"Magma Fincorp Limited Q4 FY 2017 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Magma Fincorp Limited. 4Q FY' 17 results conference call hosted by Maybank Kim Eng Securities India Private Limited. As a reminder all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vishal Modi from Maybank Kim Eng Securities India Private Limited. Thank you and over to you Sir.

Vishal Modi: Thanks. Good morning everyone, welcome to this call. Today we are here to discuss the 4Q FY2017 earnings of Magma Fincorp. From the management team, we have Mr. Sanjay Chamria, Vice Chairman and MD, Mr. Kaushik Banerjee, President and CEO of ABF business and Mr. Kailash Baheti, the Chief Financial Officer. I would like to handover the proceedings to Mr. Chamria and subsequent to, which we can move to Q&A. Over to you Sir!

Sanjay Chamria: Thanks you Vishal. Good morning and welcome to Magma's Q4 Call. First, I would like to share my views on the economy. After the demonetisation, the recovery in the economy has been quicker than was generally expected. Normalcy in the cash availability and realization of Kharif crop to the farmers improved the overall economic condition in rural India in this quarter. Normal monsoon forecast in 2017 and therefore better crop output during the current fiscal will further aid in subsiding the overall stress in the rural India, which was caused by the monsoon failure in 2014 and 2015. Further the governments has increased spending in rural India. The government has increased allocation to rural India by about 24% in the budget and push for infra spending will further spur demand in geographies we focus on.

On the other hand, implementation of GST will throw up short-term challenges but will certainly be a positive in the medium to longer term for the overall economy. We therefore see a very positive environment for business in the near future.

Let me share my overview on the business and the changes we have brought in FY2017. For us at Magma FY2017 has been characterized by extraordinary impact of demonetisation and NPA sale by the company. While it had impacted be profitability for Q3 and Q4 and for the year as a whole, the Company has emerged much stronger with a healthier balance sheet as of April 1, 2017. This also means that Company shall be able to moderate or will have a moderate credit cost going forward.

We have shifted the corporate office to Mumbai and our leadership team is now based out of Mumbai effective April 2017. This will facilitate much better coordination and collaboration and permit interface with the industry players and OEMs. The entire new look leadership team is fully committed to lead the transformational journey of Magma starting with this year and over the next three to five years.

Coming to the Q4 performance I will first touch up on collections and the asset quality. In Q4, we had sharp improvement in the collection efficiency, which stood at 102% compared to 90% in Q3 and 99% Q4 of last year. This improvement was largely driven by strong collections in our tractors portfolio, improvement in availability of currency in the hand of customers plus the realization of the Kharif crop proceeds in the hands of the farmers helped us recover most of the amount, which had become overdue in Q3 due to demonetisation.

With the improvement in the collection efficiency in the quarter under discussion we had net roll back in our NPAs resulting in improvement in our NPA ratios. Adjusting for NPA sale our December 2016 gross NPAs had improved to 6.9%. The GNPA further improved to 6.75 at on March 31. Similarly the net NPA has improved from 6% to 5.6% during this period. I would like to point out this improvement in the NPA ratios is in spite of a decrease in the AUM during this period.

The overall picture on NPA today looks as follows the portfolio we had generated prior to the year ended March 31, 2015, which is more than two years ago those NPAs have already peaked and we expect a secular fall in the NPAs for this period. Second, we have seen sharp improvement in the portfolio quality for the business originated under our new business model or branch banking since December 2015. The share of the new business generated in December 2015, our overall portfolio is close to 45% in March 2017. We expect this share of the business under return under the new structure to increase to about 80% by end of FY2018, which is the current system. These two factors which is peaking of the NPAs of the business generated under the new structure and significantly better quality of the portfolio generated since December 2015 and the increasing share of business generated since December 2015, which would roughly be 80% of the total portfolio by March 2018 means that worst with respect to NPA is behind for our Company.

Now coming to the disbursals, weak primarily demand and our cautious approach immediately after demonetisation led to the lower disbursals in the month of January and February; however, disbursals for the month of March has improved and March has been one of the highest disbursal month for us in FY2017. Our overall disbursals declined in Q4 by about 12% QOQ and on account of sale of the hard bucket NPAs under lower disbursals the AUM declined overall by about 11% to Rs.16101 Crores during the year. Bucking the past trend of degrowth we expect disbursal growth of 25% to 30% YOY leading to overall AUM growth of 5% to 7% in FY2018. However we would like to mention here that first half being especially weak half for the NBFC industry we expect AUM to marginally decline in the first half of the year and the growth in the year would be back ended to the second half of the year.

Assets Finance Portfolio, which is comprising vehicles, tractors and equipments under the new leadership has taken many initiatives to return to the path of healthy growth and with the clear focus on portfolio quality. Several initiatives have been launched in the areas of business origination, underwriting, receivables, management, hygiene and efficiency enhancement. With these initiatives expect to register a positive growth in the AUM and significant this period portfolio in FY2018.

In mortgage business in line with our strategy, we made a significant transition to the lower ticket loans in FY2017. Average ticket size in the mortgage business disbursal reduced to Rs.14 Lakhs compared to Rs.21 Lakhs in FY2016. This shift to the lower ticket size loans impacted our disbursal and the loan growth of mortgage business in FY2017. However this transition being completed in FY2017 with benefit of a lower base, we will start witnessing better growth in mortgage business in FY2018. The push to affordable holding by the government will further bolster our current housing strategy. Further post NPA sale on mortgage book does not have NPAs, which are more than 180 days pass due, hence the healthier book will further aid on growing the overall mortgage portfolio.

SME continues to be a bright spot for us with better yields and lower credit cost, SME profitability is best amongst the products, which we offer. Temporary disruption due to the demonetization led to do a disbursal in Q3 and Q4. However on the positive side SME business saw the best collections performed post demonetization. In FY2018 SME team will focus on increasing contribution on business from the Tier 2/2 towns, build geo cluster and industrial segment expertise to our micro market approach to the business growth, shift sourcing next towards sectors impacted positively by GST and increased contribution of business from direct sourcing starting with preapproved loans on large existing customer database.

Finally our insurance business has turned the corner and returned to profitability in this fiscal. The leadership team of our insurance business is now based in Mumbai headquarters and during the year the new management team had laid some foundation. The Company has achieved improved loss ratios through the portfolio corrections measures and ensuring that the underwriting guidelines and processes are well defined. This also ensured that the company would grow in a responsible and calibrated manner in FY2018. The company tends to launch new products and shall continue to invest in technology so as to enhance the dealing experience for the channel partners resulting in an overall improved customer experience. This will ensure that the Company remains nimble footed and cost efficient in its operation. We are therefore taking several initiatives for improvement in all lines of our business.

All these initiatives have wholehearted support of these key stakeholders. I would now like to share the key highlights of our performance for Q4 and its impact on our results. In Q4 we reported a loss of Rs.122 Crores on account of sale of NPAs. The total hit on Q4 PAT due to the sale of NPA is Rs.145 Crores. We made additional provision of Rs.24 Crores. MITL, our tractor financing JV with ITL had incurred a loss during the year due to the NPAs. As a prudent measure we have not taken benefit of the deferred tax assets and also written off the brought forward DTA, which has resulted in additional tax provision of Rs.19 Crores for the year.

Margins improved 8-business points while wide to 7.6% in Q4. Lower interest income reversal and decline in the cost of funds by 38 business points YOY led to volume expansion. NIM for the full year stood at 7.4% compared to 7% in FY2016. We expect our NIMS to further improve in FY2018 driven by lower interest income reversal, lower cost of funds and increase in the contribution of high yielding products like used assets and the SME.

Our overall opex has declined QOQ in Q4 and also YOY in FY2017 despite reduction in the absolute opex amount our cost to the AUM increased to 3.6% in FY2017 compared to 3.4% previous year due to a lower AUM. Further we expect overall cost on absolute basis to increase in FY2018 as such we expect our cost to AUM to be higher in FY2018 as we would be operating on a lower average AUM compared to the last year.

We had total provision of Rs.319 Crores in Q4 of which Rs.211 Crores were on account of sale of the NPA. Our coverage ratio as on March 2017 stands at 18% and with movement to 90 DPD in FY2018 we expect to increase our overall coverage ratio going forward. Excluding the loss on the NPA, our credit cost as a percentage of an average AUM was 2.3% during the year, which we expect to improve despite moving to 90 DPD in the current fiscal.

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

Moderator: Thank you very much. We will now begin with the question and answer session. Here is the first question from the line of Nischit Chavate from Kotak Securities. Please go ahead.

Nischit Chavate: Two questions from my side; one was on the margin front, you know your reported margin has actually gone up quarter-on-quarter basis. So, I wanted to check whether there was anything on the asset side or is it just the benefit that you are seeing on the liability side? The second question is if you could give an absolute amount of GNPA for the Q3 and Q4 of this year?

Kailash Baheti: I shall give light to the second question first. I am Kailash this side. On the GNPA absolute amount as on March 31, 2017 is Rs.1080 Crores again Q3 number of Rs.1719 Crores. On the second question our margin expansion has been mainly on account of reduction in cost of funds; that is the borrowing side.

Nischit Chavate: Just looking at movement in GNPA, it looks like I think you GNP has gone up on the quarter-on-quarter basis. Is that reading right? It is Rs.40 Crores or something like that?

Kailash Baheti: No, that is not right because we also had taken RBI dispensation in Q3, which is now no longer there. So we had a benefit of over Rs.100 Crores on account of RBI dispensation in Q3. We have actually had a reduction in GNPA; if we leave aside the sale of NPAs of roughly about Rs.130 Crores to Rs.140 Crores.

Nischit Chavate: Okay for your GNPA in the Q3 would have been around Rs.2120 Crores and this would have kind of gone down to Rs.1100 Crores?

Kailash Baheti: No, our GMPL as on December 31, 2016 would have been in the region of about Rs.1850 Crores without taking the RBI dispensation, which has now gone down to about Rs.1080 Crores.

Sanjay Chamria: To put it simply Nischit we have a done a sale of about Rs.670 odd Crores of NPA in the Q4. Addition there too there is a reduction in the GMPL of about Rs.130 plus Crores. Together there is a Rs.800 Crores worth of reduction in the overall GNPA between December and March quarter. We are also taken the benefit of the RBI dispensation on deferment of the NPA or into the demonetisation impact only in respect of the tractor portfolio and the benefit of that dispensation was roughly about Rs.100 Crores and now were landed on Rs.1080 odd Crores. Clear?

Nischit Chavate: Okay, I think that clarifies; just one more point, could you give the GNPA number on 90 days basis for Q4?

Kailash Baheti: So that GNPA would be roughly about 2% higher.

Nischit Chavate: Okay and your target coverage ratios would be I know you made a mention but if you just?

Kailash Baheti: 18%, which is the current PCR around March 2017.

Nischit Chavate: Thank you very much and all the best.

Kailash Baheti: Thank you.

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

Umang Shah: Thanks for the opportunity and congratulations on a good quarter Sir. Just request in relation to Nischit's question is if you could just incorporate the absolute gross NPA numbers in the presentation that would be really helpful because this data clarification was quite helpful.

Sanjay Chamria: Sure we will do that Umang.

Umang Shah: Thank you and Sir I just have two questions; one was regarding your operating expenses, so now we have seen two full years where we have seen absolute opex reduction. How do we see this moving so in your opening remarks you mentioned that opex to AUM would increase because we are working on a shrinking denominator but if could just throw some qualitative light in terms of how the absolute opex one should see in context of how do we see our branch and employee additions during the year?

Sanjay Chamria: So, as you rightly mentioned, during my opening comments, I have mentioned that in terms of opex corrections and right sizing the business model changed resulting in the saving has all been done now and we are also on-boarded the new leadership moved to Mumbai and all those costs had been incurred. So therefore in the current year now the impact of inflation as well as the annualized cost of the team that we have on-boarded will result in an increase in the absolute amount of the operating expenses. Last two years we have seen the reduction of roughly about 11% last year and year before another 7% to 8%, so total about 18% to 19% in the AUM, which has had an adverse effect on the opex to AUM ratio. So this year while we will see a moderated increase in the absolute amount of the opex. We will also see the growth in the AUM; however, because we report the AUM on an average basis and therefore the opex ratio to the AUM will look elevated compared to last year; however once it fully play the out then it will be quite competitive. This is what my answer would be.

Umang Shah: Got that and Sir, second question was regarding the NPL trajectory and the credit costs so mentioned in your opening remarks that the new book, which has been originated post 2015 clearly the NPLs have peaked and we should now see them directionally down; so is there any one number that you would like to peg in terms of next year when we move to 90 days in terms of NPL recognition; so assuming if our absolute NPLs keep on improving so would it be fair to assume that next year on 90 DPD we should close the year may be some where closer to 7% to 8% kind of NPA number? Do you think that is possible and how would the credit cost kind of move even after including the 90 DPD movement impact; how confident you would be to maintain the credit cost at around 2.5% levels?

Kailash Baheti: Umang I think firstly, our internal target is that we do not allow the GNPA and NPAs to increase from the level they are presently at. So even when we have moved to 90 DPD, probably we would target to have similar numbers as we have already achieved at 120 DPD and secondly we would target a credit cost which is atleast below 2% not any where near 2.5%.

Umang Shah: Sir just one last question. Sir, in terms of all the senior hires are completed, so the whole senior management team is in place or are we looking at any more hires?

Sanjay Chamria: We are pretty much done and if there is any more addition, I cannot discuss on the call Umang.

Umang Shah: Sure, got that. I was more asking from in terms of any gaps that are left in the team?

Sanjay Chamria: We are more and less done.

Umang Shah: Thank you so much and wish you all the best for future quarters.

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

Manish Ostwal: My question on again this credit cost side; if you look at the full year number of provision and write off slide, slide number 24 Rs.395 Crores and there is a loss of sale of NPAs; so next year when you say there are efforts to reduce the NPA, so in that case the credit cost, how the credit cost based on the easing of the portfolio, how one should look at it?

Sanjay Chamria: So you see one by doing an NPA sale, we have taken a lot of pain in last year and therefore the drag off that heightened NPA in the coming year will not be felt. So that is one positive impact. Second is now we have sold all the deep bucket NPAs. We do not have now any NPA in our books, which is more than two years and the average age of the NPA is now down to eight months. And traditionally it has been seen not only by us by everyone else that recovery the early bucket NPA is a lot higher than the later bucket NPAs and therefore the focus of the entire NPA recovery team in the company would be a lot higher of the early buckets. So combination of these three, four things and the portfolio originated from December 2015, which is currently at 45% and will be 80% by the end of the year and the other point that I had mentioned in my opening comment that the existing portfolio originated up to March 2015 has already peaked. So if you take a cumulative impact of all the things that I have shared with we definitely expect the credit costs to be lower in the FY2018 even if it is compared with the credit cost FY2017 notwithstanding the loss of the sale of NPA.

Manish Ostwal: And that too even we are moving to 90 days?

Sanjay Chamria: Yes.

Manish Ostwal: Okay and second question you did comment on the operating expenses ratio, when we compare to the peers in your ratio looks on a higher side and you said there will be further growth in opex next year also; Sir what is the sustainable opex to asset ratio in our business?

Sanjay Chamria: So one you see this is more historical that our opex to AUM was about 70 to 100 BPS higher than peers, but now if you compare our opex to AUM ratio with the peers that you would find our portfolio resembling. We are pretty much in the range of 10 to 20 BPS, not more than that and this is despite of fact that our AUM has degrown by about 18%. This has happened on the back of sustained cost cutting and rightsizing of the teams and the business model that we have followed. Having done all of that now when we are looking to disburse has a growth of more than 20% to 25% in the current year but since we report the average AUM and therefore I said that opex to AUM ratio optically will look adverse but we are confident that the efficiency ratios that we are achieving will continue to improve.

Manish Ostwal: We are talking about 20% disbursement growth for FY2018, right Sir?

Sanjay Chamria: Right.

Manish Ostwal: Thank you so much. Thank you.

Moderator: Thank you. The next question is from the line of Sandeep Jain from Birla Sun Life Asset Management. Please go ahead.

Sandeep Jain: Thanks for taking my question. Sir can I get a breakup of NPA in terms of vehicle business and mortgage business?

Kailash Baheti: We would not have those numbers right now but roughly the mortgage business will have NPAs at around 3.3%.

Sandeep Jain: As 18% of the book has an NPA of 3.3%, is that right?

Kailash Baheti: That is right. Then the rest of it you will have to currently do a maths. Sorry for that.

Sandeep Jain: Second when you are saying that the 2% credit cost on AUM with the AUM growth of some 5% to 8% kind of things? Do we have anything on the mind that the PCRs would be at 18%, 25% or 35% by March 2018? So any number on the PCR?

Kailash Baheti: Again you know I have been talking about this earlier also and that goes to my favorite theme. We have continued to be focused on NNPA and not be so much worried about PCR. For the NBFC industries, if you make provision you do not get any tax benefit whereas if you have assets, which you feel that you are not able to recover, there are write offs then show it in GNPA. We definitely feel that 5.6% of NNPAs right now is not the right NPA because tractor portfolio which would usually have higher NPAs we would be looking to reach somewhere closer to 4%. That would be our internal target.

Sandeep Jain: Fine, so if I assume that what you have said in the earlier answer that your internal target that GNPA ratio should not move from this level. So it will remain at around Rs.1100 odd Crores to Rs.1200 odd Crores in absolute terms and the net NPAs you are saying is 4% then you are talking some about 30% to 35% kind of PCR. Is it right?

Kailash Baheti: When I say that our target would be 4%, I did not say that 4% we would reach this year. Ideally in the kind of business we are, if we are at 4% with the tractor share at 20% and mortgage share at about 20%; happy if have about 4% of NNPAs.

Sandeep Jain: Okay Sir. Thanks for the answer Sir. That is it from my side.

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

Deepak Poddar: Thank you very much for the opportunity. Sir just few clarifications, first we are talking about 20% disbursement growth and AUM growth of 5% to 8% in FY2018. Is that correct?

Sanjay Chamria: Yes.

Deepak Poddar: Okay and the credit costs you mentioned below 2% is it on AUM or is it on loan book you are talking about?

Kailash Baheti: AUM.

Deepak Poddar: So below 2% on AUM basically?

Kailash Baheti: Yes.

Deepak Poddar: And my last thing that I wanted to understand is on the ROA front basically in the past we have been to kind of targeting 1.5% kind of ROA, so basically how many years you think will take us to achieve that kind of ROA? Or what is the steady state ROA that we might be looking at in the medium term?

Kailash Baheti: In this short-term we would target to reach 1.5%. Now which year we will we would not like to you know unnecessarily give any directional numbers for this year.

Deepak Poddar: Right, but the short-term would be one to two years; would that be fair to assume?

Kailash Baheti: Absolutely.

Deepak Poddar: That is it from my side. Thank you very much.

Moderator: Thank you. We have the next question from the line of Rahul Ranade from Goldman Sachs Asset Management. Please go ahead.

Rahul Ranade: Hi Sir. Thanks for the opportunity. Just wanted one clarification Sir. How do the mortgage business, how much of it would be pure home loans and how much of it would be LAP?

Sanjay Chamria: LAP would be 70% and home loan would be 30%.

Rahul Ranade: Okay and the home loans all the home loans will be sitting in the housing finance company or is some part out side that?

Sanjay Chamria: No, all in the housing finance.

Rahul Ranade: Okay and just on this SME business, I just wanted to understand better of the borrower profile to which and what ticket sizes are the SME loans or what kind of a security do we have against these loans?

Sanjay Chamria: Our SME exposure is entirely unsecured. The ticket size is about 19 to 20 lakhs, and the profile of these customers would be having the turnover range from Rs.50 lakhs to Rs.200 Crores and they would be all minimum five years of existence with the cash credit or the capital limits from the scheduled commercial banks will have ITR and bank accounts and credit assessment is done on the basis of the DSER which is the cash flow based assessment.

Rahul Ranade: Thank you.

Moderator: Thank you. We have the next question from the line of Adesh Mehta from Ambit Capital. Please go ahead.

Adesh Mehta: Hello Sir, so Sir if I have heard you correctly you mentioned that this 20% disbursement growth most of it would be happening in the second half. Is that right?

Sanjay Chamria: No the growth will happen from the first half but because of the run offs in the loan book increase in the AUMs will get reflected from the second half.

Adesh Mehta: Sir I just wanted to ask that in our SME segment you mentioned that you have seen the best collections and plus the outlook on the asset quality is also getting better. So why have disbursements been muted this quarter?

Sanjay Chamria: I shared that first when the demonetisation happened in November and December the demand itself went down because the overall economic cycle went down and then in the Q4 also the impact of demonetisation in the SME was felt whether credit cycle got squeezed and even in the current year even though this is bad spot for our business we are now looking to grow it very aggressively because there is a GST which is logging in from July 1. SME business is expected to be most impacted by the GST rollout. So therefore currently our SME team is evaluating the impact of GST and then they would like to take a calibrated approach and to increase the exposure on the sectors, which are likely to be more positively impacted by the GST rollout and moderate and mute to the exposure on the ones, which will be negatively impacted and therefore at one thing study to go for a geo cluster and the industrial cluster mapping and have credit appraisal tools, which can help us evaluate them better and take higher exposures.

Adesh Mehta: Okay Sir. And Sir if you can share your preliminary assessment on how GST would be impacting SMEs and SME financing going forward, that would be great Sir.

Sanjay Chamria: I think what we could do is probably offline, Sanket can set up a meeting for our SME business head with you, sometimes in the middle of June because by the time the study will be entirely completed and we will have a very curated thoughts in terms what are the sectors for the SMEs, which are going to be positively and which are going to be negatively impacted by the GST rollout.

Adesh Mehta: Okay Sir, we will do that. Thank you very much.

Moderator: Thank you. The next question is from the line of Kush Sonigara from Mahindra Mutual Fund. Please go ahead.

Kush Sonigara: This is with regard to MHFL, so what kind of book growth are we targeting over there?

Sanjay Chamria: As we mentioned that last year we also made a correction in the ticket size and the type of customers to whom we are lending and happy to reiterate that the average ticket size has fallen to Rs.13 lakhs including LAP and even in LAP on its standalone the ticket size has fallen to Rs.15 Lakhs. So now that is a sweet spot in which we wish to operate and this year we are looking to grow the disbursals by over 35% in the mortgage.

Kush Sonigara: Sir one bookkeeping question I mean what quantum of SRs does we hold in our housing finance entity?

Kailash Baheti: Housing finance entity SRs will be very marginal.

Kush Sonigara: One which we have added and may be only Rs.13 Crores to Rs.14 Crores?

Kailash Baheti: Could be, should be less than Rs.20 Crores because it is very marginal.

Kush Sonigara: Thank you Sir.

Moderator: Thank you. The next question is from the line of Sangam Iyer from Subhkam Ventures. Please go ahead.

Sangam Iyer: Sir couple of questions one on the loan book growth that we are talking about for the next financial year; could you just elaborate it a little bit more in terms of which are the segments from which you are expecting this growth to come through because you said that SME you would be more cautious and wait till the outcome of GST and its implications. So could you just elaborate in which of the segments where you are looking at the growth coming through?

Sanjay Chamria: Out of the three business verticals which we have ABF, mortgage and SME, we expect the significant growth in the disbursals to come from ABF and from mortgage like to the previous guy, I mentioned that we are looking at more than 35% growth in the mortgage disbursal because last year it went down significantly when we were doing the correction in the customer segment and the ticket size. So far as the ABF is concerned, I will request Kaushik to give a view because there are five products and what the kind of product mix and the segment that is proposing to grow the business significantly and where does he propose to mute it?

Kaushik Banerjee: Our focus in ABF will largely be in product like used vehicles across categories, which are commercial vehicles, tractors, cars and we see these are the core area of growth. I think in the previous concalls that we did, I had mentioned that we would be broad basing our product mix, we will include small commercial vehicles as the part of the portfolio. We will of course we slightly cautious on tractors because being a seasonal product with a certain amount volatility though the IMD has announced that monsoons would be good this year may do as Kailash mentioned earlier see the component of tractors as a part of the overall portfolio correcting, but it will still remain an important product in our overall portfolio given the yields and potential returns on assets that that tractors offers. So it will be largely broad based growth strategy with specific focus in used commercial vehicles and we retain focus on cars, largely commercial applications because we are also very cautious of the necessity of maintaining our blended yield. We will however reduce dependence on heavy commercial vehicles to construction equipment given the final yields that required in those products. So we hire ticket sizes. So the intent is to increase the number of transactions, reduce exposure on high-ticket transactions and maintain an overall healthy branded yield.

Sangam Iyer: Got it. Sir just when we said that we are looking at a 35% plus growth in disbursement in the mortgage segment and how would they mix we would predominantly like the current mix of 60, 70, 30; would it be at the same ratio 70:30 in terms of the disbursement growth that we are looking at?

Sanjay Chamria: No we are looking to grow the home loans more and less in LAP.

Sangam Iyer: So would it be like in the incremental it will be predominantly 70:30 in the reverse fashion, 70% home loan and 30% LAP?

Sanjay Chamria: No it may not be that you know extreme a swing but our overall a period of next couple of years obviously we want to reach 70% home and 30% LAP but this year at first will be to thrust will be moving the swing in that direction. However the ticket size that we are achieving, we would like to maintain at about Rs.12 lakhs to Rs.13 lakhs. So that whether we do LAP or we do home loan the end customer segment would be very typical self-employed, nonprofessional, tier 2, tier 3, tier 4 town and having difficulty in accessing finance against the property collateral and that is the spot that we believe we are uniquely positioned to cater to given the presence of 300 branches 80% of which are in the tier towns.

Sangam Iyer: Got it, so this would be like self-employed like a category where you would be targeting?

Sanjay Chamria: SENP, self-employed nonprofessionals which mean doctors, chartered accountants, engineers, advocates are not part of this but the contractors, small businessmen, and CNF agents, distributors, Kirana shop owners, these are the guys who would be eligible and who are defined as SENPs self employed nonprofessionals.

Sangam Iyer: Correct. Sir what would be the yield in this segment that we would be looking at?

Sanjay Chamria: So we are operating in pretty much the targeted yield zone and the average book that we average yield that have on the book is about 13.5% so it may marginally moderate given that there is a reduction in the cost of funds and if we are today operating at more than 4% NIMs there. So I think we have a scope in order to grow the disbursal without compromising on the quality of the portfolio, we may rather drop the yield a little bit may be about 13.25 to 13.50 on a blended basis and grow the book.

Sangam Iyer: Sir could you comment on the borrowing mix that one can look at for the next financial year?

Kailash Baheti: We would like to stay where we are in the same ratio from the banks, which is roughly about 65%, and rest from the capital market.

Sangam Iyer: Okay. So predominantly it is a MCLR pass through that would come through is what you will be passing on to your customers as well in order to maintain the quality of the book and garner greater market share on the loan book?

Kailash Baheti: Yes, if the business demands that to generate good quality we have to cut, we will.

Sangam Iyer: Sir finally on that when you said that on the migration towards 90 DPD you might see an increase of 2% on a like-on-like basis at the gross NPA level. So if we are looking at the next financial year the GNPA being same in absolute terms move particularly then we saying that similar to what we saw this year there could be some other sale of NPA coming through in order to maintain this or are we talking about a huge recovery coming in spite of the fact that we would migrate to 90 DPD and resulting into a 2% increase in the gross NPA in optical terms?

Kailash Baheti: So you know it is about a Rs.160 Crores for 1% reduction, 2% reduction means we will have to reduce Rs.320 Crores and that is our target that we will reduce Rs.320 Crores or more so that we stay where we are.

Sangam Iyer: So Sir this Rs.320 odd Crores reduction that we are talking about here is pure upgradation in recovery here?

Kailash Baheti: Yes.

Sangam Iyer: Okay and hence the credit cost will not see much of impact here?

Kailash Baheti: Yes.

Sangam Iyer: All the best.

Moderator: Thank you. Due to time constraints we will be able to take one last question. The last question is from the line of Ashwin Balasubramanian from HSBC Asset Management. Please go ahead.

A Balasubramanian: I just wanted to understand with regard to your car loan portfolio what will be the nature of the customers segment, which you will have and like what will be the yields in the segment I mean will it be focused more on rural, semi-urban kind of areas or they will be in tier I cities? That is my first question and if I can add another question on the overall book like let us say in the vehicle finance segment, do you see any geographical trends in terms of the asset quality both like may be in vehicle finance as well as in the SME segment which you have?

Kaushik Banerjee: So to your first question on the car segment, we actually have fairly disbursed portfolio right now where we have exposures in both the urban and the non-urban markets. We have concentration on markets like Kerala and Delhi for example. The focus however, Ashwin would be to increase the portfolio presence in commercial where you have earn and pay customers, which is our core competent and comfort is and yields are also significantly higher in this category and it is in a personal use category.

A Balasubramanian: So this is significantly higher, how much would it be like?

Kaushik Banerjee: So on a ballpark basis the difference between commercial application rates and your personal application rates and will anyway in the range of 250 to 300 BPS.

A Balasubramanian: Okay, which means around 12% to 13%?

Kaushik Banerjee: No, 12% to 13% is what we call the personal application. We do not do C and D categories we do A and B categories. So these are not your corporate white collared borrowers. Okay this is largely the segment that is self-employed. We get about 13% to 13.5% typically in the personal use application, I am saying about 15.5% on the commercial application. So that was the response to question number one. I think your question number 2 was stress in different markets?

A Balasubramanian: Yes, that was my second question.

Kaushik Banerjee: Basically yes, you know wherever we have markets, which are largely tractor dominant so market places like you have eastern UP or MP for example just to take two examples because there you have a bullet payment structure which is crop cycle typically you see a higher level of stress in the market we do not have a dominance of tractor and therefore our exit Q4 probably be far superior to what we have right now had it not been for demonetization because demonetization clearly impacted the agri segment and specifically tractors and as you aware 27% of the ABF portfolio is tractor. So it would not be a like-to-like comparison if you have a company, which does not have a tractor portfolio, or a small presence in tractors compared to ours where the presence in tractors is higher. Overall performance in Q4 including tractors has been very good.

A Balasubramanian: And the other vehicle segments would not see much of geographical trend per se?

Kailash Baheti: No. There will always be, we have 300 branches and we have varied products. We have 2400 permutations and combinations, so yes we will always have pockets where any other portfolio may not reflect the median but yes by and large rest of the portfolios are uniform.

Ashwin: Thank you.

Moderator: Thank you. We will be able to take one more question. Last question is from the line of Nischit Chavate from Kotak Securities. Please go ahead.

Nischit Chavate: What is the absolute amount of reference dividend proposed this year?

Kailash Baheti: It is a very small amount, Nischit about Rs.90000.

Nischit Chavate: Thank you very much.

Moderator: Thank you. That was the last question. Ladies and gentlemen I would now like to hand the conference back to Mr. Vishal Modi for closing comments.

Vishal Modi: Thank you everyone for taking time out. Thank you to the members of the management team for giving us this opportunity. Have a good day.

Moderator: Thank you very much. On behalf of Maybank Kim Eng Securities India Private Limited that concludes this conference. Thank you for joining us ladies and gentlemen. You may now disconnect your lines.