"Magma Fincorp Limited Q2FY11 Conference Call"

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Moderators: **Mr. Sanjay Chamria – Vice Chairman & Managing Director**
Mr. Jyothi Varma – Analyst, Centrum Broking Private Limited.

Moderator: Ladies and gentlemen good morning and welcome to the Q2FY11 results conference call of Magma Fincorp Limited hosted by Centrum Broking Private Limited. As a reminder for the duration of this conference, all participant lines are in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during this conference call, please signal an operator by pressing * and then 0 on your touchtone phone. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr. Jyothi Varma of Centrum Broking, thank you and over to you sir.

Jyothi Varma: Good morning everybody, a very warm welcome to all the participants of Q2FY11 con-call of Magma. We are very happy to host Magma Fincorp. We have with us Mr. Sanjay Chamria, the Vice Chairman and Managing Director along with his team to share the details of the results. I now hand over to Mr. Chamria. Please go ahead sir.

Sanjay Chamria: Good morning and warm welcome to all of you on this call for Magma. It is our pleasure to have the opportunity to talk to all of you on a quarterly basis and I am very happy to share with you the results of the company for the second quarter ended September 30, 2010. As you all know the market conditions continue to remain buoyant in the second quarter as was evident in the huge growth in the primary sales of cars, commercial vehicles, tractors, and the equipments. Similarly, the liquidity conditions have also been largely comfortable, although we have seen some upward movement and bias in the interest rates largely owing to the increase in the repo and reverse repo rate announced by Reserve Bank.

Looking at the industry growth on a YoY basis, passenger car and utility vehicles grew by 33% in Q2 over the same period of last year and commercial vehicles by 32%. Tractor numbers we have till August, so July and August, the sales have grown by about 17% over the same period of 2 months last year. Construction equipment sales have also now started recording increase; however, it is not in the same league as the vehicle sales, but we hope that from October with the rainy season behind, release of orders from the National Highway Authority, you should see a good pickup and a strong demand for construction equipments as well. Magma has taken advantage of the growing market demand for loans and has disbursed fresh loans of Rs. 1139 crores which is a growth of 28% over the second quarter of last year which was Rs. 892 crores. With this, our total disbursal in the first 6 months stands at Rs. 2186 crore, a growth of 34% over the first half of last year.

Product wise in commercial vehicles, we did the best with growth of 56% at 453 crores. In passenger car and utility vehicles, we were up by about 20% over the second quarter. In case of Construction Equipments, the numbers have been moderate in terms of growth. These three products put together which are core products constitute 82% of our total disbursal. The higher yielding products as you know which we have been trying to improve the contribution, which are used commercial vehicles, tractors, and SME loans. The share has improved to 18% during the second quarter compared to 12% in the second quarter of last year. The overall NIM that we have achieved in the first half is 5.4% which compares with 5.1% for the previous fiscal FY10. This has largely been possible due to one, the change in the product mix and secondly containment in the cost of funds owing to the superior asset quality. During the second quarter, we have also expanded our distribution network by adding 13 branches taking the total network to about 170 branches as on September 30, 2010. The hallmark of our performance continues to be on the collections and asset quality front and during the previous 6 quarters ending September 2010, we have consistently improved upon already the very high collection efficiency and during the second quarter, the efficiency has improved to 100.8% for the first half of the year, up from 98.1% over the first half of last year and 99.8% for the entire fiscal year 2010. This in a way reflects the superiority of our asset quality and now we have started seeing the impact of this in the much lower write off, not only in percentage terms but also in absolute terms and is therefore expected to continue in future and contribute to the profitability.

Now I turn to the pure financials. The increased business and the larger share of the higher yielding products in our books combined with the lower write off and the moderate increase in expenses, all this has resulted in substantial increase in our profitability and we have achieved a net profit of Rs. 26 crores during the quarter which reflects an increase of 67% over the second quarter last year and for the entire first half, our profits are at Rs. 45 crores which also has an increase of 65% over the first half of last year. The return on assets during the second quarter improved to 2.2% which is substantially higher than the return on assets for the whole of the last year which was 1.8% as well as the quarter one of this year which was 1.6%. Similarly the ROE during the second quarter has improved to 19.2% which compares with 19.4% for the whole of last year. Our capital adequacy has further improved from 18.8% at the end of quarter one to 19% odd at the end of quarter two. We are quite bullish on the demand front and with the economic growth now expected to be around 8.5 to 9%. We are confident that the disbursal growth will be better in the next 6 months and as has been historically as well, so therefore we continue to expect sale of car and commercial vehicles to maintain high double digit growth and construction equipment also should now be picking up even more in the second half. We hope to add more branches in the coming quarter and with that, our overall business and profitability is expected to improve. So with this, I conclude my brief on the results and on the business developments in the second quarter and would be happy to take any questions that you all may be having. Thank you.

Moderator: Thank you very much sir. We will now begin the question and answer session. Anyone who wishes to ask a question may press * and then 1 on their touchtone telephone. Participants are requested to use only handsets while asking a question. Anyone who has a question at this time may press * and then 1. The first question is from Abhishek Kothari from Way2Wealth. Please go ahead.

Abhishek Kothari: Sir congrats on your numbers. Could I get the yield of various segments?

Sanjay Chamria: Abhishek, our overall yields is about 12.9 for the second quarter and product-wise, it is around 11.5 in commercial vehicle and construction equipment. It is about 12.8 in car whereas in the tractors, it is at about 19.6 and the used vehicle is around 18.3, so it is like that.

Abhishek Kothari: And for SME?

Sanjay Chamria: SME is about 16%.

Abhishek Kothari: What was it last year?

Sanjay Chamria: Last year, SME was 17, tractor was 21, the used vehicle was 19.5, and the commercial vehicle was around 13, construction equipment was around 13.5 and so on.

Abhishek Kothari: And cars?

Sanjay Chamria: Cars was about 13.3.

Abhishek Kothari: And sir what is the AUM and disbursement target for this year?

Sanjay Chamria: We had maintained that this year we propose to grow in excess of 25% over last year and so far we have a 34% growth over the last year and while in the second half, the higher base effect will be there, so the benefit of the lower base effect will not be available; however, we are confident that we should end the year at more than 25% growth in disbursal and last year, we disbursed 4500 crores.

Abhishek Kothari: And your targets for NIM?

Sanjay Chamria: Targets for NIM also Abhishek, like last year we achieved 5.1% and we said that this year with the superior combination of the higher yielding product which we propose to take it to 20%, it should be 5.5 or more and at the end of first half, we are at 5.4%.

Abhishek Kothari: Thank you sir.

Moderator: Thank you very much. The next question is from Santosh Kamath from Franklin Templeton. Please go ahead.

Santosh Kamath: Hello, I am Santosh here sir.

Sanjay Chamria: Santosh, good morning.

Santosh Kamath: Good morning, sir just two questions, one on the ALM side over the last few months, we have seen a distinct uptrend in the interest rate and that trend looks to be continuing going forward. So what is your strategy on the ALM, when I look at your current borrowing close to 50% of your borrowings looks to in the form of working capital. So can you just throw some light on the ALM specially the scenario where it could tighten quite a bit going forward.

Sanjay Chamria: You are actually right. Our results could have been better, but for the upward bias in the interest rates witnessed in the second quarter which we could not pass on to the customers as a credit growth for the industry per se has been sluggish and Santosh therefore the competitors have not really passed on the increase in the interest rate to the customer and therefore we also did not pass on. So therefore what we are not trying to do is in a rising interest rate scenario, we keep the utilization of our borrowing facilities whichever floating rate of interest as low as possible. Otherwise, we end up utilizing the same and working on NIM, but then the interest rate goes up. Whereas my asset side interest rates are all fixed in nature and which comprises the NIM. So therefore as a strategy, we are trying to use more of fixed rate loan than the floating rate which is the working capital and use that as limited as possible by way of only a warehousing line.

Santosh Kamath: And broadly on the ALM, you want to match or you want to normally keep some gaps in the ALM?

Sanjay Chamria: Traditionally on the ALM, we have a positive mismatch in the sense that up to 2 years, the inflows are more than the outflows and that has been quite a comfortable position. As a policy in Magma that we have been following historically and that position does not change even today. In fact with the reduction in the utilization of the floating rate working capital facility, the ALM mismatches further rate in favor of the positive for the company because the fixed rate loans are all having a tenure of more than 4 years whereas the asset side loans have a tenure of 41 months.

Santosh Kamath: And on the business front, now slowly we are seeing you moving towards the high yielding asset and now you mentioned that you want to take it to 20% this year. So to slightly medium term where do you see the business growth coming up and if you could just throw some light in the SME part of the loan, is it secured, unsecured and what is the kind of risk containment measures on the SME part of the business?

Sanjay Chamria: See Santosh, this question I have faced from the investing community over the last six quarters that with the company having decided to increase its exposure to the higher yielding assets, the impact on the asset quality may be felt in the succeeding quarters and even we were apprehensive about this because the more you get into the high yielding ones, it has an impact on the asset quality and therefore we significantly invested into our collections vertical and the impact of that has been that over the last six quarters, our collection efficiency has been hovering almost around 100% and even in respect of the high yielding products with the exception of tractors even in the other two, which is SME and the used commercial vehicle we are hovering around 99-100. It is in the tractor where we are at about 96% which is understandable perfectly. So I think asset quality concern, we have significantly addressed even with respect of the high yielding one.

In terms of second part of your question going forward, we expect our bias to continue in favor of the high yielding ones and this year like we had issued a guidance that we wish to take it to 20% by the time we end the year and we are currently at about 18%. We started the year at 13 and we moved to 16 in first quarter and 18 in the second quarter and our idea is actually to take this to about 30% in another 2 years' timeframe. We do not want to really step up the gas immediately. So like to gradually build up and keep on validating the asset quality, the origination, collections performance and the write off.

Santosh Kamath: And some light on the SME loans?

Sanjay Chamria: So if I look at the SME loans, see the contribution of the SME loan in our overall disbursal in the second quarter and for the entire first half is about 5%. So out of 18% that we have got the contribution from the high yielding one, 5% is contributed by the SME and we are typically dealing with the enterprises which have a turnover of between 2 crores to almost about 300 crores and our average ticket size is about 21 lakhs and the collection efficiency for example in the first half of current year was 98.3% in the SME and as you would recognize this very well that on a static pool and on a predictive basis, we have done our calculations and we find that the SME business would give us a write off of not more that 2.2% where as we have budgeted a higher number considering that it is a higher yield asset.

Santosh Kamath: But are they unsecured or normally they have some security behind it?

Sanjay Chamria: These are completely unsecured. This is the only product in our overall 7 products which is unsecured in nature.

Santosh Kamath: And just one more last thing on, many companies are looking at loan against share as a very profitable business today, so do you want because like SME, do you want to look at that and one last thing on the overall product portfolio, which part of the business according to you is the best risk reward factor looking at the yields and the losses which you normally would occur, so which part is the highest on the risk reward ratio and do you want to look at loan against shares as a business for going forward?

Sanjay Chamria: As a policy Santosh, we do not take any exposure on the capital market and on the real estate and we have not done that in the last 20 years in our company, so therefore we do not wish to consider loan against shares or property loans. So therefore we will concentrate on the product lines that we are currently in and any new product also that we launch, it has to meet a certain cardinal principle that has been approved by the board. So therefore shares and properties, we do not consider. Now the second part of your question with regard on a risk return basis which are the products that we consider to be adding more to the bottom line, it is obviously the higher yielding products because despite the higher write off that we originally thought that these products would entail, the NIMs that we get are very high and therefore they add much more to the bottom line. However, the write off thus far has been much lower than what we budgeted for and therefore the contribution to the profit is even higher than what we had originally estimated; however, I think it is still early days, we need to complete one full business cycle to be able to see, once the entire portfolio has expired as to where do we end up with the actual NIMs and the profitability, but right now the indications are such that the used commercial vehicles and tractors in the three high yielding ones would give us the best profits.

Santosh Kamath: Thank you sir.

Moderator: Thank you. The next question is from Megha Gupta from Birla Sun Life Insurance. Please go ahead.

Megha Gupta: Good morning. I wanted to check the breakup of the AUM in terms of the on books as well as the off books portfolio please?

Sanjay Chamria: Good morning Megha. The total AUM is around 9900 crores and of which on book would be about 5200 and about 4700 would be off books.

Megha Gupta: So incremental securitization done in H1 would have been?

Sanjay Chamria: Well it has been now going down and it is about I think 47-48% of the overall origination that we would have securitized.

Megha Gupta: In H1?

Sanjay Chamria: In H1.

Megha Gupta: And in terms of the asset quality, if you could just share the portfolio level 90 DPD level?

Sanjay Chamria: Actually, we measure it on a 60 plus and not on a 90 plus and we look at then the write off as a percentage. So while overall collection efficiency was about 100.8 in the first half, the 60 plus is under 3% of the total portfolio and the write off has now gone down to 0.3% of the overall AUM down from 0.46% in the last fiscal year.

Megha Gupta: This is the write off number and 60 plus is under 3%. Sure and in this 3% portfolio level 60 plus, which would be the key contributor in terms of the segments where it would be higher than this 3%?

Sanjay Chamria: Construction equipment would have a higher percentage.

Megha Gupta: Thank you so much.

Moderator: Thank you. The next question is from Madhuchanda Dey from Kotak. Please go ahead.

Madhuchanda Dey: Hello. I have three questions. First is, many of your competitors are looking for a banking license, should some of them do succeed in obtaining a banking license, how will that impact the competitors landscape vis-à-vis yours. And my second question is your capital adequacy ratio is at 19% given the loan growth target that you are going where that you see the capital adequacy at the end of the year and hence how do you propose to obtain capital if there is any plan in the imminent future and my third question is today there was a report in the newspaper suggesting that Andhra Pradesh government is trying to or thinking about bringing up about a legislation to some kind of control the activities of lenders in view of the harsh behavior of the recovery agents etc. If you could comment on the same and whether it you are in any case going to be impacted by that kind of a legislation?

Sanjay Chamria: You asked all three very heavy questions. Let me see whether I remember all of them as I reply otherwise you help me with your question. The first one that you asked was about the potential impact of the banking license that some of the finance companies in the industry may eventually get. Today, distinction between bank and a non-bank is largely blurred in terms of the retail finance and out of 90 odd banks that operate in the country in every single product that we are present in, you will typically see the competitive landscape comprising of about 4 to 5 banks and 4 to 5 non-banks and they all compete on an even keel and therefore with one more bank or two more banks coming into this, I do not see that significantly altering the competitive landscape. If you see from the point of view of a non-bank becoming a bank and therefore having a deeper impact on competition, then I think again we have 3 examples with us in the past wherein Kotak converted into a bank, then 20th century converting into a bank and lastly Ashok Leyland folding up into IndusInd Bank and we have witnessed all the three scenarios and competed with them. So I do not really see that as a major issue. That is my response to your question number one.

Madhuchanda Dey: If you permit me to just ask you an adjunct question of one of the determining second hand vehicle financer who has efficient network all the efficient process etc. gets the advantage of much lower funding cost. How do you think the landscape will change?

Sanjay Chamria: Which is what I am saying. You are of course referring to Shriram when you mentioned this and so therefore today for example, they have 500 branches. One whether upon conversion into a bank, one can utilize all the branches in itself subject to question as the discussion paper itself says and two as a bank, then there are lot of other restrictions on the asset side as well which come in while you get the advantage of a lower cost of fund which are not there with a non-bank. So I guess one will have to work out in terms of a competitive strengths and the weaknesses and accordingly, then position yourself in the market. Today also if you look at the various competitors, some are predominantly present in the used commercial vehicles, some are predominantly present in the infrastructure equipment, and then some are principally operating as a captive unit of the manufacturer which has promoted them with a view to facilitate the financing of their own branded products. So I think the flavor changes from competition to competition and region to region and that I think is my response to your first question. Can you just help me with your second question?

Madhuchanda Dey: The second question is on the capital adequacy.

Sanjay Chamria: I get that. We started the year at 14.9% capital adequacy, where as per RBI the requirement became 12% from first April this year and the requirement becomes 15% on 31st March, 2011. So we raised capital both in the form of equity and in the form of the perpetual debt as well as the Tier-2 capital by way of preference shares and other subordinated debt and then with the profits and strong accrual of cash flows the company is having, now our capital adequacy is about 19.7%. With the loan growth and with the liability side management by way of sale of assets that we do periodically to release the capital, our capital adequacy is expected to be well above 15% on 31st March 2011 and which is what is mandated by the regulators for every single player to maintain. So we do not have any capital raising plans in the immediate future. Should we have, then we will take a look at it depending upon the loan-growth scenario post March and also the capital market condition, but I think the kind of performance the company has been demonstrating and recognition of the same with the investing community, I do not think if we wish to raise capital that should be an issue at any given point of time. Your third question was my comment with regard to the intervention being proposed by the Andhra government with regard to the excessive recovery majors being adopted by some of the microfinance players and resulting into suicidal attempts and eventual suicide by some of the microfinance borrowers. One, we are not into microfinance and we do not propose to be in microfinance. It is a very categorical assumption that I am making and with regard to in general as a financier, I believe also that and to act as a responsible lender, one needs to factor in the productive uses of the money that you are lending so that if it results in revenues being accreted by the borrowers then only he or she will be able to repay the loan; however, like what we witnessed 3 years ago in the STPL which is that small ticket personal loan where people were borrowing money for the end use which were not generating any revenue or borrowing from one company to repay the existing obligation, then eventually you are leading the borrower into a debt trap and wherein ultimately he or she will find it impossible to honor and then it can result in excessive practices. And that is the reason if you look at our entire product portfolio except for one portion of the car, every single product that we are lending results in productive revenues being created by the customers and again at a board level, we are mandated not to get into a business which should not result into productive revenues being generated or which are not collateralized out of it. I do not approve of such practice.

Madhuchanda Dey: My question was slightly different that although I understand you are not into microfinance, but suppose if there is general clamp down on any kind of recovery proceedings, will that have any rub off on your otherwise normal course of business?

Sanjay Chamria: If there is any judicial, regulatory or government intervention on any of the practices which are adopted by the financier, it will have an impact to put it simply. Now then it would vary from lender to lender as to what practices are you adopting. Last 6 quarters, we are having 100% collection efficiency. It is not by strong arm practice. We in fact have edificed credit as I said it before , and also one of the most sophisticated collection systems in place. We have more than 2,000 people in our company who actually handles nothing but collections 24/7 and no part of our collection is outsourced to any third-party agency. So, therefore, you exercise a lot of control on the hygiene and the best practices to be adopted while you are recovering money. So, while I guess the impact would be there, but the degree of impact will vary from player to player. And if that were to happen then it may have a marginal impact on us as well.

Madhuchanda Dey: Okay, thanks.

Sanjay Chamria: Thank you.

Moderator: Thank you. The next question is from Nitin Gupta from Ethos Advisors. Please go ahead.

Nitin Gupta: Hello, good afternoon. Congratulations for good set of numbers first of all. And I have two questions. First, regarding the interest rate environment how do you foresee in future? And secondly, your thoughts on the tractor market given the fact that you are focusing on high yield products?

Sanjay Chamria: I did not get your initial name.

Nitin Gupta: Nitin Gupta.

Sanjay Chamria: Nitin? Okay. Morning, Nitin. In terms of interest rate, you see there is ample liquidity in the system and banks and the regulator – and more than the regulator the Finance Ministry is quite concerned at the sluggish credit growth. They want the credit growth at more than 19.5% which has happened in the first half of the year. So, if I look at these two scenarios, then, there is no cause for the interest rates to go up. However, having said that I would definitely feel the interest rates would have an upward bias in the next six months, given the pre-occupation of the regulator to reign in the inflation. Even in the last six months, the interest rates have gone up not because of lack of liquidity, but because regulator wanted to control the money supply and reign in the inflation. So, I think on that ground I would think that there would be an upward bias and it could further go up by about 25 to 50 bps over the next six months. The second question that you asked, can you just tell me?

Nitin Gupta: It is about the tractor market.

Sanjay Chamria: Yeah. See, tractor market this year has been growing quite phenomenally and I think India will end up selling about 4.5 lakh tractors which is the highest ever in its history and which will record a phenomenal growth. We are pretty bullish on the tractor financing market. And last year like we did about close to 6,500 to 7,000 tractors and this year we are looking at doing more than 15,000 tractors. So, we want to grow our portfolio very, very significantly. In fact, the 17 branches that we have opened in the first half of this year there are some 8 to 9 branches that we have opened which are exclusively for tractor financing, because unlike other products, in tractors, our customers are much more in the interior, in the villages and therefore to be able to cater them effectively and also to enable our collections from them which we do not outsource as I was mentioning in the previous question. We needed to open branches and that shows our long-term commitment to build a very healthy tractor portfolio. We are pretty bullish on this to put it this thing. And we want to grow this business. And out of 18% in the high yielding product, 9% actually comes from tractors.

Nitin Gupta: Thanks. Thanks for your inputs and good luck.

Sanjay Chamria: Thank you.

Moderator: Thank you. The next question is from Ankit Ladhani from Share Khan. Please go ahead.

Ankit Ladhani: Good morning. Most of my questions have been answered. I am just looking for the NPA ratio.

Sanjay Chamria: Well, actually, the NPA ratios, I will answer more at a broader level and then talk the actual numbers. Net NPAs continue to remain zero, because of the accounting policy that we follow and which is any contract at an individual level which crosses 180 days past due, that becomes NPA as per the guideline. And then you need to make a provision but we do not make a provision and we just do a simple write-off of not only the overdue portion but the entire principle outstanding and therefore we have zero net NPAs in our books. Having said that now the question is how much write-offs do we have. In this regard, because of the high collection efficiency that we have been achieving, our write-offs have been going down over the last two-odd years. And during the first half of this year our total write-off as a percentage of the overall AUM on an annualized basis has gone down to 0.3% as against 0.46% for the previous fiscal year. And I do not really know whether it can go down any further. I think Magma is a company is now clearly setting the benchmark in terms of asset quality and the collections performance in the industry.

Ankit Ladhani: Okay that will be all from my side. Thank you.

Sanjay Chamria: Thank you.

Moderator: Thank you. The next question is from Abhishek Sasmal from Microsec Capital. Please go ahead.

Abhishek Sasmal: Good morning, sir. Congrats on a good set of number. I just want to know like how many branches you have added for this quarter only?

Sanjay Chamria: 13 branches, Abhishek, we have added during this quarter and overall 17.

Abhishek Sasmal: Okay. For the first half?

Sanjay Chamria: Yes.

Abhishek Sasmal: Sir, geographically, can you share the distribution on the new addition?

Sanjay Chamria: Yes, certainly. So, out of 17 branches that we have opened, largest are in North, which is 8, and 4 in East, 3 in South and 2 in West.

Abhishek Sasmal: Okay. Sir, I am just looking into your staff cost-to-income ratio that actually has been decreased on a quarter-on-quarter basis by 200 bps. So, if you added 13 branches for this quarter but that does not reflect into the staff cost.

Sanjay Chamria: Well, actually, you see, we have different types of branches. And as I was mentioning to Nitin's question that we have opened a lot of dedicated branches for tractor financing. So, when you open a branch which is dedicated for a particular product, then the requirement of manpower would be limited to that particular product and collections and the back office in that branch. So, it may not directly be proportional that my branch network has gone up by about say 10% so therefore, my staff cost apart from increments and promotions should go up by another 10% just on account of the addition to the branch network. Like typically, every one rupee that we spend on account of staff cost, it is about 65 to 67 paisa which actually is consumed by the branches and about 35 paisa is consumed by the head office. In any case, the head office cost would not go up, if you open more branches and out of 65 bps that we have, again, as I said, we have different levels of branches, the branch which is dealing only into one product and it is a new transfer and therefore there is no existing portfolio to be serviced, so, there is hardly any collection cost that you will have in the initial year or so. I think that is the explanation.

Abhishek Sasmal: Okay. Fair enough. Sir, what kind of competition you are seeing in the high yield segments, like the SMEs, used car, and tractors?

Sanjay Chamria: The competition is pretty intense and has become more so during the current year. Because of one, the entry of some new players in the retail industry as well as the existing players' desire to significantly ramp up their numbers. And therefore we are feeling the heat of competition and the intensity in almost every product range.

Abhishek Sasmal: And sir, what kind of demand scenario you are seeing in the construction equipment segment?

Sanjay Chamria: See, out of the four new products that we are funding, construction equipment saw the least amount of growth, but having said that, I was mentioning that from October, we had earlier expected that the demand should go up because the rainy season stops and the resolution of the bottlenecks in the award of projects by the National Highways Authority, there will be more mobilization of equipment on the fact. However, the increase in the sales we have started seeing that from September itself and you would have also observed that lot of projects have been now awarded. I think the flow of, what we call the ULC, that is the unexecuted contract in the hands of the contractors have increased and therefore in the coming six months we should see a real good increase in the sales of construction equipment.

Abhishek Sasmal: Okay. Sir, what kind of CapEx plan you have going forward and have you arranged for the funds for the same?

Sanjay Chamria: See, our CapEx is not very much, I mean, it is largely on account of the IT platform and wherein we spend close to about 10 to 12 crores every year. But that includes the CapEx as well as the revenue. And for opening up a new branch it would again typically vary depending upon the branch type, like the dedicated branches or even a non-dedicated branch but which is opened as a pocket office, the total CapEx is just about 2.5 to 3 lakhs, whereas if you open a big branch office and that could be about 15 to 20 lakhs. So, I mean, overall that would be just about few crores in a year. Because this year we propose to open in total about 27 branches to take our branch network to 180 from 153 as on March 2010. So the large part of the CapEx comes mainly on the IT platform.

Abhishek Sasmal: Okay. Fine. Thanks and best of luck for the next quarter.

Sanjay Chamria: Thank you very much for your wishes.

Moderator: Thank you. The next question is from Ritesh Nambiar from UTI Mutual Fund. Please go ahead.

Ritesh Nambiar: Good morning, sir. Just one question. It is regarding, if I look at Magma in FY09 and if I look at Magma in FY11, there is around 200 basis differences in the NIM. Now, in most of your presentation you have mentioned that this is mostly on account of change in product mix. If I look at your product mix in FY09, it was around 10% the high yielding products used to contribute which would eventually go to 20% as you mentioned. Now, all of the – I would say 200 basis cannot be explained by this 10% increase in high yielding. Is it something else operationally or is it I would say the high liquidity which was ample in FY10 which has led to the rise in the yield, combination of both?

Sanjay Chamria: Well, Ritesh, you are absolutely right in your observations that the entire 200 bps increase cannot be attributed to the product mix change. But I think where I would differ with you is: If you look at all our presentations which we have made to the investing community and all of them are on our web site. There are two reasons that we have attributed in the slide in which we have said one is on account of the change in the product mix and the second on account of the reduction in the cost of funds which is disproportionately higher on account of the superior asset quality that we have been producing year after year in the last three years. These are the two reasons which has actually resulted in a widening jaw line so far as our NIMs are concerned.

Ritesh Nambiar: So, this 200 basis is sustainable because if I say, liquidity is normal, and according to what RBI say, the liquidity would be repo being operational, so do you think so the 5.5% NIMs are sustainable?

Sanjay Chamria: We wish to increase it, not only make it sustainable because we want to grow the contribution. As I was mentioning, initially when Santhosh was asking me a question that we want to take it to 20% from currently it is 18%, and then to about 30%. So, should we be successful in our mission to increase the contributions to high yielding products, then we would be graduating more towards 6% than to get stagnated or deteriorate from 5.4% where we are currently.

Ritesh Nambiar: Sure. My second question is actually – if I could ask a question sir, it is mostly to do with the securitization guideline which has created some hue and cry. If suppose on a worst case scenario that proposal is accepted, how is Magma prepare to deal with it?

Sanjay Chamria: Well, actually, if and when the current draft guideline or the securitization are implemented by the Reserve Bank, we would get impacted one, in terms of the minimum holding period, not in terms of the minimum retention amount, because the minimum retention amount what has been prescribed by them, is something that in any case we have to hold, because all the portfolio sale that we do is on a AAA basis rating which is given by the rating agencies, with the help of collateral which is a several times multiple of the historical losses that the company suffers. So, I do not really see that as a major issue but in case of a minimum holding period which they have prescribed at 12 months which is in case the original portfolio is beyond 24 months is I think we would get adversely impacted. And we have represented to the regulator that the idea of the guideline is more from the point of view of a flipper and not from the point of view of companies whose strength is origination and servicing and therefore you deny them the opportunity of churning the portfolio and catering more to the under, sub-sectors of the society. And RBI is pretty sympathetic on this particular point. Although, we do not know as to what the guideline eventually will come, but should that come through, our ability to sell-down will get compromised and we will sell-down less as against 40% to 45%, it may go down to about 25% to 30%, which in some of my earlier conversation also I have said that as a policy we want to migrate to a scenario where our liability side management should be equally spread between working capital business, deals of fixed term loans/debentures and bonds and the sell-down and all three should be having equal weightage which is about 1/3. Process may get hastened which we will have to get prepared. That is how I see.

Ritesh Nambiar: Okay. But any on-book to off-book target for this year?

Sanjay Chamria: Well, actually, this year we wish to keep it below 45% sell-down, so therefore on-book growth should be higher than the previous year, I mean even if our loan book growth is more than 25%, the on-book growth would be far higher than that, because we wish to retain more than what we have done in the previous year.

Ritesh Nambiar: Sure. The unencumbered cash which you have on your balance sheet, how much is it?

Sanjay Chamria: I did not understand this question?

Ritesh Nambiar: The unencumbered that is if you remove all the cash collateral which is attached to the pools, how much is the cash levels on the cash and bank balance?

Sanjay Chamria: Oh, it is close to 300 Crores plus.

Ritesh Nambiar: Okay. Which is unencumbered?

Sanjay Chamria: Absolutely. Unencumbered free of any lien and free to be used by the company for any business purpose.

Ritesh Nambiar: Okay, then, thanks a lot, sir.

Sanjay Chamria: Thank you, Ritesh.

Moderator: Thank you. The next question is from PS Subramanyam from Sundaram Mutual Fund. Please go ahead.

PS Subramanyam: Hi, good morning, sir.

Sanjay Chamria: Good morning.

PS Subramanyam: Sir, on the securitization thing I just wanted to understand let us say that the amount you can securitize comes on something like 25%. How would you be placed a) in terms of the kind of return on assets that you will be able to generate and secondly, in terms of capital adequacy at the end of the year, do you think you will require to raise some more capital?

Sanjay Chamria: Definitely, not in this year Mr. Subramanyam. And in terms of the return on assets, I think like we had said that we want to improve on the product mix and through the operating efficiencies, achieve a return on assets of 2%, which actually in Q2, we have raised about 2.2%. So, what we originally issued a guidance we might have done better than that but if that comes in, maybe it may fall, but it is still we would be hopeful to maintain what we have issued a guidance of, which is about 2%.

PS Subramanyam: Okay. How much would the securitized income contribute as a percentage of the total income currently?

Sanjay Chamria: I do not know this number off hand, so just check. I think it is around little overall 16% is what I see for the first half of this year, and its about 20% for the previous fiscal.

PS Subramanyam: Okay. Next question is on your targeted return on asset. You are saying your targeted return on asset of 2%, but you are looking at lower yielding, companies which do lower yielding, they do something like mortgages are also delivering returns of 1.8 to 2% on their assets. And people were being unsecured and generating RoI closer to 3%. So, why is it that for target for return on assets, just 2% despite doing more of unsecured lending?

Sanjay Chamria: Well, I think I would need to correct one perception here. We are not doing unsecured lending. We are doing the secured lending. And only the SME book is actually unsecured and which is about 5%. So, 95% of our book is completely secured and collateralized. And secondly, I think if we look at it on a comparison with the asset finance companies at a peer level, then I think with the exception of one or two companies which are much more into high yielding assets, rest of them have a return on assets which is much less than 2%. I think from that point of view the previous fiscal Magma achieved 1.8% and Q2 we did 2.2% and for the first half we are already at 1.8%, I think we are doing comparatively better than the peer level. Your question on the housing finance companies, how they are able to do it? I think their dynamics are a little different. They have 150% risk weight as against 100% that we have. And therefore they are allowed higher leverage than what we are allowed. So, you would understand it would be one of that. And two, their loan tenures are much higher, which is about 10 to 15 years as against 41 months for us and therefore the expenses they incur is far lesser. If you analyze the balance sheet of any housing finance company, the OpEx to the total AUM would vary from a low of 0.2% to high of 1.2% whereas in asset finance company it will start from a low of 2% to go to high of 3.5%. So I think the dynamics are uncomparable.

PS Subramanyam: Okay. Thank you.

Sanjay Chamria: Thank you.

Moderator: Thank you. The next question is from Lalitabh Shrivastava from Dalal & Brocha. Please go ahead.

Lalitabh Shrivastava: Sir, congratulations on a very good set of numbers.

Sanjay Chamria: Thank you.

Lalitabh Shrivastava: Questions have been answered. One small question I was not able to take down the yields on your portfolio as of now for various segments a), and b) just wanted to have a sense of the breakup of the securitized portfolio that you have currently? Thank you.

Sanjay Chamria: The overall is as I said was about 12.8 in the second quarter and product wise I was saying that in case of tractor it is about 19.5, SME around 16, the commercial vehicle and construction equipment around 11.5, the used vehicles around 18 and car around 12.7. This was on the yield. And in terms of the break-up between the securitized book and the own book, we have said that the total overall AUM is about 9,900 Crores and of which the off-book was about 4,700 Crores and 5,200 Crores were on-book.

Lalitabh Shrivastava: That I got sir. Of this 4,700 off-book that you have, if you can give us some sense of what this is that?

Sanjay Chamria: I did not understand. Can you be a little bit louder please?

Lalitabh Shrivastava: Of that 4,700 Crores number, if you can give a sense of what segment comprised of this 4,700 Crores? Thank you.

Sanjay Chamria: Segment as in what product wise?

Lalitabh Shrivastava: Yes sir.

Sanjay Chamria: I do not think I have that readily available with me, but then I can give you a sense of what we normally sell…

Lalitabh Shrivastava: Okay. If you can just give me that yield that you could have expected, blended will also do?

Sanjay Chamria: Yeah. So, therefore, what we do as a policy, we actually do not sell our high yielding ones, because we want to improve the yield of our own book portfolio and so the most of the sell-down that we would have done would be commercial vehicles and construction equipment and to a small degree the multi-utility vehicle portfolio of our cars I mean, more than 90% would comprise of these three asset class.

Lalitabh Shrivastava: Okay. Thank you sir. That is all from my side.

Sanjay Chamria: Thank you.

Moderator: Thank you. The next question is from Anuradha S from Tiker Plant. Please go ahead.

Anuradha S: Hi, sir.

Sanjay Chamria: Hi.

Anuradha S: Congrats for the good set of numbers. I have the one question. And what is the percentage of disbursement by the company for urban and rural market?

Sanjay Chamria: See, traditionally, now actually we have 79% of our branches in the rural and semi-urban and we have been getting 62% of our business from these branches, so I think that way I can say indirectly that over 60% of the portfolio that we create is by way of contribution from rural and semi-urban branches.

Anuradha S: Okay. Thank you so much.

Sanjay Chamria: Thank you.

Moderator: Thank you. The next question is from Nitesh Goenka from Microsec Capital. Please go ahead.

Nitesh Goenka: Hello sir.

Sanjay Chamria: Yeah.

Nitesh Goenka: Yeah, hi. I would like to know you had mentioned something which says that you are going to disburse 220 Crores in Vidarbha.

Sanjay Chamria: Okay.

Nitesh Goenka: So I would like to know why have you chosen this geographic focus.

Sanjay Chamria: Well, actually, Nitesh, we are present across 21 states and two union territories. And we do business all over. And our 170 branches are located in these areas. So, therefore Vidarbha where we are headquartered in Nagpur, with about four more branches in that region, that is the total business across seven product portfolios that we have, where we have worked out. So, we work on a bottom up program in terms of our business disbursement for the year. So, all the 170 branches multiplied by seven products, month-on-month, whatever disbursal plan that we have against the last year's achievement planning the rate of growth is that is how we arrive at a number. So, it is quite a business budgeting exercising, a complex – exercise that we do before the beginning of the year. So, based on that we would arrive at this number, which would also factor in the primary sale in these markets, our market share, how we can achieve given the competition that is prevailing and so on.

Nitesh Goenka: So you plan according to your business prospects and then you come to a particular geography and focus that?

Sanjay Chamria: Yes. I mean as I said it is quite a complex scenario, factoring the competition, primary sale, our presence and the number of new branches that we wish to open and based on that what is the number we can achieve, what we have achieved in the previous year. So it would not be that last year, we would have done about 100 crores, this year we are talking to 220. Last year we would have done excess about 150 to 170 Crores and on that we are assuming a certain growth and then talking of 220.

Nitesh Goenka: Okay. So any other geographies that is there on your mind?

Sanjay Chamria: I mean we are present all over. As I said, 21 states and the union territories and therefore we have 170 branches. So, we are going to be deepening our presence in these geographies only, even the 17 branches that we have opened are in these states only, we have not gone outside of these states.

Nitesh Goenka: All right. Thank you.

Sanjay Chamria: Thank you.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I would now like to hand over the conference back to Mr. Jyothi Varma for closing comments.

Jyothi Varma: Thank you, everyone for joining in the call. We thank the management of Magma Fincorp for giving us an opportunity to host the call. Sir, would you like to add any closing comments?

Sanjay Chamria: No, I am absolutely fine and thanks to all of you for taking your time and joining on the call and we propose to continue to do in future. Thank you very much and all the best.

Jyothi Varma: Thank you sir. Have a great day.

Moderator: Thank you. On behalf of Centrum Broking Pvt. Ltd. that concludes this conference call. Thank you for joining us and you may now disconnect your lines.