"Magma Fincorp Limited Conference Call"

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Moderator: Ladies and gentlemen good day and welcome to the Q2 FY'13 Earnings Conference Call for Magma Fincorp Limited hosted by IDFC Securities Limited. As a reminder for the duration of this conference all the participants' lines are in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call, please signal an operator by pressing "*" followed by "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 Ms. Chinmaya Garg. Thank you and over to you Madam.

Chinmaya Garg: Good morning everyone and thank you for joining us on Magma Fincorp Limited Q2 FY'13 results conference call hosted by IDFC Securities. I have with us Mr. Sanjay Chamria, Vice Chairman & Managing Director, Mr. V. Lakshmi Narasimhan, CFO and Mr. Kailash Baheti, CSO of Magma Fincorp to talk about the company's performance and important events during the quarter ended September 30, 2012. We will begin the call with opening remarks from Mr. Chamria following which we will have the forum open for an interactive question and answer session. I would now like to invite Mr. Chamria to make his opening remarks. Over to you Sir.

Sanjay Chamria: Good morning to you all. I thank each one of you for joining us on Magma's quarterly conference call for the unaudited results for the second quarter of FY2013.

I am very pleased to share and focus on the key highlights of the performance during the quarter. Our disbursals have grown by 45% on yoy basis across multiple product segments. We have also improved our blended NIMs on fresh disbursements by 43 basis points to 4.91% through a superior product and customer mix. We have also maintained a consistently high quality of the loan book inspite of the altered product and customer mix.

As is the practice Magma being amongst the first ones in the peers to release its results I will briefly share my views on the economy, the regulatory environment and its impact on the sector.

The general economy has continued to perform in a lacklustre manner leading to very low rates of growth, and in some cases de-growth, in primary sales of passenger cars, commercial vehicles, construction equipment, tractors and other asset classes. The silver lining in the otherwise gloomy scenario has been the slew of reform measures announced by the government and its strong resolve to pull the economy from the current slumber. We expect that sustained push by the government on reforms will improve business sentiments in the second half of the year.

On the regulatory side, we have witnessed the release of much awaited securitisation and assignment guidelines by RBI and with the issuance of the same; the uncertainty on regulatory reforms has largely been addressed. In our view, during the second half of the year, the activities on securitisation and assignment deals will pick up both on a/c of slow credit growth and benefits of priority sector being available to the banks on purchase of this asset class.

Rural consumption has overtaken urban consumption in India for the first time in the last 25 years and this augurs well for companies like Magma which have positioned themselves in these geographies and have built their biz model around the fortunes of Bharat.

We, at Magma have been consistently building a deep distribution network in the interiors of the country and as on 30th Sep, 2012 have expanded our network to 240 branches from 200 as on 31st March, 2012. We have also linked all the branches through the technology platform to effectively deal with the operating issues while transacting with the dealers and customers in rural areas. In addition we have increased our field sales force to around 2,000 to cater to all the products on exclusive basis and built a 3,500 strong dealer network across 21 states and union territories. Therefore direct customer connect coupled with superior customer service assisted by several marketing initiatives undertaken during the last 18 months have boosted Magma's market share across product segments. During Q2, we have grown our overall disbursements by 45% on yoy basis. The highest growth came in from used CV at 105 % followed by SME Loans at 75 %, Tractors biz at 74% and cars at 61%. We are confident of maintaining the momentum and will continue to grow our market share in the coming months of the year. If the primary sales of all these products improve owing to the various reforms announced by the government then Magma is ideally positioned to gain significantly, having firmly entrenched its position with the vendors and providing services to their customers at competitive terms. In anticipation of our expected growth we have invested in enhancing our management bandwidth with 4 senior level executives having joined in last 12 months, reinforced and further streamlined our systems and processes and are fine tuning technology platform for managing complexity and volatility in the environment we operate in.

We have improved our product wise margins during the quarter through judicious customer and product mix. Our overall NIMs on a/c of disbursal during the Q2 has improved by 43 bps to 4.91% over Q1.The impact of the higher NIM is expected to be reflected in the results from next quarter onwards.

On the back of the strong disbursement growth, we have created a loan book of over Rs 13,500 crore. Earning assets comprise 90% of the total loan book. This indicates that from now on the full benefit of the accounting policy changes will be reflected in the financials.

We have achieved a collection efficiency of 98.1% during the quarter which reflects the changing product mix in Magma's portfolio and the corresponding expectations on write offs. As is the trend in the second half of the year, we expect the collections to improve with more business and higher cash flows in the hands of the customers. Consistent with our practice of writing off our NPAs fully, the coverage on NPA is 100% and there is not a single restructured account out of more than 3 lakh live accounts.

We have reported revenues of Rs 398 crore in the quarter, a growth of 58% yoy. The reported PAT is Rs 28.2 crore for the quarter, a growth of 33% yoy.

As on 30 September 2012, our Capital Adequacy Ratio is 16.5% while Tier I is 11.1%. So while we are comfortably placed in Tier I we will explore various instruments allowed under Tier 2 capital to fund our growth. As on date we have a diversified funding profile and our investors on the fixed income side comprise blue chip domestic and international names.

We have also launched Gold loans in June 2012 and have been building this biz progressively and have recently launched our JV operations in non-life insurance space in Oct 2012. The wide bouquet of products will leverage our rural/semi-rural branch network very effectively and bring down our opex ratios.

Last quarter we have also launched our corporate branding program. We believe that a company of our size and diversified product mix, it was important to highlight to all our stakeholders the growth journey we are on.

We are confident that Magma will continue to outpace the industry growth rate through presence across wide range of products, improve its operating margins through proper product and customer mix and maintain best in class credit quality.

Lakshmi, Kailash and me would now be very happy to take any questions that you all may have. Thank you.

Moderator: We have the first question from the line of Shweta Mane from Arihant Capital. Please go ahead.

Shweta Mane: Good morning Sir. Just with the much talked about RBI proposing to grant bank licenses do you look forward for the same going ahead?

Sanjay Chamria: We are not really having any view with regard to the bank licenses and I am consistent with my previous stand that until the guidelines are fully out, it is not possible for us to take a view.

Shweta Mane: Sir secondly I just wanted to know how do you strategize going ahead to curtail your interest cost, which actually has spiked up for quite sometime now and also coupled with that we also saw the opex standing on a higher side. Sir I am talking this in a sense that this is not a direct bearing on your profitability and consequently you have a little pressure on the ROAs, so how do you explain this?

Sanjay Chamria: I think so far as the interest cost is concerned, it is the largest item on the P&L account. You see our net interest margins as I shared have now been expanding and we have also been moving our product and the customer mix in line with the expectations. In fact our cost has remained rather stable and gone down a little bit in the second quarter, which is at 10.6% in the second quarter. Our net interest margins have actually gone up to 4.91%. For FY'10 and FY'11, we had more than 5% NIMs which went down in the FY'12 to 4.5%, so now again we are back to 4.9% and hopefully we will now touch and cross 5%. I think that is how we propose to deal with the interest cost and I think with the benign interest rate scenario which is likely to kick in anytime soon, I think for the next year or two at least we should expect the interest costs to go down. So far the operating cost ratios are concerned, we have taken a pledge at the management level that we wish to bring it down and this we started about three years ago. So with our operating cost this has actually been coming down over the last three years by 10% each year and this has happened on the back of improved productivity wherein we have introduced KPIs for each of the core functions like sales, credit, operations, collections and we have also been containing expenses at the support function level. On the other hand, we have also been very aggressively expanding our branch network. In March 2010 we had just about 150 branches and as I shared that as on September we have 240 branches, so when you open so many branches we have seen that it takes roughly about 9 to 12 months for the opex ratios to breakeven and about 12 to 18 months is when you start earning profits. So all these investments that we are making to deepen our distribution network which is in line with our product class which we propose to have firm presence in rural and semi-urban markets, but notwithstanding opening of so many branches also our opex ratios have actually been going down over the last three years.

Shweta Mane: Sir, the little pressure which we saw in ROAs is it because of those securitization and direct assignment guidelines which were quite stringent just before the RBI two months back announced the revival of those guidelines, is it because of those reasons?

Sanjay Chamria: See the ROA and ROE in case of Magma over the last four to five results calls has been a function of change in the business model and the accounting policy, and as I maintain quite consistently that it is for a period of six quarters that we would have the impact and I have shared that the sixth quarter gets over in September 2012, so hopefully all the impacts of the change in the business model which is growing our own book as opposed to selling down the portfolio and secondly even in the event of the sell down not to recognize the income upfront and amortize it over the contract tenure, I think now we have completed those six quarters where the adverse impact on the ROA and ROE was visible. Hence from October onwards and that is what I mentioned also in my opening remarks that now that 90% of the loan book is incoming earning, so therefore from October onwards we should have a normalized income curve.

Shweta Mane: Lastly, the impressive collection efficiency performance which we are observing across the quarters, Sir is that sustainable going ahead given the slowdown in the economy and high yielding loan book.

Sanjay Chamria: Yes I agree with you. In fact you see for three years 12 quarters we have reported 100% collection efficiency. In the current year in the first six months we have achieved the collection efficiency of 98.2% for six months and it was 98.1% in the second quarter. Therefore there has been drop of about 2% in the collection efficiency and this factors in the two scenarios, one is as you mentioned the external environment has become tougher wherein the cash flow has been less in the hands of the customers and therefore they have not been able to pay on time, this is not to say that it all results into NPAs because it is only after six defaults the account becomes NPA, but the over dues have gone up. The second is the product segments in which we are operating which is tractors and the used vehicles of course the write offs are expected to be higher and which has also been covered by the various coverage reports on the company, but still we are very confident that like 40 to 45 basis point is what on an annualized basis we are having a write off that we would like to contain our write offs within this range.

Shweta Mane: Sir, just a related question as you mentioned, we are focusing on tractor and used segment, of late these two segments both have been hampered quite a bit, we saw a subdued growth even in the tractor segment, but if you see the Magma disbursements in tractors has been 74%, next best after used CV, so how do you see this portfolio faring going ahead given the fact that again SIAM numbers were also poor in these particular segments?

Sanjay Chamria: You are right. As per the TMA, in case of tractors instead of SIAM you get the TMA data, while till August the data is available and for September we collected the data from the six leading manufacturers who have more than 96% share of the entire industry, so as per the said data in the second quarter the tractor industry has degrown by 12.3% and as against that Magma has grown in its disbursal by 74% and I think this is not only specific to tractors, it is actually true of even cars where in the second quarter the industry has grown by just 4.2% where Magma has grown by 61%. In this regard as I shared in my opening remarks that what we have done is we have deepened our branch network very significantly in the last 18 months, so therefore we have opened our branches very carefully choosing where we found that there is a scope for company like Magma to lead to the informal segment which actually has difficulty in accessing the bank finance. Secondly, what we have also done is significantly improved our ground coverage by having now 2000 people who are exclusively in the sales vertical and on a dedicated basis for each of the product that brings in a much desired focus in servicing the channels with whom we work and the customers to whom we provide the service. Thirdly as I mentioned also that we have today now more than 3500 dealer outlets across the countries who work as a channel for us and thereby we have significantly improved our lead origination capabilities.

Shweta Mane: Sir just one last question, if you could throw light on how you are faring in your newly entered gold finance business?

Sanjay Chamria: Well actually as you said this is just a newly launched business, but I am happy to share that in the first four months because we launched that in the month of June, so typically the first quarter and three and half months of operation we have disbursed a total of Rs.20 Crores and we have got now about 18 branches in the gold loan business, but this is insignificant compared to the overall size of operations; however, the way we see the gold business that it provides us much higher interest earnings in terms of the rate of interest that we charge and it is a completely secured product. I think we will scale this judiciously over the next few years and see how this business behaves for Magma.

Shweta Mane: Thanks a lot Sir for taking my questions.

Moderator: Thank you. We are going to take the next question from the line of Ritesh Nambiar from UTI Mutual Fund. Please go ahead.

Ritesh Nambiar: Good morning Sir. Just wanted to know the change which has happened from last year in your CV portfolio because I see lot of variation both on yield YTM and the tenure which has changed and the average ticket size which has actually fallen on YTD basis so what changes have happened wherein your average ticket size has fallen and your realization has improved by 100 odd basis in a falling interest rate scenario?

Sanjay Chamria: Good morning Ritesh and I think your observation is absolutely spot on for a commercial vehicle industry itself has been undergoing a metamorphic change and there is divergence in the primary sale numbers across segments on one hand, the sale of sub-segments like Ace has been growing up significantly. On the other hand, the sale of medium and heavy vehicles and the multi-axle has been dropping significantly, so as a result of that even we have refocussed ourselves on participating in the growing story of the small commercial vehicles and therefore you can see the ticket size has fallen from last year 16 lakhs to this year about 10.7 lakhs. So far as the LTV is concerned, it is broadly the same just that it has fallen from 90% to 87% and the reason being the small commercial vehicle is typically bought by the first time buyers whereas the multi-axle and the medium and the heavy we also finance to the fleet operators, so therefore consistent with the risk profile of the customer in case of the first time buyers you have higher down payment from them and which reduces the LTV. So these are the two reasons and on the other hand like you mentioned about the interest rates have gone up by I think roughly about 70 basis points and this has happened because in the small commercial vehicles you charge a higher rate of interest one because the ticket size is lower and therefore the operating cost is higher and secondly the customers being FTB there you charge another rate of interest.

Ritesh Nambiar: Just I see you touch base upon your performance on asset quality; in ground reality how is it? In fact is there a stress in working capital for entities working in such margins in the CV side especially who are into the construction and mining side of it?

Sanjay Chamria: Yes there is a stress in terms of the cash flow as I mentioned because the customers one who are either the direct contractors, holding the direct contracts from the government agencies they are not getting their payments in time and two, those who are working as a subcontractor or a sub-subcontractor to whom we are typically funding if the principle contractor is not getting his cash flows on time he is also delaying the payment to the sub-subcontractor who are working on these sites. So this is one reason and secondly, given the margins on the basis of which the contracts are getting awarded, even the margins have also come under pressure owing to the competition. I will give you an example in construction equipment. For instance, there are two very popular principle asset classes. One is the backhoe loaders and other is the excavators. If you look at the second quarter there is a deep degrowth, which has been witnessed both in the backhoe loaders and in the excavators and the reason being there is a deployment issue. Earlier like for example the rate was about Rs.650 hiring that per hour and today people are having idle backhoe orders and they are not able to hire out even at Rs.600 per hour, so therefore there is a definitive stress which is visible hopefully now and in rainy season it does impact more, hopefully now the rains getting over in October and the festive reason is starting if the work flows and then maybe this will one, lead to the improvement in the primary sale of these equipments and also the hiring rates, which may eventually improve the cash flow and obviously the collections of finance companies.

Ritesh Nambiar: Sir this quarter what was the runrate in the securitisation income?

Sanjay Chamria: For this quarter we have not done any new securitisation deals so far and when you say the runrate can you just explain the question?

Ritesh Nambiar: Just not on the AUM side, but a more on the income side of it how much of the old securitization income has been amortized this quarter?

Sanjay Chamria: I think this quarter the way I find as I was answering to the question by Shweta sometime back that we changed the accounting policy from April 2011 securitization or the assignment that we did from April 2011, we did not recognize the income upfront. The result of that whatever securitization that we did last year the income on account of the same is reflected by way of EIS, which is the excess interest spread that is about 26 Crores during the quarter ended September 2012.

Ritesh Nambiar: Sir what is the gross NPA for this quarter?

Sanjay Chamria: I think we gave 0.48 as the write-offs that we have done because we do not have an NPA, that crosses 180 plus we do a complete write-off. So the total write-off that we have done in the second quarter is 17 Crores on the overall book of 14,200 Crores, which translate on an annualized basis 48-basis point.

Ritesh Nambiar: Sir 90 day DPD do you have any figure for it?

Sanjay Chamria: No, I do not have the figure right away with me, but as far as I would recollect, it would actually be inside of 1% which is 90 to 180.

Ritesh Nambiar: Going ahead in the coming quarters any positive sign on the interest cost compression, because that could in fact create some in fact better spreads for you?

Sanjay Chamria: Yes, you are right Ritesh, over the last two years we have all suffered on account of the rising interest rate scenario, because our asset side is fully locked in fixed rates of interest whereas liability side about 40% is on account of the variable interest rates so therefore now with the reduction in the interest rate which is appearing quite imminent I think next year or two we should benefit benign interest rate scenario.

Ritesh Nambiar: Sir any plans for securitization for ALM management in the coming quarter?

Sanjay Chamria: Of course we will do. In fact as I mentioned also in my opening comment there was an uncertainty because what the regulator did they brought out the guidelines for banks in the month of May but for the NBFCs in the month of August. So there was a lull in the securitization activity and then again there was some confusion rather there was a differentiation in the treatment between securitization and assignment so far as the credit enhancement levels are concerned and so therefore banks have been interpreting in different ways and also through industry bodies they have been trying to impress upon RBI to make some changes so I think now we should be looking forward to doing some securitization and assignment deals in the second-half of the year. We should also further improve our capital adequacy.

Ritesh Nambiar: Thanks a lot.

Moderator: Thank you. Next question is from the line of Subramaniam P.S. from Sundaram Mutual Fund. Please go ahead.

Subramaniam P.S: Sir good morning. Sir my query was on the opex side if you could just let me know how many employees we have currently on our roles.

Sanjay Chamria: Mr. Subramaniam , consistent with the industry norms, we have the managerial staff on the roles of the listed company. The field staff who are typically in the service company roles the total head count is roughly about 6600 of which about 2700 or so would be on the roles of the listed company.

Subramaniam P.S: This number was around 5700 sir in 2012?

Sanjay Chamria: Around that 5500 plus.

Subramaniam P.S: Sir because in our earlier interactions also you have been saying that there is potential for us to improve productivity and the growth in employees will be much lower than the growth in the AUMs but that somehow does not seem to be panning out? What would you attribute this to?

Sanjay Chamria: That is really happening in the sense that the addition to the head count which is happening is largely in the field of the sales. For example collections where we have over 3000 people there we have already added people in the last six months just about 100 to 150 odd. We are only improving the productivity and which is measured in case of our collections team in the form of number of contracts allocated to per person depending upon the bucket he or she is handling, like I was sharing sometime ago that the industry is having a low single digit or somewhere negative growth whereas we have been growing and we have opened 40 branches in this year itself, so whenever you are opening and you are positioning people to garner more market share and that is why you employ more people. Secondly, we have also started the gold business in June so naturally in gold we have had a separate team both on the sales inspection and operational, because gold being the business where you keep the custody of ornaments there is a very strong vertical in the form of inspections and control, which is not there in case of the other asset finance business. So even those have been added, but otherwise at a supervisory level or in the credit, operations and the collections there has hardly been any addition to the manpower.

Subramaniam P.S: Sir if I look at some of the other listed players in the vehicle financing space for them the opex seems to be at a much lower level, so is there a difference in the way we are doing business? Are we gaining market share because we are incurring higher costs and do you think that is the way forward for us or do you think that we need to consolidate for sometime to actually get the cost improvement happening for us?

Sanjay Chamria: As I was sharing we definitely have a higher cost compared to some of the companies in the sector. So one it is inherent to the structure that we have, which is a vertical structure, which gives us the benefits in the form of the superior asset quality and resulting in the lower write-offs. Second it also helps us to maintain centres of excellence, be it the collections or sale or underwriting having said that as I mentioned three years ago we undertook a program that we wish to bring down our opex ratios and over a period of last three years every year we are saving by about 10% over the pervious year, so till last year we have already achieved about 25% and this year we propose to achieve another 10% saving over what we started the year with.

Subramaniam P.S: How is that measured Sir, this 10% saving?

Sanjay Chamria: There is an industry benchmark that you measure the expenses by way of either opex as a ratio of disbursal or you measure expense as a percentage of the AUM. This is the industry-wide practice this is the way it is measured. What we also have last year we had about 4.3% roughly as an opex as the percentage of the assets.

Subramaniam P.S: Of the on balance sheet assets?

Sanjay Chamria: Yes, which is the average on balance sheet assets, so which we propose to bring it below 4% this year, so that is how like 4.3%, 10% would be 0.43.

Subramaniam P.S: So you are targeting an opex to asset ratio of 4% for FY'13?

Sanjay Chamria: We want to target actually 3.87, 3.88, so as long as we go below 4% I think we would be achieving our objective and this actually used to be more than 5.5% about three years ago.

Subramaniam P.S: But, looking at the first half numbers this seems a very aggressive assumption for FY'13 do you think this is achievable this year?

Sanjay Chamria: Yes, because what happens you see if you also look at the disbursal it is typically about 37-36 in the first half and 63 or 64 in the second half and secondly when you build the capacity for a business growth you typically employ the new guys on board in the first quarter and the second quarter and that is when they take about three or four months to settle down and then start contributing in the second half. So typically we have always seen that second half expenses are always lower compared to the first half.

Subramaniam P.S: My other question was on the write off to assets, I think we have now at almost FY'10 levels, is this because of the change in product mix or even on like-to-like products are you seeing credit costs moving up?

Sanjay Chamria: I think largely one it is on account of change in the product mix, and you arrive that in FY'10 we have roughly about 46 basis points which is write off as a percentage of the asset book, which currently is about 41 basis point. Having said that I want to make a statement that in the second half again the performance of collection is superior than compared to the first half, that is because from October to March because of festivities and rainy season being over there is no stoppage of work and the contractors and the truck drivers and farmers and all of them have more cash flows and therefore the payments do come in. The slippages happen more or less in the first half. Having said that still the write offs would be higher than FY'11 or FY'12, but in my view it would certainly and should be lower than FY'10 basis point. In terms of the existing asset class also we have seen that in one or two products there has been uptake in terms of write offs which is commercial vehicle and construction equipment. Construction equipment we have seen again this is largely on account of the contracts not getting executed, was getting stocked and cash flow is not coming in the hand of the principle contractors and in case of commercial vehicle largely it is on account of unpredictable monsoon which has impacted August and September, like July it was pretty all right, but from September it did get impacted, so which I guess would improve from end of October onwards.

Subramaniam P.S: This is on construction equipment, is it Sir?

Sanjay Chamria: Yes.

Subramaniam P.S: Thanks. That is it from my side. All the best.

Moderator: Thank you. The next question is from the line of Chetan Vora from Alfa Accurate Advisors. Please go ahead.

Chetan Vora: Sir just wanted to understand the car portfolio which constitutes 22% or 34% of the AUM whether that would be classified as income generating asset or how it would be Sir?

Sanjay Chamria: Chetan what happens a significant part of the car business that we do is the one the multi-utility vehicles which are used in the interior markets for passenger transportation, so one that is used that is obviously your income generating assets, it is directly generating income and then the other part is that those who are self-employed business class they also take the vehicles which is used for the mixed purpose for the business as well as the personal use. So only the ones which go to the private class there it is assumed that it is used for the personal purposes. That is the very small portion because the salaried segment largely could borrow car loans from the banks whereas we are largely catering to the other two classes.

Chetan Vora: What would be the split between the passenger transportation and the self-employed category? What is the bifurcation, how much of the loan of the car would be given for the passenger transportation purpose and the self-employed person?

Sanjay Chamria: Roughly in the annuity category we would have roughly about 38% of our disbursal from that segment.

Chetan Vora: For which segment, passenger transportation?

Sanjay Chamria: MUVs, multi-utility vehicles that we have financed it will be between 35% and 38% of the total disbursal. Overwhelming ratio of that would actually go for the passenger transportation.

Chetan Vora: Now continuing the market situation the auto volumes have come off, what makes us so positive that we would be able to do a disbursal of 40% plus that we have demonstrated also, apart from opening the branches? Where we gain and what is our market share? Have we increased over the period?

Sanjay Chamria: Well Chetan this is seeing is believing. As you said yourself that we have been achieving it and we have been achieving it over the last two and half years, wherein the market growth has been in single digit, but we have actually been growing, last year we grew over 70%, this year so far we have grown at about 61%. So I think what is happening as I mentioned that today the sale of passenger car, passenger car per se has actually been degrowing whereas the multi utility vehicles that I was talking, you will be surprised that sale of that has grown by 50% in the first six months of the current year. As I shared that, that constitutes between 35% and 38% of our total business and a significant chunk of that is being sold in the rural and the semi-rural markets and which is where companies like Magma benefit and a large number of buyers of these vehicles, they are actually the informal segment where they do not have the income papers, they do not have the track record and to reach out to them is actually not so easy because they operate in a small town or a taluka where monthly may be about just 50 or 70 vehicles are being sold. So for a bank to have its presence actually becomes because cost prohibitive. I think that is a play which is available and then of course you are present and provide superior customer service and therefore you get the business.

Chetan Vora: What would be your cost of deposits Sir?

Sanjay Chamria: We do not accept deposits.

Chetan Vora: The cost of raising fund?

Sanjay Chamria: I will let this pass to our CFO for him to give you a detailed answer to this.

Lakshmi Narasimhan: As we put out in that investor ppt, Chetan 10.6 is the cost of fund for this quarter and it is a different mix, because the long term money coming in is close to about 9.5 to 10, the tier II bonds are about 10.5 to 11 and then the balance coming in at about 10.5 to 10.7, when you look at the mix and the period for which you have utilized you end up with a cost of the fund of about 10.6.

Chetan Vora: What would be our target NIMs we are looking for FY'13 and FY'14?

Lakshmi Narasimhan: I think we have put out a guidance that we would work between 4.6 and 4.75 for the year and you have seen it is about 4.91 presently. I think we should be on road to be able to keep our guidance on that.

Chetan Vora: For FY'14 your disbursal growth and NIMs. Sir, just a ballpark number for FY'14?

Lakshmi Narasimhan: I think we should be able to end this year between 4.50 and 4.75 and we generally come out with guidance somewhere during the last quarter. We think we will come back to you on the exact numbers for that.

Chetan Vora: One last question, any plans of equity raising in the near term?

Lakshmi Narasimhan: I think we are fairly capitalized like Mr. Chamria mentioned in his initial part and we would look to pick up some tier II. So we are fairly well capitalized at this point of time.

Chetan Vora: Thanks a lot sir.

Moderator: Thank you. The next question is from the line of Srinivas Rao from Deutsche Bank. Please go ahead.

Srinivas Rao: Thank you very much for taking my call. I have two questions, one on the industry we have normally seen, or rightly we have been seeing over the last almost probably excess of one year that most of the nonbanking finance companies your peers all have seemed to have grown their book across various products despite the underlying industry not doing well. You have given an explanation for cars, but you also say the same thing for you at least across all products. Where is this market share or where are you gaining market share from? Is it from the money lenders or is it from the nationalized banks as an industry? That is my first question?

Sanjay Chamria: Well actually in some asset classes I can share at an industry level that I find the share of nonbanks has been growing, but this data is not completely available in an organized fashion whereas one can say with confidence, for example in case of tractors I certainly find that share of nonbanks has been going up and the reason also I can clearly see the financing is a difficult product and it is punctuated with risk of higher NPAs if not tackled very well and secondly there is also some bit of interference depending upon the state or regions and banks will end up lending and then subsequently they will withdraw when they find that they are not able to recover. I think, as opposed to this the non-banks take up quite a commercial call and they have a superior ground presence in terms of understanding the customers and reaching out to him on time because like in our experience we find more than 90% of our tractor customers they do not have a bank account. They do not operate even if they have low-frill accounts which are of no use. You need to have your own people who handle their collection, go to the customer's door step and collect. I cannot imagine any bank deploying the officials or class to go to the house of the customers to collect installments in cash. So I can clearly see Tractor as one asset class where share of non-banks has been going up. The other one that I am seeing is the SME sector. While these are on priority sector , there has been so much of noise in the regulator and the banking and the government sector that we need to promote the growth of the SME sector, you find that banks are extremely wary in the unsecured lending or to the SME sector where analyzing their financial statements and the health is extremely difficult and therefore they are unwilling to take those risks. Because the risk management in Banks have not been as good as in the case of the NBFCs, so I think these are the areas where NBFCs have a clear edge. The third like someone asked me about the changing paradigm in the commercial vehicles and I shared my perspective that there is a polarization and the sale of the Ace which is the one tonne segment has been growing whereas the multi axle has been degrowing. Small commercial vehicles where ticket size is just 3 lakhs, non-banks are growing. Does that answer your question?

Srinivas Rao: That definitely answers my question. Second question was on the collection efficiency which you have indicated that it has come off and probably reflect the broader economy so to say let us call it sentiment or trend. There is obviously an expectation that things have bottomed out is that something which you would agree, which means should we expect your collection efficiency to kind of start to reverse over the next let us say two quarters?

Sanjay Chamria: Well Srinivas first of all I think we have achieved 100% in three years and you cannot go better than that therefore it is no brainer that someday we will definitely come down from 100% and you tell me if during to the current tough times if we do not come down then we will never ever come down below 100. Therefore having said this I would also tend to agree and we have our internal review and database to support that probably it has bottomed out because on a macroeconomic level there is at least renewed optimism that government is not going to be a sitting duck and will take lot of measures and they will really implement the reforms that they have announced, actually some of them if not all and the benefit of all of this will go to the general business class and the industry and if that happens obviously the flow of cash will start improving and rotating and if that happens I am sure we will be back to the hay days of 100% and once again hopefully 30 basis point has a write off.

Srinivas Rao: Fair enough.

Moderator: Thank you. The next question is from the line of Ravi Ratanpal from JP Morgan. Please go ahead.

Ravi Ratanpal: Sir can you please elaborate on your SME book and what kind of growth do you see in this segment going forward?

Sanjay Chamria: In the SME business that we do, we typically have an average ticket size of about 20 to 25 lakhs and we have certain filtering norms that we would lend only to those enterprises which are at least in business for more than five years, which have audited balance sheet and financials which have a working capital line of credits from one of the scheduled commercial banks, so there is some level of the hygiene being maintained. Then we operate from about 28 branches of Magma for these SME loans and we operate in a radius of about 125 km therefrom, so thereby we cover quite a bit of area. In terms of the growth I think they are still at a pretty small level and that is on purpose because that is the only unsecured product in our total table of seven products. So we do not want the SME book to grow beyond 6% to 7% currently it is 5% and this year it has grown at about 75% in the second quarter on a YoY basis. The total loan that we offer is for a period of about under three years, so the average repayment is about 16 to 17 months. We typically fund it whenever there is a working capital gap in the operations of the entity and we have typically seen that these entities usually grow their business by about 20% to 25% each year, but by the time the increased bank credit comes to them this is usually January or February. So therefore there is a perpetual gap that they have and we select those entities for funding.

Ravi Ratanpal: Any specific sector which you avoid giving loan to?

Sanjay Chamria: There are quite a few. One is we do not finance the capital market players in this because where the income volatility is high, real estate, brokers, export-oriented units and especially in the ones which are also marked by high volatility. These are the kind of sectors where we do not fund.

Ravi Ratanpal: That is it from my side. Thank you.

Moderator: Thank you. The next question is from the line of Ravi Mittal from BNP Paribas. Please go ahead.

Ravi Mittal: Most of my question has been answered. Just one question on the liquidity side, could you tell us what is the ALM gap in less than three months' bucket as on September end?

Lakshmi Narasimhan: The way we look out at our ALMs, it is a positive mismatch for all tenures including the 0 to 1 year bucket and especially for the 0 to 3 months there are some price arbitrage-related activities that we do. We pick up commercial paper in replacement of the working capital line that we have with underlying assets. In real sense you do not see any mismatch on the ALM at all.

Ravi Mittal: Another question mainly on the asset side, how much of a total AUM would be off balance sheet?

Lakshmi Narasimhan: At this point in time I think our off balance assets would be about 3700 odd Crores.

Ravi Mittal: That is all from my side. Thank you Sir.

Moderator: Thank you. The next question is from the line of Nischint Chawate from Kotak. Please go ahead.

Nischint Chawate: You reported operating income of 382 Crores and I believe you said the securitization income is around 26 Crores, can you give a breakup of the balance?

Sanjay Chamria: The balance would largely be on account of your interest on the loans given with the attendant income of the documentation and the management fees and whatever fee based income that we have then we have a very small income on account of the windmills, which is roughly about 7 to 8 Crores and then we maintain certain cash collaterals for the securitization and assignment deals where we will have some 14 to 15 Crores.

Nischint Chawate: How much would be the fee income like for the quarter?

Sanjay Chamria: Fee income would be I think about 9 to 10 Crores.

Nischint Chawate: This is another question basically pertaining to the capital adequacy side. Tier I capital adequacy ratio has come down quite sharply on quarter-on-quarter basis, so how do we see things going forward. I know that you made a statement saying that currently you are looking at raising tier II, but clearly the kind of growth that you are reporting you may possibly need to look at more tier I so how should one look at this?

Sanjay Chamria: I think we will also maintain the growth trajectory in the second half. Our wish is to grow aggressively while maintaining the NIMs and the asset quality and we will also look to optimize the resources of capital through greater use of the tier II window, which is available. As we discussed that we need to maintain 15% and we can hypothetically go up to 20%. We have tier I at 11% and tier II can be equivalent of tier I. So therefore we will continue to exploit this window as much as possible plus I also shared that we have not done any sell downs in the first half, so in the second half when the pricing is good and now with the uncertainty also on the securitisation having gone so we will also look to do deals which will also release the capital. So I think it is a complex calculation that we will have to do and then look at second half of the year on how to deal the scenario.

Nischint Chawate: Thank you very much and all the best.

Moderator: Thank you. Next question is from the line of Anil Kini from Envision Capital. Please go ahead.

Anil Kini: Can you just help us understand your strategy on building the liability franchise and how do you see it going ahead in the future?

Lakshmi Narasimhan: Was it liability you said?

Anil Kini: Yes, liability, right now 56% of your liability is from bank line so how do you see that going ahead?

Lakshmi Narasimhan: I don't think there is an ideal position one can take on the topic but it is quite a dynamic piece from all perspectives Anil, because it depends on what type of tenures you get, what types of cost you get, so on and so forth. We look at it from two perspectives, one is the liquidity mismatch in terms of tenures and second what are the pricing at which we get. So if you are going to ask for an ideal mix or how is it going to look like I think we would kind of tend more towards the capital markets and probably try and reduce the bank lines a little but it is never an ideal position that we would take on it.

Anil Kini: I am asking you whether you are looking to tap some new sources of funding.

Lakshmi Narasimhan: I think capital markets are broken up into mutual fund, insurance and provident funds and that is a good share of liabilities so if you look at kind of derisking that then probably more of those entities coming into the system rather than exposing yourself to one or two banks or one or two entities that is how that break up would be.

Anil Kini: Thanks.

Sanjay Chamria: I will add one point, I did mention that over the last 15 months you see we have started working on diversifying our liability profile and today we are very pleased to share that the top names both domestically and internationally on the fixed income side there have been our investors into the various papers issued by Magma and therefore our objective is to continue to grow that franchise and have a larger contribution.

Anil Kini: Great, thank you so much.

Moderator: Thank you. The next question is from the line of Pankaj Agarwal from Ambit Capital. Please go ahead.

Pankaj Agarwal: Good morning Sir. Your shareholder's fund which were around Rs.11.3 billion at the end of last quarter they have gone up to around Rs.12.2 billion, so if I add the last quarter shareholder's equity and this quarter's stock rate it is not adding up, so is there any change which I am missing?

Sanjay Chamria: Pankaj this is basically on account of the opening balance of the networth aided by the profits of six months and as I mentioned that our joint venture on account of the insurance got operational after the receipt of the requisite Licence from IRDA, so thereafter we capitalized the insurance JV with a capital of Rs.208 Crores, which Magma contributed only Rs.26 Crores towards its 37% stake. So there is a significant premium that came in from the JV partner. On account of the Guidelines pertaining to the accounting policy for the JV interest company, we have got a break up value of Rs.64 Crores worth of funds for 26 Crores of investments.

Pankaj Agarwal: So that difference is coming from there. The second question is on securitisation and assignments you are saying that these instruments will pick up in the second half, so do you see more of assignment or PTC route going forward what is your take?

Sanjay Chamria: In my view, Pankaj, this scenario is yet to evolve and I would like to see more of assignments but I think it varies from company to company in terms of originator, but in case of assignment there is no credit enhancement that will be possible, so the buyers will have to take the underlying risk on the assets that they purchase, which in my view will limit the option to only those originators whose asset quality is impeccable. Magma obviously would like to take advantage of this window, which would be available to a very select handful of players.

Pankaj Agarwal: Sir because now like the bank would take the credit risk, what kind of extra spreads they will demand and what is your stake on that?

Sanjay Chamria: If I were sitting a banker's desk I will look as to what is the historical loss percentages being incurred by the originator on the similar portfolio and I will factor that into the pricing, plus the bank will also look at what losses have they been incurring on the portfolio so therefore supposing if I do a securitisation deal at let us say 9%, so in case of assignments I could probably add another 30-50 basis points depending upon what loss percentages I get.

Pankaj Agarwal: Do you think that a banker would only add your normalized credit losses or they would look at the peak losses or a multiple, given that till now till you were in between basically their credit risk was on you and not on the ultimate borrower, so the credit risk is shifting now to the ultimate borrower, do you think even 50 basis points would suffice the bank to take those kinds of portfolio?

Sanjay Chamria: I am talking this from the Magma specific experience because if I find that my losses per year are between 20 and 30 basis points for a three and a half years paper, then obviously the overall losses in the range of about 50 to 60 basis points if I give up 50 basis point rate benefit to the bank then it results in roughly over a tenure about 70 to 75 basis point, so if a banker will ask for more than that then from a Magma standpoint I may not be interested in doing the deal, maybe someone else would be interested in doing the deal whoever have a high credit loss, so I think this situation is right from player-to-player.

Pankaj Agarwal: Thanks a lot.

Moderator: Thank you. The next question is from the line of Omkar Kulkarni from CRISIL. Please go ahead.

Omkar Kulkarni: Good morning gentlemen. I have a question on our brokerage and commission, this cost has been increasing even on a sequential basis so just wanted to understand are we really have to push our products to achieve these kinds of disbursement growth and tomorrow if we reduce our commissions that we give to our channel partners the growth may actually start to taper down? Is that a correct assumption?

Sanjay Chamria: I would wish to clarify that the percentage of payout remains exactly the same. There is no change in the percentage of payout and that is why I am thanking you for asking the question because then the question comes why there are such a steep increase in the brokerage and commission payout over the year and over the quarter this is largely on account of the change in the accounting policies and wherein earlier since we used to rely on a sell down route for funding our business and recognize income upfront, so even the DSA payouts were recognized upfront. Now that we amortize the income over the tenure of the contract, the DSA payout is also ammortised and this is in line with the industry trend and the accounting standard prescribed and we amortize it over the life of the contract, so therefore this amount will keep growing and on the income side also there is a corresponding income growth that is also shown on a gross basis.

Omkar Kulkarni: Sir even on the sequential basis if I compare it with the previous quarter even then the increase is pretty significant so is it again because of the same thing that you mentioned because incrementally you are also booking additional income on the income side?

Sanjay Chamria: It is actually basically on account of the same that every succeeding quarters there will be an impact because for example, if I paid about Rs.20 Crores in the first quarter now out of the 20 Crores maybe only about Rs.1 Crore would have been debited to the P&L and Rs.19 Crores would have gone into the prepaid expense. But now from the second quarter onwards that Rs.19 Crores will be split across maybe about seven or eight quarters so the impact would be Rs.2 to Rs.2.5 Crores per quarter. That way going forward it will keep on increasing for some more time but then the same is also taken care by way of similar increase in the income side.

Omkar Kulkarni: Secondly in terms of our plans to add more branches, how many branches do we plan to add over the next Q2 of this year or till next year as well?

Sanjay Chamria: Now what we are adding as the branches in our mainline business we are opening it more in the extreme rural areas because we see potentiality in the tractor and the used CV business. So if I look at car, truck and construction equipment and SME, I think we have largely covered the entire country wherever we wanted to be present but tractor and suvidha we still find that there are vacancies and for us to grow our market share we need to provide further reach and coverage to the manufacturers. But a good number of our branches which are coming up are actually for the gold business because gold is a B2C model. We need to have multiple branches in the same city, so that is the difference. So our new branches will be largely on account of gold and way we sort of take care of the opex is that our insurance business also which is launched under a separate joint venture will also be using the same branches for selling the insurance and thereby split the expenses within the two entities.

Omkar Kulkarni: Sir if you could just give some numbers in terms of how many branches do you plan to add?

Sanjay Chamria: In the asset business side, we could have maybe about 15 to 20 branches further because most of the branches we wish to complete by October otherwise I do not get the benefit of business because the last quarter is the busiest quarter for us in terms of business. In fact 35% of our disbursals if you look at last five years trend comes in the last quarter, so we do not want to busy ourselves in opening the branches in the last quarter, so now I think it maybe about 15 or 20 that may come in the asset business and the rest of it would come in the gold.

Omkar Kulkarni: That is all from my side. Thank you.

Moderator: Thank you. The next question is from the line of Chinmay Sathe from Bajaj Allianz. Please go ahead.

Chinmay Sathe: My question is basically on the priority sector, what percentage of the loan book will qualify for the priority sector after the new guidelines?

Sanjay Chamria: If I go asset class wise then except for a portion of car, which is used for the personal use and that in my view would be about 30% to 35% of 29%, which would roughly be about 11% to 12% and in the construction equipment and CV to the extent it is for the large customer, which is a very small percentage, because they are so rate sensitive that in any case we are not competitive there, so I think overall if I take a view it would be roughly about 20%, which will not qualify as a priority sector under the guidelines. Lakshmi I think, wanting to say something. I will hand over to him.

Lakshmi Narasimhan: Apart from what Sanjay just now mentioned, in terms of specific segments in the tractors, used commercial vehicles and SME such contracts that have more than 8% spread if you are approaching it from a sell down side would again not qualify for priority sector treatment, so overall I think about 10% which is 50% of these three segments plus the 20% as you just now heard, so if I have a book of Rs.1000 Crores then 70% would qualify for priority sector and 30% would not qualify for priority sector as per the current norms.

Chinmay Sathe: So the used CV segment, which we are growing very fast, whether that will qualify or finally that will not come under that segment?

Lakshmi Narasimhan: Not that you do all contracts with such amount of spread, which is what I mentioned as being 50% of what we do in these two products, which is tractor and used commercial vehicle, would yet qualify for the priority sector but having said that again this is a dynamic thing depends on where the base rate or which buyer it is at point in time, so it is a moving spread, having said that I think about 50% of this book will not qualify.

Chinmay Sathe: What spread are we able to basically do the deals with the banks and institutions? What spread are we able to sell this portfolio on the priority sector side?

Lakshmi Narasimhan: We have not done anything for the first half of this year, and at this point in time we are only evaluating on the price because otherwise we do have a book which is seasoned and possibly capable of being sold as well.

Chinmay Sathe: So any indication or any guidance on that front? What level we expect now this to be done?

Lakshmi Narasimhan: I think I will be a seller, so guidance in terms of pricing would largely be a function of how do we structure a deal and how do we tie up. So it is too early at this point in time to react on that.

Chinmay Thank you.

Moderator: Thank you. We have a followup question from the line of Srinivas Rao from Deutsche Bank. Please go ahead.

Srinivas Rao: My question kind of goes back to your two more questions if I may take. One on your tractors, you know, there has been this sort of theme which is from the manufacturer also that lot of the tractor growth in the past, not this year in the last two-three years, has come because of being used for non-farm usage particularly contract link to rural road building and all that. Could you throw some light as to a few, what is the share or what is the percentage of your tractors, which kind of have such a usage profile and within that do you fund them differently? That would be my first question.

Sanjay Chamria: I think it is an acknowledged fact that today significant percentage of the tractor sale is primarily for the commercial applications and even less than 50% which is sold for the agri purpose is actually used for the mixed users, which means both agri as well as commercial. Now let me give you a very small analogy. Farmer has six acres of land and having two crops a year can use the tractor only for 90 days in a year. The other nine months in the year, he will actually use it for commercial applications, which could be sand or stone chips transportation or working at the riverbed or the other works or for hiring, so this is how it happens.

Srinivas Rao: Sir, do you differentiate in financing in terms of tenure or spread when you know that the usage is largely for let us say non-farm?

Sanjay Chamria: We have three types of differentiation we have a CSC, which is called a customer selection criteria, so we categorize the agri purpose loan and the commercial purpose loan based on the end users and thereafter as you rightly said, we have a tenure restriction where there is no land users where there is a commercial application because those kind of applications depreciates the tractor faster as compared to the agricultural users. Secondly, the profile of the customer, because there is no land ownership that is mandatory required in case of commercial applications so that stability is less and therefore we allow a lower LTV, so we have a higher down payment from those customers. Thirdly, in case of the farmers who have the land used for farming, we charge a lower rate of interest as compared to the one customer who uses it for the commercial applications.

Srinivas Rao: So the tenure is lower and also the down payment is higher for a commercial usage.

Sanjay Chamria: Tenure is also lesser, yes.

Srinivas Rao: Sir, any percentage you can speak of in your disbursements over the last two years? How much have you classified in both the criteria which you mentioned, both the buckets?

Sanjay Chamria: We are still having about 7% share in tractor financing on all India basis. We are rapidly growing the same. So right now we are still concentrating largely on the agri segment. That is the customers who have the agricultural land banks, primary use is the farming and the secondary use is the commercial, so I think about 16% to 17% of the total tractor funding that we do only is on pure commercial application and about 83% to 84% would go for the farming application or the mixed uses.

Srinivas Rao: Sir, finally my second question is if I look at actually your book, it does not look like something which is actually you said a Bharat kind of a company. The cars have the larger share of your disbursements and also growing at more than the average rate of the company, and you also mentioned in your opening remarks that the rural consumption has overtaken urban for the first time. Your thoughts on this. How things will pan out over the next two years? Is the rural consumption growth will continue to be stronger than the urban?

Sanjay Chamria: Rural and semi-rural India also sell cars. If you look at the population of the MUVs it is far higher in the rural and the semi-rural India than compared to urban. 38% of our total cars funding is the MUV as I mentioned some time ago, the balance 62% that we do about 9% is the used cars, which also is in the interior markets and out of the balance 53% to 54% there is a mix within the urban and the semi-urban market. Now if you see the urban market the markets are over saturated and banks are offering so much of freebies and processing fee waivers and the interest slated at 10.5% who wants to buy a car loan, I do not clearly see any play involved for a company like Magma. I will be destroying my shareholder value also. Although we finance cars but we largely operate it in those segments. There are now selective segments even in the urban India, which banks are unable to do, which we do and we make good returns. We are essentially return driven. If you look at my overall yields there is a particular slide, slide #7, which you might have downloaded net of payouts we have about 14.5% whereas declared rates by all banks in India on car is about 10.5% to 10.75%. We operate at different segment altogether.

Srinivas Rao: Fair enough. This is helpful. Thanks.

Moderator: Thank you. We are going to take our next followup question from the line of Ritesh Nambiar from UTI Mutual Fund. Please go ahead.

Ritesh Nambiar: Sir, just a followup, as you mentioned your ALM is positive, so whether you were referring to one year bucket because your balance sheet breakup shows otherwise and if so because it may not be that favorable for you, the interest rate cooling, which may happen in the coming months?

Lakshmi Narasimhan: Ritesh, two perspectives, one is the interest rate, if you see 56% of my borrowing is from the banks as of September and almost all of it is at variable rate of interest, which is linked to the base rate. Just to give you a perspective on the interest rate benefit if it cools off. As far as the ALM piece is concerned, not just in the 0 to 1 year bucket, the point we were making is on the working capital lines, one is we use CPs more for a price arbitrage and number two is considering the vintage in the relationship and the diversification in the lines that we have with the banks not all sanctions expire exactly in the month of March each year. So if you kind of look at it from that perspective the match between the assets on the right and the liabilities on the left it is positive for all tenures right from 0-1 year going forward and the working capital lines we match it to the tenure of the assets. So that is why, while you have a number in front of you which kind of communicates that 0-1 year is matched well and the balance may not be, the fact remains that the working capital lines are matched to the tenure of the assets.

Ritesh Nambiar: Fair enough. Thanks a lot.

Moderator: Thank you. The next question is from the line of Chandan Gehlot from Deutsche Asset Management. Please go ahead.

Chandan Gehlot: Sir just wanted to gather some more colours on your insurance JV business. Could you throw some light on that?

Sanjay Chamria: What is the specific question? Can you please tell?

Chandan Gehlot: Just wanted to know what kind of capital infusion you have made so far and what kind of plans to launch the product and the growth in this business?

Sanjay Chamria: We capitalized the company at 208 Crores as I mentioned of which 100 Crores is the trade up capital and 108 Crores is the premium. That 108 Crores premium has been entirely paid by the foreign partner towards its 26% stake in the JV. So that is the capital structure and we already have the entire management team in place, starting with the managing director, who has joined us from Bajaj Allianz General Insurance where he was the CEO, before joining our JV as the M.D. and CEO. Plus we have the Head of Underwriting Claims actuary, the CFO, and the CIO all of the team is in place. We have already received our first product approval in September for motor which is the largest segment in the insurance industry as a whole and we have also filed for the product approval on the health and the personal accident and the householders policy and we expect some of this to come through by end of October so we have already started booking business. As I said in the month of October we did the launch, and we hope to be able to launch the other retail products by January once we receive by the end of this month the approval. Our technology platform is already powered by CMC which has more than 50% share in the entire industry in terms of providing the technology platform for the insurance business and we have also opened about 39 branches already for which we received the approval from the insurance regulator and we have on board a team of about roughly 300 plus people which is across three verticals space, underwriting and claims, apart from the support function team and the central office team at head office. So this is broadly the contour. If you have any specific questions you may please let me know.

Chandan Gehlot: Just wanted to check what kind of contribution we can see by the end of this fiscal?

Sanjay Chamria: I think it is still early days and we will have just about six months of operation in the current year and so this year the idea would be largely to open the branches, stabilize and get the business. So I think next year will be the first full year of operation. Our endeavor is basically again to follow a low cost insurance model wherein again we are leveraging the private company branch network so that the operating costs are not high and which is what basically impacts the profitability of an insurance operation in the first two to three years. So that is the model which has been approved by the regulator plus as far as the joint venture agreement Magma Fincorp the listed company also because they are the corporate agent of the insurance JV and therefore on an arms length for whatever business it makes to the JV company. So this is how it is.

Chandan Gehlot: Lastly, how much time will it take to break even?

Sanjay Chamria: Well this is a question I would refrain from answering on this call because this pertains to the insurance company operation and we can have a separate discussion on this. Magma owns 37% in this and we will do the accounting on the basis of our joint venture interest as per AS-37 on this.

Chandan Gehlot: Thanks.

Moderator: Thank you. Ladies and gentlemen due to time constraints that was the last question. I now hand over the conference to Ms. Chinmaya Garg for closing comments. Thank you.

Chinmaya Garg: I would like to thank Mr. Chamria for taking out time to explain his results to all of us. I would like to thank the participants also for participating. Thank you all.

Sanjay Chamria: Thank you.

Moderator: Thank you. On behalf of IDFC Securities Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.