Magma Finance Q2 2014 Earnings Call 1 Nov’13

Operator

Ladies and gentlemen, good day, and welcome to the Magma Finance Q2 FY '14 Earnings Conference Call hosted by Kotak Institutional Equities. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Please note that this conference is being recorded. I now have the conference over to Mr. Nischint Chawathe. Thank you and over to you, sir.

Nischint Chawathe

Good morning, everyone. I welcome you all on behalf of Kotak Institutional Equities. Thank you for joining us on Magma Fincorp's 2Q FY '14 Results Conference Call. We have with us Mr. Sanjay Chamria, Vice Chairman and Managing Director; and the Senior Management Team to talk about company's performance and important events during the quarter ended 30th September, 2013. We will begin the call with opening remarks on Mr. Chamria following which we will open the forum for an interactive Q&A session.

I would now like to invite Mr. Chamria to makes his opening comments.

Sanjay Chamria, Vice Chairman, CEO

Thank you, Nischint, and good morning, everyone, and I thank all you for joining the Magma's quarterly conference call for the results ended 30th September, 2013. Before we discuss the results, I'd like to spend a few minutes giving you all a background on the various initializes and activities that both me and the management team, we are engaged into and which is holding us in good stead during these volatile times.
As each one of you will be aware, we're even focused on the rural and the semi urban markets on the country with 81% of our branch network being there and a large part of our portfolio also emanating from the agricultural belt. So I and my management team have been travelling quite extensively during the last several months with the view to be in touch with both the customers who are paying and as well as who are not paying and the dealers, to understand, learn and appreciate the ground realities and then convert each of those learnings into the measurable and achievable action items.

Just to let you all know that this has provided me and the team with immense knowledge of the continuing potential of the rural markets in the country. Some of these initiatives having been taken paying off, our disbursals have grown by more than 10% during Q2 over Q1 despite of market being largely flat and we are quite optimistic of improving the new disbursals over the preceding quarter in the second half.

Our Housing Finance business has also stabilized as it's now operational in more than 60 locations and is expected to contribute higher in overall disbursal during the second half and contribute to the group. The second half of the year has generally been buoyant. It's further supported by a great monsoon. And with expected better realization in the hands of the farmers and truck operators, we are confident of more efficient and consistent cash flows in our customers' hands, which should result in better collection performance.

Now I turn to the performance highlights for the year till date. Our total loan book stands at INR16,700 crores approximately on 30th September, a 23% Y-o-Y growth from 13,500 crores as on September '12. The earning asset comprise now 98% of the total loan book and therefore, the impact of the accounting policy changes made effective from April 11 is minimal.

Our net interest spread from the earnings loan book for the first half of FY '14 has increased to 5.63%, up from 4.91% in FY '13. The increase in the spreads is a function of both the increase in the gross sales on first disbursals and decrease in the overall cost of funds. There is further headroom for increase in the gross disbursals, as the older loan assets with the lower rates run off and the new disbursals are done at a high rate. Our net displayed during the second quarter on the earnings book is up by 17 basis points to 5.71% and reflect a healthy trend.

Our collection efficiency for the first half of the year stands at 95%, which reflects continued stress in the economy. This has however now stabilized, and with the expected restarting of the commercial activities post-monsoon we expect the cash flows in the customer's hands to improve, -- I think with better collection efficiency from the third quarter onwards.

We also perceive a lot of on-ground initiatives to improve the collection efficiency and are confident of restoring the efficiency to the normal levels over the course of the year. We've incurred gross write-offs and bad debt provisioning of INR81 crores in the first half of the year. This is partly on account of continued stress in the general environment and the stress in the asset quality, and partly an impact of the conservative provisioning norms that we apply for NPAs starting FY '13.

We have early adopted the draft recommendations of the Usha Thorat Committee and made provisioning for NPA at 120 days past due against the regulatory requirement of 180 days past due. Additionally, we have made higher standard asset provisioning at 30 basis points against 25 basis points mandated by the regulator. While allying customers who want more time to pay installments, on the other end we strictly ensure that NPA is recognized in our books as per the original recovery schedule and none of the existing contracts, and we have 4,40,000 contracts, are restructured in our books.

As you will recall, we had launched three new businesses last year, Mortgage, General Insurance, and Gold. We are now present in 61 locations for mortgage and 57 locations for general insurance. Both these businesses operate out of existing asset finance locations.

We've put out details of these businesses in the investors presentation, which all of you would have already downloaded. Both these businesses are performing in accordance with our plans of making available more number of products to our existing customers and to new customers. As the quarters go by, the contribution of these businesses The gold loan business presently is faced with market uncertainties and regulatory and fiscal actions to reduce the investment in gold. And consequently, we are actively evaluating the rational of our presence in this business and would take a decision shortly.

On the overall market conditions, we believe the worst is behind us. Good monsoon and the onset of the festival season is expected to kick start growth and spur commercial activity resulting in better cash flow positions for the customers. As mentioned above, the second half of the year is generally seen as more favorable for financing business in India. We believe the asset quality will improve over the next two quarters and will help us release the NPA provisions that we have already created, which tried to capitalize on the opportunities available in this pace with a broad range of products and a pan-India network at our disposal.

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

Questions And Answers

Operator

Thank you very much. First question is from the line of Prakhar Agarwal from Edelweiss Securities. Please go ahead.

Kunal Shah, Analyst

Yeah, sir. This is Kunal Shah from Edelweiss. Sir, yeah -- sir, firstly on the margin front, so if I look on the reported side, have the margins actually moved up quarter-on-quarter, the interest rates?

Sanjay Chamria, Vice Chairman, CEO

As I said, Kunal, that on the entire earning book which is now 15,500 crores, the margins have moved up to about 5.63% and in the -- as on 30th of September it is at 5.71%.

Kunal Shah, Analyst

Yeah.

Sanjay Chamria, Vice Chairman, CEO

If you look at the incremental lending during the first half --

Kunal Shah, Analyst

Yeah.

Sanjay Chamria, Vice Chairman, CEO

-- that is also at about 5.6%.
Okay. Yeah, so just wanted to understand, when I do it on a calculated basis, so if we look at the net operating income, that has actually come off, okay, from quarter-to-quarter, so from 182 it has actually come up to 173, okay, on a higher AUM. So on a calculated basis, there was more than 25 -- decline, okay, so just wanted to get the sense, is there interest income --

Sanjay Chamria, Vice Chairman, CEO

I will give a clarification on this. So, as you can see that there is a higher provisioning for the NPAs, so the NPA provisioning is on the principal outstanding and to that extent the more accounts got into the NPA, the income has been reversed. So while the yields have gone up on the portfolio as a whole during the second quarter, however because of the income reversal -- and also as you know that August 2012, the RBI guidelines on the securitization also require you that to the extent there is a dip into the EIS by the investors to make a further shortfall in the collection efficiency.

The same also has got to be reversed while it is very harsh because here in -- even the contracts, which are not NPAs, so therefore, like we follow a policy of NPA recognition as 120 DPD. So the contacts which are in 1 to 119 DPD, but which have been securitized, and if there is a dip in the collection efficiency requiring the bank who have securitized the portfolio to dip into the excess interest rate, that has also got to be reversed. So, this is timing mismatch in terms of the reporting of the net operating income, but however the yields are definitely up.

Kunal Shah, Analyst

Okay, got it. So sir, in terms of outlook, how do we see the spread, as you mentioned, that definitely on the earning side, we can still continue with the momentum on the yield side, okay. So -- but how about on the funding cost, because I think funding cost was well under control, so would it also be controlled and we could see margin expansion continuing in the second half?

Sanjay Chamria, Vice Chairman, CEO

So, Kunal, as we have consistently maintained over the last several quarters that we have been tweaking the product mix and the customer mix in each of the products to improve the gross yields in the company. And with the tighter asset provisioning and the other quality majors, we are able to maintain the cost of funds reasonably well. And as a result of that, with every succeeding quarter we are able to improve upon the yields. And even going forward, I'm quite optimistic both on the disbursal rate of growth as well as the yields.

Just to give an example, like yesterday October got over, and our disbursals for the month of October are up by about 15% over last month, which was the highest -- September usually is the highest in the first half of the year and October is 15% further up compared to September, although this time the Dussehra and the Diwali is expected to be muted so far as the vehicle sales are concerned. And even the yields are up by about 15 basis points further over what we have achieved in the month of September.

So therefore, it lends credence to the optimism that management team and myself have, which is of growth both in the disbursal as well as in the yields.

Kunal Shah, Analyst

Okay. So, what is the AUM growth which we would be targeting?
The AUM growth would be one, again a function of the growth that we achieved in the disbursal as well as the run-offs that we have. So, we have achieved so far about 16% growth in the AUM and our idea would be that the second half of the year disbursals would go up, and the second point as I mentioned in my inaugural address is that housing, which actually contributed 4% of our disbursals in the first half of the year, because the business started in June and we had only four months, and now the team is in place and today we have about 350 people, a dedicated team, for the sales and the credit in housing. Rest everything is the shared services.

And the product is already available at 61 locations and our idea is to make it available in 124 locations by the fourth quarter out of 279 locations that we have in Magma. And therefore, we expect that the housing should contribute about 10 to 11% of our total disbursal in the second half, and this will give a major fillip to the disbursal and the loan book growth. So there, I would be optimistic that the overall AUM growth should be more than 16% by the time we end the year.

Kunal Shah, Analyst

Okay. And sir, overall say the stress which is there on the commercial vehicle and on the construction equipment, would we say that the worst is behind us? [Technical Difficulty] give some guidance in terms of, say, slightly being positive in the second half, but on the entire book if we -- because this quarter if we look at -- there was some uptick in the disbursements on the commercial vehicle which was up more than 50% definitely on a lower base.

So are we getting comfortable on the commercial vehicle portfolio existing that major things would have, say, been -or say, the stress would have thinned out on the existing book?

Sanjay Chamria, Vice Chairman, CEO

I think we don't -- we are not on the same page, Kunal, on this. So I would actually request you and everyone else to refer to the slide number 4 of our investors presentation in which we've actually given the disbursal breakup for the first half. And if you see that the weak sentiment in the sale of Commercial Vehicles and Construction Equipment and also in line with the continuing stress on the portfolio quality, the management team -- as a management team, we've decided to reduce our focus and the total disbursal in Commercial Vehicle is only 13% and Construction Equipment only 14%.

And three years ago like CV used to be the dominant product for us, today it is at number four. The top product is actually the Utility Vehicles and Cars, which is at 35%, and Tractor which we started six years ago is already at number two at 17% followed by Construction Equipment at 14%,. And CV has actually now slipped to 13%.

As I've always mentioned that we are in a cyclical industry and therefore, having a wide bouquet of product gives us the benefit of diversity from a risk angle as well as from a business growth angle. So therefore, even in future, at least until the next year or year and a half, till the overall industrial economic activity picks up, I'm not very optimistic that Commercial Vehicle or Construction Equipment sales will witness a rise.

Kunal Shah, Analyst

Okay. Yes, sir, I've also gone through the presentation, but I was just talking about the Q1 to Q2 numbers. So actually if you look at in the Q2, okay, you are talking about the first half, okay, but in the Q1, the number was much lower. In Q2, if you look at it the disbursement in the commercial vehicle is almost like 14% of the disbursement of 2,200. So from 210 crores it has actually gone up to 330 crores and my question was particularly from Q1 to Q2 rather than on the first half. So is it maybe like likely getting comfortable because in second half there is slight uptake?
Yeah, I think from that point of view, out of a total 528 crores that we've disbursed in the first half, 317 has come actually in the second quarter.

Kunal Shah, Analyst

Yeah, that's what, yeah.

Sanjay Chamria, Vice Chairman, CEO

And about 210 crores has come in the first quarter.

Kunal Shah, Analyst

Yeah.

Sanjay Chamria, Vice Chairman, CEO

So from that point of view there is a growth, but I don't really ascribe must to it.

Kunal Shah, Analyst

Okay.

Sanjay Chamria, Vice Chairman, CEO

This is [Technical Difficulty] of the presence that we have. And wherever -- with the tightened credit screen, the business that we are getting -- because one thing which is upper most in the mind is not to compromise on the asset quality. See, what existing portfolio we have there we need to maintain the quality through the sustained and increased collection efforts. And in the respect of the new origination, we've got to make sure that any customer who is buying any asset in today's circumstances is prepared to generate enough cash flow to pay the installments. And this obviously has resulted in a lower off-take and lower funding opportunities. So after that whatever has come, we've funded.

Kunal Shah, Analyst

Okay, sir. Yeah, thanks for that.

Sanjay Chamria, Vice Chairman, CEO

Thank you.

Operator

Thank you. Next question is from the line of Srinivas Rao from Deutsche Bank. Please go ahead.
Thank you very much, sir. I wanted to kind of just -- on your opening comments you did make -- you said that you have extensively toured your -- the customer base. Just wanted your feedback on the agricultural scenario and how you are thinking about it. I mean the context is we have heard and seen that monsoons have been good and some particular parts of the country, particularly Maharashtra and all, have seen pretty decent crop output. But is this extended rains making a negative impact, so just your thoughts around how agricultural is developing.

Sanjay Chamria, Vice Chairman, CEO

So one is the primary indicators of the tractor sales, so if you look at the tractor sales than first 6 months it has grown by 21%, however in the quarter it grew by 36%, so the rate of growth has come off in the second quarter.

Srinivas Rao, Analyst

Sure.

Sanjay Chamria, Vice Chairman, CEO

But however if you see it in the backdrop of the negative growth in the suction equipment, utility vehicles and the commercial vehicles, then it really sticks out at one of the best performing sectors. And also like -- I've travelled about six states very extensively in the last three months and therein I find that the tractor sales in the some of the states, for example, MP --

Srinivas Rao, Analyst

Yeah.

Sanjay Chamria, Vice Chairman, CEO

-- here it has actually gone up by more than 70%. And even last year, in MP the tractor sales were up by 70%. So over the last two years, it has grown by almost 160% and if my estimate is anywhere right it could become among the top three sates in India in terms of the tractor sales.

Srinivas Rao, Analyst

That would be the case for --

Sanjay Chamria, Vice Chairman, CEO

However the second point which you mentioned, so I'll share with you, for example, this excess rent fall has impacted the soybean crop on MP and therefore it will put a pressure on the ability of the farmers to honor their obligations. But then again, I was in Bihar the other day and there I find that the rainfall has not clearly impacted and that farmers are in a much better shape, and so it is reflected in our portfolio quality, if I look at both on the commercial vehicle and the tractors in MP and Bihar.

Srinivas Rao, Analyst

So overall, you still think we should be okay because your portfolio also is reasonable skewed to south -- I mean you have a reasonably well diversified portfolio from a geographic -- and you think that should be okay -- will hold okay for the rest of the year?

Sanjay Chamria, Vice Chairman, CEO

Just like I mentioning to Kunal when he asked me, that we have product diversity which is very huge, so is the geographical diversity, north contributes 35% followed by west at 28 and south at 23 and east at 14. So therefore, I think we protect ourselves against the -- our natural vagaries as well as economic disparity of the volatility in different states.

And earlier like we had the largest contribution coming in from Maharashtra and AP at 15%, which is now down to 9%. This is largely on account of the two years of drought that Andhra faced and this year of political uncertainty and therefore our business went down, but then it has been made more than good in the other states which have done pretty well, which is Bihar, UP and MP.

And similarly in Maharashtra, for example, last year the agri was impacted and there was rally and delinquency and therefore the business had gone down. So that way, I think we have countered the cyclical trends, be it on the product side or on the geography side, and dealt with this. Does that answer your question?

Srinivas Rao, Analyst

Yeah, perfectly sir. This is really helpful. And secondly on the collection efficiency, is there -- I mean obviously you've mentioned that the dip reflects tough conditions; a, is there any particular product where it has fallen more? I mean is this incrementally which has fallen on a sequential basis driven by some particular products or it is more kind of broad-based?

Sanjay Chamria, Vice Chairman, CEO

1, it is broad-based but since we have 8 products in our portfolio, so it will never be uniform across. So even when we had 100% collection efficiency for three years, there were one or two products which were below 100 and currently like six months we are at 95%. So there are products which are at 98% and there are products which are at 92 and 93%, so the larger strength that I see, as I mentioned, in commercial vehicle and construction equipment.

In case of tractors it is seasonal, so for example, now in October there are certain states where there is harvest and therefore the collections will come and it will improve the portfolio. But then, the consistent stress that I see is more manifested in commercial vehicle and construction equipment.

Srinivas Rao, Analyst

Sir, the consistent -- I mean stress, okay, understood sir. I'll come back for more questions. But I just wanted to clarify an issue that if a person kind of makes a part payment in month two after, say, month one also part payment, then is the payment then adjusted against making the first month whole? Is that how your accounting would work?
I don't think it really differentiates in the accounting because I think your question is more from the angle of whether you do a FIFO or LIFO, but then I think eventually how do you recognize the NPA.

Srinivas Rao, Analyst

Yeah, actually it makes an impact as to when it is recognized. I mean, for example, I mean suppose your EMI is INR100 for month one and INR100 every month and the person pays, say, 80 for two months consequently then you make good the second month's payment by adjusting the balance 20 which was due in the first month. Is that how it would work?

Sanjay Chamria, Vice Chairman, CEO

Yeah. So it is actually on a FIFO method. Obviously, we will first adjust the earliest month overdues --

Srinivas Rao, Analyst

Okay.

Sanjay Chamria, Vice Chairman, CEO

But then still I want to clarify, whether you follow a FIFO or LIFO It will not have any impact whatsoever from the recognition of the NPA, because what is done -- if your four-month installment in total outstanding --

Srinivas Rao, Analyst

Right.

Sanjay Chamria, Vice Chairman, CEO

-- and so therefore in the example that you gave, (inaudible) of the quarter end if you have INR400 outstanding, that means four installments are outstanding. No matter, you adjust INR20 against each of the four months and so INR80 into four months, but still you've got to recognize that as an NPA.

Srinivas Rao, Analyst

I see, so it doesn't matter how you adjust it, but you would still -- that -- it will become NPA in the month four itself basically?

Sanjay Chamria, Vice Chairman, CEO

Yeah, so it will become NPA in the month five because 80 to 5 would be 400, which divided by 100 will become four months and that is 120 days past due and that is what the real split of the RBI guidelines is now. If somebody interprets in a different manner, that's a different issue.
Yeah. I mean, I think there is a bit of confusion around that with the different company. But thank you very much.

Sanjay Chamria, Vice Chairman, CEO

-- confusion, it's the difference in interpretation.

Srinivas Rao, Analyst

Yeah, I mean that's true. I mean that's why I just wanted to clarify that. But thank you very much, sir. I'll come back for more questions.

Sanjay Chamria, Vice Chairman, CEO

Sure.

Operator

Thank you. Next question is from the line of Onkar Kulkarni from CRISIL. Please go ahead.

Onkar Kulkarni, Analyst

Good morning, sir.

Sanjay Chamria, Vice Chairman, CEO

Morning.

Onkar Kulkarni, Analyst

Good morning, sir. Just wanted to check on the LTV part, as compared to Q1 the LTV in the cars and construction equipment seems to be higher. So is there a change in the LTVs that we have done, as in have we increased the LTVs for these two products or is it a mix change or something like that?

Sanjay Chamria, Vice Chairman, CEO

As a policy, in fact, we've rather tightened up the LTV offerings, particularly in case of commercial vehicles. So obviously, there would be no question of we offering a higher LTV.

Onkar Kulkarni, Analyst

Okay.

Sanjay Chamria, Vice Chairman, CEO Onkar Kulkarni, Analyst

Yes.

Sanjay Chamria, Vice Chairman, CEO

So there I see what is mentioned in CV is about 85% and in case of UVs and car at 71%, so I would recognize that it is largely the same.

Onkar Kulkarni, Analyst

Actually sir, in cars it seems to have increased from 69 to 71% and in construction equipment from 77 to 79%.

Sanjay Chamria, Vice Chairman, CEO

So it is a function, Onkar, more of customer mix, so we have saved in case of the CV4 categories of customers --

Onkar Kulkarni, Analyst

Okay.

Sanjay Chamria, Vice Chairman, CEO

-- which is the first time buyer.

Onkar Kulkarni, Analyst

Yeah.

Sanjay Chamria, Vice Chairman, CEO

Then we've a CAT B which is owning two to five vehicles and CAT C which is owning six to nine vehicles and CAT D which is owning more than nine vehicles.

Onkar Kulkarni, Analyst

Okay.

Sanjay Chamria, Vice Chairman, CEO

So, what happens in case of a first time buyer, the LTV offered is lower, whereas a guy who is buying in the same CAT B who is owning two to five vehicles, obviously I will offer a higher LTV. So depending upon a customer mix
However, as a risk cautious approach, our -- I am very certain, our share in the FTV funding would have gone down in the Q2 and Q1 over the Q4 of previous year and therefore the LTVs would appear higher, but in reality actually it has gone down.

Onkar Kulkarni, Analyst

Okay. And the same will be the case for cars segment also, right?

Sanjay Chamria, Vice Chairman, CEO

See, car segment it is more indifferent, but construction equipment it would be the same because there again we have FTVs and then we -- instead of CAT B and CAT C we call as SC1 and SC2, which is small customer 1 and small customer 2. And there again, the small customer has a complement of equipments and direct contracts and therefore eligible for a higher LTV, whereas a FTV which is typically a machine operator graduating to become a machine owner first time and therefore we would offer a lower LTV.

Onkar Kulkarni, Analyst

Okay.

Sanjay Chamria, Vice Chairman, CEO

So -- but in case of car, our offerings are generally divided into the personal use and the commercial use. And in case of the personal use, we hire -- offer higher LTV and in case of commercial use we offer lower LTV.

Onkar Kulkarni, Analyst

Okay.

Sanjay Chamria, Vice Chairman, CEO

So again, due to -- if the percentage of the personal use is going up, there of course the LTV offerings will be higher.

Onkar Kulkarni, Analyst

Okay.

Sanjay Chamria, Vice Chairman, CEO

But our weightage remains more on the commercial use and that is why it would be varying the -- at 70, which could be plus, minus 2%.
Okay.

Sanjay Chamria, Vice Chairman, CEO

But in case of personal use, the LTVs that we offer is almost about 85%, because banks offer between 90 to 100%. But since we deal with the customers who do not have the income proof --

Onkar Kulkarni, Analyst

Yeah.

Sanjay Chamria, Vice Chairman, CEO

-- and who do not have adequate bank balances to demonstrate their credit ability, so we mitigate the same by offering about 80, 85% LTVs.

Onkar Kulkarni, Analyst

Okay. Sir, also second question on the asset quality front, especially in the car segment, so we have seen that over the last, say, one year, two years, this segment has grown at a fast pace. So just wanted to get a sense on how has been the trend in asset quality in cars particularly?

Sanjay Chamria, Vice Chairman, CEO

So cars has actually done better than the other products in case of the credit quality. The credit quality has been impacted in the commercial vehicle and construction equipment and [Technical Difficulty] in tractors.

Onkar Kulkarni, Analyst

Okay.

Sanjay Chamria, Vice Chairman, CEO

But in case of car, it has been less impacted, like for example, I guess, 95% collection efficiency that we have had, car has produced 97.6% collection efficiency. This is -- obviously it is much better than the other two, and luckily it occupies 35% overall weightage in the disbursals and 31% in the loan book.

Onkar Kulkarni, Analyst

Sir, this 97.6%, what would this have been one year back?

Sanjay Chamria, Vice Chairman, CEO

So last year it was 99% -- our overall collection efficiency was 98.23%, car was 99%.

Onkar Kulkarni, Analyst

Okay. Sir, and lastly on the gold loan business, so you mentioned that you are re-looking at this business, so is it -- will we change some strategy in terms of how we approach this segment or we might also think of exiting this segment altogether, or what is the thought on this reevaluation?

Sanjay Chamria, Vice Chairman, CEO

So you see the gold business was started in June last year and in February this year, we decided not to open more branches because ever since we have started the business there has been a huge amount of regulatory intervention where the regulator is not happy with the extraordinary growth, which the gold as a business class has witnessed in the financing industry.

So therefore, we had about 45, 46 branches and we took a call that we are not going to open more branches but would rather like to see how does the business stabilize, what is the regulatory position which gets strengthened and have a medium to longer-term outlook. So -- and coupled with that from June, July this year when the ForEx position and the rupee-dollar disparity becoming more pronounced, there are fiscal actions also which have been taken by the government to discourage the consumption of gold. So therefore, it only reinforced our decision taken in February that we should not pursue more gold branches.

In terms of the overall loan book, gold is about I think 0.6% of my total loan book of 16,500 crores. In rupee terms, it is actually about 95 crores as on 30th of September, 2013. So, it doesn't really have a weightage. But the fact is that we talk about it -- this being one of the products, so therefore we said that if a product which does not contribute to the topline or bottom line in a significant manner and where the future is so uncertain, so therefore, it makes business sense to take a call on the business and then take a position. So therefore -- which is what I said that we will take a decision very shortly about it.

Onkar Kulkarni, Analyst

Okay, sir. Thank you, sir.

Sanjay Chamria, Vice Chairman, CEO

Thank you.

Operator

Thank you. Next question is from the line of Subramaniam [ph] from Sundaram Mutual Fund. Please go ahead.

Unidentified Participant

Hi sir, and congrats on a good set of numbers. Wanted to know if you could share some color on the CV portfolio, some breakup between how the HCVs are doing, MNCVs are doing and how the LCVs are doing, primarily on the collection issues.

Unidentified Speaker

Thanks, Sundaram -- Subramaniam from Sundaram for your comments. One, the medium and heavy commercial vehicle for the third consecutive year has been going down in primary sales and the weightage in our portfolio has consistently gone down. And if I look at even the -- see, the delinquencies in the commercial vehicle segment is characterized by two key developments in the sector, one is the load factor and the load factor in the commercial vehicle industry per se has gone down to about 65% from an average of 70, 75%. And lesser load means lesser total billings and lesser cash flows in the hands of the operator.

The second development has been the increase in the fuel price, which is more than 30% in the last two and a half years whereas the freight rates have gone up hardly in the single digit in the last two and a half years, which has actually compressed the free cash flow earnings in the hands of the operator. And these are the two reasons which are largely responsible for the inability to pay installments in time and the rising delinquencies. And this I can share with you is across the board, across all players irrespective of the customer type that one is funding.

However, the same is less pronounced in case of the small commercial vehicle and the light commercial vehicle because these two do not operate on a interstate basis, they rather operate within the local limits and especially the small commercial vehicle would be plying in the local periphery, which is largely used for the movement of the FMCG and the other consumer durables.

So there the load factor would not be as much impacted as in case of medium and heavy. And the same is also witnessed in the portfolio quality performance in our balance sheet.

Unidentified Participant

Okay. So what is the collection rate that you're seeing in LCV, sir; some sense of how it is trending over the last three, four quarters?

Sanjay Chamria, Vice Chairman, CEO

Let me just get a -- take a look at that, because I don't remember it offhand. So right now, as I get also the note from my colleague, that we don't have a ready breakup as to what is the collection efficiency of medium and heavy separate from light and small.

Unidentified Participant

Okay.

Sanjay Chamria, Vice Chairman, CEO

But on an overall basis, we see that the asset quality determined by the NPA percentages is lower in case of small and light compared to medium and heavy.

Unidentified Participant

Okay. And in your portfolio, how much would be small and light, and medium and heavy, sir?

Sanjay Chamria, Vice Chairman, CEO

No, the small and light is something that we started -- I mean, light of course we have doing for some time and the focus on the small, which we started about 18 months ago. So it is still building up, so largely it is dominated by

Unidentified Participant

I see, okay. Sir, the other question is on data point actually. If we just look at your standalone financials, your other OpEx has actually come down year-on-year, it's in your presentation. So just wanted to know anything -- any one-off kind of items there or any trend that we should look into on that front? This is on slide number --

Sanjay Chamria, Vice Chairman, CEO

No, I understand. This is slide 12 you're referring to.

Unidentified Participant

Yes, sir.

Sanjay Chamria, Vice Chairman, CEO

Yeah, so there are two reasons and you see the various research reports brought out on Magma also point out these high OpEx ratios and this has been pretty consistent theme in all the research reports over the last two years. So, as a management there are two concrete steps that we have taken, although I would concede the point that it has not borne fruits completely.

And one of these two steps, the one as I mentioned in my inaugural words, that we are doing the housing and the insurance business from the existing Magma locations, and except for the core teams like in case of housing it is sales and credit, and in case of insurance it is sales underwriting, claims handling and the operations. Rest every other function is on a shared services basis, including the entire branch infrastructure, the head office infrastructure, which has actually now started showing up in the reduction in the OpEx ratio on a standalone basis. So, now is the time to harvest the infrastructure created over the last three to four years.

The second step taken by the management team, so amongst the management team we have appointed one of the senior guys as the cost owner where OpEx ratio is his KRA. So he's got to look through every single item of the expense and question the justifiability of the same, and I should say that in the last six months that has started yielding results. But we expect lots more to come in the coming quarters and therefore, I think and I would hope that this would be a continuing trend in the future.

Unidentified Participant

Okay. So sir, thanks, and wish you all the best.

Sanjay Chamria, Vice Chairman, CEO

Thank you.

Operator

Thank you. Next question is from the line of Jigar Valia from OHM Group. Please go ahead.
Thank you for the opportunity, sir. Sir, first question is -- sir, we've heard a lot about specific states like Andhra Pradesh or Karnatak in -- generally. I'd like to know if Uttarakhand had -- I'm sorry if this was discussed earlier in the call, I dropped in late.

Sanjay Chamria, Vice Chairman, CEO

No, it was not discussed. You can go ahead.

Jigar Valia, Analyst

Sure. How has Uttarakhand fared generally with the kind of -- it was a pretty, pretty large disaster that we've witnessed?

Sanjay Chamria, Vice Chairman, CEO

So actually, while it is unfortunate that this kind of a calamity happened in Uttarakhand, but for us Uttarakhand is a part of LCRs -- I mean we have divided the -- we are like present in 21 states and 2 union territories. But we've 18 SBUs, Strategic Business Units. So we've done is we've combined Uttarakhand with LCR and it hold a very small weightage in our portfolio and therefore we've not seen much of an impact.

However in our general insurance business which we started actually October last year, there was one incident that happened and wherein the loss was pretty large and -- however there was a salvage that happened of a large equipment and which we were able to sell. And the net loss that we had to book was I think of the order of 25 lakhs.

So this is luckily that overall impact of the natural calamity that happened in Uttarakhand across our finance and the insurance business.

Jigar Valia, Analyst

Okay. Also sir, on the competitive intensity, I think everybody is going slow and CVs and all, but at the same time I think -- the intensity of competition is also increasing. We've heard of captive financers are also offering closer to 100% LTVs in some case and stuff like that. So just trying to draw the balance between the two that that -- where exactly -- what the real ground level situation is.

And also if there is a case for-- fair case for LTV to increase in the case, because you've explained that load factor has gone down, fuel prices have increased, rate hike not really enough in the kind of situation, would extending the tenure be a feasible option?

Sanjay Chamria, Vice Chairman, CEO

Yeah, I think that's a pretty good observation, Jigar, that you have made that increasing the tenure reduces the monthly EMI obligation. However, the downside of increasing the EMI is the -- so typically what we see, that in case of the construction equipment and vehicles where we offer in case of equipment about 35 months tenure and in case of medium and heavy about 48 months average tenure, the first two years if there is a default that happens in the contract you'll have a negative LTV, which used to range at about 30, 35%, but today the resale value of the requisite equipment going down has stopped at about 45 to 50%.
So in our case the tenure we've not really adjusted much and the -- I mean it has gone up somewhat, like in case of commercial vehicle if you refer to slide 20 it is now 45 months whereas in case of construction equipment it is 39 months, so it has gone up by about 3 or 4 months. But we don't feel more comfortable increasing the tenure beyond.

Jigar Valia, Analyst

Okay. Thank you, sir.

Sanjay Chamria, Vice Chairman, CEO

Thank you.

Operator

Next question is from the line of Amey Sathe from JM Financial. Please go ahead.

Amey Sathe, Analyst

Yeah. Good morning, sir. Sir, two questions; one is on the UCV segment, so what is your sense with respect to demand in UCV and also on the pricing side?

Sanjay Chamria, Vice Chairman, CEO

See, the pricing is pretty much constant, there's not much of an impact in the pricing. However, on the demand side you find that even the demand for the UCV goes down, then the overall CV market goes down, which is contrary to the popular perception that one would think that when people cannot buy the new vehicles then the demand for the UCV should go up, but that's not really the case as has been our experience over the last 12 to 15 months more pronounced.

And the reason is, one, the fleet operators who typically replace the fleet every four or five years, in times like this nobody would have the heart and courage to go ahead with the CapEx when the overall cash flows are tight. And therefore, the release of the vehicles by the fleet operators in the second hand market goes down. And similarly on the other hand, the truck drivers who usually are the ones who enter the truck owner segment by buying the older vehicle, in times like this even they're apprehensive and tentative and they would rather like to defer the decision when the market improves.

And financiers like ourselves are also more wary of then funding a first-time buyer who will buy a vehicle with little experience of operating as an owner, maybe he has an experience of operating as a driver. So regions like this usually would shrink the market of the used vehicles, also when the market for the new vehicle goes down on account of low economic activity.

Amey Sathe, Analyst

Okay. And how about your reposition policy?
So the reposition policy usually cannot be cast in stone that, say, every contract which goes into 90 days default or 120 days default, when it becomes (inaudible) you go ahead and repossess, that's not practical. So what we do is that any contract which moves into 90 plus, we insist that not the field executive but the team leader should go and meet the customers, should sight the vehicle and then figure out the reasons for default, because if the vehicle is plying and the guy is generating cash flow, then why should he not pay, maybe he will pay less but it's not that he will not pay any money.

So thereby try and understand and do what is -- we call as a root cause analysis, and there if he sees an intention issue more than a deployment issue, then of course we will go ahead with the repossession, but if we feel that it is more a deployment issue and is justified in allowing more time to the customer, that's fine and which is what like I mentioned, that while we allow more time to the genuine customers who is unable to pay the installment, while we may not restructure the asset in our books and make a provision, but in case of customer who is delinquent more by intention then by the market circumstances, we will go ahead and repossess.

Amey Sathe, Analyst

Okay. And the last question on the brokerage and commission number, so the number has remained more or less stable on Q&Q basis around 26 crores, but our disbursement has actually picked up sequentially, so anything to read into that?

Sanjay Chamria, Vice Chairman, CEO

Just give me a second. Yeah, the disbursement has picked up by about 10% as I said between Q2 and Q1 and -- see, so we have got seven products and -- like in case of the UVs and cars, the payouts are higher, where in case of tractors there are no payouts, in case of construction equipment there is hardly any payout, in case of commercial vehicle the payout is very less, in SME again the payout is higher.

So like that, tractor business has grown so much which does not really we have any payouts. So it's a function of again the contribution of different products in the overall disbursal, which will have an impact on the DSA payouts. However, if we looked at the overall payout number which has more or less remained constant.

Amey Sathe, Analyst

Okay, got it sir. Thanks a lot, thanks a lot for your answers.

Sanjay Chamria, Vice Chairman, CEO

Thank you.

Operator

Thank you. Next question is from the line of Kaitav Shah from Anand Rathi. Please go ahead.

Kaitav Shah, Analyst Sanjay Chamria, Vice Chairman, CEO

So -- which is broadly, Kaitav, in line with the industry sale of the passenger car and the UVs. See, in case of UVs the ticket size is higher and the UVs would typically account for about 20 to 25% of the overall car universe. So in our portfolio, our focus is more on the UV given that we operate more in the inter-land. So in our case, while our desire is to top it at about 40%, we are at about 35% odd in terms of the overall disbursals.

Kaitav Shah, Analyst

Okay, sir. And of the AUM in UVs would be greater than cars essentially. What would be rough split, 70% of that mix would be UVs or lower?

Sanjay Chamria, Vice Chairman, CEO

No, and I don't think that the UV should be higher than the car, because the UVs as I said is at about 35%. Yes, there is one favorable reason in case of UV that the tenure would be a little higher maybe and due to that the run-off would be slower than a passenger car. But still the weightage of passanger cars for personnel uses is higher in case of the car and UV portfolio.

Kaitav Shah, Analyst

Okay, correct. Sir, and I wanted to get your sense, election being there next year, normally do we see an uptick in sales for us in an election year? How has been the trend so far over so many years with your vast experience?

Sanjay Chamria, Vice Chairman, CEO

Honestly, I've not tracked from this angle, but when you point out this year we'll try and track it.

Kaitav Shah, Analyst

Okay, sure sir. Sir, one last question just for understanding; you mentioned that since we are recognizing NPAs earlier -- I mean other NPAs, some of them are doing on 150, some of them on 180, you are doing it on 120, so your interest income reversal will hit you at least for the whole of this year. So for this quarter or for the first half, if you have a rough idea what would be the interest income reversal that we've seen?

Sanjay Chamria, Vice Chairman, CEO

So can you just rephrase your question as to --

Kaitav Shah, Analyst

Sir, since we are recognizing NPAs faster than earlier and you mentioned that there is some amount of interest income reversal that has led to the NIM on AUM being lower -Yes.

Kaitav Shah, Analyst

So would there be a number that you can share, a rough number?

Sanjay Chamria, Vice Chairman, CEO

So I thought that this would be one big item for discussion, the NPA's position. So I had one particular data point with me and which I can share for the benefit of you and all others, it's like our total NPA at a gross level is 2.89 which is of 120 DPD and the net is at 2.32.

Kaitav Shah, Analyst

Correct, sir.

Sanjay Chamria, Vice Chairman, CEO

However, we did a calculation that had we gone on the 180 days basis, then what would that position be. So there we find that the gross NPAs would about 1.77, and the net would be 1.51. So one, actually that presents a proper perspective of apple-to-apple comparison with the several other players in the industry. And in my view, this is the best ever in the industry even under the current trying circumstances.

A second observation which we thought would come in as the coverage -- provision coverage is over at about 20%, because at a gross level 2.89 and at a net level 2.32, so here I wish to point out that until March 2012 we used to write-off the entire amount under the older policy, so therefore we calculated what is the technical PCR, which is what the banks do, and therein you add the entire amount return -- because you to make a recovery subsequently. And so therefore, if you add that to the provisioning and also add that to the denominator, then the overall provisioning is about 53%.

Kaitav Shah, Analyst

Okay.

Sanjay Chamria, Vice Chairman, CEO

So, these are the two data points. And in terms of the income reversal that you mentioned, I told you that -- I was sharing response to another question, that we have two types of income reversal. One is the income reversal on the recognition of NPA, so therefore whatever interest that was accrued in the books up to 120 days that gets reversed.

Second I said that, wherever you securitize -- and RBI policy of August 2012 stipulates very clearly that if there is a shortfall in the collection and which for example every player is facing, then to the extent the banker will dip into your excess interest spread, which is called EIS, that has also got to be reversed irrespective of the fact that -- whether that account has become NPAP or not.

So we have hit on account of these two items in the income reversal and that is why our net operating income is lower, even though our yields have gone up and our gross income is higher. Now the impact of these two in the Q2 would be

Kaitav Shah, Analyst

Okay, right. And one last question, sir --

Sanjay Chamria, Vice Chairman, CEO

36 crores actually.

Kaitav Shah, Analyst

Correct. Sir, last question would be on your gross NPA so that they have gone up about 35% quarter-on-quarter, so this would largely be from your CV, CE portfolio or is there some amount of the mortgages portfolio as well?

Sanjay Chamria, Vice Chairman, CEO

See, it is wrong to say that it is only on account of CV, CE. The weightage is disproportionate compared to the contribution of CV and CE in our portfolio pool. But there in across-the-board increased in the provisioning and the NPAs from all the products, but the increase is far more pronounced in CV, CE and that to an extend in the tractors.

And as I mentioned that in the case of tractor it is a seasonal factor, so every year up to September it will go up and then you will see second half it will come down, because that's in the harvesting season is there in many states in India and therefore the farmers will pay in bulk. In case of mortgage, the increase is very marginal because now we've completely integrated the acquisition that met at of the business that we acquired.

And so far as our new origination is concerned, for example, we've originated close to 200 crores in the four months after we launched the business, there is the no account which is delinquent there.

Kaitav Shah, Analyst

Okay, sure. Okay, thanks a lot sir. That's it from me.

Sanjay Chamria, Vice Chairman, CEO

Thank you.

Operator

Next question is from the line of Pankaj Agarwal from Ambit Capital. Please go ahead.

Pankaj Agarwal, Analyst

Good morning, sir.

Sanjay Chamria, Vice Chairman, CEO Pankaj Agarwal, Analyst

Yeah, your used CV disbursements used to be close to around 200 to 210 crores two quarters back, but over the last two quarters it has come down significantly ranging around 120 crores. So it's because of any demand side issues or you are being cautious in this particular segment?

Sanjay Chamria, Vice Chairman, CEO

So if I look at sometimes in our first half disbursal, it has gone down in case of the used vehicles.

Pankaj Agarwal, Analyst

Yeah.

Sanjay Chamria, Vice Chairman, CEO

And as I was explaining some time back that the overall universe of the used vehicles also swings when there is a declined economic activity -- sorry, lower economic activity and the demand for the new vehicles goes down, because lesser number of vehicles would come to the market and on the other end the truck diverse who usually graduate to become trucks owners with the acquisition of the used vehicles, they are also apprehensive and we as financiers are wary of funding the guys who are becoming owners for the first time. Now, due to that there would be a reduction in the universe as well as disbursals.

Pankaj Agarwal, Analyst

But sir, actually I was asking this question because some of your competitors -- I mean there -- they say that know CV demand goes up when the new CV demand comes down, so -- I mean that has been the traditional wisdom that used CV demand goes up during the bad time so, slightly different from what others are saying.

Sanjay Chamria, Vice Chairman, CEO

Yeah, and in the market you see people follow differentiated business strategy. We feel that when there is a load factor issue and when there is freight issue in terms of freight rates not keeping pace with the increase in the fuel cost or whether it is a used CV or a new CV, the FCF analysis reflect a negative trend which is a free cash flow analysis. So therefore -- we don't share this --

Pankaj Agarwal, Analyst

Sir, in terms of -- as you pointed out that diesel prices have gone up 30% and fright rates have gone up by only 3, 4%. So in that scenario, given that used vehicles are more fuel inefficient, do you believe that the credit quality risk is higher in used CVs or in new CVs?

Sanjay Chamria, Vice Chairman, CEO Pankaj Agarwal, Analyst

Okay. And sir --

Sanjay Chamria, Vice Chairman, CEO

And I would be very surprised if someone else in the industry would not witness much high delinquency in the used vehicles.

Pankaj Agarwal, Analyst

Okay. And sir, coming back to your operational efficiency, there has been improvement on Y-o-Y basis, the ratio coming to around 3.1% now. But on steady state, are you targeting any number on this ratio?

Sanjay Chamria, Vice Chairman, CEO

So thanks to your drive, Pankaj, we are under pressure and working very hard to improve it. and as I said that, it does not bond troops fully. So as we seen in the next one to one and half years our housing and the insurance business growing well, so therefore the recovery of the common FX would be higher. And to that extend, the OpEx ratio for our asset finance business will become more favorable, number one.

And two, today we are in the -- we've witnessed, as I mentioned, -- I'd believe that the worst is behind us. So the level of disbursement which has got into a flat June, but the salaries go up, due to the inflation your other cost go up, and despite that if our OpEx ratio has gone down, maybe marginally, then whenever the economical cycle would pick up, we are fully invested and capitalized in terms of the infrastructure to do a disbursal of 1000 corer plus every month and we are currently at a rate of about 700 crores. It is only last month, October, that we crossed 800 crores after a long time. So therefore, it will be at low cost and that will definitely bring down the OpEx ratios going into the future.

Pankaj Agarwal, Analyst

Okay, sir. That is really helpful. Thank you very much.

Sanjay Chamria, Vice Chairman, CEO

Thank you.

Operator

Thank you. Next question is from the line of Srinivas Rao from Deutsche Bank. Please go ahead.

Srinivas Rao, Analyst

Hello.
Yes, Srinivas?

Srinivas Rao, Analyst

Yeah, sorry sir, I'm -- I just -- two thing I wanted to check with you. You mentioned the used vehicle potentially has a higher delinquency than the new vehicle. Is that something which you have seen across the cycle?

Sanjay Chamria, Vice Chairman, CEO

So we started used vehicles in 2005.

Srinivas Rao, Analyst

That's true, so more or less one cycle right?

Sanjay Chamria, Vice Chairman, CEO

So we have done actually two cycle that way because typically the tenure in the used vehicle is about 36 moths.

Srinivas Rao, Analyst

True.

Sanjay Chamria, Vice Chairman, CEO

And so, we've done two cycles. Our first cycle gave us lot of earnings because of the business model that we followed. And therein like the guys who were doing the sales were handling the collections, which has been the industry practice. And we found that did not suit us and therefore from 2008 we changed and we went into a vertical structure as we have in our other products. And therein we found that the we had a very different experience and our delinquencies were as good as the new vehicles.

And now in this current downturn which has been there for about 18 months or more in case of the vehicle industry, there are findings that while the credit is screened and the process of credit buying is the same, but the stress in the used vehicles is higher than the new vehicles and that of course then tempts me to say that the delinquencies would be more pronounced in the used CV in a market like this.

Srinivas Rao, Analyst

Fair enough, sir. This is really helpful. The second question, just wanted to -- I mean I hope I am not belaboring the point on the payment mechanism, which I said, so just wanted to double confirm with you that just as a stylized example, if INR100 is your EMI per month and the percentage, that's INR80 per month for straight technically five months, when does it become an NPA actually, in your books, I mean I -- as you said you will adjust the EMI for the shortfall in the previous months on a cumulative basis, but when does exactly it become a NPA?
In the example that you gave, Srinivas, if INR100 is the EMI, EMI means Equal Monthly Installments.

Srinivas Rao, Analyst

Absolutely.

Sanjay Chamria, Vice Chairman, CEO

If it is 160, 130 then it is not EMI.

Srinivas Rao, Analyst

True.

Sanjay Chamria, Vice Chairman, CEO

So, let's get our facts right. If it is INR100 equal monthly installments and if six months have gone by, that means INR600 have become due, as against which if the customer has paid less than INR200, that means it is more than four installments which is due. So the moment it becomes four and higher, it becomes NPA if you recognize NPA on 120 DPD. Similarly if you take 180-day past due, which is the RBI prescription, and the same example if nine installments have fallen due, which is 900 bucks, and if the customer has paid less than INR300, then the account becomes NPA, that is the spread and the letter of the RBI guidelines.

Srinivas Rao, Analyst

Okay, understood. And this is -- also it is basically on a cumulative basis, he should be due by above four installments for you to recognize it, right?

Sanjay Chamria, Vice Chairman, CEO

Yes.

Srinivas Rao, Analyst

Okay, understood. This is helpful. Thanks.

Operator

Thank you. We'll be taking the last question from Mr. Jigar Valia from OHM group. Please go ahead.

Jigar Valia, Analyst

Thank you, sir. Sir, just to understand, as far as a used CV market portfolio is concerned, how are we originating it? Is it from our stock of repossessed vehicles or from some of our existing clients who when -- then probably upgrade to

Sanjay Chamria, Vice Chairman, CEO

So we typically operate through a network of agents from where we get the sourcing of the new customers. And then the customers who deal with us, they also refer their acquaintances which could be relatives or friends and there they would stand as the guarantor, so that is the second source. Third is like the customer who has taken one vehicle wants to take another vehicle, so repeat funding, that would be the third source. And fourth is when we repossess and we sell, so some of the customers to whom we are selling, if they want finance then we would also provide funding to them.

But I'd have loved to do more funding of the repo vehicles which we are selling, because that would help us to realize better value. But unfortunately, very surprisingly, I don't really find that. So what we are trying to track is, okay, we have sold that vehicle, the guy who has brought it, from where he has obtained finance and why should he take finance from third financier when I am willing to finance him.

Jigar Valia, Analyst

Right, interesting. And so what percentage normally of our clients would be upgrading or changing the vehicle during their tenure? Say, a typical tenure is four years for a new vehicle assuming, three and a half to four years, what percentage of customers would be probably -- during the tenure would be -- they're upgrading or going for another loan?

Sanjay Chamria, Vice Chairman, CEO

No, I don't really have that data with me offhand.

Jigar Valia, Analyst

Okay. Thank you so much, sir.

Sanjay Chamria, Vice Chairman, CEO

Thank you.

Operator

Thank you. I'd now like to hand the conference over to Mr. Nischint Chawathe for his closing comments. Mr. Nischint?

Nischint Chawathe

Yeah. On behalf of Kotak Institutional Equities, we thank you all and especially the management of Magma Fincorp for joining us this morning. Happy Diwali to all of you. Have a great weekend. Thank you.

Sanjay Chamria, Vice Chairman, CEO

Thank you. Thanks to all of you.
Thank you very much. Ladies and gentlemen, on behalf of Kotak Institutional Equities, that concludes this conference. Thank you for joining us and you may now disconnect your lines.