: What I have said that given the spread of regulatory scenario and the market participants character undergoing a change, the competitive landscape will undergo a significant change and therefore the traditional way of doing business will not really help and you need to have a very wide product suite to be able to be very flexible depending upon how the competitors or the market intensity is.

Secondly, I mentioned that the FinTech Solutions that you provide to be able to reach out to the ultimate consumer and service him both in terms of coverage when you provide a loan and in terms of collection when you have to reach out to him every month to collect money, that would be a significant distinction between the two set of players.

The third thing I mentioned was with the change in the PSL norms, with the change in the NPA norms, and with the smaller payment times coming in, you will see a competitive landscape getting impacted wherein depending upon how the other new players in the market would trend their sight on some of these markets, you will have to be nimble footed to deal with the scenario. So this is how I mentioned that the changes will happen and in my view the companies which are more customer centric rather than product centric, are likely to succeed in this scenario because whether it is a customer buying the tractor or a truck or a small home, that is immaterial. Your ability to reach out to that customer in a cost effective manner and service that customer so that you are able to take care of his multiple product requirement over the life cycle is going to be a defining parameter.

Karthik Gada: Okay. My second question is on yields of some of the product lines. You mentioned that spread on the newer products which we have started except mortgage is around

7%. So just doing the back calculation, so would the yields be around 15-16% on these products?

Sanjay Chamria: No it is more than 17-18% because my cost of fund is 10%, 7% is spread would mean that I need to lend at more than 17% and it's a common knowledge that in the used assets the bottom rate is about 17-18% whereas there are players who are charging 23-24%. Similarly in the SME the rates would start from '15-16 and go up to 23-24% and tractor it is 19-20%.

Karthik Gada: Right. And what would be the yields for mortgage?

Sanjay Chamria: Mortgage yields for us it is about 14% but normally it would be a function of the ticket size, the breakup between the LAP and the Home Loan and also the customer segment that you are dealing with which is self-employed versus the salaried. So it is a tri-axis of ticket size, the customer archetype, and the breakup between the home loan and the Lap which will have a bearing, so from a low of 12% to a high of 15% you can operate anywhere.

Karthik Gada: Lastly the GNP and NNP at 4.99 and 3.9 on 120 DPD so if I calculate the provision coverage comes at 21%, what is the provision coverage I am slightly confused over there.

Sanjay Chamria: You are right because earlier we used to do a complete write-off rather than carrying NPA in our books so what is in the banking parlance called as a Technical PCR wherein you also add the write-off in the denominator as well as the numerator if you do that then we are close to 50%. And as I mentioned that in my earlier answer to one question that it was from January 2013 when the Usha Thorat report came in that we have started providing for the NPA. Earlier to that our NPAs both at gross and net level were zero because we used to write-off everything. So all my NPAs that you see is a creation of the last two years and therefore there is a provisioning that we are doing and in the initial year of course the coverage ratio will be lower and as the year passes by and the NPAs become older then you have a higher incremental rate that would apply which is 30%, 40% and so on.

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

Nishchint Chawathe: Hi. Two micro questions, one was what would be your outlook on tractor finance business over the next 12 months?

Sanjay Chamria: Tractor finance one, as a company we want to continue our thrust on tractor financing despite the headwinds in terms of unseasonal rains and resulting in crop failures and the ability of the farmer to honor their installment because one has to take a medium-term outlook on the prospects of a business. And we also find that given the returns that you get in the sector after adjusting for higher NPAs also during tough times still it is ROA-accretive rather than anything else.

Second is the tractor market has itself undergone change. Like till September 2014 it was growing at close to 15% or so. However, from October onwards there has been a significant de-growth in the tractor market as a result for the year tractor industry registered a de-growth. And given the onslaught of the unseasonal rains continuing in the current year and the prospect of monsoon being bleaker than normal I would guess that this year again there could be a de-growth in the tractor industry per se. However, Nishchint, I find that there are entry barriers in tractor financing and this is what we have realised after being now eight years in this business it is not easy to establish your presence across interiors because these tractors are sold in the farmlands and not even in the towns. And secondly the ability to screen the customer which is dependent on the local crop, multiple crops and the type of agriculture land that he has and the realizations that they get, so therefore there is a certain level of expertise that have been built in. So in terms of contribution I think would be dependent upon the market scenario and it may be lesser than last year. So we have in our internal working budgeted that we will not be growing it beyond last year in terms of the incremental disbursal because market is not going to grow. So we do not want to take undue risk but we will maintain our stake.

Nishchint Chawathe: Okay, so in terms of market share wherever the market goes you would broadly want to maintain your share or increase it but you will definitely not want to reduce it despite the headwinds?

Sanjay Chamria: Sure.

Nishchint Chawathe: Okay. The other question was on the solvency ratio for the insurance business, what is the plan out there? I believe you have slipped down to around 110 or 120%?

Sanjay Chamria: Solvency margin is 124% as on March 2015 and you would need to take it to 150% and that requires the capital infusion of about 34 crores. However, when we have raised the 500 crore capital that time we had provisioned a total of 100 crores capital infusion in the insurance company of which about 50 crores would go in from Magma and that was not with the standing the Q4 additional provisioning for the third-party claims for IBNR, so therefore we had while raising the capital budgeted about 50 crores to going from out of 500 crores towards the insurance business. So in terms of the solvency margin I think our share out of 34 crores could be close to about 18-20 crores and that we will put in, but overall we are provisioning about 50-55 crores from Magma during the current year in the insurance subsidiary.

Nishchint Chawathe: That will help you for growth over next one year, two years?

Sanjay Chamria: So this you again take it on year-on-year basis, so if you would put in that amount of money then certainly for this year and also part of the next year but it would again depend upon how does the provisioning go in the current year and as I mentioned in my opening comments that our focus in the insurance company also will be more on a profitable growth rather than the topline.

Nishchint Chawathe: Okay. And broad comfort level would be around 150-160% kind of a solvency?

Sanjay Chamria: Yes 150 is what you need to maintain, so 150-160 would be a good number to remain within.

Moderator: Thank you. We will take the last question from the line of Rishindra Goswami from Locus Investment. Please go ahead.

Rishindra Goswami: Just a couple of quick data questions first. Could you share the standalone AUM numbers?

Sanjay Chamria: Can you go with your next question till the time we get the numbers?

Rishindra Goswami: The other question was just wanted to get a mix of your used asset, how much is CV and CE in that portfolio?

Sanjay Chamria: The standalone loan asset is say about 17,000 crores. Alright?

Rishindra Goswami: Yes.

Sanjay Chamria: And in terms of the mix breakup CVC, car and used assets, so as has been the case that we have gone underweight on CVC, so has been the case in the used assets and the share of passenger car, now higher at about 40% and the balance is split equally between the CV and the CE and what we are seeing that in this CE the performance of the used is better compared to CV and that is how it is.

Rishindra Goswami: Would you be able to share what is the GNPA percentages within the CV and CE portfolio?

Sanjay Chamria: I do not have it offhand so may be later on Ujwal can provide you this data point.

Rishindra Goswami: Okay but qualitatively it would be higher than what the company average is?

Sanjay Chamria: So qualitatively the GNPA and NNPA in the used CV would be higher than both the passenger cars and the CE.

Rishindra Goswami: Got it. And the other thing that I was curious to understand is your CE portfolio is around 1900 crores and one of your company has seen a big stress in the CE portfolio this quarter. So have you not seen any kind of sharp deterioration in the asset quality between the CE portfolio?

Sanjay Chamria: There has been a deterioration, no doubt about it in the last year so as I was mentioning just about 5-10 minutes ago that three years ago more than 50% of our total portfolio was from CV and CE and today it has gone down to 17% last year in terms of the incremental disbursement in the loan book below 25%. So this is obviously we find that on a risk-adjusted return this is, it is not value accretive it is not ROA accretive. And we have seen this stress, however, there has not been a spike so to say in the NPA numbers for the CE or the CV. It has remained at a higher-level and it could also probably be to do with the early recognition of the NPAs because if you do that then you will have a more consistent NPAs rather than if you do it at a later stage and there, there can be a sudden spike. But in terms of the customer behaviour also I have not seen in the last one or two quarters a particular deterioration. They are already deteriorated in my view.

Rishindra Goswami: So what you are suggesting is that because you started recognising it earlier therefore you have not seen any kind of a sharp deterioration now.

Sanjay Chamria: I am guessing it but my experience has been that we have not seen a spike in the customer conduct in respect of the CV business.

Rishindra Goswami: Okay. And could you tell us what is the typical asset type that you finance within the CE portfolio?

Sanjay Chamria: We largely do pretty standard asset, so CE business is characterized by the backhoe loaders and the excavators and these two would form close to about 70% of our total CE portfolio, out of the balance 30% we will have the tippers and the cranes which will form the bulk. Then there are very specialized fee assets which we do not do because the focus of fee funding in our business is on the small and marginal customers and not the large infrastructure contractors or the players.

Rishindra Goswami: Got it. And so typical customer would be what? Somebody who is owning maybe two vehicles or five vehicles?

Sanjay Chamria: No in fact in case of backhoe loaders it would be typically a machine operator or it could be a plant hirer who would have bought an asset first time or at the best he may have one asset. In case of excavators it could be a small contractor who might be getting subcontracts from the PWD or PHE who are State Government departments where the main contractor is empanelled and he would give a sub-contract for the local work to this guy. Two, sometimes we also would be funding the State Government empanelled Class A to Class B contractors who do the local work.

Rishindra Goswami: Got it. And your ticket here would be how much?

Sanjay Chamria: About 18-19 lakhs.

Rishindra Goswami: Got it. And the last thing is that can you share the movement of GNPA through the year?

Sanjay Chamria: GNPA did spike up in the Q2. I mean it has been rising Q1, Q2, Q3 and in the Q4 that it is stabilized and it remained pretty much the same as Q3. The stress has continued pretty much throughout the year is what I would say.

Rishindra Goswami: Right. But any numbers if you could share, how much slipped through the year and how much you were able to recover or upgrade?

Sanjay Chamria: I don't have the RBI percentages with me but as per the 120 DPD I find that between March and June it deteriorated 15%, between June and September it deteriorated 10%, between September and December it deteriorated another 10% and between December and March it remained flat, so total about 35% deterioration.

Rishindra Goswami: And how do you calculate it?

Sanjay Chamria: So like my 120 DPD was 3.6 in March '14 is now 4.9, so 1.3% upon 3.6% would be about 35% or so.

Rishindra Goswami: I see, that way. Okay got it. That's all from my side.

Moderator: Thank you. I now hand the floor back to the management for any closing comments. Thank you and over to you.

Sanjay Chamria: Well, thank you very much for very invigorating question-answer session and I would like to conclude by saying that I would hope to think that the worst is behind and with the economic cycle reversing which is what we all thought that would happen from October '14 which has not happened and now based on my interaction with the industry players and the analyst community I understand that it should happen anywhere from October '15 to March '16. So we have also braced ourselves in Magma that this year we should not be expecting too much from the economic cycle recovery and with the capital raise of 500 crores behind and having taken a series of measures to improve the portfolio quality and the reduction in the Operating Expenses on one hand and the improvement in the Net Interest Margins on the other hand the only other issue that could continue to impact during the current year would be the NPAs which we would be happy to see if it stabilizes rather than showing an improvement and hope for an improvement in FY17 onwards. With this I think the management team and myself are committed to continue to bridge the gap in terms of ROA/ROE between Magma and the peers and continue to build it closer to the market. Thank you very much.

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