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Magma HDI General Insurance Co Ltd. - Chief Executive

Ladies and gentlemen, good day, and welcome to the Magma Fincorp Q2 FY '19 Earnings Conference Call hosted by Kotak Securities Limited. (Operator Instructions) Please note that this conference is being recorded.

I now hand the conference over to Mr. Nischint Chawathe from Kotak Securities. Thank you, and over to you, sir.

Nischint Chawathe, Kotak Securities Limited, Research Division - Senior Analyst [2]

Yes. Thank you, Vivian. Hello, everyone, and welcome to the 2Q FY '19 earnings conference call for Magma Fincorp Limited.

To discuss the financial performance of Magma and to address your queries, we have with us today Mr. Sanjay Chamria, Vice President and Managing Director; Mr. Kaushik Banerjee, President and CEO, Asset Backed Finance; Mr. Manish Jaiswal, MD and CEO, Magma Housing Finance; Mr. Rajive Kumaraswami, MD and CEO, Magma HDI General Insurance Company; and Mr. Kailash Baheti, CFO.

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

Thank you, Nischint. Dear stakeholders, good evening, everyone. I have great pleasure in welcoming you all to the second quarter earnings call of Magma.

At the outset, I'm happy to share that the company has registered a good performance on all critical metrics such as disbursement growth, AUM growth, asset quality, profits and ROA. However, before I deep dive into the details of our performance, I would like to share my views on the current liquidity scenario impacting NBFCs and HFCs.

There was heightened fear of unknown, and I feel it was more of a confidence issue. The NBFC and HFC sector has been operating in a favorable environment for the last few years and reporting healthy business growth, robust asset quality and growing profitability and return ratios. Implementation of Ind AS norms in FY '19 led to healthier reflection of financial position with better provisioning coverage ratios, transparency and alignment with international reporting norms. The sector also witnessed a significant capital flow in the past few years, and as a result, the industry is well-capitalized.

The recent single event leading to the flight of funds from the NBFCs and HFCs has resulted in the liquidity getting sucked out of the system. Magma is a retail lender. We have average asset maturity of less than 2 years for our ABF and SME book. In our 100% subsidiary, Magma Housing Finance, we have very insignificant market borrowings, and we are always dependent on bank lines, which are typically longer term in nature. Magma has been a very active participant in the securitization market, having done close to INR 40,000 crores of deals in the past 10-odd years. Currently, we have non-encumbered portfolio of more than INR 2,000 crores, which can be securitized to reach any fund requirement which we may have for our business growth.

Coming back to our performance for the quarter, we continue to reaffirm our commitment to deliver a sustainable long-term business and earnings growth by leveraging our key enablers namely: rebuilding our product mix in ABF, focus on affordable home loans and direct sourcing in the housing segment, building the highly profitable SME book, meaningful growth in our insurance business, and most important, maintaining portfolio quality across all businesses.

The company has further identified 2 areas of transformation: One, customer centricity; and two, talent value proposition, to enable us to take Magma to the next level and continue on the path of profitable growth over the long term.

We've been developing and investing in a strong customer service platform and making significant investments in our people. During the quarter under review, the company has made significant progress in line with our long-term plans. The disbursements grew 34% Y-o-Y, prudent product mix with a healthy net interest margins of 9%, the portfolio quality indicators continuing to trend significantly better.

Moving now to business slides. In ABF, our disbursements grew 21% Y-o-Y, driven by Commercial Vehicles posting a strong growth of 62% and Used Assets 33% Y-o-Y, in line with our growth strategy for this business. Our efforts to enhance productivity has shown early gains. Productivity has increased from 2.6 units in Q2 of last year to 3.5 units per month in Q2 of this year, an increase of 33%. Our planned transition of moving 61 to 90 bucket collections from business to the recovery team in second quarter has also shown early gains, and stock balance in this bucket has reduced by more than 25% from 30th June to 30th of September.

Coming to the mortgage business. We have fundamentally remodeled our business model and transformed it with aspiration to become a national-level affordable housing finance company. We have chosen a hard and a long way, however, journey is quite exciting. We have revamped our leadership, processes and policies and also built a strong team to focus on this agenda. We continue to focus on our strategy to Go Direct. 78% loans in second quarter have been given direct compared to 32% in the same quarter last year.

Go Home Loan. HL contribution at 63% in the second quarter compared to 33% in the same quarter last year. And dig deep, we have enhanced penetration in 93 locations across 10 states. I'm happy to share that the outcome of our efforts is extremely encouraging. Our HL disbursements saw a sharp rise of over 219% Y-o-Y with an average ticket size of INR 12 lakhs to INR 14 lakhs.

Coming to the SME lending, it continues to be a significant value enhancer and has the highest profitability among the products we offer. The SME business saw its disbursements grew by 67% Y-o-Y with an increase in penetration in the upcountry locations. We expect this momentum of growth to continue. We are investing in technology to enhance the product offering. We are on track to build our credit engine and fintech-based solutions for MSMEs and it will further enhance our product suite.

Insurance business. Our general insurance business continues to register robust growth. Magma HDI registered a growth of 69% in GWP on a Y-o-Y basis and 66% in first half on a Y-o-Y basis, vis-à-vis the industry growth rate of 13% of the H1 of FY '19. Stable loss ratios and increasing scale has benefited the company with improved combined ratios normalize. The combined ratio has improved from 124.8% in Q2 of last year to 117.3% in Q2 of this year and from 125% in the first half to 117.5% in the first half of this year.

Motor continues to be our strength with a contribution of 78% of the portfolio. We continue to enjoy one of the lowest Own Damage loss ratios in the industry. And we also continue to add new corporate clients in the commercial portfolio and post new tie-ups with the retail partners with a view to grow our franchise. Magma HDI is continuing to engage with the OEMs and potential Banca tie-ups with a view to grow the franchise even more.

On the service delivery front, the company has launched a modern claim system in the month of July. We are ranked #2 in the industry in terms of least number of customer complaints per 10,000 policies issued as on June 30, 2018 as per IRDA-published data. Overall, we remain quite bullish on the insurance business.

Coming to the key highlights of our financial performance in second quarter. These figures are under Ind AS. The previous year figures have also been aligned with Ind AS to make it comparable. In second quarter, our disbursements grew by 34% Y-o-Y from INR 1,641 crores to INR 2,200 crores, continuing the growth trajectory. This resulted in the AUM growth of 6% from INR 15,638 crores to INR 16,623 crores. Our net interest margins for the quarter moved up by 70 bps from 8.3% to 9%, back on the face of -- back on fresh capital reach and change in the product mix.

Our OpEx-to-AUM ratio during the quarter is at 3 -- 4.2 against 3.6 during the same quarter last year. We have a catch-up to do in the OpEx ratio as our AUM starts to reflect the disbursements growth in the coming quarters.

Our Stage 3 NPA assets post-transition to Ind AS has decreased from 6.8% in second quarter last year to 4.4% in second quarter this year. On a like-to-like comparison, our provisioning coverage ratio significantly improved to 56.5%. Our Stage 1 and Stage 2 ECL provisioning stands at 2.5% in second quarter of this year compared to 3.2% in second quarter of last year.

And finally, the profit after tax on a consolidated basis is at INR 77 crores in second quarter this year against the corresponding figure of INR 73 crores last year. Whereas the profit for the first half is INR 145 crores as against the profit after tax of INR 112 crores last year, a growth of 29%. And finally, the ROA has improved from 1.7% to 1.9%, and the ROE has improved from 12.5% to 12.8% in the first half of the year.

Now me and my colleagues, Kailash, Rajive, Manish and Kaushik will be happy to answer any questions that you may have. Thank you.

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Questions and Answers

Operator [1]

(Operator Instructions) The first question is from the line of Sneha Ganatra from Subhkam.

Sneha Ganatra, Subhkam Ventures - Analyst [2]

My first question is, currently -- recently there is strong growth in the disbursement, so how do you see the second half disbursement growth? And the target of the AUM of the 15% continues? Or we'll see an upward revision of -- in the AUM target?

Sanjay Chamria, Magma Fincorp Limited - Vice Chairman & MD [3]

And so one thing I would be happy to share that the current liquidity crunch being faced by the industry has not impacted our normal business disbursements. And even in the month of September and October, which has ended day before yesterday, we have continued our normal business because our dependence on the debt market has been quite insignificant. As a result of that, our guidance for the growth in disbursements during the second half of the year remains as is. And based on that, our AUM growth is also expected to be as per the original guidance.

Sneha Ganatra, Subhkam Ventures - Analyst [4]

My second question is on the recent liquidity crisis, you have cleared anything, but do you see any rush -- spike in your cost of funds and which could impact margins?

Sanjay Chamria, Magma Fincorp Limited - Vice Chairman & MD [5]

Well, yes. The cost of funds has definitely increased, and so my mandate to our CFO and the CEOs have been that we must build on our franchise and build goodwill during this tough times with the OEMs and the dealers that we stand by them and we will provide them funding no matter what the cost is. And we have also decided to pass on the cost of the increase in funds on the first lending that we do. Having said that, it would be only fair to say that the increase in the lending rate would be applicable only on the new business that we do. Whereas on the existing portfolio that we have, except mortgage, it is all fixed rate, and therefore, we will have to absorb the increased cost of fund for the part of the funding that we do to replace the borrowings that retire. As a result of that, we may see some pressure on the net interest margins. However, the cushion that we have built in the first half, where our net interest margins are better than the budget, would probably come to help in the second half of the year.

Sneha Ganatra, Subhkam Ventures - Analyst [6]

Okay. On the OpEx for now, do you see the growth? Because currently, our cost-to-income ratio is standing at 4.7% as I try to curtail out the OpEx, still do you see if there is a further use available on the OpEx front?

Sanjay Chamria, Magma Fincorp Limited - Vice Chairman & MD [7]

So as I mentioned also in my original comments that we have our task cut out on the OpEx front, and we are at about 4.2%. So -- but our disbursements have been growing at 34% in the first half of the year, but it is not passing through in the AUM growth, which is about 6%. And this we had explained even in the last quarter that the stake of the older portfolio that we had originated is now ending because we started de-flowing 3 years ago, right? We have a 42 months tenure. So from third quarter, which is of this year, October to December onwards, with the disbursement growth of 30%-plus, it should translate in a much higher AUM growth. With that happening, I guess, over the next few quarters, you will see the cost-to-income ratio also moderating.

Sneha Ganatra, Subhkam Ventures - Analyst [8]

Okay. And last, on the credit cost. What would be the run rate we can expect for the second half on the BSP?

Sanjay Chamria, Magma Fincorp Limited - Vice Chairman & MD [9]

So the credit cost is about 2.3% currently. And second half of the year is always much better than the first half of the year as there are no interruptions owing to the rainfall and et cetera, and then you have the year-end benefits. Whereas the first quarter, you have the post year-end dues. So second half of the year, we expect this to fall. And overall, for the year, we have given a guidance in the range of 1.6%. And so far, we stick to the same.

Operator [10]

The next question is from the line of Anitha Rangan from HDFC AMC.

Anitha Rangan, Hsbc Asset Management (India) Private Limited - VP of Fixed Income [11]

This is Anitha from HSBC, not HDFC. Just a couple of questions here. One, on your ALM snapshot, I just wanted to understand, you've this cumulative maturities, but there are some gaps in the 2-month and 3-month bucket. Like, 2-month is just surplus of the 41% and 3-month is about negative, slight negative. So I mean, what is driving the negative out there? And how will that -- overall, it'll be like a positive, what is your plan to reach that surplus gap? And also, just wanted to understand, like, while you're disbursement growth has been very good doing almost like INR 2,000 crores-plus every quarter, it's not translated into AUM growth. So what segments here should you be focusing going forward to see that AUM growth? And in that sense, would you be getting that kind of long-term finance because to do those long-term segments also, you need that long-term finance. So how are you thinking in that sense?

Kamal Kishore Kailash Baheti, Magma Fincorp Limited - President & Group CFO [12]

So the first thing is that in his -- I'm Kailash here. And in the opening comments, Sanjay mentioned that we have over INR 2,000 crores of securitizable portfolio. The securitization is giving us desired amount of money. In the month of October also, we have done good amount of securitization in the range of about INR 500-odd crores of securitization, and now we have another INR 2,000 crores so -- of assets, which we can securitize. So flow of funds to retire whatever little bit of mismatch we may have over a 2-year, 3-year -- 2-month, 3-month period is not an issue at all. That's the first response to your first question. Second is our ABF or vehicle finance, every loan book is less than 2 years. And therefore, this fear of raising long-term funds and there not being enough avenues to raise long-term funds is not relevant for the vehicle portfolio, which is almost about 80% of our portfolio. In the Housing Finance, our -- as of today, we are growing roughly at about maybe INR 50-odd crores per month and that kind of money is not a big amount of money. So even in Housing Finance, we have no issues at all. Right now, we are very well matched. We don't have any ALM mismatch. Coming to your question on which are the segments we would be growing, I would actually like to request Kaushik and Manish to speak about where exactly they feel that they would be growing their assets -- asset book going forward.

Kaushik Banerjee, Magma Fincorp Limited - President & CEO of Asset Backed Finance [13]

So these -- in the ABF business -- Kaushik here. In the ABF business, we had defined a long-term strategy on 2 platforms. First was to broad-base the overall product mix and thereby reduce segmental risk in any single asset category. And the second, 1/3 of focused products would commercial vehicles, largely light and small commercial vehicles and used vehicles with subleased cars, CVs, tractors, construction equipment. And that's exactly where we are going in terms of our segmental growth, and we will continue to pursue growth in these areas. Having said that, I think we've also said that we developed a branch grading structure. Every product in every branch is graded A to D. So whenever we have a good product portfolio in terms of products being in the A to -- A and B category, we will continue to build our portfolio of those assets, irrespective of whether they are core focused assets or they're not core focused assets. So that's the way forward for ABF. Manish, over to you.

Manish Jaiswal, Magma Housing Finance Limited - CEO & MD [14]

I'm Manish Jaiswal. In the opening comments, Sanjay mentioned about the mortgage and SME business. As you're aware that we have remodeled our mortgage business completely as a national scale affordable housing player. We operate deeply in 8 states, which contribute to a large part of our growth. In quarter 2 itself, we have significantly grown our business compared to previous year. We have grown our overall mortgage book by -- mortgage disbursement by 80% and the home loan actually have grown by 219%. So for us, we see these are times where players -- where fundamentally our financial stability allows us to grow and make good of the available opportunity in the market. So we hold on to our business plans and we look at more than doubling our disbursement on the mortgage business for FY '19/'20. And similarly, on SME, we see a phenomenal opportunity because these are times when a large number of public sector banks, because as 11 of them are under PCA framework of 21 banks. And we also see liquidity tightening up and lot of key players are slower disbursement. But given Magma's position of liquidity and strength, we are well poised. We've already grown an SME business with a similar quarter over last year by 67%. We hold our disbursement plan's robustness for both businesses. We will be cautious. We will certainly watchout for market signals. But certainly, we would like to have a cautious growth and we would like to make most of the available opportunity.

Operator [15]

The next question is from the line of Umang Shah from HSBC.

Umang Shah, HSBC, Research Division - Analyst of Financials [16]

One question is regarding the liability mix. So if I look September over March, contrary to what we have been seeing for other NBFCs or HFCs, actually our dependence on bank borrowings has come off and dependence on the money markets has kind of gone up. Could you explain what is driving this? And within the 28% of debt capital market borrowings that we have, if you could just split it up between bonds and commercial papers, that would be helpful.

Sanjay Chamria, Magma Fincorp Limited - Vice Chairman & MD [17]

So Umang, as I mentioned that we are also -- that we have a large dependence on banks. And certainly, you would see that we have not grown our book, but our mix of funding has fortunately or unfortunately, as it happens, in the quarter 3 itself got slightly aggressive on taking from debt market, and we have taken significant amount of CPs which were quarter sourcing at a fairly good rates of interest. However, most of these CPs have now matured and we already repaid. Again, we have gone back to our earlier ratios. If not, the bank borrowing has actually increased. So going forward, you will again see the similar kind of ratios in our funding profile. It has already happened in the month of October.

Umang Shah, HSBC, Research Division - Analyst of Financials [18]

Okay. So you mean to say, in Q3 the mix will again normalize and will be in favor of banks?

Sanjay Chamria, Magma Fincorp Limited - Vice Chairman & MD [19]

Exactly.

Umang Shah, HSBC, Research Division - Analyst of Financials [20]

Okay, okay. And just one more clarification. For historical borrowing numbers where we have had some reclassification, so securitization is now a part of bank borrowings?

Sanjay Chamria, Magma Fincorp Limited - Vice Chairman & MD [21]

There are 2 parts to it. There is PTC transaction, there is BA transaction. So PTC transaction -- sorry, I think your question is probably a little different, but let me complete. PTC transaction is on book and BA transaction goes off book. Is that your question?

Umang Shah, HSBC, Research Division - Analyst of Financials [22]

Yes. So what I was trying to understand is, so I was looking at historical last year 1H numbers, the borrowing numbers have been restated and revised upwards. So I just wanted to confirm that my assumption is that the difference is basically because of this...

Sanjay Chamria, Magma Fincorp Limited - Vice Chairman & MD [23]

That's because of Ind AS. Right, Umang, that's because of Ind AS, yes.

Umang Shah, HSBC, Research Division - Analyst of Financials [24]

All right. Okay. And my second question is to Kaushik. Clearly, we have done fantastically on the strategy that we had outlined at the beginning of the year. And if I look on an incremental basis, clearly 2/3 of our incremental growth on an AUM basis has been coming from the used assets. Now given the way things are, interest rates have been moving up, crude prices have been moving up, and already there is a perception that this might start impacting the CV demand and also the operator profitability. So in this kind of scenario, what would be your view going forward both on growth as well as on asset quality in the ABF business?

Kaushik Banerjee, Magma Fincorp Limited - President & CEO of Asset Backed Finance [25]

Right. So in fact, if we look at the share of the pie that we have, the aggregate used market is fairly small. So we can continue to pursue our growth objectives in used without any kind of adverse impact on either portfolio or growth assumptions. And what you say about used, specifically, will also hold true for new. In fact, I would actually assume that if somebody was actually planning on buying a new vehicle, but actually looked at buying a lower vintage used vehicle given the cost, the delta differential between a new and the used vehicle. So given the fact that the increase in oil prices as well as the increase in interest rates will largely impact lower-yield assets because used already runs at about 17.5% to 18% weighted yield and that's not going to get impacted too much. What's going to get impacted if someone is borrowing at 9.5% or 10%, his cost would go up by about 100 to 150 basis points, right? So -- because lenders can't afford to lend at low yields anymore. But we can continue to maintain an 18% IRR rate fundamentally. So -- and again, because it's a used asset, your EMI outflow is also that much lower. So I'd say still kind of pretty much put my cards on the front that used to distinguish over robust demand. But there is a certain amount of feedback that I'm getting that the overall situation in the market today will probably depress potential estimates for growth in the new CV category, which is -- and you've already seen the impact in cars in terms of a drop in volumes due to a higher interest rate, higher fuel price and the insurance requirement as specified by the Supreme Court. So the high double-digit growth that we've been hearing about CV growth is probably kind of moderate to high single-digit or low double-digit growth.

Umang Shah, HSBC, Research Division - Analyst of Financials [26]

Sure. So fair to assume that -- so what you're trying to allude is that for you it's more to do with market share gains rather than tracking what the industry will be doing. Is that a fair assessment?

Kaushik Banerjee, Magma Fincorp Limited - President & CEO of Asset Backed Finance [27]

Pretty much. Pretty much. Pretty much. Obviously, subject to, as Manish mentioned earlier, portfolio quality and appropriate sourcing. And because in the -- cost of funds increased for us, which we're also passing on to the customers, that's also factored into the -- into any growth plans that we are making or that we make.

Sanjay Chamria, Magma Fincorp Limited - Vice Chairman & MD [28]

One of the points that I will add to Kaushik and Manish is that I spoke about customer-centricity and we have our [long standing] customer servicing platform. And we in ABF today get about 18% of our incremental business from the existing customers, which we will further increase and we have done a lot of analysis that there's a scope to actually double that business. So over the next few months, we would like to track this metric very closely and grow our business from the existing customers who will write very successful [traction for] our business. So this will, at one level is just to maintain the portfolio quality. And at another level, when they have rate requirement for a second vehicle so they retain the customer through our superior customer servicing. The outlook is very simple. What we have made considerable amount of investment in the cross-sell, in the technology and in this specialized team who can achieve customer service and thereby generate cross-sell. This will also affect the customers who only are given the rated loans. A good number of them (inaudible) home loans. Now that Manish and his leadership team has piloted the Mortgage business to the affordable housing and which is what -- where our ABF customers would fall under. What we are trying to achieve in that stream first is how do we leverage on each other's businesses, and thereby, over 1.2 million customers that we have served to-date, we can offer the home loans to them without overleveraging the customer.

Kunal Shah, Edelweiss Securities Ltd., Research Division - Associate Director [29]

Sure, sure. That's helpful. And my last question to Sanjay is about -- so operating efficiency. It's almost close to about 6 quarters where our project book has remained about 370, 380-odd branches. So how do we maintain the balance between expanding our distribution if we have to gain market share and still maintain the OpEx ratios? So how that will exactly play out?

Sanjay Chamria, Magma Fincorp Limited - Vice Chairman & MD [30]

So we have -- I think we have discussed with you as well as many of others from your fraternity in the past that we are relying very heavily on the mobile technology deployment to service both the channel and the end consumers. And today we are representing close to 1,900 Talukas which we are serving from 307 branches in the company. And we feel that with the same amount of Talukas which is about 1,900, the growth plan that we have across businesses, we can achieve that over the next 2 to 3 years. So while we may add a few branches, that is more from the point of view of enabling customers to come and deposit money in the office or come to some other required way. But in terms of our outreach to the customer, we do not -- frankly, we don't need too many branches to be opened up. And that is where, I think, we will eventually have a cost advantage over our peers who have 600 or 800 or 1,000-odd branches.

Operator [31]

(Operator Instructions) The next question is from the line of Shubhranshu Mishra from Motilal Oswal.

Shubhranshu Mishra, [32]

Just want to check -- most of my questions have been answered. Just want to check that construction equipment has been growing pretty steadily as well as the tractor financing. So is this opportunistic right now? Or is this part of a strategy going forward as well?

Kaushik Banerjee, Magma Fincorp Limited - President & CEO of Asset Backed Finance [33]

Actually, our tractor financing -- our tractor financing business is actually kind of flatlined the last couple of quarters. So flatlined in the...

Manish Jaiswal, Magma Housing Finance Limited - CEO & MD [34]

155. We were 190.

Kaushik Banerjee, Magma Fincorp Limited - President & CEO of Asset Backed Finance [35]

Has actually [de-grown] by (inaudible) grown.

Manish Jaiswal, Magma Housing Finance Limited - CEO & MD [36]

It's [de-grown].

Kaushik Banerjee, Magma Fincorp Limited - President & CEO of Asset Backed Finance [37]

Yes, It's [de-grown]. Exactly.

Manish Jaiswal, Magma Housing Finance Limited - CEO & MD [38]

By 6%.

Kaushik Banerjee, Magma Fincorp Limited - President & CEO of Asset Backed Finance [39]

Yes. (inaudible) heard growth in the news. I think there has been a growth in [CV] but that is actually -- you see, the market has grown by close to 50%. And we have grown by about 23%. So we've grown at half the market rate. Right. So if you look at CV growth at 52%, if you look at used, that is about 33%. So these are the 2 core products that we've been growing in.

And while we've had growth in other products except -- barring tractors, it's more in terms of market -- it's all opportunistic. It's again, I said in my earlier comment that we're looking at ANB (sic) [ABF] branches and ANB (sic) ABF products. So the portfolio has been working with a particular branch. We don't -- we're okay with them just working on that particular product. So to that extent, yes, we have seen certain core traction in CE but not in tractors.

Operator [40]

The next question is from the line of Rithika from Elara Capital.

Ritika Dua, Elara Securities (India) Private Limited, Research Division - Research Analyst [41]

Firstly, on the growth front, so we've obviously been on guided lines. I just wanted to check, while SME still like is a big opportunity as a whole, but would we want to be a little bit more cautious right now?

Manish Jaiswal, Magma Housing Finance Limited - CEO & MD [42]

So I must mention that SME as a business, the way we have been modeled -- we have modeled it over the last decade, has been built on existing, rock-solid performance, be it 2008 crisis or a GST or demonetization. Our customer selection process, though we could err, on the (inaudible) rated side, we haven't been aggressive. Our loss models have held completely, steadily across business cyclically. I think we have now been able to evolve the model of our own where we are pretty confident that we are among the industry top quartile in our performance. And there is no giving up at all in terms of compromising on credentials or credit assessments when it comes to selecting SME customers. And we would hold onto a position. We don't think that, despite many entrants who came, and have some stayed and some are under stress, we have been rock-steady and solid. And I think we would like to continue in a similar position. Yes, there is a bit of caution in the wind. We will be careful. But this is, as I mentioned, a strategy for cautious growth. Opportunities are a dime a dozen, we will be selective.

Ritika Dua, Elara Securities (India) Private Limited, Research Division - Research Analyst [43]

Sir, secondly, on the tractor front. So what we are now looking to achieve to grow the book? I think you've been stating that -- I mean, as stated, you have been reducing your focus, but then right now, do you think, at least, the growth should pick up from hereon?

Kaushik Banerjee, Magma Fincorp Limited - President & CEO of Asset Backed Finance [44]

Our primary objective was to kind of balance the entire portfolio out. And yes, and so as I said in my earlier calls as well, the intent at all to stop tractor financing reduces growth or reduce their book. The intent is to ensure appropriate selection of customers under tractors, to ensure that there's no subsequent cyclical problem later from the customer's [relation] that we do. I would be more than happy to have a situation that we do grow our tractor portfolio. And the team has a mandate and the budget to do higher volume of tractors for the year, subject to the required portfolio parameters that we've set as a part of our internal benchmarks. Raj, do you have something?

Rajive Kumaraswami, Magma HDI General Insurance Co Ltd. - Chief Executive [45]

What I would like to add to what Kaushik has shared that, it was since Kaushik has come on board as a part of the strategy that was a key logistic and which has just been accepted by the board is to reduce our weightage on the tractor portfolio. And at some point of time, it grows to 30%, which last year second quarter was 26%, and which has now come down to 21%, as you can see in the Slide #14 of the Investor Day that we've shared with you. And even if you look at the disbursal, at base level it was about 18, 19% of the total disbursal in ABF, which has gone down to 14% in second quarter last year, and it's further down to 11% in the second quarter this year. And the primary reason for going underweight on tractor in the overall portfolio is the cyclical nature that our end consumer, which is the farmer that is exposed to the monsoons and the ravages of nature, and we want to bring a stability in our portfolio performance. So while we don't want to be out of this market and it is extremely lucrative, and the same time, we want to balance the portfolio with the luxury of having 6 products in the vehicle financing vertical that we have. I hope that answers your question.

Ritika Dua, Elara Securities (India) Private Limited, Research Division - Research Analyst [46]

Certainly sir. One last, if I may. So just an explanation on the provisioning that we have had this quarter, so I'm just referring to the P&L number here. So if we see we've -- obviously, we've increased your coverage to some extent while your ratios remain now flat. I'm just talking about like we had a sort of a write-back in the Stage 1, 2 and 3, but the ECL provision on Stage 3 has moved up. So if I just add the 2, that doesn't really match exactly what the P&L number is. I know it's not a direct match there, but some light over that.

Kaushik Banerjee, Magma Fincorp Limited - President & CEO of Asset Backed Finance [47]

So the provision number and write-off number it's appeared in -- appears on balance sheet. The quarter and provision on the portfolio as per we are getting, plus whatever settlements we may have done during the quarter and whatever loss on settlement we may have endured during the quarter. And these are significant amounts. So the comparison actually does not hold. And we have been doing a lot of settlement and repossession and sale of vehicles in the higher-bucket portfolio where we may have incurred a little bit of hair loss during a particular quarter, but that's about it. And cyclically, the second half, quarter 3 and quarter 4, is significantly better in terms of collections performance. There is substantial amount of rollbacks. We have also given guidance that we will have lower GNPA and lower NNPA from the level they are -- we are presently. So we would expect to claw back significantly in the second half. And that's where Sanjay in his opening remarks mentioned, or to another question he mentioned that he would be -- we would continue to maintain that for the year our credit loss should fall to about 1.6%.

Operator [48]

The next question is from the line of Arpit Agarwal from Systematix.

Arpit Agarwal, [49]

Thank you. My question has been answered.

Operator [50]

The next question is from the line of [Prashant Dubey] from Edelweiss.

Unidentified Analyst, [51]

This is [Dhruva] from Edelweiss. Most of my questions have been answered. Just one bit of (inaudible)

Operator [52]

Excuse me, sir. We are not able to hear you, sir.

Unidentified Analyst, [53]

Hello. Am I audible? Yes, sir, I was asking one key data point. What is the proportion of [A and B graded] branches now? And what is the road map ahead on that?

Kaushik Banerjee, Magma Fincorp Limited - President & CEO of Asset Backed Finance [54]

The proportion of [A and B graded] branches is 86% right now.

Unidentified Analyst, [55]

And what will be your aim or target in the next couple of years, or whatever you want to do?

Kaushik Banerjee, Magma Fincorp Limited - President & CEO of Asset Backed Finance [56]

I think 86% of sales have gone fairly -- I mean, obviously, one thing that we haven't said -- what I would be extremely happy if we can make this (inaudible) at 90% plus of what Raj says being in (inaudible) adjacent point of time.

Unidentified Analyst, [57]

And secondly, in terms of your historical portfolio which was around 15% last quarter. What is that number right now?

Kaushik Banerjee, Magma Fincorp Limited - President & CEO of Asset Backed Finance [58]

What? Sorry, repeat your question?

Unidentified Analyst, [59]

An earlier book that we're talking about, the rundown of the ledger book that we were talking about earlier, which formed around 15% in Q1 (inaudible) proportion right now...

Kaushik Banerjee, Magma Fincorp Limited - President & CEO of Asset Backed Finance [60]

Sorry, I think you're talking of the book which generated prior to December 15.

Unidentified Analyst, [61]

Yes, yes, yes, sir.

Kaushik Banerjee, Magma Fincorp Limited - President & CEO of Asset Backed Finance [62]

So from 95, we have actually not tracked the exact number, but I would assume that it should be closer to 90% now. 85% to - 85% was new book that would now have come to 90%.

Operator [63]

(Operator Instructions) The next question is from the line of Abhishek Murarka from IndiaInfoline.

Abhishek Murarka, IIFL Research - VP [64]

So 2 or 3 quick questions. One, if I look at your ID and EV trend in affordable housing and SME, in both those last 2 or 3 quarters, those trends have been [in trend delinquency], the thing has been increasing. So anything to worry about from an asset quality going forward?

Manish Jaiswal, Magma Housing Finance Limited - CEO & MD [65]

So let's look at the early delinquency. Early delinquency, if you very you look at, for example, affordable housing, this is a number which is actually a 30-plus bucket. It talks of almost -- for about that year, 12-month portfolio with a 2-month lag. This is a long-term trend. And on the long-term trend, which is a green line, it's actually come down from a high of 3.2 to 1.1. And that really is the indication of the quality of portfolio. There have been some aberrations over the last quarters specifically, largely which have come because of the AHF projections, which is something which has got more to do which is a qualitative shift in terms of automatic clearinghouse. And this is a minor blip, really, 1.6 to 1.8, but which is more on the early delinquency. But I would believe that on the development on the EV trends, we are fine. Our collection efficiency in bucket 0 is 98.6%, which is, I would say, that is one of the industry best and I think we are holding up quite strong. Similarly, on SME, if you look at the early delinquency, which is again the green line there, there we has come down to 2% to 1.5% to 1.4%, while the early delinquency issues are in a very stable, narrow zone of 0.5% to 0.7%, so we don't see any cause of earlier anxiety in a couple of definite places here or there.

Abhishek Murarka, IIFL Research - VP [66]

Okay. So Manish, I was actually referring to the more near-term trends. And pardon me for the AHF, so ED is definitely improved. But if I look at sequential movements, you explained the AHF. But in SME, last 2, 3 quarters, the sequential movement has been upwards. And given that, that book is unsecured, you still think that there's no cause for any tightening over there?

Manish Jaiswal, Magma Housing Finance Limited - CEO & MD [67]

So our collections in SME bucket 0 is over 99%. And apart for that, I also wish to state and mention that it has not been mentioned anywhere that in SME, we have also begun to secure our book through a guarantee scheme. And perhaps we are one of the very few NBFCs who are that sure, then. So while our nature is unsecured, we have begun to also secure our portfolio, a true guarantee structure. So at 0.5% to 0.7%, while there could be a blip or a tweak there, but holding up on the EV trend, we are comfortable with securing of the book to debt guarantee. That is an added cushion and a layer. On top of it, delivering our business within ROA of 3% posttax and NCL of 2.3 steady. I think that we understand and agree that a minor flutter should not should really give us anxieties, considering the fact that we have furthermore gone and cushioned ourselves in these times.

Abhishek Murarka, IIFL Research - VP [68]

Sure, sure. Great. And sir, the second question is just from understanding perspective. Once we moved to Ind AS and we took a hit of INR 370 crores on the net worth, a large part of it was also because of the ECL. And my understanding was that going forward, the provisioning cost would fall quite dramatically. But in the last couple of quarters, the provisioning costs have continued to be at INR 80 crores, INR 85 crores. So can you just explain why? Or whether in the next half or from the next quarter onwards that effect will be seen? Or whether we should expect a sort of higher run rate of provisioning?

Kaushik Banerjee, Magma Fincorp Limited - President & CEO of Asset Backed Finance [69]

Abhishek, as we mentioned earlier also, our present credit cost is in the -- up about 2.2%. And for the year, we have given a guidance of 1.6%, which means we expect significant fall in the second half (inaudible) credit cost. There are a few very significant positives we would like to say. One is that our 90-plus book has remained stable. The increase is just about INR 30 crores in this quarter. Usually -- if you look back to a year-to-year quarters, then it would have been significantly higher. Number two, you have been watching closely the second half. Both quarter 3 and quarter 4, we reduced our NPAs. Thirdly, in

this quarter, we moved for our ABF business the 61-to-90 bucket took collection C, and we have seen significant traction there. And the 61-to-90 bucket right now is also tracking better than what we had budgeted. A little bit of issues are there in the very initial bucket, and as you know, 0 bucket, first bucket, second bucket. Even if there is a little bit of bulging, this immediately shows up and which is a duty of Ind AS that it does not give you any leeway to relax on your 0 for a second bucket. And our absolute plan is that we would welcome these buckets, and we will have improvements there also in the second half. Manish would like to add something.

Manish Jaiswal, Magma Housing Finance Limited - CEO & MD [70]

Yes. Just also wish to reiterate that we have, for housing and SME, employed exclusive and segregated team of more than 210 collection officers. And we have specifically seen a very good set of results coming in with -- as we segregated our teams with extruded collections. In fact, on the housing business, specifically we are looking at negative NCLs. So we are reasonably confident in tracking fine as per plan and budget. And we certainly believe that our Stage 3 assets and coverage ratios would see -- have already improved substantially and they're on course for a significant more improvement as we have exclusive 90-plus and 90-minus teams in action.

Operator [71]

(Operator Instructions) The next question is from the line of [Akhil Jain], an individual investor.

Unidentified Shareholder, [72]

I had a few basic questions about the SME lending business. Is the book entirely unsecured? Or part of it is? How much is it secured and unsecured? And what is the average lending rate from the SME finance book?

Manish Jaiswal, Magma Housing Finance Limited - CEO & MD [73]

So this is an unsecured lending to rather to established SMEs who currently are working cap staff or working level staff given the state of banking system. Our lending rates are at 19%. This is a secular business, and the current book is about INR 2,100 crores.

Unidentified Shareholder, [74]

So like I see that the average ticket price is about INR 20 lakhs.

Manish Jaiswal, Magma Housing Finance Limited - CEO & MD [75]

That's true.

Unidentified Shareholder, [76]

And what is the sort of businesses that you lend to? A few examples...

Manish Jaiswal, Magma Housing Finance Limited - CEO & MD [77]

We -- okay, I got you. We lent to established SME players who have financials. Most of them who have banking lines have working banking limits. They have credentials. They have track record. And these customers are customers largely have businesses which are growing, or for some reasons, their working capital stopped given that 70% of SME lending is done by public sector banks. And the kind of space they are in and their inability to give timely liquidity and support to SMEs is -- they look for short capital injection in their working capital. So we rather cater to formal SMEs, and that's our market segment.

Unidentified Shareholder, [78]

Okay. Sir, how does this -- I mean, (inaudible) LAP finance, so even the lending rates are lower in than LAP finance?

Manish Jaiswal, Magma Housing Finance Limited - CEO & MD [79]

Our lending rates are at 19%.

Unidentified Shareholder, [80]

No. I'm talking -- how does this finance book differ from like SMEs? And then differ from LAP finance. I believe there is also like the LAP finance, with like property (inaudible) rate.

Manish Jaiswal, Magma Housing Finance Limited - CEO & MD [81]

So in SME, we do only unsecured finance, which is a 2- to 3-year, rather 27-month tenure that we have established for SME lending at 19%. We do not do the LAP finance under SME book. We do a small portion of LAP to micro and small entrepreneurs, which is on the mortgage side where we have a complete understanding of customers' collateral and cash flows, but that is more towards [downward] retail. I would rather say micro and small entrepreneurs. But at SMEs, we're largely skewed towards small and medium entrepreneurs.

Unidentified Shareholder, [82]

Okay. I think there's a general perception that most of the SMEs are not tax-compliant businesses and that the way you -- that schemes that have been implemented, they are kind of being able to avoid that. So I mean, if they come under the GST tax

net, do you think the tightens the viability of their businesses? Because a lot of them seem to need GST arbitrage systems -- businesses.

Manish Jaiswal, Magma Housing Finance Limited - CEO & MD [83]

Let me mention that GST formalization is a process in itself. We, on the contrary, see a lot of informal business is formalizing. And as that happens, there's a need for formal credits on the book. So mostly, those customers who are growing and formalizing their business models, it's there we see a terrific opportunity. And we believe that this actually will need for formalization of working capital lines on their books. And therefore, given the kind of situation and starvation of working capital lines for SMEs, presents is a potential opportunity for us.

Unidentified Shareholder, [84]

And what is the repayment (inaudible) is it like (inaudible) might -- I mean, rather than repaying the loans? What is the repayment more like?

Manish Jaiswal, Magma Housing Finance Limited - CEO & MD [85]

Our monthly EMI, as I mentioned to you, 2- to 3-year lending, average term is 27 months.

Operator [86]

The next question is from the line of Antariksha Banerjee from ICICI Credential.

Antariksha Banerjee, [87]

So firstly, Manish, in housing, is the entire book fixed? Or we have floating loans?

Manish Jaiswal, Magma Housing Finance Limited - CEO & MD [88]

So we have -- we are on floating rate loans, and we have nonfixed-rate loans. Probably 0.5% of books could be on a fixed rate, but it is completely on the floating rate loans.

Antariksha Banerjee, [89]

And it's annual? I mean, how often is the reset done?

Manish Jaiswal, Magma Housing Finance Limited - CEO & MD [90]

So for us, we have not reset our rates for a long time. But on 7th of November, we will be doing our first reset and hopefully passing on a price increase of 50 basis points to our customers.

Antariksha Banerjee, [91]

All right. So you have not done anything so far, right?

Manish Jaiswal, Magma Housing Finance Limited - CEO & MD [92]

So far, we have not taken an action.

Antariksha Banerjee, [93]

All right. And Kaushik, in the market itself, I'm not asking Magma specific, but in vehicle finance lending, are seeing any rates being passed on by competitors or in the market in general?

Unidentified Company Representative, [94]

(inaudible)

Sanjay Chamria, Magma Fincorp Limited - Vice Chairman & MD [95]

Yes, Rates are getting passed on.

Kaushik Banerjee, Magma Fincorp Limited - President & CEO of Asset Backed Finance [96]

Can you please repeat that because you're a bit..

Antariksha Banerjee, [97]

Yes. I think in the market itself, not with Magma per se pertaining to Magma, but with the cost tends rising, are you seeing competitors already to be -- to [hike up] rates?

Kaushik Banerjee, Magma Fincorp Limited - President & CEO of Asset Backed Finance [98]

Yes, yes, yes. So this has happened across-the-board, across lenders. I think most of them have repriced their lending metrics.

Antariksha Banerjee, [99]

And the average would be 50, 100 bps?

Kaushik Banerjee, Magma Fincorp Limited - President & CEO of Asset Backed Finance [100]

Yes, yes, yes. In the range of 50 to 100 bps.

Antariksha Banerjee, [101]

All right. And we have also participated in the same low quantum, right?

Kaushik Banerjee, Magma Fincorp Limited - President & CEO of Asset Backed Finance [102]

Yes.

Operator [103]

Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Nischint Chawathe for closing comments.

Nischint Chawathe, Kotak Securities Limited, Research Division - Senior Analyst [104]

Yes. Thank you, everyone for joining us today. We thank the management for giving us opportunity to host the call. Thank you.

Sanjay Chamria, Magma Fincorp Limited - Vice Chairman & MD [105]

Thanks you. Good bye.

Kaushik Banerjee, Magma Fincorp Limited - President & CEO of Asset Backed Finance [106]

Thanks.

Operator [107]

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