“’ Magma Fincorp Limited Q2 FY 2017 Earnings Conference Call”

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MODERATOR: **MR. AADESH MEHTA – AMBIT CAPITAL PRIVATE LIMITED**

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Magma Fincorp Limited Q2 FY 2017 Post Results Conference Call hosted by Ambit Capital. As a remainder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Aadesh Mehta from Ambit Capital. Thank you and over to you, sir!

Aadesh Mehta: Hello, everyone welcome to the earnings conference call of Magma Fincorp. To discuss the financial performance of Magma to address your queries, we have with us the Managing Director Mr. Sanjay Chamria and the CFO Mr. Kailash Baheti.

I would now like to hand over the call to Mr. Chamria for his opening comments.

Sanjay Chamria: Thank you, Aadesh and good morning and welcome to all the guys on the Magma quarter two investor call. First some thoughts on the economy, the normal monsoon after two consecutive years of drought which is 95% of the long period average versus 86% last year better crop which is estimated kharif output of 135 million tonnes versus 124 million tonnes last year and the higher realization due to better MSP clearly point towards improved income levels in the rural India in coming months. However, due to the late kharif harvesting we expect the cash flows in the rural India to improve more in Q4 than in Q3. More importantly we believe that the improved income levels have sustain for quite some time as we expect a strong Rabi crop on the back of improved water table and reservoir levels.

Further to the improvement in the farm income as I just mentioned the Seventh Pay Commission, hike the increased rural spend by the government under the MNREGA and various other Rural Development Centered Schemes these shall also play their part in improving the rural income. Therefore, MNREGA being a rural player dominantly with direct agri loans now forming 20% of our AUM. We are confident about the future, both in terms of our disbursement growth prospects and the quality of our book.

We have already started witnessing improving trends as the disbursement in our focus products grew sequentially by 10% quarter-on-quarter.

As outline in the past our strategy of focusing on the high ROE product that is tractor, used assets, SME and the mortgage for a profitable growth continued in this quarter as well.

I will now give details on each of our focus products.

The ABF business, tractors and the used assets disbursement growth of our focus product was 10% Y-o-Y higher in Q2 FY 2017. The growth in terms of the loan contracts in these two products has been even higher 15% as we have been focusing on profitable low ticket size products. With favorable macros and with seasonally better second-half, we expect that both the growth rate in disbursals and collections from situation default customers to further improve in these products.

In SME, as in the past few quarters we have witnesses strong momentum in the second quarter as well and disbursement grew 21% Y-o-Y and 23% Q-o-Q. With increasing penetration in the up-country location, we expect this momentum in growth to sustain going forward.

In mortgagees, our focus on reduction is the ticket size and strategy of not lending to the customers needing more than Rs. 100 lakh loans have led to a Y-o-Y de-growth in the mortgage business. However, on a sequential basis the disbursement in the mortgage grew by about 29% in the second quarter. Also, the number of contracts that we have entered into are even higher because of the lower ticket size. The process of moving away from what we have defined as a high-ticket size business has been completed and the new norms have stabilized. We therefore look for a gradual growth in the disbursement volumes. As informed earlier, we have launched a project to cross sell to our large base of ABF customers. We expect this to get traction in the coming months and adds further to the mortgage business growth.

We expect ROAs to structurally improve with our continued focus on increasing contribution of the high ROA products. Despite positive trends in the disbursement in focused products the AUM growth remained in a negative territory which is 6% down Y-o-Y and 1% on Q-o-Q basis. This has been largely due to the strong repayments in the CV/CE portfolio which were originated in the FY 2014 and FY 2015.

As a result, we expect the AUM growth to be flat in FY 2017. However, positive takeaway is that post repayments our focused products have been adding up to our total AUM. With a lower base and improving rural macro environment, we expect both disbursal and AUM growth to be significantly superior in FY 2018.

Asset quality: Adoption of the new structure across the business vertical which is ABF, SME and mortgages which is based on branch banking has helped in containing net roll forwards to over 90 plus. Incremental additions to gross NPA have been significantly curtained in the new structure.

We are in our initial days under the new structure we either achieved a net roll back or nearly achieved handshake in six out of ten months. Asset quality of vehicle finance book originated from December 2015 is good 45% to 50% superior then the corresponding period last year. These assets originated from December 2015 will comprise 50% of the total loan book by March 2017.

Therefore, it should result in improved credit cost in 2018. We are also working with the premier rating agencies to further strengthen the risk management framework which shall also benefit the business in future.

The improvement in the asset quality is also corroborated by improvement in our collection efficiency which is up 2% Y-o-Y to 97%. There is marginal increase in the annualized credit cost to 2.1% in the second quarter. However, the PCR has improved from 21% till March and 22% in June to 24% in September. We see NPAs and the credit cost to peak and now, we expect the recoveries to flow in the second-half. The sequential increase in the gross NPA on 120 DPD which has been at 9.2% was largely due to seasonally weak second quarter and the lower book. We believe the roll backwards by way of resolution from the NPA accounts will start improving in the second-half of the current fiscal as we expect a strong realization from kharif crop and a bumper harvest from Rabi on the back of improved water table and reservoir levels in rural India.

As mentioned earlier with the improvement in the overall rural macros with normal monsoon and higher public spent, we expect return ratios to improve in the second-half.

I will now like to share the key highlights of our performance in the second quarter and its impact on our results.

We continue to improve the share of used assets, tractor, SME and mortgage in our product portfolio and the share has now increased to 60% of the total loan book while disbursal during the quarter in these assets have contributed to 67% of the total disbursement.

Our endeavor is to increase the contribution of these products to 70% by FY 2018 and we are pretty much on course to achieve the same. Excluding mortgages overall disbursement grew 6% Y-o-Y in the second quarter. SME continued its strong momentum by growing 21% Y-o-Y and 23% Q-o-Q. However, the mortgage segment recorded negative disbursal of 30% Y-o-Y those sequentially grew 29%. Our overall AUM declined by 1% to Rs. 17,600 crores. however, with continues sequential growth in disbursal our AUM has touched the lowest level and should start growing from the second-half now.

With increased contribution of our focus high margin products, NIMs have grown 52 basis points Y-o-Y to 7.4% in second quarter and we expect the NIM for the full year to be above 7%. Our continues efforts to contain cost are bearing fruits. Cost on absolute basis declined by approximately Rs. 9 crores Y-o-Y for the quarter. However, due to the decline in the AUM the OPEX to AUM ratio remains flat at 3.5%, our credit cost at Rs. 95 crores increased marginally Y-o-Y and while crossing the net NPA at 9.2 and 7.2 on 120 DPD is largely due to the declining book and seasonally weak quarter. With the visible green shots in the rural economy, we now expect these ratios to improve in the second-half of the current fiscal, as a result of improved NIMs, lower OPEX and marginally higher credit losses on a Y-o-Y basis, the PAT has improved 4% to Rs. 50.06 crores. We now expect better results with an improving rural economy as we have already addressed operating efficiencies and product mix resulting in higher yields.

Now both, Kailash and myself are ready to take out any questions that you all may have. Thank you.

Moderator: Thank you very much. We will now begin the Question-and-Answer Session. We have the first question from the line of Subranshu Mishra from Anand Rathi. Please go ahead.

Subranshu Mishra: I had few quick questions, one is with respect to the GST what will be the effect on your business given you have decent kind of exposures to CV, CE and used vehicles. So, if you can please throw some light on that.

Kailash Baheti: Good morning, Kailash here. There are two aspects to it. One is what would be the impact of GST on the primary sales of vehicle and second is what would be impact of GST on the business and finance service industry. Now business and finance services industry it is quite likely that the service tax rate will be 18% as it has been announced yesterday against 15% prevailing right now. But as you know the financial services industry is largely exempt from the service tax and only on some input services this tax is applicable where we get 50% credit right now. If we continue to get 50% credit, then the impact will be just 1.5% and it would be very marginal as far as the financial services industry is concerned. As far as the impact on the primary sales of assets are concerned I think taking together the excise duty and VAT, the VAT will not go up so, the impact should be positive only.

Subranshu Mishra: Right, sir. And my question is with respect to your used products which are gaining traction, do you have any tie-ups with any organized players or any channel partners who are organized on this space?

Kailash Baheti: Yeah, so, we have tie ups with the Maruti True Value in certain regions, we also have tie up with Mahindra First Choice these are among the organized sector and I think we also have some tie up on the construction equipment with the Shriram Auto mall and barring this the sector is largely unorganized so wherein you have local level DSA as well as the freelancers who would bring the buyer and the seller together and once they finalized the deal then they would take them to a financial for availing finance.

Subranshu Mishra: Right. And what to these three tie-ups accrue to your portfolio what will be their percentage contribution?

Kailash Baheti: I would not remember it right way may be Sanket can provide it separately to you.

Subranshu Mishra: Sure, sir. And my last question is with regards to any new business initiatives that you have, I would like to know five of the markets that you are trying to accrue and the present market share and where you want to get to in that new business initiative?

Sanjay Chamria: So, the market is quite fragmented so, it is not that we are looking at a certain market share and we have moved away from that, what we are rather looking at is at regional level so, though we are present in 22 states but our major business comes from about eight states to nine states which is about 65% to 70% of our total business and the focus from December 2015 has moved to profitability than to maintain market share. Having said that, in case of tractor financing which is where you have the data completely available, our current market share would be in the range of 6.5% to 7% which is quite significant so, far as the other products are concerned it would be between 2% to 3% which is multi utility vehicles and passenger cars or the M and SUV and the construction equipments so, the focus has been more in terms of regional presence and going deeper into that then to maintain a nationwide presence and grow the market share.

Moderator: Thank you. We will take the next question from the line of Mr. Deepak Kumar from Narnolia Securities. Please go ahead.

Deepak Kumar: Sir, can you provide the break-up of incremental yield in various loan segments?

Sanjay Chamria: See, typically the tractor and the used assets would provide the yield in the range of 18% to 19% and so is the unsecured SME loans, so, these are the three high yielding products. So, far the multi utility vehicle and passenger cars and new segments are concerned there the yield would be in the range of 15.5% to 15.75% so, far as new CV and CE are concerned the yield would be in the range of 13.75% to 14.0% and so far, as the mortgage is concerned with a combination of both LAP and the home loan and the construction finance, it would be between 13.8% to 14%. And overall on the blended basis Deepak we maintain because there is a product mix so, we maintain a yield of about 16.5% to 16.7% which is on all the products put together.

Deepak Kumar: Okay. And on the liability side what will be the cost of bank borrowing from incremental point of view?

Sanjay Chamria: See, our incremental cost of funds is now single-digits and even on a cumulative basis, now we have dipped below 10% and we are at 9.9% as at the end of September on the total borrowings whereas the incremental borrowing is even lower than that.

Deepak Kumar: So, are we planning to change the borrowing mix towards debt capital market something like that?

Sanjay Chamria: So, our focus in terms of the debt side has been one to maintain a ALM positive mismatch and second also take advantage of the priority sector emphasis in our portfolio as more than 75% of our total portfolio qualifies for priority sector including direct Agri and therefore, our predominant emphasis on lowering the cost of fund and the ALM positive mismatch would drive our strategy as to whether we would borrow from the debt market or from the banking system. Though I will say that I would hasten to add that from last two months the debt market has opened up significantly for securitization with the amendment in the direct taxation where the double tax has been removed and therefore a lot of premium mutual fund have starting buying the paper from Magma. So, therefore, to that extent we should see an increase in the debt market contribution into our portfolio of borrowings in the second-half.

Moderator: Thank you. The next question is from the line of Umang Shah from Emkay Global. Please go ahead.

Umang Shah: Sir, I was referring to your presentation page number 29, there seems to be some kind of a change at the mid management level where a couple of names which were there in the previous quarter presentation are missing importantly the asset back finance division, which was head by Sumit Mukherjee that name is missing. So, is there some kind of a change happening at the mid management level, if you could just throw some light there?

Sanjay Chamria: Yes, Umang there has been a good amount of changes in the top deck in the company, that is not middle management; it is actually the senior management which is what we have showcased in the slide 22 on our Investors PPT. So, the first big change that happened was in June 2016 when we got Mr. Rajive Kumaraswami as the MD and CEO of our insurance business and he has also been building top leadership team in the insurance business which is now almost complete and all the guys have either come on board and the last of guys come on board by 1st of December. Then the headquarters for our insurance business which is MHDI Magma HDI insurance has shifted to Mumbai in July and the business has stabilized as you can see in the Q2 not only they have turned profitable but on a six months basis also they are positive so, that is one change that has happened. The second change that has happened is we have had a new CHRO who is name is also there in slide 22 Mr. Debraj Sinha. He just joined about two days ago on 1st of November as the Chief of HR at a group level and he comes from Max Life group where he was in the last role the CHRO of Max Bupa their Health Insurance joint venture company and he has also joined in Mumbai. Third is you mentioned about Sumit Mukherjee. So, Sumit has stepped out and he has been replaced in fact by a more senior guy who has joined in as a President and CEO of our ABF business which is the vehicle finance business comprising car, CV, CE, tractors and the used assets and Mr. Kaushik Banerjee who if you all know was working with Cholamandalam for a long period of time, there also he was heading the vehicle finance business which is very similar to our business and Mr. Banerjee is just expected to formally join in about a week's time. And the last the big change that has happened is Kailash who has spent more than five years in Magma, in the strategy and the M&A activities besides the cost optimization and budgeting, he has now been elevated in the role of the CFO and he has more than 25 years' experience and he is a charted accountant, cost accountant and a company secretary and he will look after now the entire treasury and investor activities beside of course the corporate accounting taxation, legal, statutory compliances and interaction with the stakeholders. And the endeavor at Magma as well is now to swift the corporate to Mumbai so, therefore, all the senior hires which are happening are mostly centered around in Mumbai and by March we hope to complete this entire process.

Umang Shah: Okay, all right. That is great. So, basically sir, can we assume that with all these senior hires coming in and especially Mr. Banerjee joining in most of our new hiring or whatever changes that are there at the management level are kind of done?

Sanjay Chamria: Yeah, most of it I would say yes, but now you see even in terms of the business performance that we have addressed the yields in terms of the net interest margins, we have addressed the cost of funds which has gone to the single-digit. We have addressed the operating efficiency in terms of the OPEX which has been still going down on an absolute amount basis Y-o-Y. So, I think there are two things that we need to now address is one the top-line growth by way of AUM growing. Second is our new portfolio is behaving very well in terms of the delinquency but that benefit will show only in FY 2018. So, our older portfolio which has level of stress so we also need to attack the existing NPAs so, these are the only two areas that our entire management focus is directed towards. So, therefore, we may add a few more names in the management team at the CXO level or C minus 1 level. As I mentioned also in my inaugural address that we are also setting up risk framework with a very large rating agency and this project is also getting completed within November so, from December we are also starting on that which can proactively and on a predicted basis look at the portfolio behavior and we can set the corrections much ahead in time then on a reactive basis that is being presently done which will also going forward improve the profit quality even better.

Umang Shah: All right, great. And sir, just one related question which you mentioned about top-line growth so, last quarter we indicated that so we had kind of scale down our asset growth guidance from 10% -12% at the beginning of the year to something like a single-digit asset growth. Just wanted to know that in the second-half with the growth picking up, do we still envisage a higher single-digit number kind of asset growth to end the year FY 2017?

Sanjay Chamria: So, I think what I mentioned is that one we certainly expect that now the de-growth has sort of bottomed out and we should see our marginal growth is starting from the third quarter and then we would like to see as how does the whole year pan out. So, one we are obviously looking at wiping out the deficit which has happened in terms of our de-growth in the first-half of the year and end up with a marginal growth. Why we say that Umang as I just said to the previous question our entire focus is on improving the profitability and ROA and therefore we are completely focused on that and making all this organizational changes so, that the stages cast for a fantastic growth starting in FY 2018.

Moderator: Thank you. Next question is from the line of Balasubramaniam Ashwin from HSBC Asset Management. Please go ahead.

Balasubramaniam Ashwin: I had a couple of questions. First, with regard to your provision coverage ratio so, I think it is around 23%-24% now that your NPAs have been kind of elevated for the past few quarters. So, I mean what do you see in terms of the aging impact on your PCR going forward, I mean what kind of PCR would you sort of take it to like let us say by in the next few quarters or year or so? And the second question is I think in response to the previous question you mentioned that the newer asset which you are originating are exhibiting kind of better delinquency trend. So, I mean is this asset classified in terms of your focused asset which you talked about and if so, could you just give some color in terms of what will be the NPAs in your sort of older book versus the NPAs in your focus assets kind of break-up? Thanks.

Sanjay Chamria: So, Bala let me try and see if I can answer all your questions because you have asked two questions - three questions - four questions in….. So, first is the rate of accretion in the NPA has significantly slowed down in the first six months. So, if you look at our rate of accretion in the

Y-o-Y previous six months which is the April 2015 to September 2015 was about Rs. 260 crores as opposed to that the accretion to the NPA in the current year six months from April to September 2016 is just about Rs. 80 crores so, it is one-third, so two-third lower and again out of that in the second quarter it is just about Rs. 25 crores. So, the first quarter was Rs. 55 crores and the second quarter is Rs. 25 crores so, this actually gives us optimism and which is where I said that in my view the NPAs have peaked and now we should see a reversal. So, therefore now to your first question the PCR, in fact is the reason that PCR has started improving and I think in the beginning of the year I had given a guidance that we expect to end the year with a PCR around 28% to 30% so, whereas like you see today amongst the peers the PCR going down in our case you see the PCR increasing and therefore the gap is reducing which is what we expect to see. To your second question with regard to the focus products, definitely we see the new portfolio which we are originating from December 2015 and when I said that it is about 40% to 50% superior in terms of the asset quality. This improvement is quite secular and visible across all the products that we are financing including the high margin products and therefore going into the future and as I said that by March 2017 so, 50% of my total portfolio will be on account of the new origination from December 2015. So, the benefit of that we will be able to see in FY 2018. And third one and the final answer is that as I mentioned to your previous colleague who asked the question, that today we having addressed majority of the issues in our business, there are only two things that we need to address one is the existing NPA. So, we have got about Rs. 1,200 crores of net NPAs today. Now, we believe that today we have drag on our balance sheet both in terms of the net NPA which is at about 7.2% as well as we do not recognize the income and plus we have a higher provisioning on account of aging. So, therefore whatever we recover out of it, we have a double advantage, one our PCR improves, out net NPAs go down plus we also have a recreation to the income. So, we are therefore having a special task force to look at how in the second-half we can recover as much as we can and second is the to grow the loan and this is again spread across the focus products which is the tractors and the used asset SME of course till date the performance has been super relative in terms of the NPA and the overall NPAs are just about the Rs. 50 crores out of the Rs. 100 crores so, we are pretty comfortable there. Hope that answers all the questions that you asked.

Balasubramaniam Ashwin: Just one last question, what will be the break-up with the mortgage of home loans and LAP?

Sanjay Chamria: So, it is about 67% LAP and 33% home loans.

Moderator: Thank you. The next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: Sir, coming to the comments that you have made at the start and now the AUM growth you expect to be flat in FY 2017. Now still there is like we are currently down about 3%-4% from FY 2016 level. So, we do expect some growth of 3%-4% in the second-half?

Sanjay Chamria: Yeah, exactly Deepak that is what I meant that we will wipe out the deficit of the first-half and may be have some more growth so, therefore on a conservative side I would expect it to be flat. On an optimistic side I would expect to have some level of growth on the opening loan book.

Deepak Poddar: Sure, understood. And in FY 2018 you mentioned, you expect AUM growth to be much superior and significant, so basically do you want to put any kind of range that this is what we would expect in FY 2018?

Sanjay Chamria: So, see the rational which I have is one all the organizational changes that we have done 70%-80% of that is over and the rest of it I expect to have it over before March. Two, we are also centralizing our entire leadership team the corporate office in Mumbai and third is we are starting off with a lower base. So, after two years of de-growth in the AUM so, two years before my AUM had crossed Rs. 19,000 crores and now it is at about Rs. 17,500 crores and also with the economic scenario improving so, therefore I hope that the AUM growth would be significantly higher and now it could be mid-teens or it could be high-teens but that is a function that we are able to execute next year.

Deepak Poddar: Understood. Mid-teens to high-teens that is fine. And you also mentioned that the kind of like new portfolio is behaving quite well and we do expect a much improved credit cost in FY 2018. Now, in our earlier calls we had given a kind of range of about 1.25% to 1.5% in our credit cost so, would we want to stick to that kind of credit cost in FY 2018?

Sanjay Chamria: So, you see currently our credit cost is in the range of 2% to 2.25%, like in the second quarter I mentioned it is about 2.1% on annualized basis. In the same breath I have shared that the quality of the new portfolio is about 40% to 50% superior going by the earlier trends. So, therefore, if I go by that ideally it should to be about 1.2% to 1.3% though it is too simplistic to sort of correlate the two and make a statement so, we are also still doing further work and more granular to be able to come up but I think at the present moment, I will not change my guidance on the overall credit cost to be in the range of 1.25%.

Deepak Poddar: Right, I understood and my last thing is, given your kind of growth guidance you are giving and the credit cost outlook, are we of 1.8% in those range to 2% is that what we are looking at in FY 2018 based on what previously we have been guiding?

Sanjay Chamria: So, I have maintained this again that so, last year we were about 1% to we have increased to 1.2%, in Q2 we are at about 1.3% and our idea would be first to breach 1.5% and then to aim at 1.7% or 1.8% and then gradually move up. So, I think it is a journey that we would also be tracking as you would be on a quarter-on-quarter basis but eventual idea is actually to take it in the higher range of more than 1.5% and up to 2% and also improve the ROEs to more than 15% which is where we believe that would be our immediate objective.

Moderator: Thank you. The next question is from the line of Sarvesh Gupta from Trivantage Capital. Please go ahead.

Sarvesh Gupta: Sir, in your LAP book what is the kind of LTVs that we offer and what are the NPAs?

Sanjay Chamria: So, we have an overall LTVs in the range of 55% to 60% which is lower primarily due to the region that we are lending to the informal segment customers and our ticket size is also now dropped to about Rs. 16 lakhs in the LAP and Rs. 12 lakhs in the home loan therefore our blended ticket size in the entire mortgage business is now about Rs. 15 lakhs. So, this is what our ticket size and the LTVs are. And in terms of NPA it is (+3%) on the overall business in the home loan book.

Sarvesh Gupta: So, the overall mortgage NPA is 3%?

Sanjay Chamria: Yeah.

Sarvesh Gupta: And what is it in LAP?

Sanjay Chamria: I do not have it right now Mr. Sanket can provide it to you later.

Sarvesh Gupta: This is on 90 days' basis?

Sanjay Chamria: Yeah, this is on a 90-day basis.

Sarvesh Gupta: Okay. And secondly on your SME portfolio how much of that is unsecured?

Sanjay Chamria: So, SME is 10% of the total book which is entirely unsecured.

Sarvesh Gupta: All of it is unsecured?

Sanjay Chamria: Yes.

Sarvesh Gupta: And what is the ticket size there?

Sanjay Chamria: About Rs. 20 lakhs.

Sarvesh Gupta: Rs. 20 lakhs?

Sanjay Chamria: Yes.

Moderator: Thank you. Next question is from the line of Ojasvi Khicha from SBI Cap Securities. Please go ahead.

Ojasvi Khicha: One house keeping question, if you could share income from securitization for the current quarter please?

Sanjay Chamria: So, this is Rs. 11 crores in the second quarter which is compared to Rs. 12 crores in the Y-o-Y which is second quarter last year.

Moderator: Thank you. The next question is from the line of Shivang Mahajan from Asit C Mehta. Please go ahead.

Shivang Mahajan: The question is regarding the gross NPLs so, we are suggesting like new book generating after December 2015 is of superior quality and also some of the stress being decreased in our existing book as well. So, but why still we are seeing some 5% quarter-on-quarter increase in gross NPLs numbers even if we think even in last quarter because our asset quality is like peaked out so, from which particular bucket or which segment the stress is coming up. If you can put some light, that would be helpful.

Sanjay Chamria: So, NPA is a function, the NPA is in the first or the second year of after the loan origination. When we say the new book is better, we look at the book originated say one year back and one year now and then we check how improvement has improved and there we are seeing it is 40% to 50%. But the earlier book which we had in 2014-2015, 2015-21016 that has still not peaked or we would say that it is about peaking now, most of it should be behind may be last quarter or this quarter and therefore, now the new book will start having an impact but it is still not having an impact so, that is the equation which works.

Shivang Mahajan: So, any particular segment where this new stress is coming up?

Kailash Baheti: Yeah, as we mentioned earlier it is secular so, across all products the improvement is about 40% to 50%.

Shivang Mahajan: I am asking fresh delinquencies in any new book.

Kailash Baheti: New book the delinquencies are far superior that is what we have said.

Shivang Mahajan: Okay. And another question regarding the off book assets, you were guiding about somewhere around 22 percentage to 25 percentage of your off-book assets and now it seems like you are getting higher demand for your priority sector papers. So, what is your guidance on it like for the off-book assets which we keep like somewhere in the range of 25% to 30% of your overall book?

Kailash Baheti: I think it will remain in this range only and there is always an equilibrium or when we do get very good opportunities it may be used as a treasury tool in which case it can slightly increase but may be 30% is a range we would look forward to.

Shivang Mahajan: 30% was our max number.

Kailash Baheti: Yeah.

Moderator: Thank you. We have the next question from the line of Gaurav Jani from Centrum Broking. Please go ahead.

Gaurav Jani: Yeah, this is more to do with the kind of delta that we foresee in our credit costs as soon as we resume growth on the asset side.

Sanjay Chamria: So, I think this question we answered that one at 2.1% credit cost which is there in the Q2 just concluded that it should start moderating with the 50% of the total portfolio being the new one where the quality is superior and on the older portfolio the NPA seem to be peaking out and then I gave also a guidance that it could be settling around 1.25% so, therefore in terms of the credit cost you would rather see the moderation in the same.

Gaurav Jani: Sure. So, sir, can you also provide a rough guidance as to what would be the NPA numbers then with credit cost about 120 basis points?

Sanjay Chamria: So, that would depend on the total loan book build out that would be there since we are talking a percentage and this 1.25 also we are not expecting that this can happen next year itself. So, this will also depend upon the combination of the old versus the new book and there will be a reduction is what we are thinking to achieve.

Gaurav Jani: Sure, sir. Sir this Rs. 1,200 crores stock of current NPAs is it safe to presume that this is entirely from the old portfolio?

Sanjay Chamria: Of course , because the new portfolio as in the first 12 months you do not have NPA it will only come in the next 12 months which is after 12th or before the 24^{th} month. So, we did a calculation so even in the older portfolio at the end of 12 months the quantum of NPA was very less but when we compare that with the current new sourcing there we find that it is about two-third superior so, the current levels of NPA would be about one-third on a similar vintage in comparison to the old portfolio.

Gaurav Jani: That is in the new portfolio you mean?

Sanjay Chamria: Yeah, so therefore out of 1,200 it is negligible so far as the new portfolio is concerned, it is entirely the old one.

Moderator: Thank you. Next question is from the line of Kush Sonigara from Mahindra Mutual Fund. Please go ahead.

Kush Sonigara: Can I have segment wise NPA numbers?

Sanjay Chamria: So, I do not have it right now with me may be Sanket can provide you separately.

Moderator: Thank you. Next question is from the line of Sarvesh Gupta from Trivantage Capital. Please go ahead.

Sarvesh Gupta: Sir, NPAs on 90 days' basis would look like what I mean how much compare to 9.2%

Sanjay Chamria: I think 2% higher so, it will be 11% to 11.2%.

Sarvesh Gupta: Understood. And secondly sir, I understand that there has been organizational changes and bandwidth utilization on the count of the same. However, on our agri finance book I think which has largely been flattish Y-o-Y while the industry has shown a very good growth in tractors so, how should we read that?

Sanjay Chamria: So, one, we have seen a growth in the tractor book it is not flattish. In fact, in terms of the overall share it has improved by 1% from 19% to 20%. But what we have done, we have looked at as I was mentioning some time back at a geography level and there are certain states and the territories which earlier contributed a larger portion of the agri book. Wherein the delinquencies have not improved so, therefore we have restricted our offerings in those states and in the other states we have improved where the performance has been good.

Sarvesh Gupta: But even then sir, overall the loan book has remained flattish so, there has been a 7% decline on the overall loan book and the share has also increased by 7% while the industry has grown by more than 20 so, is there any one-offs here or?

Sanjay Chamria: No, there is no one-offs as I said that we have also grown in certain states where the portfolio performance is superior and we wanted to grow where earlier certain states which were contributing healthy but the portfolio performance was not good and also we have not seen much traction. So, therefore we decided to scale down our presence there but in terms of the market share we have maintained at about 6.5% which is what I was talking I think sometime back.

Sarvesh Gupta: Okay. So, in the coming two quarters are we planning to keep restricting ourselves again as we have done till now or are we planning to put this portion of….

Sanjay Chamria: So, I think we are comfortable with about, we wanted to also to take it about 17%-18% right now it is 20% so, I think we would be keen to keep it just at this level now, with the overall business growth even the tractors may see a growth but then as I said instead of the changing markets there our decision making will be completely based on the profitability looking into the credit cost versus the yields that we are getting.

Moderator: Thank you. As there are no further questions, I would like to hand the conference back to Mr. Aadesh Mehta.

Aadesh Mehta: We would like to thank the management for this opportunity to host the call. Thank you all of participating in today's call. Have a nice day.

Sanjay Chamria: Thank you.

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