“Magma Fincorp Limited Q4 FY 2018 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Magma Fincorp Limited Q4 FY2018 earnings conference call hosted by ICICI Securities. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*"then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Santanu Chakrabarti from ICICI Securities. Thank you and over to you Sir!

Santanu Chakrabarti: Thank you Raymond. Good morning ladies and gentlemen. On behalf of ICICI Securities I take great pleasure in having with us here today representing Magma Fincorp Mr. Sanjay Chamria, Vice Chairman and MD, Mr. Kaushik Banerjee, President and CEO, Asset backed Finance, Mr. Manish Jaiswal, MD and CEO, Magma Housing Finance, Mr. Rajive Kumaraswami, MD and CEO, Magma HDI General Insurance Company and Mr. Kailash Baheti, Chief Financial Officer. They are here to discuss with you their company's performance in Q4 FY2018 and the business outlook going forward. Let me hand the floor over to our honorable guest from Magma!

Sanjay Chamria: Thank you Santanu. Good morning and a warm welcome to all of you to the Magma Q4 FY2018 investor Call. In the last quarter of FY2018 the Indian economy has bounced back to its usual growth as reflected in the GDP numbers and the forecast. The bounce back has happened after a period of roughly 14 months of deceleration due to two major events. First the demonetization in November 2016 and subsequently the GST rollout in July 2017.

An important event for our industry is how good the monsoons are, it is a happy situation that both the IMD and the Skymet have predicted a normal monsoon this year. This would be the third consecutive year of normal rainfall a normal and a well-distributed monsoon will boost farm output and farmers' income thereby increasing the demand for consumer and the automotive products across India and more so in the rural markets.

The World Bank has projected the Indian economy growth to accelerate to 7.3% in FY2019 and 7.5% in FY2020. This will make India the world's fastest growing economy. The revenue collection from the GST has been Rs.1.03 trillion for April 2018. It augurs very well for the government to meet its annual revenue target of Rs.12 trillion from GST for FY2019 and this will put enough money with the government to spend for its announced rural economy centered pending as per the budget for the year.

Envisaging this emerging opportunity and to make ourselves growth ready we have raised a fresh capital of Rs.500 Crores at the beginning of this fiscal through QIP it received overwhelming response from many renowned and marking a situation of investors across India and Asia and world over subscribe 1.76 times. With this capital raise, our capital adequacy has increased to over 25% and we are well capitalized to achieve our growth ambitions in the next few years.

Let me now give you an overview of our business and performance in Q4 and in FY2018 as a whole.

I would first like to speak on the asset quality. I feel happy to share that FY2018 has been an excellent year for the company. We have mentioned and reiterated many a times during the year, our focus has been first on improving the quality of our existing portfolio and then achieving sustainable growth with quality. We have stayed put on our strategy and it has reaped the expected benefits.

We moved to 90 plus DPD provisioning norms during the year. Our GNP at 90 DPD stands at 7% as on March 2018. On a like-to-like comparison the number like 90 DPD was 8.8% in March 2017. Similarly our net NPA has come down to 5.2% as on March 2018 against 7.5% in March 2017 meaning a reduction of 30%.

I would like to highlight three standouts indicators. Our collection efficiency was over 100% in FY2018. We achieved 100.3%. our GNPA and NNPA ratio at 90 DPD is better than our GNPA and NNPA ratio at 120 DPD in Q3 and our PCR stands at 27% at 90 DPD compared to 17.7% at 120 DPD as on March 2017 and on a like-to-like comparison, the PCR at 90 DPD the improvement is from 15.9% in FY2017 to 27.2% in FY2018. This is a strong foundation for achieving growth with quality in FY2019.

We are making one change in our collection strategy linked to NPA recognition at 90 DPD norms. For ABF business we are moving the 60 to 90 bucket collection to the NPA recovery team to facilitate early legal action against delinquent customers and control NPAs in the future. The business team will continue to handle 0 to 60 portfolio apart from their usual responsibility of driving disbursements.

Moving to business numbers now, in Q4 our ABF disbursals grew by 58% Y-o-Y. As per our strategy the growth was led by used assets at 77% followed by CV at 174% and CE at 93%. Our tractor disbursals also grew though by a relatively modest 29%. Further the current model of branch, business, banking and deeper touch with the existing customers by the field executives has resulted in higher share of direct business at 37% of overall disbursals compared to 26% in FY2017.

On the portfolio side the early warning indicators across all products are within benchmarks. Therefore, our overall portfolio will continue to show a secular declining trend.

In mortgage business, we had adopted the mantra of Go Direct, Go HL, and Go Affordable. As I speak our shift to Go Affordable is complete with our average ticket size moving to Rs.12 to Rs.13 lakhs.

The Go Direct and Go HL initiatives had a learning curve as we reoriented our team, our field executives to originate more direct granular and home loan business. We are glad to share that our mortgage business registered a growth of 23% Y-o-Y in Q4, our direct origination grew to 58% in March 2018 from 18% in April 2017 and home loan disbursal ratio improved to 42% in March 2018 from 28% in April 2017.

Our unsecured SME lending continues to be an excellent business for us. The business has performed well during FY2018 in spite of two adverse impact first of demonetization and thereafter the GST rollout and this business has achieved Y-o-Y disbursal growth of 41% in Q4. This division continues to produce the highest ROA on a consistent basis.

During the year we have expanded our SME lending coverage to 61 branches from 50 in FY2017. We intend to move our focus to tier 2 and tier 3 towns in our existing ABF branches build our portfolio basis analysis of geo cluster and industrial segments and increased contribution of business from direct sourcing starting with preapproved loans on large existing customer database.

During FY2018 we have completed the build out of dedicated collection vertical for mortgage and SME business for a standard as well as NPA portfolio and we are happy to share that this initiative also brought desired results as our collections improved sharply in both the current and the NPA buckets.

Finally we completed the first phase of our digital scoring model which improved our sanction ratio by 37%. Accordingly the average disbursal per field officer grew by 52% this year from Q1 to Q4. The version 2.0 of digital scoring model launch is underway which will result in rule-based underwriting and therefore increased credit team productivity and reduced PAT.

On cross sell we substantially augmented our abilities through focused and sustained efforts to leverage our own ecosystem, technology improvements and leveraging multiple customer touch point. As a result we achieved cross sell of over 10% from our existing customers. This has helped us earn better customers equity with a strong repeat and referral model. The advantage of cross sell has been enhanced profitably, has enhanced profitability through significantly lower cost including but not limited to acquisition cost, credit cost, better rates and ever gone a loyal customer.

For insurance business FY2018 has been a significant year. During the year we have built a risk management framework put in place a robust reinsurance program rebrand the entire policy issuance process achieved significant improvement in our claims management turnaround time and embarked on the journey of building a balance portfolio across product classes.

We have reaped the benefits of these measures with the GWP registering an overall growth of 32.5% during the year including 47% in Q4. Further the combined ratio has improved from 123.8 to 120.7 during the year and further to 114.3 during Q4.

Motor continues to be the dominant portfolio for us with the contribution being 74% of the portfolio versus 81% last year. The company continues to enjoy one of the lowest own damage loss ratio in the industry.

We have been earning profits for the last two years in the insurance business. We have undertaken new initiatives and still continue to do so which will result in significant growth in business volumes making inroads in the OEM and the banker programs and better operational efficiencies resulting in the improvement in combined ratio.

On customer delight, Bouyed by the initial response during FY2018 to the customer service initiatives and having benefited from higher repeat and referral business from the existing customers, we have now decided to invest a lot more in providing customer delight at various touch points. We are planning to leverage strong relationship with our 1 million customers at field and Taluka level achieve more products for customers and have deeper relationship with the customers thereby reducing cost of acquisition per customer.

Finally coming on the overall performance in FY2018 AUM, we have seen linearr growth in our disbursals Q-o-Q during FY2018 and in Q4 our disbursals grew by 51% Y-o-Y leading to growth path and our AUM after many quarters, although modest, grew by Rs. 303 Crores from Rs. 15252 Crores to Rs. 15555 Crores on a quarter-on-quarter basis.

Our NIMs for the year moved up by 138 basis points from 7.4% to 8.8% on the back of lower cost of funds and higher running assets as we made substantial recovery from our NPAs.

Our opex has increased during the year and presently stands at 4.4%. We are aware of the fact that our opex ratio is presently higher than the industry average. This is mainly due to the decrease in our AUM over the last three years as we grow our disbursals and the AUM, we expect significant operating leverage for the next few years. A

As Mentioned earlier our net NPA on a like-to-like comparison at 90 DPD improved and it has decreased from 7.4% to 5.2% and our PCR has improved from 15.9% to 27.2%.

The profit after tax on a consolidated basis increased to Rs.230 Crores in FY2018 compared to Rs.12.73 Crores in FY2017. The profit for FY2017 as you all know is not strictly comparable as we had done a one-time sale of high bucket NPAs in March 2017. However even setting aside that one-time sale and the impact of the NPAs, the PAT has improved still by over 45%.

So now all my colleagues and myself would be happy to take your questions. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. We have the first question from the line of Sangam Iyer from Subhkam Ventures. Please go ahead.

Sangam Iyer: Sir congratulations on a good set of execution here. Sir I just wanted to understand that given that the whole preparatory process of getting into the systems and everything in place is kind of behind us with now more than 75% of our disbursements coming in from category A+ kind of a branches, what is the kind of growth outlook that you are now looking at, given that Q4 disbursement is also on a very strong footing of 51% plus on a Y-o-Y basis. So how should one be looking at FY2019, given that all those stabilization process everything is now behind us even the asset quality is now very well in control given that from migration from 120 to 90 has even seen a dip in the overall gross and net NPA levels. So how should one be looking at the growth given this backdrop and also that there is a strong tailwind in the industry?

Sanjay Chamria: As you rightly put it that when we started this transformation journey about two years ago we had to contain with several issues which was rising NPAs, lack of disbursal growth resulting in the AUM decline and rebuilding of the management team shifting to Mumbai and the net NPA to the net worth ratio of becoming adverse. So as we stand today in May

2018 I am very happy and satisfied that we have actually not only put all these issues behind but in the last quarter of FY2018, we have also registered a very healthy growth of over 50% in terms of the disbursal and even in terms of the AUM while it is very modest but I think it is signaling that we are back to the growth phase and it has grown by 2% while it is still on a Y-o-Y basis, there is a reduction in our AUM. So we have entered FY2019 on a very strong wicket with a lot of confidence that after having put portfolio quality first and now that will still remain the hygiene we are now on the path to have very strong growth and with the tailwinds in the overall market one from the normal monsoon and two, the market for NBFCs have become lot more positive with the risk averse approach of the state-owned banks, I think the segment and the franchise that we are dealing with which is the vehicle finance, unsecured SME lending, and the informal customer segments for mortgage, we are all very confident of registering very high growth in the disbursals as well as the AUM in the current year.

Sangam Iyer: Sir could you quantify… give us some idea because your peers have been quantifying that for the first time across board all your peers are actually talking about closer to 20% plus kind of a number and at least on an average 18% to 20% even on the high base. So that is the kind of exuberance that is being visible across the sector across your peers also. So given our the footing that we are entering FY2019 with, what is the kind of growth that one can look at because you are well capitalized. Now the capital concern is also not there for at least for couple of years now, so how should one be looking at the growth front?

Sanjay Chamria: One I would like to share with you that we would not like to faulter on the quality front at all after having taken a severe setback in the previous three to four years, the least that we are expected to do is to let this advantage go away and if there is a irrationality in the market in terms of a growth of 20%, 25% I think we are here in for a long haul. Having said that obviously we want to make up for the last time and therefore we want to grow each of our businesses, so in terms of disbursal growth I am very sure that it will be more than 25% in the current year. It could even be more than 30% with the tailwind supporting us. So far as the AUM growth is concerned because we are coming off from a drop in the previous year. So on a Y-o-Y basis still we may see a moderate growth in the AUM but we are not too fussed about it because we are building and we are on the path of transformation wherein we are past two years and our focus will be on profitable growth and we want to change the trajectory having achieved now last year 1.5% ROA and in the last quarter, 1.8% our endeavour would be how quickly we reach to 2% ROA along with the growth and then build up on that.

Sangam Iyer: So on a 30% disbursement growth for the year, if you are looking at 25% to 30%, given the repayment track record that we currently have that should actually boil down to almost 15% to 18% correct me if I am wrong in this or are you seeing a much higher repayment rate here which will lead to a lower AUM growth?

Sanjay Chamria: So we do not have a disproportionate higher repayments in the vehicle finance business and the SME business which is absolutely in line with the industry. So far as mortgage is concerned, we did see that but the present management team has taken a lot of steps and in the last quarter, we have brought it down and now it is pretty much in line with the industry average in terms of the repayment and the prepayments both. So therefore we do not see an abnormal spike unless if something changes during the year. So therefore in terms of the AUM it could be 15% it could be 18% but I think it is all a matter of conjecturization. We will see as to how it goes but disbursal which is in our end obviously we want to grow minimum 25% possible even touch 30% and cross 30%.

Sangam Iyer: Sir coming to the NIMs part we definitely have the advantage of the equity raised recently. So this year also we would have that cushion of better expanding NIMs that we saw last year as well, but on the opex side there was a one-off that happened this quarter what is the kind of run rate that one should be looking at or is there any further incremental investment that we have seen which would again see the opex ratio kind of stabilizing at last year level, this year as well in spite of the growth?

Sanjay Chamria: So as I shared that we are coming off from a decrease in the AUM over the last three years so while in terms of the opex to the disbursal, we will see a much better operational efficiencies kicking in because just to share we have the entire leadership team in place, we have the field officers whose productivity we have factored in to go up during the current year. So therefore in our main business which is the vehicle finance which accounts for 70% of the AUM, we are not adding any field officer despite the disbursal growth being planned at more than 25%, 30% increase. So that should give us the benefit in terms of the opex to disbursal. However this being the last year in the transformation journey and the third year, the AUM growth may not reflect the entire disbursal growth so opex to AUM may actually still show that we are subpar compared to the leading players in the industry, which is something that will probably pan out in the next another two or three years timeframe and again as I said we are not fussed about it as long as we are maintaining a positive trajectory in terms of the ROA, in terms of the asset quality, net NPAs, and the NIMs, we are fine. So far as your earlier question on the NIMs are concerned we had earlier given a guidance of between 7.5% to 8%. We actually last year touched 8.8% and in the last quarter, more than 9%. I do not see that being sustainable. So we would be happy to maintain it between 8% to 8.5% because last year, we got some extraordinary benefits as you see our net NPAs have reduced in absolute amount by Rs. 400 Crores. So while we have reduced the net NPAs on a like-to-like, which is 90 DPD from 7% to 5.2%. If our AUM had grown even 15% that 5.2% would actually be around 4.3%. So I would see that benefit also continuing although to a lesser extent in FY2019 but on a steady state basis, if you maintain between 8% to 8.5% that will be absolutely in line with the leading peers in the industry and that is what will be our endeavour on our diversified product base.

Moderator: Thank you. The next question is from the line of Shubhranshu Mishra from Motilal Oswal Securities. Please go ahead.

Shubhranshu Mishra: Congratulations on the good set of numbers and thank you for the opportunity. The first question is to the ABF scheme, one is that we had consciously been running down the tractor and the construction equipment portfolio, now that we have tailwinds the disbursals are growing. So how do we look at both these portfolios going forward in FY2019 and 2020 when we have tailwinds for this. The second question is for the SME business, how do we assess the income for the SME customers and what are the various levels of credit checks that we have at the branch level and at the central credit check? Thank you.

Kaushik Banerjee: This is Kaushik. So the two questions, the fundamental question you asked on ABF was a rundown on the car, the tractor, and CE portfolio. So first of all let me give you clarification here Q-on-Q on a Y-on-Y basis, Q4 on Q4 has actually grown 33% in tractors, we have grown about 90% in CE and we have grown about 11% on cars. So what I want to put in to perspective here is we are not running down any portfolio. We are going to see growth across all products. What we are doing however is redistributing the asset mix to reduce the quantum of weightage of cars and tractors in the overall portfolio and increase the weightage of used and commercial vehicles in the portfolio. So the growth rate adopted for the different product segments are different. So we will continue to see growth across all product segments but at different trajectory. So therefore the contribution of cars and tractors over time will reduce. The contribution of used and commercial vehicles over time particularly focused on light and small commercial vehicles will increase. So I hope I have connectivity the perception of an actually running down any segment of our overall portfolio.

Shubhranshu Mishra: Sure sir thanks and the second question on SME Sir?

Manish Jaiswal: Hi I am Manish Jaiswal here. To address to your second question, first of all we cater to SMEs who are part of the formal economy have faulted financials and financial by the time they normally come to us, they are stale. So therefore what we do is that we look at the cash flows in various methodologies. Most importantly, if there the possibility which largely nowadays it is. We will look at in yearly regime VAT return, now GST return which in a sense corroborates on what is really happening on the ground, gives us a sense of the actual goods movement and the second important thing is that we also analyze the bank account statement which is also a good indicator in terms of what is really happening in through the cycle. So we have various validation models apart from financials bureau, the transaction flows, the returns, so we essentially put all of this together and also do digital interpretations of these before we arrive at a lending decision and so far given that we have been almost a decade in the business all I can say is the asset quality portfolio has been absolutely impeccable, top of the line, it comes into the upper percentile in the industry and we can say that Magma has its own model and a prototype which has born fairly good results in the past and will continue to do so.

Shubhranshu Mishra: So just a last part of my question sir how do I understand the credit checks are they done at the branch level and then by a central team or how do we look at the credit checks done at your branch?

Manish Jaiswal: So the branch in so far the mortgage is decentralization with centralized control in terms of deviations coming up for approval, we have our approval hierarchy and the document and everything they are collected at the branch however they are scanned and send centrally and we do our own checks which could be an RCU check, sampling or any hindsighting processes which we have laid in the business. They are done probably independent of what happens in the branch. So it is not branch alone there are check and balances in the place which happened from the central team and together a lending decision is given in consonance by looking at the data from the field analyzing at the head quarter level.

Shubhranshu Mishra: Thank you so much for your time, I will come back in the queue.

Kaushik Banerjee: I just want to also add one component to our discussion on the ABF please. This is now that we have kind of established a branch and product grading as a norm, we very support as a management any product that is for a or a high B in a particular branch so what we are promoting is not so much as a product mix, of course, it is a branded yield impact but what we are focusing on is improvement, contribution, and the contribution of A and B products and a reduction in the contribution of C and D products. That is the main in intent here.

Shubhranshu Mishra: Sure sir. Thank you so much. I will come back in the queue.

Moderator: Thank you. Next question is from Pankaj Agarwal from Ambit Capital. Please go ahead

Pankaj Agarwal: Sir what kind of loan mix you are targeting next two, three years. Do you have any loan mix in mind?

Sanjay Chamria: We currently have 70% in ABF, about 18% mortgage, and 12% in SME. So over a period of time, the 70% of ABF is intended to remain at that but mortgage would probably go to 20% and SME will remain at 10%. Within mortgage which is 20% right now, it is more loaded in favour of LAP and that will completely change and it will become at least 70%, 75% HL and LAP will not be more than 25% or 30%. So for us SME is concerned that is completely secured. So we are also looking at how do we have a mix of semi-secured and unsecured and have a more inclusive relationship with the customer and that is where a lot of product innovation is currently going on that 30,000 odd customers that we have in SME with a very successful track record, how you can mine and milk that relationship with the customers and rather than going and chasing new customers every time. So far as ABF is concerned which is the 70% of the overall AUM expected to be also in the next two to three years, there as Kaushik has shared with you all earlier that the focus of the used, the contribution of the used assets will grow disproportionately higher and then to that extent the contribution of passenger vehicles and tractors may come down but nonetheless they will also remain present and similarly in the CV, the contribution of the small and the light commercial vehicle will go up and that is where Kaushik's experience and my own view is also the same that there is a strong play in ward for the NBFCs in the tier towns. So this is how the product mix is likely to change and continue to change in the next two to three years' timeframe.

Pankaj Agarwal: And second Sir, if I look at your opex to asset ratio or opex to AUM ratio, it is only going up and given the current ratio and you are saying that your NIMs will come down right and how do you see your ROE improvement going forward because if this ratio does not improve disproportionately if NIMs are coming down there are very little chances that ROE will go up?

Sanjay Chamria: So I think very clearly the opex ratio you has to go down and we will be targeting to reach the same level which our peers are over a period of three years. What we have said is that until our AUM grow that the level there where we are in comparison with the peers, the ratio will be slightly higher. So for example if our AUM is to grow from the current level by about 15%, 18%, you definitely expect that our cost goes down by at least 10% if not more and therefore as we move forward, the operating leverage will definitely come from opex ratio. Secondly the NIMs presently are 8.8% and as we have said we will be happy with 8% to 8.5%, now 8.5% is considering that we will have a particular leverage. Right now we have raised our capital and therefore it will be more towards 8.5% or a little higher and gradually we would like it to settle between 8% and 8.5% and third is that our credit losses even in the last year it is more than 2% and credit loss has to come down. In fact I would share one interesting data point is that we look at early warning indicators for our ABF product portfolio and early warning indicators for all the products as on March 2018 are below our benchmark which we have set for ourselves and overall if we take the entire mix, these are significantly lower which means that the credit losses which we can sustain and our percentage will be about in the range of 1.5% are actually showing that we will be even better than that. So that is for the new portfolio on a blended basis you would see secular reduction in the credit losses also. So I think slight reduction in NIMs will be more than compensated by reduction in our opex ratio and our reduction in our credit losses.

Kaushik Banerjee: Yes so Pankaj just one more perspective on the opex to assets is if any lending organization there are three fundamental costs one is the cost of fund, the second is basically your payroll cost, and the third is the origination cost. As Sanjay has pointed out earlier, the direct sourcing for ABF has gone from over 26% to 37% which is a direct beneficial impact in terms of origination cost to at least for the ABF business we had capacitized in terms of leadership team. So I do not see any increase in terms of my leadership team side compared to the growth in AUM that we were looking at. So most of the incremental increase is the net profit largely happen on the street level. We are also looking at a sharp improvement in productivity on the individual farmer level and so from a going forward basis, there will be a fairly significant collection in terms of opex to assets one says turnaround in terms of the AUM accretion on the ABF book. Also a large number of the leadership team onboard in this year which will add a certain amount of impact in the current year's opex to assets but I am not sure happening going forward in FY2019 or into the future.

Pankaj Agarwal: The reason I ask this question is that if I look at FY2018, your disbursements grew only 7%, 8% your AUM in fact degrew -2% but still your opex grew 13%, so had it been link to your AUM right had that there been any operating leverage right then it should have played out to some extent this year as well right?

Sanjay Chamria: So I think Pankaj you also need to factor in that we have done certain structural changes during the year and this resulted in certain activities which had until now we had outsourced coming into the parent entity and therefore our NIMs have also expanded and slightly our opex is also expanded. The impact there off is in the region of about 30 basis points.

Pankaj Agarwal: And finally last question, what kind of credit cost you have budgeted for SME financial business?

Kaushik Banerjee: So on SME, we as I mentioned, Sanjay mentioned little while back the if that consistent ROA of 3% which we have been delivering almost for a decade with a fairly predictable model, the credit losses which we have seen in the business are in the range of around 2%.

Pankaj Agarwal: So with 2% credit cost you are saying you can manage 3% ROA in this business?

Kaushik Banerjee: That is right, that has been the last decade story.

Pankaj Agarwal: And do you think it is sustainable for next two three years?

Kaushik Banerjee: It has been sustainable for last decade so I presume in the short-run and the medium-run given the situation of public sector banks and the credit quality, asset quality, they are suffering, the SME is certainly will continue to have liquidity issues and they will find respite in NBFCs who are efficient and give liquidity in less than two to three days' time.

Sanjay Chamria: What I would like to add Pankaj on what all my three colleagues have said as you know that we measure the quality of the origination by the early delinquency or the in-front delinquency and there are different measures for different products. What we have witnessed in the last two years ever since the transformation is started and the business model change that we exited FY2018 with the lowest possible early warning indicators be it the ABF, SME or the offering business. Even in the investor debt that we have circulated, you can see that there are three or four graphs that we have shared indicating the quality of the asset. So we have budgeted differ levels for arriving at these benchmarks in terms of the credit losses and the product mix put together should result in a credit loss which is lower than 2%. Right now, it is more than 2% and while our benchmark itself actual is lower than the benchmark.

So one we expect clearly 50 to 75 basis points improvement in the credit loss from what we have encountered last year going into the immediate future. Second, as I mentioned in my inaugural comment that we are well capacitized not only as a leadership team but also at a field level so ABF which is our largest business, this year we are proposing 25%, 30% growth in the disbursal without addition of a single headcount. So this is where the operating leverage is expected to kick in. The reason I said that opex to AUM may not reflect and play out fully in the current year because we are covering on the back of a decrease in the AUM quarter-on-quarter barring the last quarter where it has grown by a modest 2% which is on signaling. So this year will be the year of aggressive growth in the disbursal but a moderate growth in AUM. Going into FY2020 is where we will see that the operating efficiency is kicking in and therefore the benefits will be shown in that but in terms of the ROA that will obviously improve one as a benefit of capital reach and two, the benefit of the credit losses going down. These two things will certainly provide us that support.

Pankaj Agarwal: Okay Sir thank you very much. Thanks a lot.

Moderator: Thank you. Next question is from Umang Shah from HSBC. Please go ahead.

Umang Shah: Thanks for the opportunity and congratulations team for a year of successful execution. I have a couple of questions for Kaushik, one is on the growth front so just wanted to understand the thought process. For past four or five quarters w are broadly there in terms of branch addition so to say and if we were to look at the portfolio mix change that we are doing moving away from CVCE and tractors and trying to increase the share of used assets and LCV, HCV. Clearly there is a ticket size down-trending which is happening right. So the point that I am trying to make is that are we sufficiently well spread out in terms of generating enough volumes to garner the kind of AUM growth that we are targeting or is it opex which is holding us back in terms of expanding our reach?

Kaushik Banerjee: I kind of highlighted this earlier that in terms of capacity we are well-capacitized to garner the kind of growth that Sanjay has mentioned in the range of 25% to 30%. So there is absolutely no challenge in terms of the strength that we have in terms of people. We are also well spread out internal geographies to look at the kind of accretion we are talking about in terms of growth so opex is not limiting factor in terms of growth of disbursements and so what you are focusing on is in terms of capacity utilization and improving execution excellence of the field level and we have seen significant traction happening in H2 over H1 and we expect the same trend, so just for your information we have seen a 34% growth H2 over H1 in FY2018. So when you annualize that number that itself is actually very promising growth story for ABF and with the leadership team in place which came in H2, there is very high level of confidence within the team that we should be able to achieve the kind of numbers that we are talking about internal growth. So there is a limitation in terms of opex, there is a limitation in terms of the number of people we have onboard. So we see strong tailwinds in the economy for FY2019 I see no reason why we should not be able to deliver on the numbers.

Umang Shah: Fair point so basically at this juncture we do not feel the need to kind of expand branch network aggressively so that we can increase our size I mean even at the current branch level and the employee headcount, we can still increase our size without any constraints?

Kaushik Banerjee: That is right we are looking at marginal expansion about maybe 10 branches during the course of the year but nothing beyond that.

Umang Shah: My second question was regarding the collections efficiency, so there was a comment made where 60- to 90-day overdue bucket collections have been moved to the collections team and so is there any change in the thought process, this is the in-house function right I mean this is not an outsourced thing?

Kaushik Banerjee: So the change in the thought process, the reason why we are doing this Umang is because earlier in the RBI stipulated provisioning bucket was at 120 so definitely we give one month to the collections team, the dedicated collections team to manage the bucket pre-provisioning right now with the bucketing moving from 120 to 90, we have correspondently moved the allocation of the bucket from 90 to 60 to the collections team, so it will continue to have a one month buffer before a particular proposition moves into provisioning. That is the rational that we have to exercise.

Umang Shah: Okay fair point. And just last question was that if you could just give some texture in terms of what is the kind of used asset financing that we are doing in terms of ticket size, vintage, products and so on and so forth and just in addition to that CVs, we seem to have kind of bottomed out three quarters back and we are quarter-on-quarter now growing in this book CVCE put together so a little bit color in terms of how the skew would be between MHCV and between LCV, SCVs.

Kaushik Banerjee: In terms of the breakup if you were to look at Y-o-Y for Q4 we have grown 90% in M & HCVs and grown about 430% in LCV and small commercial vehicles though the base is smaller. Clearly the focus is on lower side retail other than large ticket sizes. In terms of used, again the used book has grown about 59%. 60% Y-o-Y on the fourth quarter to fourth quarter it has also been the fastest growing asset in our overall asset book. So we have a good presence in used cars and we will be leveraging the geography and our presence in the various geographies to increase our share of business and used CVs as well. The good news Umang is that we have onboarded a national product manager in last year. So he is fully into his role right now so as I said earlier we have fully capacitized in terms of leadership team, we have the national business head, we have the head of credit and collections, we have our national product managers supported by the people below them. So we are very focused and we will continue to remain focused in terms of our growth in used, in terms of our growth in retail CVs and strategic exposures in terms of different markets on the heavy commercial vehicles and CE products based on the portfolio behaviour in the respective markets. We do see a revival in tractors. We have largely put the past behind us. So at the organic level we see growth across all product categories led by a growth in used and light and small commercial vehicles.

Umang Shah: So just one last data point, so used assets currently would be predominantly cars is it?

Kaushik Banerjee: So the larger part of our overall used cars are at the front today yes.

Umang Shah: And within CV predominantly would it be…?

Moderator: Sir I am sorry to interrupt, but may we request you to return to the queue as we have several participants waiting for their turn.

Umang Shah: Yes sorry this is just a last data point and I am already done. Does the CV is largely MHCV or LCV.

Kaushik Banerjee: Right now again it is described, the ones from volume perspective it is heavy but the skew is going towards light and small of units.

Umang Shah: Okay got it perfect. Thank you so much and wish you all the best.

Moderator: Thank you. Next question is from Sandeep Jain from Birla Sun Life Insurance. Please go ahead.

Sandeep Jain: Sir just one thing in our transition from the last two years and 75% of the disbursements are happening from category A branches and all and despite that after last eight quarters, if I look at the AUM of 15000 last eight quarter total disbursement is somewhere around Rs. 12000 odd Crores and we are very unsure about the repayment despite of 30% disbursement growth, 25% to 30% disbursement growth we are very unsure on the repayment and AUM growth guidance what we are giving is 15% to 18%. So why is there any problem in the back book or still we are facing some kind of issues on that so where is that happening Sir?

Sanjay Chamria: See I think Sandeep there is no confusion whatsoever the point which we have made was that in ABF and SME the runoffs had been absolutely similar to what would be in the other peers in the industry. In mortgages, we said that we had initially seen a little bit of higher runoff, higher pre-termination but the management team has come down and taken significant corrective actions as a result of this, even the preterm in mortgage business has also come down to normal industry level in the last quarter so I think there is a little bit of missed message which has gone to you.

Sandeep Jain: So overall what kind of AUM growth guidance we will give, if we see a 25% to 30% kind of disbursement growth?

Sanjay Chamria: If we have a 30% disbursement growth our AUM growth should be in the region of 17%, 18%.

Sandeep Jain: So that means still we have somewhere around 42%, 43% kind of yearly repayment ratio right?

Sanjay Chamria: 43%, 42% no.

Sandeep Jain: Yearly repayment ratio of the opening AUM so if I look at even if you say…

Sanjay Chamria: That is right and this will be similar to what is there in the industry.

Sandeep Jain: No for us that our most of us, the repayment look slightly higher, industry rate is the same but our book is fairly most of the book has been declined in the last eight quarters right, so that is why it looks slightly higher in that sense that is my point.

Sanjay Chamria: See this is mainly because in the year 2015 our disbursement was Rs. 10000 Crores which dropped to about Rs. 7000 Crores and then to Rs. 6000 Crores and now we are Rs. 7000 Crores. So what has happened was the 2015 book when it was running down and when your disbursement was lower at Rs.6000, Rs.7000 Crores the overall runoff was looking higher but 2015 book has now completely runoff and this year if we have a 30% growth or 25% growth, our disbursement will be in the region of Rs. 10000 Crores or more and therefore you clearly see the accretion again happening to the AUM.

Sandeep Jain: Okay thanks. That is it thank you.

Moderator: Thank you. Next question is from Manisha Porwal from Taurus Mutual Fund. Please go ahead.

Manisha Porwal: Sir small data point, I wanted to know what has been the write-off this quarter and the total amount of write-off in our books?

Sanjay Chamria: So I think I do not have that exact only write-off figure. The charge to P&L is obviously Rs. 106 Crores.

Manisha Porwal: That is a provision charge right?

Sanjay Chamria: No, it includes provision as well as the write-off. You can separately reach out to Dinesh, he will provide you the numbers separately.

Manisha Porwal: And Sir wanted to understand have all our customers aligned to this 90 day DPD or is there any need to do handhold some or more of them?

Sanjay Chamria: No all our customers, see this is company projecting and company has to make provision once any customer has crossed 90 DPD so customers have to pay at 0 DPD itself, we do not align with NPA norms with customers. Customers, the…

Manisha Porwal: I was asking because they were generally like till now on working on a 120-day DPD so have their payment habits changed or there is still some handholding which is required and like the actual NPAs of 5% that we see is mainly because of handholding to some of them who have not yet align to the 90-day payment cycle.?

Sanjay Chamria: I think collection efforts from the customers that we need to make is completely independent of the recognition which is guided by the RBI guidelines and the internal strategy in the organization of having a dedicated collection vertical at 90 plus or shifting in one of the businesses 60, 90 to the NPA recovery team is aimed at bringing in sharper focus so that one can control at a pre-NPA bucket at the movement. So customers we expect them to all pay on due date and not even get into 31 to 30 or 31 to 60, 60 to 90 is actually more than two months default. So that is what maybe the case and we have regional call centres in 10 different languages to create that awareness amongst the customers that timely payment of installments will improve their credit score and will result in their lower interest cost should they were to borrow again so therefore that is completely independent.

Manisha Porwal: And a small question what portion of our collection is now in cash or there is zero cash collection nearly they do not…?

Sanjay Chamria: So our cash collections immediately after demonetization had drop to almost about 40% but they have now gone back to in the region of about 55% plus or minus.

Manisha Porwal: Okay so 55% is the normalized level you feel going ahead for the business?

Sanjay Chamria: It has been coming down so predemonetization it used to be in the region of 70%. It went down to 40 and now it has settled at around 55%.

Manisha Porwal: I think what we are trying to do now is that we are also creating this education amongst the customers that paying through the noncash mode is convenient and efficient for them as it is for the company and therefore today on an incremental lending and this I am talking about the vehicle finance business more than 83% of the customers are opting for the payment through the banking channels. So far as housing and SME is concerned, 100% of the customers are paying through the banking channels. So in respect of the ABF where you have customers who are taking tractors, who are taking used assets, and on the interiors only 17%, 18% of the customers are opting for cash payment.

Sanjay Chamria: Okay thanks. That is it from my side.

Moderator: Thank you. Next question is from Shweta Daptardar from Prabhudas Lilladher. Please go ahead.

Shweta Daptardar: Sir be it geographic presence or state wise AUM share, UP market clearly dominates in our book. So what sense you make of growth in asset quality there?

Sanjay Chamria: The asset quality across product we have seen is pretty much similar in all the states and then the differences of the variations come on account of the monsoon variations that will happen. For example we during 2014 to 2016 we suffered a lot when there was a drought and MP which had close to 10% now has actually about 5% exposure in our overall AUM so it is a largely a agri-based market and there were three consecutive years of drought. So obviously the portfolio had actually got impacted. So the case that happened in Maharashtra when there was the drought and when it recovered then we found the portfolio quality improved. So in terms of customers' habits and the repayment pattern, we find a secular trend and the customer behavior is similar irrespective of cost, creed and geography. The variation that we find that comes on account of the economic scenario are changing and that because of largely rural and the agri-based customers if the cropping is not good or if the realization is not good, it does have an impact on the repayment and that would have an impact on the volatility.

Shweta Daptardar: Sir particularly in terms of recoveries and collections in the UP market?

Sanjay Chamria: That is what I said that we do not see any major variation from our national average, so whether it is a 0-bucket customer or it is a 90-plus DPD at a NPA levels or in terms of the roll forward rates, we find it quite similar to the other states even behalf of that matter on which along with Jharkhand is about 7% which is also quite large.

Shweta Daptardar: Sir my second question is the direct business is around 37% and you also mentioned in your comments cross sell of 10% emerges from existing customers, so is that the breakup if I may ask of this 37% of existing and new customers?

Sanjay Chamria: It will be 10% to 11% cross sell that we are able to do and last year this has improved. So we closed the year at about 10% and that is where I said that we found the customer servicing initiatives to loans during last year has hinted good dividends and this year we are looking to further intensify the same through our efforts to provide customer delight and improve higher business conversion more products for customers. So therefore we expect this to be a high double digit growth in the current year. Last year the growth was 58% in the cross sell through the existing customers. So far as the direct business is concerned, this is quantified in the business where there is no payout so 37% of the business that we did last year there was no payout of any commission to the DSS and which improved from 26%. So our endeavour would be to do more of direct business like in case of mortgage we said that we want to now significantly increase our H&M in the direct sourcing and that is where we invested in the team which would do only the direct sourcing. Similarly in SME we said that now you want to leverage on a very large customer base with a satisfied track record how we can do more business so obviously there will be no payouts and that will also fall in the category of direct business and the existing customer referral with. So the whole idea is that now we have over 1 million customers. So from last year we have taken quite a few initiatives how to keep those customers in our hold and how to improve the touch point so that we can get repeat and referral business from them.

Shweta Daptardar: Sure Sir that helps. Thank you.

Moderator: Thank you. Next question is from Kajal from ICICI Direct. Please go ahead. There seems to be no response from the line of Kajal we go ahead with the question. The next question is from Tushar Sahlot from Edelweiss. Please go ahead.

Tushar Sahlot: I had couple of queries but this got cleared during the queue time. So just one query left for your… so one query which I have so we have a Feb 7 circular for RBI which states about relief for MSME borrower so have we taken some provision with respect to that circular or we have not taken any benefit from that circular?

Sanjay Chamria: We are not taking any benefit form that circular. We will follow their secure provisioning norms which is differentiated and in fact a little more that making more accelerated than the secured norms. So on our own we have done certain additional provisioning during the year but that is completely a management decision. So as far as we are concerned so we follow the provisioning norms which are mandated for the unsecured business so far.

Tushar Sahlot: Fair enough Sir. Thank you very much.

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

Sangam Iyer: Sir most of my questions are answered just wanted to clarify you, just said that the credit cost for the next financial year would be at least 50 to 75 basis points lower than what we saw this year?

Sanjay Chamria: Yes that is right.

Sangam Iyer: And Sir so given that what is the target PCR that we have in mind going into FY2019 and FY2020, is there any target that you would have in mind?

Sanjay Chamria: We do not have any target but you see that this year the increase in normal course has been from 16% to 27% I would be surprised if we would be anywhere below 35% in the next year. This is a function of two factors, one is incremental provision and number two is that, you are able to recover from some of the NPAs and this year the recovery has been very strong leading to drop in NPAs and increase in PCR, I think the trend will be continued in the next year.

Sangam Iyer: Great Sir congratulations and all the best Sir.

Moderator: Thank you. Next question is from Shubhranshu Mishra from Motilal Oswal.

Shubhranshu Mishra: Sir I wanted to understand the incremental cost of funds as on date and the borrowing mix that we would have in FY2019 and 2020.

Sanjay Chamria: The cost of funds this year was about 9.1% and we feel that next year our overall total cost of funds will be below 9% in spite of general hardening of interest rates in the economy. This is because one last year we have significantly improved our NPAs, our rating has also moved from negative to stable the rates are capital and that itself brings in a lot of confidence amongst the lenders and we get new offers which would be at a lower rate than the rate we would have had in the last year. So we feel that our cost of funds will be lower than the last year and secondly the mix right now is about 70% banks. I think gradually the share of debt market will increase at the same time the mix will not change very significantly.

Shubhranshu Mishra: So it remains pretty much similar in FY2019 and 2020 is it.

Sanjay Chamria: It will gradually increase maybe by 2020 we would have 10% higher from debt market.

Shubhranshu Mishra: Right and what are the yields on various ABF products both on book and increment if you can help me with that?

Sanjay Chamria: I think can we take this offline you can talk to Dinesh?

Shubhranshu Mishra: Sure I will do that thank you.

Moderator: Thank you. The next question is from Pankaj Agarwal from Ambit Capital.

Pankaj Agarwal: Sir what percentage of your borrowings are floating in HL?

Sanjay Chamria: Almost nothing. Our entire bank borrowing would be linked to the base rate of the banks and these will be reset at agreed interval so cash credit is immediate if it is working capital demand loan and it would be mainly three months or six months if it is term liability then annual reset and anything which is from debt capital market, there is no reset.

Pankaj Agarwal: You have any commercial papers in your borrowing mix?

Sanjay Chamria: We do have almost about 10% to 15% of commercial papers.

Pankaj Agarwal: That is part of total borrowing right?

Sanjay Chamria: That is right.

Pankaj Agarwal: Okay, thank you Sir. Thank you very much

Moderator: Thank you very much. We will take that as the last question. I would now like to hand the conference back to Mr. Santanu Chakrabarti for closing comments.

Santanu Chakrabarti: Thank you Raymond. Thanks to Magma management and all the call participants for such a engaging and rich discussion, the call will now be closed.

Sanjay Chamria: Thank you.

Kaushik Banerjee: Thank you.

Moderator: Thank you very much. On behalf of ICICI Securities that concludes this conference. Thank you for joining us ladies and gentlemen, you may now disconnect your lines.