"Magma Fincorp Limited Q4 FY2019 Earnings Conference Call"

May 15, 2019

ANALYST: MR. ABHIJIT TIBREWAL - ICICI SECURITIES LIMITED

MANAGEMENT: MR. SANJAY CHAMRIA - VICE CHAIRMAN & MANAGING DIRECTOR – MAGMA FINCORP LIMITED
MR. KAUSHIK BANERJEE – PRESIDENT & CHIEF EXECUTIVE OFFICE (ASSET BACKED FINANCE) – MAGMA FINCORP LIMITED
MR. MANISH JAISWAL – MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER – MAGMA HOUSING FINANCE
MR. RAJIVE KUMARASWAMI - MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER – MAGMA HDI GENERAL INSURANCE COMPANY LIMITED
MR. KAILASH BAHETI – GROUP CHIEF FINANCIAL OFFICER – MAGMA FINCORP LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Magma Fincorp Limited Q4 and FY2019 Earnings Conference Call hosted by ICICI Securities Limited. 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 telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Abhijit Tibrewal from ICICI Securities Limited. Thank you, and over to you, Sir!

Abhijit Tibrewal: Thanks Karuna. Good evening everyone, welcome to the Magma Fincorp Earnings Call. from the Magma management team, we have with us today 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, CFO, Magma Fincorp.

We will start the call with opening remarks from Mr. Sanjay Chamria post which we can open the floor for Q&A. I now pass the conference call to Mr. Chamria. Thank you and over to you!

Sanjay Chamria: Thank you, Abhijit. Good afternoon, ladies and gentlemen. I thank you all for joining this evening for the FY2019 earnings call of Magma Fincorp Limited. The year gone by has witnessed high volatility in the industry owing to liquidity squeeze and increase in cost of funds from the banking and debt markets.

The financial sector, the NBFC sector has been divided into broadly two segments. First tenured retail players having secured exposure to vehicles, equipments, affordable housing, secured loan to SMEs and second NBFCs and HFCs having exposure to commercial real estate, developer finance, infrastructure sector and Fintech players having low vintage.

So the first category of players have had relative easy access to the debt markets though at a higher cost of funds and the second category of players have had to reduce their disbursal significantly in second half of the year. It has also put NIMs under pressure for the entire industry and is likely to stay that way for FY2020 as well.

In the above backdrop Magma has been able to steer through this liquidity crises quite well primarily because our business model, both in the NBFCs and HFCs are focused on retail lending with a) average ticket size of Rs.4 to Rs.5 lakhs for ABF, 9 to 10 lakhs for mortgage and 18 to 20 lakhs for SME business.

Second we have had a pan India position through 310-branch network across 21 states. Third, we have a diversified product mix with no single product comprising more than 20% of the portfolio and fourth our robust track record of the securitization in the sense we having done over 230 individual pools for a total asset value of Rs.41500 Crores over past 12 years with diverse investors comprising public sector banks, private sector banks, foreign banks and mutual funds.

We were able to raise additional adequate resources for our disbursals to continue unhindered during the last seven months. We exited FY2019 with a liquidity of over 2000 Crores and enough to meet all our funding requirements for over two months without any additional funds raised and we have also tightened our internal ALM norms and will further improve during the year.

I would now like to share key highlights of our performance in FY2019. Considering the external environment, we feel a sense of satisfaction that the building blocks during three years led to significant improvement on all fronts as would be evident from the following.

We have achieved all round improvement in our financial parameters. First, our disbursal for the year stood at 8757 Crores a growth of 20% Y-o-Y. The AUM stood at 17029 Crores a 8% growth Y-o-Y. Some of our key focussed products recorded disbursal growth as follows. Used assets 28%, commercial vehicles 30%, mortgage 84%, and SME business 33%.

Our insurance company Magma HDI crossed Rs.1000 Crores gross return premium a growth of 83% Y-o-Y and we have now served 1 million customers during the year and we take pride in being one of the best in the industry in servicing claims.

Our collection efficiency has exceeded 100% second year consecutively during FY2019 and it has happened only second time in the history of the company. We have achieved significant improvement in our asset quality.

Our GNPA has reduced to 4.8% from 8.6% earlier, last year an improvement of 44% over FY2018 and our NNPA has reduced from 4.5% to 3.1%. Even as our NPAs have declined sharply over the year our credit cost also declined from 2% in FY2018 to 1.6% in FY2019.

Our portfolio earning warning indicators have fallen below the threshold parameters across products indicating robust quality of portfolio being currently underwritten. Further, we have been implementing credit rule engine for all product lines sequentially. The rule engine for vehicle finance was implemented last year. SME rule engine was launched last month in April 2019 and the mortgage rule engine is scheduled to go live in third quarter of this year.

The implementation of the credit rule engine has led to uniformity in decision-making across 310 strong branch networks, substantial improvement in turnaround time for disbursal of a loan and has also led to the improvement in the asset quality.

As a result of the above, we expect further improvement in the asset quality during FY2020 and further reduction in the credit cost from 1.6% in FY2019. Our profit after tax has grown 28% Y-o-Y from Rs.237 Crores to Rs.304 Crores.

A strong risk management that reflects the full understanding of the business and the related risk is core to NBFCs to be able to better proactively identify and manage risk and to further deepen our risk culture, we have strengthened our risk framework with setting up of an independent enterprises vertical during the year.

We have also implemented state of the art customer relationship management system for 360-degree customer view across businesses leading to improvement in cross sell and customer experience. We acknowledge 100% complaints within 24 hours and 94% of the complaints are resolved within 15 days.

In my past few interactions, I had mentioned about our focus on superior customer service leading to customer delight. We have made remarkable progress in our direct sourcing of business, the direct business of ABF, our vehicle finance division has increased to 41% and of affordable housing finance to 78%. This year we have embarked on taking direct business ahead in SME and insurance businesses as well. We have refined our approach on generating sales through the service calls and have created algorithms based on customer segmentation, which helps us to provide customized offers to our customers.

We have launched enterprise transformation project called Navodaya to modernize entire technology stack that will cover loan origination system, loan management system, data warehouse, ERP, mobility solutions. Once implemented this project will result in further improvement in TAT in new loan disbursals and empowerment to the field executives leading to increase in productivity.

Now I will speak about the performance of each of our businesses. ABF, our ABF business has been focused on improving quality and changing the mix in favor of used assets. We have successfully increased the share of used assets from 18% in March 2017 to 28% in March 2019, our ABF disbursals grew by 10% in FY2019 while disbursal growth in focussed products was significantly higher at 28% for used assets and 30% for CVs. While the ABF AUM grew at 5%, the AUM used assets and CV grew by 34%.

Our portfolio first approach along with branch grading has inculcated the cultural shift towards portfolio quality this is enabled superior portfolio origination and substantially lower GNPAs. We will further improve the contribution of used assets in the overall portfolio during FY2019 leading to improve margins.

Mortgage, our 100% affordable housing finance subsidiary MHFL has now been transformed to a National Scale Affordable Housing Finance Company with deep presence in 12 states through our 100 branches. In the ensuing year MHFL will leverage deeper were extending its presence through 140 branches including 40 micro markets and dig deeper in semi urban and rural markets of hinterland.

The business model of go home loan and go direct witnessed MHFL more than triple, its affordable home loan disbursals, the overall disbursals grew by 84% over the last year in the month of March 2019 MHFL recorded a high of 152 Crores disbursals. The benefits of direct business model are visible with deeper valet penetration and increased direct sale business. MHFL recorded an impressive 34% growth in AUM in this fiscal and is quite for greater momentum in the ensuing year.

MHFL deployed debt risk management through segregated collection unit, strong portfolio management and robust underwriting processes based on analytics. This has brought in sharper resolution and significantly help GNPA and there will be a cut down to 1.8% and 1.2% respectively.

Portfolio quality indicators of collection efficiency early warning indicators are reflective of high quality and longer tenure on book portfolio with improved realization through the loan lifecycle.

In FY2020, MHFL will further accelerate its digital transformation and innovation to improve customer as well as improve our experience. It will extensively leverage on which cross their potential of Magma ecosystem over a million customers to fuel cost efficient growth.

SME business, this business has been stable growth business within Magma with 20% CAGR for the last five years. In FY2019 SME clocked a Y-o-Y volume growth of 33% and in March disbursals crossed 200 Crores milestone. Our continued focus on semi urban business led to disbursement growth of over 40% in the upcountry volumes and we will continue to grow our upcountry book faster.

We have launched a scorecard based lending model and our credit rule engine named MScore in April 2019. This was jumped by running artificial intelligence on over 10 million data points and we hope to see significant reduction in our approval time for our customers as a result. We also launched our net sales preapproved loans to the existing customer in February 2019. We built this business in FY2020. Now with the channel sales vertical and to direct sales vertical in place we have two growth engines for SME business.

Now finally turning to our general insurance business, it continues to register robust growth rates vis-à-vis the industry growth rates and we have registered a growth of 83% in FY2019 and 84% in Q4 on a Y-o-Y basis. The growth is driven by a strong momentum both in the retail and the commercial business verticals. The company continues to focus on building the retail franchise. The company continues to enjoy one of the lowest own damage loss ratios on the motor business in the industry. Further Magma HDI continues to add OEM partners to further enhance its distribution footprint for its motor business. During the year the company had entered into an arrangement with two more OEMs taking the total relationships to three. The business with the two new partners will commence in right earnest only in fiscal FY2020.

Health continues to be an area of focus with an objective of building a profitable portfolio comprising benefit and indemnity products both on the retail and the group platform. Service infrastructure for both the retail and the group business has been put in place. The contribution of health in total GWP has improved to 9% in FY2019 against 4% in FY2018.

Financial performance. I shall now move to key highlights of our financial performance in FY2019, these figures are under Ind-AS, the previous year figures have also in line with Ind-AS to make them comparable.

Our NIMs continue to be healthy at 8.5% in FY2019 in spite of steep increase in cost of funds, due to prevailing liquidity conditions during the quarter. There was minor drop in our margins in Q4 largely due to our emphasis on carrying substantial liquidity, which have negative carrying and some impact on the margins.

Our operating expenses increased to 4.2% compared to 3.8% in the last year. In line with our guidance our credit cost has declined to 1.6% in FY2019, in Q4 our NCL has been 1% this been seasonally very strong quarter. As a result our PAT grew by 28% Y-o-Y in FY2019.

Overall considering the current NBFC involvement I believe Magma has a strong performance in all parameters. I would once again I have to reaffirm our commitment towards sustainable long-term earnings and growth.

Now Kaushik, Manish, Rajive, Kailash and myself will be happy to take your questions. Thank you.

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

Kunal Shah: Congratulations Sir for good set of numbers. Firstly, in terms of the overall slowdown which, overall in terms of the underlying sales growth for the entire vehicle finance industry and particularly the slowdown which is anticipated on the commercial vehicle and tractor any which ways we have been bringing it down in terms of the AUM, but how do we see it impacting our growth definitely we have been in a consolidation phase but should we see the moderation over next 12 odd months given this kind of a scenario?

Kaushik Banerjee: Obviously compared to H1 of the last financial year, now H2 itself had a significant challenge in terms of slowdown, but we have actually witnessed fairly decent growth in H2 ourselves which is result in the aggregate growth over 30%. Out of this 30% growth in CVs we had a growth about 85% in light and small commercial vehicles. So our focus product in the CV space continues to remain light commercial vehicles and small commercial vehicles and while there has been a fairly significant slowdown n the heavy commercial vehicle segment the impact on LCVs and small commercial vehicles we would assume be lower that is one. The second point is that while we have a certain amount of uncertainty in terms of the election issues etc., for the first quarter with the movement of BS-VI next year we would be assume we have an uptick in demand going forward. So once you have clarity in terms of the government and you have had a good monsoons as predicted by the Met Department, your Q3 although it should be a fairly good quarter and as we have a very small percentage in terms of market share in the CV space we continue to see fairly robust growth in our own portfolio and as Mr. Chamria pointed out we have also been fairly significantly focused on used and we continue to see good traction happening on used as well. So yes while there are headwinds in FY2020 we actually will track according to our plan for the current financial year.

Kunal Shah: So in terms of the growth guidance over next 18 to 24 months both with respect to disbursements as well as the AUM growth in the current scenario.

Sanjay Chamria: Beg your pardon. Can you repeat your question?

Kunal Shah: No in terms of the guidance with respect to the growth both on the disbursements as well as the AUM this year we did almost 20% disbursement growth and maybe almost 8% AUM growth. So how are we looking it over next 18 to 24 months.

Sanjay Chamria: My answer will be in two parts, one is at an overall level we are looking at yet another year of 20% growth in the disbursals, which is on a business assets scenario. So the only caution that I will put out here is, if there is some abnormal developments in the financial markets leading to a further tightening of liquidity then it may have some impact, but otherwise on the demand side given our presence in more than 300 branches we have reviewed and done our homework and we are pretty confident that we will register a 20% growth in the disbursals. Second is as we shared last year that till September the negative carry of a lower disbursals in the previous year could have waived off and we will start growing. So after three years we have responded with the AUM growth and this is about 8%. So therefore the AUM growth now will be higher with a 20% growth in the disbursal compared to the previous year and therefore I would expect that the disbursal, AUM growth will also be more than 10% it could be 12% to 13% with a 20% growth in the disbursal. And right now I am not taking position on what will happen in FY2021 because given the volatility in the market we would rather like to take one year at a time.

Kunal Shah: Thank you. And lastly was there any change in terms of the NPL number what we reported in Q3 and what has been reported in this particular quarter. So any change maybe there is some reclassification which has happened on the Stage III side and maybe overall NCL now given that early warning indicators it is like amongst the best over last three, four years. So what would be the overall view on the credit cost, sustainable credit cost?

Kailash Baheti: There is a change, which we have done and in under Ind-AS we had mentioned initially that as clarification comes on representation of interest income on NPAs there maybe some change. This part of the evolution I would say of Ind-AS. So what we have done is that interest income on Stage III assets, which was earlier, recognized that income is right now being recognized only on that part of asset, which is net of ECL. So for example if you have Rs.100 NPA and say Rs.35 is your PCR then income on 35% earlier we had recognized and we have provided now it is netted off from interest income. So that is one change, which has happened leading to some reclassification of the numbers. Also I would like to say that the Q3 numbers unfortunately are as they are reflecting right now are incorrect. The correct numbers would be 6.1% GNPA and 4% NNPA and 35.2% PCR this has happened due to a minor error this is being we would just reload the corrected version. So sorry for the inconvenience, my apologies.

Sanjay Chamria: Okay that was more a mathematical explanation from Kailash but what I would like to say is there has been very significant improvement in the overall asset quality and we divide the entire portfolio into two parts. One is the standard portfolio which is Stage I and II and the other is the nonstandard the NPA portfolio which we call as Stage III. So if you look at slide #16, then you will observe that our gross NPAs have significantly reduced from 8.6% to 4.8% and so in absolute amounts from 1263 Crores to 747 Crores while the AUM has grown by to about 17000 Crores. So this means that one the rate of accretion to the NPA has been slower than the rate of resolution resulting in the compression of the absolute amount. Second we have also done the write-off of fully provisioned account and therefore the base is also reduced and as a result the coverage ratio is now 36.8%. The second is in respect of the standard portfolio, which is Stage I and II, we have given business wise slides for ABF, SME and housing and you will see in the subsequent sections in the presentation that we have reached almost three year or four year best in terms of early warning indicators for the zero plus portfolio on three months or six months origination as well as the 60 plus portfolio from six months to 24 months which is actually an indicator of what is the kind of a credit loss that we are expected to witness infusion and therefore our confidence is that in FY2020 itself we will go below 1.5% in the NPL and progressively going forward it will be lower. So on the whole so far as the asset quality is concerned that is really holding up well and primarily the reason is that we are completely a retail company and we have objectified the entire underwriting process and significantly strengthen the collections mechanism. Hope that answers the question?

Kunal Shah: Yes, and just a GNPL number for FY2019 6.1 as you highlighted for Q3?

Sanjay Chamria: No it is 4.8 that is what is there in slide #16.

Kunal Shah: Yes that is Stage III but what readjustment.

Sanjay Chamria: No, Q4 is all correct.

Kunal Shah: Okay, so 4.8 is perfect.

Sanjay Chamria: Yes, Q4 is…

Kailash Baheti: Definitely final number which is 4.8% GNPA and 3.1% NNPA this is final number and there is no change.

Kunal Shah: Thank you.

Moderator: Thank you. The next question is from the line of Aaron Armstrong from Aviva. Please go ahead.

Aaron Armstrong: Thanks for taking my question and congratulations on the strong FY2019 performance. My first question is around the change in the mix in the source of funds. So here we can see a decrease in working capital and increase in the cost to the certificates. Can you talk about the motivation behind that change in mix this and what we should expect going forward?

Sanjay Chamria: Thanks for the complements and the change in the mix that you see in slide #18 of the investors presentation should be taken as normal, because last seven months have been quite abnormal in the liquidity and the liability side and the whole objective that the treasury team and the company management has pursued in the last seven months is to ensure that business is provided enough liquidity so that there is no slowdown even for one day and I am very happy to share that right from September 20, 2018 right after today there has not been one single work in day where we would have to ask businesses to slowdown the disbursals and that is the reason why even in Q4 we grew by about 20% in terms of disbursals. So therefore I do not read much into the product mix or the source mix change that has happened and we have shared even in the earlier calls our treasury management stable longer-term policy would continue to be in favor of banks as a source of funding and this is what actually stood by us in the last seven months of liquidity tightness and you can see that there is a footnote we have given here the second bullet which says that 66% borrowing we had from the banking system which earlier was a little higher but it is 66% and debt market is 34% and I do not see that changing in the near future and it will remain so on. There will be a change going forward that working capital will get reduced and term loans will increase and this is more in reference to the RBI guidelines which says that effective April 1, 40% of your working capital is to be converted into loans and effective July 1, it will come to 60% and in a way it will help us to bridge whatever gap that is there in our one year time bucket in terms of ALM mismatches. Does that answer your question?

Aaron Armstrong: It does. Thank you. One follow-up question please, in regards to our disbursement mix. Obviously, the company has made some progress in terms of running more to commercial vehicles used assets and then on the housing side doing more home loan and less LAP can you talk about the kind of progress you made this year and then put that in the context of how you can achieve in future years as this story come to an end now there is lots more rooms to run in terms of this change in mix?

Sanjay Chamria So this is all part of our multiyear strategy to have the product mix which is there around funding the self-employed and informal customer segment be it in the housing or SME or in the ABF which is the vehicle finance business and within that product category as we progress forward we have already reached the NIMs which are in the range of 8.5% to 9% and I had mentioned in the previous two, three earnings call as well that we are in a zone of 8.5% which we are very happy and we do not want to disturb this. Now what happens is as a cost of funds are in a very volatile environment and wearing so there that would call for the product mix change and typically you will see the high yielding products are three in this which is the used assets, tractors and the SME whereas the CVs and home loans and the LAP they are the low yielding ones, but then they give us a good asset quality, better asset quality and more stability in the cash flows. So we will keep hearing around all of this, but we continue to remain underweight on tractors, which is despite the high yielding, but then has lot of volatility given the fluctuations in the monsoon forecast and also in terms of passenger cars we have been maintaining lesser weight going forward. So in concrete terms in FY2020 and 2021 and 2022 you will see that our weightage on the used assets will grow, on mortgage it will grow and on the CVs within that light and the small commercial vehicles, which is the new asset class will grow whereas the others will remain dormant or it may go down somewhat.

Aaron Armstrong: That is right. Thank you very much.

Moderator: Thank you. The next question is from the line of Antariksha Banerjee from ICICI Prudential AMC. Please go ahead.

Antariksha Banerjee: Good afternoon people. Congrats on posting a good number in the current scenario. My first question on the ABF business so you mentioned in your opening earmarks that used is now 28% of the book right did I hear that correctly.

Sanjay Chamria: 28% disbursal growth we mentioned.

Antariksha Banerjee: What percent is used of the book Sir?

Kailash Baheti: 25% is the aggregate book.

Kaushik Banerjee: So this is disbursal you will go to slide #15 and you will see that it is about 19% of the total book.

Antariksha Banerjee: So Kaushik where are you comfortable taking this up to?

Kaushik Banerjee: So this is something we would have maintained earlier but when Sanjay talked about the funds that no single product should actually have more than a 20% share of business to ensure that your asst book is largely fairly diversified, we do not have a concentration if you would recognized the fact that in used we are talking about eight products, it is not a single product right, so if you look at each asset category, if you look at each product by itself which would actually go up to within the ABF portfolio that will be go up about 40% of your overall portfolio without a concentration risk in any single asset category.

Antariksha Banerjee: So 40% is where you are comfortably taking our provision?

Kaushik Banerjee: Yes, because what happens is that we have got about 40% coming from used and we have got another 10% to 12% coming from tractors so we will have close to about 50% of our aggregate portfolio generating yields in excess of 17.5% to 18%. So see if you actually look at finer pricing and you are new to ensure we do not have adverse to mention without impacting or aggregate blended yield on the book.

Antariksha Banerjee: Sure. And this time actually after a number of quarters I see disbursal growth in tractors and that is quite significant. So are you seeing because and you see the average?

Kaushik Banerjee: In tractors, no, we have not a growth in tractors.

Antariksha Banerjee: Disbursal I am saying?

Kaushik Banerjee: No, there is degrowth.

Antariksha Banerjee: Okay, not even on a Q-o-Q basis okay then my numbers may be wrong, but on the underlying do you see opportunities to grow in tractors because that is also highly?

Kaushik Banerjee: Yes so the good news now is that we have been kind of correcting our portfolio quality in tractors and I think FY2019 is year where tractor is now one of the profit leaders in our book, and therefore it takes led to call the internal exposures in tractor and ensure that we start growing the book again under control circumstances.

Antariksha Banerjee: The other is on credit cost you mentioned that you have enough room to go down from 1.6 as well, so what are you budgeting in and what does that lead to you in terms of your RVs because you are saying NIMs are probably we will see some compression, where do you see opex and how much do you see headroom do you see in credit cost and what is that yield be or ROE in terms of budget?

Sanjay Chamria: So in terms of the credit cost we have maintained even in the earlier calls that we would see this we are in between 1.25% and 1.5% and given the product mix and the customer segment that we deal with that would be our narrow range in which we would be happy to operate and in FY2020 we are very confident that we will go below 1.5 now whether we will go to 1.3 or 1.4 I think is the matter of we will have to see as to how we are able to perform this is the one. What was your second part of the question?

Antariksha Banerjee: What is that mean for your RV target where do you see opex, NIMs I know you are seeing so I mean expecting some pressure and how much on opex how much do you see our ROAs.

Sanjay Chamria: Yes, I got your question now. So if I look at that entire performance and this is what we have been discussing internally in our management team and with the board that we have now a turned around within three years of transformation that we have done which is in terms of the asset quality in all the businesses we are in the good zone in terms of the product mix we have achieved, in terms of the gross sales and the NIMs we have achieved our target and our ROA accordingly has now gone up to 1.9% so now our target actually is to crack the code on opex because opex we are still out of line with our peers in the industry and therefore the next ROA improvement and the ROA CAGR will come from toiling our assets and the manpower much better than what we have done so far and that is what will lead to the improvement in the opex and there I see clearly that we have almost about 70 to 80 basis points scope for improvement so it will not come in a year so this is that we will entire management team we will train our guns on how to improve the productivity and how to sweat the assets much better so that we are able to achieve this in this year and next year.

Antariksha Banerjee: Are you slowing down branch additions in the following two years?

Sanjay Chamria: Beg your pardon?

Antariksha Banerjee: Number of branches added in the next two years?

Sanjay Chamria: We are not shutting down any of the branches but we mentioned earlier that we with the lot of technology interventions we are rather not looking at exponentially growing our branches so we today have more than 300 branches across 21 states and we feel that we are reasonably well present but for enabling customer service so that they can come to our office to deposit installments etc., and for any grievances or request or complaints. So therefore we may open about 10, 20 branches every year that is about it.

Antariksha Banerjee: 10, 20 a year, okay. Lastly in the ED&ID slide I see there is something called a benchmark now what is that?

Sanjay Chamria: This was an exercise that we undertook about three years ago along with the credit bureau that if this is my loss range tolerance for the product and let us take for example passenger vehicles. Now this was established that okay in order to achieve say 1.5% loss per year what should be my ED&ID which in case of asset backed finance we converted to EWI and CPMI and therefore the EWI means zero plus on three MOV and CPMI means 60 plus on four pitch stops which is six months, nine months, twelve months and eighteen months and therefore we did a back calculation that if this is next is our tolerance of credit loss then what should be our portfolio, which is newly originated at the end of three months, six months, twelve months, nine months and eighteen months. And what has happened is if you look at slide #29 that in respect of ABF we are about 55% lower than the benchmark so our benchmark based on the product mix is about 8% whereas we are at 4.2%. Similarly in case of CPMI, which is 60, plus at four pitch stops our benchmark first time we have come below the benchmark, which is 4.2% or 4.3%, we are at 4.1%. So this shows that and that is where our confidence comes that going forward our credit losses will be within the benchmark of 1.25% to 1.5%

similarly if you go to another side on ED&ID which we were talking that more hit of mortgage that is to add about 36 where you will see that we are at 0.73% and 0.39% and which are also below the benchmark that we set in the mortgage business. So ED&ID as this define that ID is the incent delinquency which is zero plus sourced on the last six months basis so what percentage of my portfolio sourced in the last six months with one month lag is more than zero which is noncurrent similarly ED is the early delinquency which means 30 plus in last 12 months what we have sourced on two months lag and therefore in both of these again we are at multiyear low and we are within the benchmark.

Antariksha Banerjee: Sure, that helps and just one small thing I can take it from Jignesh also later if you could give the segment wise absolute npa numbers that would be helpful.

Kaushik Banerjee: Fine you can connect with Jignesh later on. Thank you.

Antariksha Banerjee: Thanks.

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 Sir for the opportunity. Sir as you mentioned earlier like in terms of opex improvement you are expecting about 70 to 80 basis points improvement in opex to AUM over next two years that is what is my correct understanding?

Sanjay Chamria: I said that there is a scope of 70 to 80 basis points if we compare ourselves with the peers that are where we have to crack the code and we would work within this year and next year to bridge this as much as we can.

Deepak Poddar: Basically currently we are at about 4.2% round about. So around 3.5% is what we may be targeting over next two years.

Sanjay Chamria: Of course and if you look at our pears they are all below 3.5%.

Deepak Poddar: So if I understand that so if I combine that with our credit cost improvement that you are saying so we are talking about ROA improvement of at least 50 to 60 basis point over next one to two years given both Opex improvement as well as the credit cost improvement considering your NIMs remain stable?

Sanjay Chamria: There you are depending up on the fact that our NIMs remain the same and which is what again the endeavor to do so by wearing the product mix and by maintaining the cost of fund and the gross sales then of course with these two improvement we should be looking at 50 to 60 basis point improvement in the ROA.

Deepak Poddar: So 2.5% basically in two years that we maybe target.

Sanjay Chamria: Well these are the math so 1.9% we are already there.

Deepak Poddar: Yes absolutely sure understood sure. That is it from my side.

Moderator: Thank you. The next question is from the line of Praful Kumar from Pinpoint Asset Management. Please go ahead.

Praful Kumar: Good evening Sir. Congratulations to your entire team for delivering a brilliant performance in a very tough macro. Kaushik, just want to understand one thing so FY2020 what is the disbursement growth we are looking at the vehicle business?

Kaushik Banerjee: I have given the guidance overall that we will grow 20% and as you know the month of April, the vehicle sales had been multiyear low. Luckily for us more than 45% weightage in the vehicle finance comes from the used assets so therefore that cushions us. So our point of view is that we want to grow at 20% in vehicles if we do not grow at 20% we grow at 15% we will try and make it up from SME and mortgage, but we want to grow at 20% this year.

Praful Kumar: Given the fact that liquidity is tight. So repayment rate should be trending down so my question is how much is converts to the loan growth?

Kaushik Banerjee: How much what?

Praful Kumar: AUM business.

Kaushik Banerjee: Which is what also I had shared that now that we are off from the lower disbursal stage of the last three years so with a 20% growth in the disbursal the AUM growth should be in double digit which could be 12% to 13%.

Praful Kumar: Margin you said 8.5% is something that we should be deliver in next year as well?

Kaushik Banerjee: I am not able to hear you clearly?

Praful Kumar: I said margins 8.5% is something that we will deliver in FY2020 as well?

Kaushik Banerjee: No, there I will remain cautious because in Q4 the net margins have dropped and so we again wait to see as to how the cost of funds will play out during the current year, because as you would at the market is not yet stabilized and depending upon so if you go to slide #13 it is 8.1% while for the year it is 8.5% for the quarter it is 8.1% so our endeavor will be to sort of see how we can maintain and improve up on it, but certainly we will not compromise the asset quality.

Praful Kumar: But have you taken any price increase in the product, in the yields of advancing have we increase yields for the products would mitigate risk for next year?

Kaushik Banerjee: That is the function of market scenario so in mortgage we have done, SME we have done partly and in ABF we have not done much because the ABF the market scenario has been somewhat different so there we are altering the product mix to be able to achieve the desired blended yields.

Kailash Baheti: Now we have increased the overall yield and it reach to by about 30 basis points for H1.

Praful Kumar: Okay got it. Thanks Kaushik. Thank you and all the best to all of you thank you.

Moderator: Thank you. The next question is from the line of Pratik Chheda from IIFL. Please go ahead.

Pratik Chheda: Thanks for taking my question. I have two questions actually, first is on the SME financing disbursements if you look at the disbursement it has been the highest disbursements on a quarterly basis but if you look at the AUM it has seen a sequential decline so just wanted to understand what has happened here actually and if you could throw some light on this?

Sanjay Chamria: Just to come back on disbursal yes we have had a phenomenal growth run on disbursals and we see the continued momentum in SME. If you really look at the quarter-on-quarter number I think we have done 540 Crores in Q4 versus Q3 for 2019 and for the year also had grown disbursal by 33% and on the AUM the growth actually has been limited because of a certain portfolio sale we have sold a about maybe, so it is being a shorter term product about 27, 28, nine months product, so on the back of higher disbursal in the past year there could have been a run tapering off but we do expect that by the kind of growth we are seeing the AUM actually is poised because if you really look at the last three quarter numbers going from 1991 to 2156 and then to 2238 it could be an aberration that March because of a higher March numbers and over last two years there could have been a one off tapering that could be an abnormal phenomenon but we do expect that the growth on the SME specifically given 30%, 35% growth in disbursal should be giving us a 20% AUM growth on underlying basis.

Kailash Baheti: Just one correction that there is no degrowth in SME AUM it has been growing the growth has been Rs.40 Crores in this quarter we have grown from 20 to 38 to 26 to 78.

Pratik Chheda: My second question is on the if you look at slide #14 SME financing the ED as you mentioned while the overall book overall GNPAs have come down in the SME financing the ED ratio has gone up sequential quarters has increased from 1.3 to around 1.6 so if you could just explain throw some light on what could be a sustainable number here?

Manish Jaiswal: So I would say that it is range bound between 1.4% and 1.6% yes in a particular June quarter it did go down to 1.32% but by and large if you really look at a long-term band it is somewhere between 1.4% and 1.6% and over we have been running this business for almost a decade now and we have seen almost consistent EDID ratio the post tax survey of more than 2.5% if you take long period average so this business actually for us has been pretty consistent and we say it is pretty range bound and despite the current market turbulence our collections are holding up even in the month of March we recorded more than 99.3% bucket zero collection efficiency. Overall I would say that this particular book and portfolio is tacking up pretty well and I see the asset quality as very stable and consistent.

Pratik Chheda: Okay but is there any specific reason that it has gone up in…

Manish Jaiswal: It is a fluctuation of 10 to 15 basis points really if you ignore the June dip it has stayed between 1.5% and 1.6% so I do not see a 10 basis points for any cause for anxiety or worry.

Pratik Chheda: Okay thanks. Thank you. Thanks a lot.

Moderator: Thank you. The next question is from the line of Rahul Maheshwari from TCG AMC. Please go ahead.

Rahul Maheshwari: Good evening thank you Sir. Just one couple of questions. First can you highlight what is the legacy portfolio as earlier it used to be 15% to 17% and as you told that going forward the disbursement growth would be 20% and that would be reflected in AUM growth so currently what is the legacy portfolio standing and the timeline that by what timeline that legacy portfolio would be completely gone and the new book would be reflected going forward?

Kailash Baheti: The legacy portfolio is now almost gone it maybe just about 2%, 3% that is about all it is all good portfolios.

Rahul Maheshwari: But now in terms of percentage of loan book how much it standing right now?

Kailash Baheti: That is what I said 2%, 3% so it is our loan book is 17000 Crores the legacy portfolio wherever we have say four year loan etc., very small component will be remaining 2%, 3% will be below 500 Crores.

Rahul Maheshwari: In terms of as you said if the NIMs have in quarter four has been tapped off by as compared to the entire year so if what in terms of pricing power has come of across the segment as you told there is a 30 BPS increase between the second half but going forward where you find the pricing power and how much lag if it takes place in to why it passing on to the consumers?

Kailash Baheti: Our cost of funds has gone up by roughly about 70 to 80 basis points because of this liquidity crisis, which has happened. In our three business segments the first in the mortgages we have been able to pass on the entire increase both on the book as well as for other new underwriting. On our SME book and ABF book we cannot pass on. It is fixed rate book and therefore as the book runs of that gap will remain. For the new underwriting ABF and SME we have been able to pass on about 25 to 30 basis points rest has been achieved.

Rahul Maheshwari: And the asset back finance that gets resetted after every one year?

Kailash Baheti: No that is a fixed rate book, so for the, that is only the money increase risk going forward on the perspective book. So we cannot reset your rates in the existing book.

Rahul Maheshwari: And the SMEs on so fixed rated?

Kailash Baheti: Same it is a fixed rate book so that was the perspective pricing it probably retrospective prices.

Rahul Maheshwari: And what is the average yield range for SME and just range I am not talking of specifics?

Sanjay Chamria: SME they have moved up from 18.87% to around 19.2% and so we have increased by almost around 20 basis points.

Rahul Maheshwari: And for asset back finance?

Kailash Baheti: We have 30 BPS.

Rahul Maheshwari: No the range of the yields?

Kailash Baheti: About is 17 to 16.

Rahul Maheshwari: The third question in terms of your entire mortgage segment there is a larger component towards the LAP which is standing as a percentage of the AUM contribution and as we heard many of the peers of the banks are finding bit of pricing discriminatory in terms of LAP and the slowing down what is your sense and the overall outlook on LAP?

Manish Jaiswal: So our LAP book on AUM basis as well as the stock inflow as well as in disbursal has very significantly altered. In fact the LAP book on AUM actually have gone down from 72% to

61% and I would also urge you to look at the numbers of disbursals. On disbursal if you really look at there are various metrics there. You will see the home loan disbursal has grown from 65 Crores in last quarter and 252 Crores, which is almost a 285% increase so the new organization, which is the new model of transformation, which in general we are looking at a 65% to 70% growth of home loan book at a back of a high growth rate, the LAP book is also running of at a higher rate while the home loan book is going to stick for a longer rate and the disbursal mix is also rapidly altering so we will see a very rapid decline of the LAP overall concentration on the mortgage book. The home loans would kind of really grow at a much fastest pace. So that trajectory and we will look at growing mortgage business. It grew by 84% in disbursal this particular year. Our plan is to maintain similar growth rate in the next year and maintain similar share for the next year so given a drop of this high growth rate and also the accelerated growth rate of the housing book this mix will actually go significantly in favor of housing versus loan by the end of next year.

Rahul Maheshwari: Also in terms of your few of the segments like SME segment, housing loan segment and the used assets finance segment, which are the core focus segment. How much percentage of the in terms of the disbursement how much is towards is the new customer and how much is towards the leveraged customer which have already taken the new loan so just to get a sense that how much is the new increment rather than the market share gain from the other.

Manish Jaiswal: So, I can tell you if you look at the chart of number of units financed on the housing, on chart #31, if you really see after the retail organization development started from June 2018 onwards and it is almost the new customer acquisition a number unit disbursement has gone up three times, now it actually goes on to say that more than 90% disbursal on housing has come in from new customers, the number could be even higher than 90% because I do not think that we do more than 10 Crores of top ups with the same customer that number is far and few. And on SME we are acquiring new customers. We do far in few top ups maybe not more than 20% to 30% on the book. Kaushik you may like to address the question on the assets on it under the sourcing book.

Kaushik Banerjee: In terms of the used business that we have done around 30% of this business has come from existing ABF customers. We have a cutoff, where customers is completely sweating on to seasoning without any default are offered refinanced loans and that constitutes about 30% of our overall used disbursements and the portfolio quality of this particular segment has been excellent and there is a sourcing cost.

Rahul Maheshwari: But in terms of the top ups which you do in the 30% of the existing disbursement as towards the existing customer or in some of the SMEs the top ups, which you do on what parameter, means how much time lag you take?

Kaushik Banerjee: So we can have a longer discussion but I think we have a fairly, so can we take this offline and we have to do discuss this and because we have a limited amount of time.

Rahul Maheshwari: Last question if I squeeze on tractor as you said that it is a profitable segment which is becoming but few quarters, two quarters back you said that the due to the volatility in the tractor segment you would restrict yourself at 12% to 16% as a range plus there is a El Nino segment of below normal monsoon segment so is the 12% to 13% which is the loan book that has well rated can you give outlook means it should not happen that one segment we can drag the entire?

Kaushik Banerjee: I completely appreciate to your comments. Today tractors constitute about 10% of our book in the ABF segment right. Now we have been correcting our book over the last two and a half years. So now we have an idea. Sorry.

Rahul Maheshwari: This mix would be maintained 10% going forward or there is a scope of that.

Kaushik Banerjee: This is a question I was asked earlier so my response to that is today the two and a half years of our exposure in terms of the revised we were looking at tractor funding in terms of grading etc., we can actually look at controlled traction. I was about control specifically here where you can actually at the higher volume but ensuring that the quality of portfolio remains under control, intact.

Rahul Maheshwari: Thanks a lot Sir.

Moderator: Thank you. Wet take the last question from the line of Abhishek Murarka from IIFL. Please go ahead.

Abhishek Murarka: Good evening. Sir three, four, just very quick questions, I would not take too much time. One is on this entire conversation on your credit rating upgrade now this is not the best environment I know so has that conversation been pushed back or are you still talking to rating agencies and what are they telling you in terms of the rating outlook?

Kaushik Banerjee: In fact this is not the way we discussed with the rating agencies. We do not ask them that you upgrade and they will upgrade for us. Of course we go and present our credentials and the credentials are also before you. We feel that we have made significant progress in terms of all our numbers, our ratios, our strength, our credit quality etc., and from here on it is further a credit rating agencies to decide whether we give us an upgrade or not. We definitely feel that we have done very well.

Abhishek Murarka: I think the numbers are pretty strong and they make a case for themselves. So Sir the second question is on this ABF disbursement run rate and Kaushik I remember last year when we spoke when the credit engine was launched there was a higher rejection rate?

Kaushik Banerjee: Yes Q3.

Abhishek Murarka: Q3 yes, so I just want to know if those rejection rates have now stabilized it has been three quarters I think since then?

Kaushik Banerjee: No, we launched it in October so it is slightly be in two quarters. So as I told you our run rate in terms of need to disbursement at about 48%, 49% in H1, which corrected to about 36% in October and right now it is up to about 42%, 43%.

Abhishek Murarka: So is that like a stable run rate in your view?

Kaushik Banerjee: I think I have to improve a bit. We will have to keep improving because as a quality of sourcing based on the credit engine output improves the conversion percentage would have certainly improve.

Abhishek Murarka: Thanks. Next one is to Manish so you have just launched your credit engine I think April 2019. So just like what ABF witnessed when that credit engine was launched are you now expecting higher rejection rates and therefore slightly slower portfolio growth in the next let us say couple of quarters until this stabilizes?

Manish Jaiswal: Fairly not couple of quarters. Yes we had I would say despite the experience has been different but I would say we had certainly a high rejection rate but nothing alarming or something, which is absolutely disruptive. I would say that our approval rates have fallen by around 10% and actually we had fantastic data points and we believe our model which was run on almost 30000 to 40000 customer database on a very large data set has had been come with a stable model the experience is that our team will have to align to source essentially one more login per our feet on street and if we achieve that number I think we should be good to go in terms of meeting our numbers so I am approaching it if at all it happens it will be a new normal and you should factor in 10% to 15% rejection rate take that in your stride and move on and push the sales teams and channels with a little marginally higher login so I think we are I am quite sanguine and confident because the new model actually goes onto suggest that the lower quartile of customers who used to sort earlier they would make ten time we losses in the upper quartile. So certainly this is a very good strategy. It will play out well in the long run and they will favour this but we hope to take in our stride sooner than later and in fact the first month itself has positively surprise me and I think the teams are acting pretty fast.

Kaushik Banerjee: Let us on add on, on the ABF side we have grown about 16% Q-on-Q Q4, Q3 so that coming as an indicative in terms of in spite of the credit asset being launched in Q3 we had a 16% Q-on-Q growth.

Abhishek Murarka: Thanks everyone and best of luck for the future quarters. Thanks.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I now hand the conference over to Mr. Tibrewal for his closing comments. Over to you, Sir!

Abhijit Tibrewal: Thanks Karuna. On behalf of ICICI Securities I thank the management for giving this opportunity to host the conference call. I also thank the other analysts and investors for joining us on this call today. Thank you all we can close the call now.

Kailash Baheti: Thanks, Abhijit. Thanks a lot.

Moderator: Thank you very much sir. Ladies and gentlemen, on behalf of ICICI Securities Limited, that concludes this conference call. Thank you for joining us. You may now disconnect your lines.