# "Magma Fincorp Q2 FY2019 Earnings Conference Call"

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**Moderator:** Ladies and gentlemen, good day and welcome to the Magma Fincorp Q2 FY2019 Earnings Conference Call hosted by Kotak Securities Limited. 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. Should you need assistance during the conference, 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. Nischint Chawathe from Kotak Securities. Thank you and over to you Sir!

**Nischint Chawathe:** Thank you Vivian. Hello everyone and welcome to this 2Q FY2019 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, Chief Financial Officer. I would now like to hand over the call to Mr. Chamria for his opening comments.

**Sanjay Chamria:** Thank you Nischint. Dear stakeholders good evening everyone. I have great pleasure in welcoming you all to the 2Q earnings call of Magma. At the outset, I am happy to share that the company has registered a good performance on all critical matrix such as disbursal 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 favourable 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 FY2019 led to healthier reflection of financial position with better provisioning coverage ratios, transparency and alignment with international reporting norms.

The sector also witnessed significant capital flows 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 two 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 Rs.40000 Crores of deals in the past 10 odd years. Currently, we have non-earmarked portfolio of more than Rs.2000 Crores, which can be securitized to raise any fund requirement, which may help 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 while 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 importantly maintaining portfolio quality across all businesses. The company has further identified two areas of transformation, one customer centricity and two talent value propositions to enable us to take Magma to the next level and continue on the path of profitable growth over the long term. We have 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 disbursals grew 34% YoY, prudent product mix with a healthy net interest margin of 9%, and the portfolio quality indicators continuing to trend significantly better.

Moving now to business wise in ABF, our disbursals grew 21% YoY driven by commercial vehicles posting a strong growth of 62% and used assets 33% YoY in line with our growth strategy for this business. Our efforts to enhance productivity have 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 2Q has also shown early gains and stock balance in this bucket has reduced by more than 25% from June 30, 2018 to September 30, 2018.

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 Q2 have been given direct compared to 32% in the same quarter last year. Go Home Loan has some contribution at 63% in the Q2 compared to 33% in the same quarter last year and dig deep. We have enhanced penetration in 93 locations across 10 states. I am happy to share that the outcome of our efforts is extremely encouraging. Our HL disbursals saw a sharp rise of over 219% YoY with average ticket size of Rs.12 lakhs to Rs.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 disbursal grew by 67% YoY with an increasing penetration in the up country 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 YoY basis and 66% in first half on a YoY basis vis-à-vis the industry growth rate of 13% of the H1 of FY2019. Stable loss ratios and increasing the scale has been benefited the company with improved combined ratios normalized. 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 the 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 forge 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 growth in franchise even more. On a service delivery front, the company has launched a modern claim system in the month of July. We are ranked number two in the industry in terms of least number of customer complaints per 10000 policies issues as on June 30, 2018 as per IRDAI published data. Overall, we remain quite bullish on the insurance business.

Coming to the key highlights of our finical performance in Q2, these figures are under Ind-AS. The previous year figures have also been aligned with Ind-AS to make it comparable. In Q2, our disbursals grew by 34% YoY from Rs.1641 Crores to Rs.2200 Crores continuing the growth trajectory. This resulted in the AUM growth of 6% from Rs.15688 Crores to Rs.16623 Crores. Our net interest margins for the quarter moved up by 70 BPS from 8.3% to 9% back on fresh capital rage and change in the product mix. Our opex to AUM ratio during the quarter is at 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 disbursal growth in the coming quarters. Our stage three NPA assets post transition to Ind-AS has decreased from 6.8% in Q2 last year to 4.4% in Q2 this year on a like-to-like comparison. Our provisioning coverage ratio significantly improved to 56.5%. Our stage one and stage two ECL provisioning stands at 2.5% in Q2 of this year compared to 3.2% in Q2 of last year and finally the profit after tax on a consolidated basis is at Rs.77 Crores in Q2 this year against the corresponding figure of Rs.73 Crores last year whereas the profit for the first half is

Rs.145 Crores as against the profit after tax of Rs.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.

**Moderator:** Thank you Sir. Ladies and gentlemen, we will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Sneha Ganatra from Subhkam Ventures. Please go ahead.

**Sneha Ganatra:** Sir congrats for the good set of numbers. My first question is 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 you see an upward revision of the AUM target?

**Sanjay Chamria:** One thing I would be happy to share that the current liquidity crunch being faced by the industry has not impacted our normal business disbursals and even in the month of September and October, which was 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 disbursals during the second half of the year that means hedges and based on that our AUM growth is also expected to be as per the original guidance.

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

**Sanjay Chamria:** Well yes the cost of funds has definitely increased and so my mandate to our CFO and CEOs have been that we must build on our franchise and build goodwill during these 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 rates would be applicable only on the new business that we do from 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 retires. 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:** On the opex front how do you see the growth because currently our cost to income ratio standing at 4.2 and we are trying to curtail out the opex, you see there is a further dues available on the opex front?

**Sanjay Chamria:** 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 while our disbursals have been growing at 34% in the first half of the year, but it is not passing through with the AUM growth, which is about 6% and this we had explained even in the last quarter that the take of the older portfolio that we had originated is now ending because we started degrowing three years ago and we have 42 months tenure, so from Q3, which is of this year October to December onwards with the disbursal 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:** Last on the credit cost what will be the run rate we can expect for the second half?

**Sanjay Chamria:** 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, etc., and then you have the year end benefits whereas the Q1 you have the post yearend 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.

**Sneha Ganatra:** Got it. Thank you Sir and all the best.

**Moderator:** Thank you. The next question is from the line of Anitha Rangan from HSBC Asset Management Company. Please go ahead.

**Anitha Rangan:** This is Anitha from HSBC not HDFC. Just a couple of questions here one on your ALM snapshot I just wanted to understand you have given this cumulative maturities, but there are some gaps in the two-month and three-month bucket, two month is just a plus of 41 and three month is about slight negative, so what is driving the negative out there and how will that overall it will be like a positive, what is your plan to bridge that surplus gap and also just wanted to understand like while your disbursement growth has been very good doing almost like Rs.2000 plus every quarter it is not translated into AUM growth, so what segments 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?

**Kailash Baheti:** I am Kailash here. In the opening comments Sanjay mentioned that we have over Rs.2000 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 Rs.500 odd Crores of securitization and now we have another Rs.2000 Crores of assets, which we can securitize, so flow of funds to retire whatever a little bit of mismatch we may have over a two-month, three-month period is not an issue at all that is the response to your first question. Second is our ABF or vehicle finance average loan book is less than two years and therefore this fear of raising long term funds and there have not been 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 as of today we are growing roughly at about may be Rs.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 do not 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 as a book going forward.

**Kaushik Banerjee:** This is Kaushik here. In the ABF business, we had defined a long-term strategy on two platforms, one was to broaden the overall product mix and thereby reduce segmental risk in any single asset category and the second was the focused products would be commercial vehicles largely light and small commercial vehicles and used vehicles, this covers cars, CVs, tractors, construction equipment and that is exactly where we are going in terms of segmental growth and we continue to pursue growth in these areas. I think we also said that we develop branch rating structure where each product in every branch is rated A to D, so whenever you have a good product portfolio in terms of products between A and B category, so we will continue to build our portfolio in those assets irrespective of whether they are core focused assets or they are not core focused assets, so that is the way forward for ABF.

**Manish Jaiswal:** I am Manish Jaiswal. In the opening comments Sanjay mentioned about the mortgage in SME business. As you are aware that we have remodeled our mortgage business completely as a national scale of affordable housing player, we operate deeply in eight states, which contribute to a large part of growth. In Q2 itself we have significantly grown our business compared to previous year. We have grown our overall mortgage disbursement by 80% and the home loan actually grown by 219%, so for us we see these are times where players were 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 disbursements on the mortgage business for FY2019-2020 and similarly on

SME, we see a phenomenal opportunity because these are times when a large number of public sector banks because 11 of them are under PCR framework of 21 banks and we also see liquidity tightening up and lot of key players are slow on disbursement, but given Magma's position of liquidity and strength we are well poised. We have already grown in SME business with a similar quarter over the last year by 67%. We hold our disbursement plans robustness for both businesses. We will be cautious. We will certainly watch out for market signal, but certainly we would like to have a cautious growth and we would like to make most of the available opportunities.

**Anitha Rangan:** Thank you very much. That was very helpful.

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

**Umang Shah:** Thanks for the opportunity and congratulations on a good quarter. 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 have kind of gone up, could you explain what is driving this and within the 28% of debt capital market borrowing that we have if you could just split it up between bonds and commercial papers that would be helpful?

**Sanjay Chamria:** Umang as I mentioned earlier also that we have large dependence on banks and suddenly you see that we have not grown our book, but our mix of funding had fortunately or unfortunately it happens, in the Q3 itself got slightly aggressive on taking from debt market and we have taken significant amount of CPs, which were quarter closing at a fairly good rate of interest. Other than that most of CPs has now matured and we already repaid, again we have gone up to our earlier ratios, if not the bank borrowing has actually increased, so going forward you will again it is in similar kind of ratios in our funding profile. It has already happened in the month of October.

**Umang Shah:** You mean to say in Q3 the mix will again normalize and will be in favour of banks?

**Sanjay Chamria:** Exactly.

**Umang Shah:** 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:** There are two parts to it. PTC transaction is on book and BA transaction goes off book. Is that your question?

**Umang Shah:** Yes. What I was trying to understand is 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:** That is because of Ind-AS right Umang.

**Umang Shah:** 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 two thirds of our incremental growth on an AUM basis has been coming from the used assets, now given the way things, our interests 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:** In fact if you 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 in either portfolio or growth assumptions and what do you say about used specifically will also heard from you. In fact I would actually assume that if somebody was actually planning on buying a new vehicle, but actually look at buying a lower vintage used vehicle given the cost the delta differential between a new and used vehicle. Given the fact that the increase in oil prices as well as the increase in interest rates will largely impact low yield assets, used already runs in about 17.5% to 18% weighted yield and that is not getting impacted too much, what is going to get impacted if someone is borrowing at 9.5% or 10% then cost will go up by 100 to 150 basis points. Lenders cannot afford to lend at low yields anymore, but you can continue to maintain an 18% at our rate fundamentally, so again because of the used asset your EMI outflow is also much lower, so still kind of pretty much put my cards on the front that used to continue to show a robust demand, but there is a certain amount of feedback that I am getting that the overall situation in the market today will probably depress estimates for growth in the new CV category and we have already seen the impact in cars in terms of drop in volumes due to higher interest rate, higher fuel price and insurance requirement as specified by the Supreme Court, so the high double digit growth that we have been hearing about CV growth is probably kind of moderate to high single digit or low double digit growth.

**Umang Shah:** What you are trying to allude is that for you it is more to do with market share gains rather than tracking what the industry will be doing is that a fair assessment?

**Kaushik Banerjee:** Pretty much obviously subject to as Manish mentioned earlier portfolio quality and appropriate sourcing and because cost of funds increased for us which we are also passing on to the customer that is also factored into any growth front you are making.

**Sanjay Chamria:** One of the points that I will add to Kaushik and Manish is that I spoke about customer centricity and we have launched our 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 is a scope to actually thorough that business, so over the next few months we would like to try this matrix very closely and grow our business from the existing customers who have had very successful track record with us, so this will at one level to maintain the portfolio quality and at another level when they have a vehicle requirement for a second vehicle so we retain the customer through a superior customer servicing.

**Sanjay Chamria:** Now it looks very simple, but we have made considerable amount of investment in the process, in the technology and with the specialized team who can achieve customer service and thereby generate cross sell. Secondly we have also looked at the customers with whom we have given the vehicle loans a good number of them can be offered home loans. Now 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 the industry first is how to be leverage on each other's businesses and thereby over 1.2 million customers that we have served till date we can offer the home loans to them without overleveraging the customer.

**Umang Shah:** Sure that is helpful and my last question to Sanjay Sir is about operating efficiency it is almost close to about six quarters where our branch network has remained about 370 to 380 odd branches so how do we maintain the balance between expanding our distribution reach if we have to gain market share and still maintain the opex ratios, so how that mix will play out?

**Sanjay Chamria:** I think we have discussed with you as well as many others from your fraternity in the past that we are relying very heavily on the mobile technology deployment to service both the channels and the end consumers and today we are present in close to 1900 Talukas, which we are serving from 307 branches in the company and we feel that with the same amount of Talukas, which is about 1900 the growth plans that we have across businesses we can achieve that over the next two to three years, so while we may add up few branches that is more from the point of view of enabling customers to come and deposit money in the office or come for some other requirement, but in terms of our outreach to the customer we today frankly do not need too many branches to be opened up and that is where I think we would eventually have a cost advantage over our peers who have 600 or 800 or 1000 odd branches.

**Umang Shah:** That helps. Thank you so much and wish you all the best.

**Moderator:** Thank you. The next question is from the line of Shubranshu Mishra from Motilal Oswal Securities Limited. Please go ahead.

**Shubranshu Mishra:** Thank you for the opportunity Sir. 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?

**Sanjay Chamria:** Actually our tractor financing business is actually kind of flat line in the last couple of quarters, it has degrown exactly.

**Shubranshu Mishra:** By 6%?

**Sanjay Chamria:** Yes. In used assets there has been a growth, but actually the market has grown by about 53% and we have grown by about 33%, so we have grown at half the market rate. If you look at our CV growth it is 62% and if you look at used that is about 33%, so these are the two core products that we have been growing in and while we have had growth in other products barring tractors it is more in terms of market, so it is not opportunistic. It is again as I said in my earlier comments that we are looking at A and B branches and A and B products so the portfolio is doing well in a particular branch we are okay with them disbursing in that particular product. To that extent yes we have see a certain amount of traction in CV, but not in tractors.

**Shubranshu Mishra:** Sure. Thank you.

**Moderator:** Thank you. The next question is from the line of Ritika Dua from Elara Capital. Please go ahead.

**Ritika Dua:** Sir firstly on the growth front so we have obviously been on a guided lines just wanted to check while SME still is big opportunity as a whole, but what we want could be a little more cautious right now?

**Sanjay Chamria:** I must mention that SME as a business the way we have modeled it over the last decade has been built on additions of rock solid performance be it 2008 crisis or a GST or a demonetization our customer selection process though we could earn on a conservative side we have not been aggressive. Our loss models have held completely steadily across business cyclicity and I think we have now been able to evolve a model of our own where we are still confident that we 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 on to a position. We do not think that despite many entrants who came and some stayed and some are under threat we have been rock steady and solid and I think we would like to continue with 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 or dozen we will be selective.

**Ritika Dua:** Sir secondly on the tractor front are we now looking to at least grow the book I think as stated we have been reducing our focus, but then right now do you think at least the growth should pickup from here on?

**Kaushik Banerjee:** Our primary objective was to kind of balance the entire portfolio out and yes as I said in my earlier calls as well the intent is not to stop tractor financing or reduce its growth or reduce the book. The intent is to ensure that appropriate selection of customers under tractors to ensure that there is no subsequent cyclical problem later from the customer selection that we do. I will be more than happy to have a situation that we do grow a tractor portfolio and the team has a mandate and they are budgeted to do a higher volume of tractors for the year subject to the required portfolio parameters that we have set as a part of our internal benchmarks.

**Sanjay Chamria:** What I would like to add over what Kaushik has said that ever since Kaushik has come on board as a part of this strategy that he projected and which has been accepted by the board is to reduce our weightage on the tractor portfolio and at one point of time it was close to 30%, which last year in the second quarter was 26% and which has now come down to 21% as you can see in the slide number 14 of the Investor Day that we have shared with you and even if you look at the disbursal at peak level it was about 18% to 19% of the total disbursals in ABF, which has gone down to 14% in the Q2 last year and it is 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 cyclicality that end consumer, which is the farmer is exposed to owing to the monsoon and the ravages of nature and we want to bring in a stability in our portfolio performance, so while we do not want to be out of this market as it is extremely lucrative, but at the same time we want to balance the portfolio with the luxury of having six products in the vehicle financing vertical that we have. Hope that answers your question.

**Ritika Dua:** Certainly Sir. Sir one last if I may. Sir just on explanation on the provisioning that we have had this quarter so I am just referring to the P&L number here, obviously we have increased our coverage to some extent while our ratios remain flat I am just talking about like we had a sort of a write back in the stage one, two and three, but the ECL provision on stage three has moved up, so if I just add the two that does not really match exactly with what the P&L number is I know it is not a direct math there, but some light over there?

**Kailash Baheti:** The provision number and write off numbers, which appear in the face of balance sheet are the quarter and provision on the portfolio as per the bucketing plus whatever settlements we may have done during the quarter and whatever loss on settlement we may have incurred 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 reposition 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 is about it. Cyclically the second half Q3 and Q4 are 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 where we are presently, so we would expect to claw back significantly in the second half and that is where Sanjay in his opening remarks mentioned or to another question he mentioned that we would continue to maintain that for the year our credit loss should fall to about 1.6%.

**Ritika Dua:** Thank you so much Sir. That is it from my side.

**Moderator:** Thank you. The next question is from the line of Arpit Agarwal from Systematix. Please go ahead.

**Arpit Agarwal:** No thank you. My questions have been answered. Thanks a lot.

**Moderator:** Thank you Sir. The next question is from the line of Prashant Dubey from Edelweiss. Please go ahead.

**Prakhar Agarwal:** This is Prakhar from Edelweiss. Most of my questions have been answered. I was asking just one data point what is the proportion of A and B graded branches now and what is the roadmap ahead on that?

**Sanjay Chamria:** The proportion of A and B graded branches is 85% right now.

**Prakhar Agarwal:** What will be our aim or target in the next couple of years?

**Sanjay Chamria:** 86% of sales is fairly and obviously I understand, but I would personally be extremely happy if we maintain a steady state 90% plus of our branches at any point of time.

**Prakhar Agarwal:** Secondly in terms of your historical portfolio, which formed around 15% last quarter what is that number right now?

**Sanjay Chamria:** Sorry repeat your question.

**Prakhar Agarwal:** We were talking about the rundown of the book that we were talking about earlier, which formed around 15% in Q1?

**Sanjay Chamria:** You are talking of the book, which we would have generated prior to December 15, 2018.

**Prakhar Agarwal:** Yes Sir.

**Sanjay Chamria:** From 95%, we have actually not tracked the exact number, but I would assume that it should be closer to 90% now 85% was new book that would now have come to 90%.

**Prakhar Agarwal:** Thank you so much. That is it from my side.

**Moderator:** Thank you. The next question is from the line of Abhishek Murarka from India Infoline. Please go ahead.

**Abhishek Murarka:** Good evening everyone and congratulations for the quarter. So two or three quick questions, one if I look at your ID and ED trends in affordable housing and SME in both those last two or three quarters those trends have been the infant delinquency and this thing has been increasing so anything to worry about from asset quality going forward?

**Manish Jaiswal:** Let us look at the early delinquency. Early delinquency if you really look at for example affordable housing this is a number, which is actually a 30 plus bucket, it talks of almost for about a year 12 months portfolio with a two-month lag. This is a long term trend and on the long term trend, which is a green line it has 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 quarter specifically largely, which has come because of the ACH rejections, which is something which has got more to do, which is a qualitative shift in terms of automatic clearing house and which is a minor blip really 1.6 to 1.8, but it is more on the infant delinquency. On the ED front we are fine. Our collection efficiency and bucket view is 98.6%, which is I would say 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 have come down from 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 do not see any cause for worry or anxiety in a couple of different places here or there.

**Abhishek Murarka:** Manish actually I was just referring to the more near term trends and pardon me for the AFH, so ED is definitely improved, but if I look at sequential movements you explained the AHF, but in SME last two to three quarters the sequential movement has been upwards and given that the book is unsecured you will still think that there is no cause for any tightening over there?

**Manish Jaiswal:** Our collections in SME bucket view is over 99% and apart from that I also wish to state and mention if that has not been mentioned anywhere that in SME we have also began to secure our book to credit guarantee scheme and perhaps we are one of a very few NBFCs, so while our nature is unsecured we have begun to also secure our portfolio through trade guarantee structure, so 0.5% to 0.7% while there could be a blip or a tweak there, but holding up on the ED trend we are comfortable with securing of the book through credit guarantee that is an added cushion in a layer. On top of the delivering our business there is an ROA of 3% post tax and MCR of 2.3 steady, I think we understand and agree and a minor flutter should not really give us anxieties considering the fact that we have further more gone and cushioned ourselves in these times.

**Abhishek Murarka:** Great and Sir just this second question just from a understanding perspective once we move to Ind-AS and we took a hit of Rs.370 Crores on the net worth 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 cost has continued to be at Rs.80 Crores to Rs.85 Crores, so can you just explain why or whether from the next quarter onwards that effect will be seen or whether we should expect a sort of higher rune rate of provisioning?

**Sanjay Chamria:** Abhishek as we mentioned earlier also our present credit cost is in the range of about 2.2%. In both the years we have given a guidance of 1.6%, which means we expect significant fall in the second half in credit cost. There are a few very significant positives, which we would like to say one is that our 90 plus book has remained stable. The increase is just about Rs.30 Crores in this quarter. If you would look back to earlier year quarter, the increase would have been significantly higher. Number two you have been watching closely the second half both Q3 and Q4, we reduced our NPAs. In this quarter we moved for our ABF business the 61 to 90 bucket to collections team and we feel 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 buckets and as you know zero bucket first bucket, second bucket and even if there a little bit of bulging this immediately shows up and which is the beauty of Ind-AS that it does not give you any leeway to relax on your zero first and second bucket and our excellent plan is that we would work on these buckets and we will have improvements there also in the second half. Manish would like to add something.

**Manish Jaiswal:** I 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 very good set of results coming in as we segregated our teams with exclusive collections. In fact on the housing business specifically we are looking at negative in sales, so we are reasonably confident and tracking fine as per plan and budget and we certainly believe that our stage three assets and coverage ratios would have already improved substantially and they are on course for significant improvement as we have exclusive 90 plus and 90 minus teams in action.

**Abhishek Murarka:** Thanks a lot everyone. Thank you.

**Moderator:** Thank you. The next question is from the line of Akhil Jain, an Individual Investor. Please go ahead.

**Akhil Jain:** Good evening to everyone. I have a few basic questions about the SME lending business. Is the book entirely unsecured, how much is secured and unsecured and what is the average lending rate?

**Sanjay Chamria:** This is an unsecured lending rather to establish SMEs who currently are working capital staff or a working capital staff given the state of banking system. Our lending rates are at 19%. This is a decade old business and the current book is about Rs.2100 Crores.

**Akhil Jain:** I see from the presentation that the average ticket size is about 20 lakhs?

**Sanjay Chamria:** That is true.

**Akhil Jain:** What is the sort of businesses that you lend to?

**Sanjay Chamria:** I got you. We lend to established SME players who have financials, most of them who have banking lines and have banking limits, they have credentials, they have track records 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 state they are in and their inability to give timely liquidity and support to SMEs they look for short capital injection in their working capital, so we rather cater to formal SMEs and that is the market segment.

**Akhil Jain:** How does this defer from LAP finance, only the lending rates are lower in LAP finance?

**Sanjay Chamria:** Our lending rates are at 19%.

**Akhil Jain:** How does this finance book defer from like SME finance defer from LAP finance I believe that is also like business?

**Sanjay Chamria:** In SME we do only unsecured finance, which is a two to three year or 27 month tenure that the average tenure 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 entrepreneur, which is on the mortgage side where we have a complete understanding of customers collateral and cash flows, but that is more towards retail I would rather say micro and small entrepreneurs, but in SME we are largely skewed towards small and medium entrepreneurs.

**Akhil Jain:** In general there is a perception that most of the SMEs are tax compliant businesses and that the way the GST has been implemented they are kind of still able to avoid that, if they come under the GST tax net do you think that threatens the viability of their businesses, most of them seem to be GST arbitrage businesses?

**Sanjay Chamria:** 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 is a need for formal credit on the book so mostly those customers who are growing and formalizing their business models there is where 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 the potential opportunity for us.

**Akhil Jain:** What is the repayment mode is it on EMI basis or when the needs are met then they are repaying the loans?

**Sanjay Chamria:** Our monthly EMI as I mentioned to you two to three years lending average tenure is 27 months.

**Akhil Jain:** Thank you so much.

**Moderator:** Thank you. The next question is from the line of Antariksha Banerjee from ICICI Prudential. Please go ahead.

**Antariksha Banerjee:** Good afternoon Sir. Just two small things. Sir firstly Manish in housing is the entire book fixed or we have floating loans?

**Manish Jaiswal:** We are on floating rate loans and we are not on fixed rate loans. Probably 0.5% of books could be on a fixed rate, but it is completely on a floating rate loans.

**Antariksha Banerjee:** How often is the reset done?

**Manish Jaiswal:** For us we have not reset our rates for a long time, but on November 7, 2018 we would be doing our first reset and hopefully passing on a price increase of 50 basis points to our customers.

**Antariksha Banerjee:** You have not done anything so far right?

**Manish Jaiswal:** So far we have not taken an action.

**Antariksha Banerjee:** Kaushik in the market itself I am not asking Magma specific, but in vehicle finance lending are you seeing any rates being passed on by competitors or in the market in general?

**Kaushik Banerjee:** Could you just repeat that because you are a bit low.

**Antariksha Banerjee:** I am talking in the market itself not say per se pertaining to Magma, but with the cost funds rising are you seeing competitors already beginning to inch up rates of lending?

**Kaushik Banerjee:** Yes. This has happened across the board and across lenders. I think most of them have repriced their lending matrix.

**Antariksha Banerjee:** The average would be what 50 or 100?

**Kaushik Banerjee:** Yes in the range of 50 or 100 BPS.

**Antariksha Banerjee:** We have also participated in similar quantum right?

**Kaushik Banerjee:** Yes.

**Antariksha Banerjee:** That is all. Thanks.

**Moderator:** Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to Mr. Nischint Chawathe for closing comments.

**Nischint Chawathe:** Thank you everyone for joining us today. We thank the management for giving us an opportunity to host the call. Thank you.

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