# "Magma Fincorp Limited 4QFY21 Results Conference Call"

## May 31, 2021

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**MODERATOR:** **MR. UDIT KARIWALA – AMBIT CAPITAL PRIVATE LIMITED**

**Moderator:** Ladies and gentlemen, good day, and welcome to Magma Fincorp Limited 4QFY21 results call hosted by Ambit Capital Private 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 call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Udit Kariwala from Ambit Capital Private Limited. Thank you and over to you, sir.

**Udit Kariwala:** Thank you so much. Today, for this call we have with us the entire senior management team at Magma Fincorp. We have Mr. Sanjay Chamria - Vice Chairman and Managing Director for the Group. We have Mr. Kailash Baheti - Group Chief Financial Officer, Mr. Rajive Kumaraswamy - MD and CEO for Magma HDI General Insurance, Mr. Manish Jaiswal - CEO for the Magma Housing Finance and SME Business. And we also have with us the Investor Relations Head, Mr. Jinesh Shah on our call.

So without further ado, I handover the call to the senior management team at Magma. Thank you so much. Over to you, sir.

**Sanjay Chamria:** So thank you Udit and good evening to all of you and thank you for joining Magma's 4QFY21 results conference call. Before I highlight the performance for the quarter, I would like to express my deep gratitude to all the employees of Magma who have gone beyond the call of duty during the year. I would also like to say that our management team has been working hard to keep the employees and their families are safe during the second surge. I am hopeful that we will overcome this devastating pandemic soon. FY21 was the year of unprecedented change in the way business is conducted. It was a test of resilience of all variables of the economic system from household to corporate to governments.

The country faced deep economic contraction and the start of FY22 seems to be headed in a similar direction with the second wave hitting us harder than the first one. In these extraordinary times, we at Magma have been fortunate to have become a subsidiary of Rising Sun Holdings, a company owned and controlled by Mr. Adar Poonawalla.

Poonawalla Group has ambitious plans, whether it is foray into financial services sector and has injected fresh capital of Rs. 3,206 crores from Rising Sun Holdings. Additionally, the existing promoters have injected fresh capital of Rs. 250 crores, making it one of the best capitalized NBFCs in the industry.

The board will be headed by Mr. Adar Poonawalla who has been appointed as the chairman of the company. In line with Poonawalla Group philosophy, we at Magma will serve the needs and dreams of the nation. We see a huge potential in the financial services space in India. The company will be a professionally run organization under the new leadership team and will be fully supported by the existing leadership. Mr. Abhay Bhutada is appointed as the Managing Director of the Group effective 1st June 2021 that is tomorrow morning.

Mr. Vijay Deshwal has also been appointed as the CEO and will be joining by first week of July 21. The management team will be further augmented with highly qualified and experienced professionals from reputed financial institutions for various management positions. These individuals are expected to join by second quarter of FY22.

I also welcome two new partners in Magma HDI General Insurance franchise, which saw a strong investor appetite. The total deal size is Rs. 525 crores, comprising fresh capital infusion of Rs. 250 crores and the secondary is held by the existing promoters of Rs. 275 cores. These are all subject to regulatory approvals.

The new investors are ICICI Ventures, Morgan Stanley, Cyza Chem Private Limited a Poonawalla Group Company, and two family offices. This deal will enable Magma and its good companies to comply with the RBI guidelines on the ownership for promoter groups in insurance companies. Besides providing growth capital to Magma HDI, enabling its expansion and improving the solvency margin.

Magma Fincorp has today infused Rs. 500 crores equity capital in Magma Housing Finance, a 100% subsidiary soaring up its net worth to around Rs. 1,000 crores, resulting in its leverage going down to 2.5 times and capital adequacy improving to 58% as on 31st May 21, which is today. It will enable Magma Housing Finance to pursue its growth ambition and expand its customer universe and also benefit from the lower cost of funds and expected improvement in the credit rating.

Magma Fincorp and Magma is a group is embarking on Magma Version 2.0. A strong growth story from FY22 on core strategic pillars of customer centricity through offering multi tier customer proposition which we call as PTCS model or Price Turn Around Convenience and Service. The strategic advantage which Magma 2.0 has positions it to be a unique NBFC due to stronger parentage of Poonawalla brand and the large capital base, esteemed board and highly experienced professional management team, robust risk framework, product strategy to focus on select customers, digital focus and best in class digital technology and analytics, operating efficiencies through enhanced digitization and rationalizing branches, asset quality through conservative provision buffers and accelerated write offs.

The above strategic advantage along with significantly reduced leverage, improved A&M profile and prudent asset quality buffers shall lead to further sharp reduction in cost of funds. Which then have a strong positive impact on all these stakeholders such as employees, lenders, customers, investors and also the regulators. We are now looking to the future to bring in a modified product mix and a large customer segment. We will continue to serve our customer franchise but also adds credit savvy customers as we shall now have the benefit of lower cost of funds and abundant liquidity which will give us the benefit of a scale to accelerate healthier growth and result in superior ROA and the ROE.

Now coming to the year gone by as the external environment was unpredictable we continued our focus on strengthening the balance sheet through superior management of collections, control on expenses and maintaining prudent provision buffers created during COVID wave one.

The superior efforts on collection helped collection efficiency improved month on month, post moratorium and from 84.5% in September 20, it reached 101.8% in March 21. Quarter four collection efficiency was nearing normalization at 99%. However, the trends reversed and collections started to show their stress, and in April 21 the collection efficiency was at 84.3% due to COVID wave two induced lockdowns across geographies.

And May 21 is also trending lower than April 21. These extraordinary times call for proactive measures. So Magma in its practice had build adequate provisions to absorb any shocks from COVID first wave. Further, going by the vision of the new promoter, Rising Sun Holdings, second wave uncertainties, and with the absence of the regulatory guidance which was present during the first wave, the company management has taken a two step measure to strengthen the balance sheet and protect it from these uncertain shocks and future waves, if any.

The company has designed one of the most conservative provisioning policies in the industry. It has been first decided to introduce 100% provisioning and write off of all the accounts at 180 Plus DPD in vehicle financing from earlier 730 plus DPD; 90 plus DPD in unsecured SME lending from the earlier 450 plus DPD and 730 plus DPD in affordable housing, all of which has resulted in an additional one time impact of Rs. 274 crores in Q4.

Second, considering the unknown risks from COVID wave, the company has additionally created management overlay provision of Rs. 621 crores to take care of any further impact on the book causing the provisioning coverage ratio to improve to 68.6% compared to 36.5% last year.

However, it is expected to normalize in FY22. Significant part of this provision is made in the zero to 90 bucket. ECL provisioning in zero to 90 bucket stands at 7.2%, which is the highest in the industry and overall ECL stands at 9.5% of the total assets. With comfortable liquidity of Rs. 2,000 crores and superior treasury management, FY21 cost of funds declined by 36 basis points over FY20 and 62 basis points in quarter four of FY21 over the same period last year.

It is expected to decline further with the capital infusion and strong parentage. With the capital infusion our liquidity buffer as on 15th May 2021 stands at over Rs. 5,000 crores. Opex was contained lower by 20% in FY21 over FY20 and Opex to AUM ratio, which was 4.1% in the previous year ended at 3.6% in FY21 though some increase is expected as the business would resume normalcy.

While all the above measures have resulted in a loss before tax of Rs. 749 crores for FY21 on a normalized basis, the PBT would have been Rs. 146 crores, which suggests a decent operating performance in a difficult year. Magma now has industry based gross stage three assets at 3.7%, which is down from 6.9% on a quarter-on-quarter basis.

And net stage 3 assets at 1.2% down from 4.5% on a quarter-on-quarter basis which is a drop of 330 basis points in the net stage three. The capital adequacy on a standalone basis stands at 20.3% as on March and adjusting for the subsequent capital infusion in May 21, the calculated capital adequacy now stands at 69.8%.

The company now has one of the strongest balance sheets, with worst leverage at 1.3 times. Post adjustment for the capital infusion of Rs. 3,456 crores in May 21 and industry based capital adequacy net NPA and prudent provisions. This along with the strong parentage, brand name and best talent I am confident the cost of funds will also go down to the best in the industry.

We are looking forward to an excellent growth story in all our businesses under the Poonawalla brand names. With that thank you very much for your patient listening and now me along with my entire management team are happy to take any questions that you all may have. Over to you, Udit.

**Moderator:** Thank you very much. We will now begin the question and answer session. The first question is from the line of Akshat Jain from Paragon Partners. Please go ahead.

**Akshat Jain:** I have a few questions. As you have mentioned that a new set of management team will be joining so you said that Mr. Vijay Deshwal will be joining. Can you tell us who all are the other guys who would be joining? And my second question would be that you mentioned that, you will be forgoing into further products. So is there any specific products that you guys are looking at?

**Sanjay Chamria:** What I suggest we have also uploaded the investor deck on the website and on the Stock Exchange, so let me first take you to I think slide 4 or something. Roshan, can you bring slide 4 which talks about the new leadership team and there Mr. Abhay Bhutada is been appointed as the Managing Director and Mr. Vijay Deshwal has been appointed as the CEO. Mr. Abhay Bhutada takes charge tomorrow morning and Mr. Vijay Deshwal will take charge by first week of July.

In addition to this, there are at least about 10 to 12 other leadership positions for which the offers either have been rolled out or are in the process, and therefore we expect all of these positions to be filled up by quarter two of this year, which is by September 21 and this will pretty much complete the entire deck and this is what we had announced even on 10th of February that whether it is COO, then retail business head and various other positions that we are looking to fill up.

Coming to your second question, I bring you to slide number on the new products slide number, can you go to that? Yes, slide number 12 where what we are saying in terms of the new product there are some products that will get launched immediately, which is loan to professionals and the personal loans.

Now these are the two loans which Poonawalla Group were already doing in their company Poonawala Finance Private Limited and as a part of this deal Magma will also acquire that portfolio, which is one of the best performing portfolios and they have a policy of write off at 85 plus DPD and most of the contracts are in the zero bucket only and that is roughly about Rs. 1,000 odd crores.

So these are the two products which will get immediately launched once the technology integration is over and then right now we are doing the affordable home loans. So now with the lower cost of funds and additional Rs. 500 crores infusion into the housing finance subsidiary we will also venture into the non-affordable home loans which is the mass affluent customers in the metro and the large cities also as well as the tear towns we would go for the home loans which are non affordable.

And then third is the secured SME loan which currently we are not doing so much. We are doing affordable LAP but in the SME segment where people have a requirement say between Rs. 25 lakhs and Rs. 2 crores that LAP we are not doing. So again on a chosen basis we will look at doing those products. So these are the four new products that will get launched immediately.

And also before the end of the year that is before March 22, there are three, four other products also which will get launched like the consumer durable, medical equipment, machinery loans and merchant cash advance. So these are the four other products also which will get launched and overlaying all of the existing as well as the new products there will be a digital platform for sourcing business and servicing them.

In addition to that, out of the current product range that we have certain products also are being discontinued, which is the used trucks and the used construction equipment and the tractors and the auto leads. So this is how the product strategy will get refined and it is adequately covered in slide number 12.

**Akshat Jain:** Sir, another question is for the year FY22, what is the estimate of provisions that we have? How much provision can we look at?

**Sanjay Chamria:** See what has happened is with so much of capital infusion that has happened we decided to go for very conservative provisioning policy and a very stringent write off policy such that the entire culture within the organization would be to ensure that you have the best customer collection because now you have the benefit of the lower cost of funds.

As a result of that, the total provisioning and that is excluding the write off of Rs. 274 crores that we have done, I think is about Rs. 1,192 crores, say about roughly Rs. 1,200 crores that we are carrying, which if you calculate on the total book it is 9.5% which is to my knowledge the highest in the industry.

**Moderator:** Thank you. The next question is from the line of Rajesh Kothari from AlfAccurate. Please go ahead.

**Rajesh Kothari:** Sir, my first question is I think in one of your slides you mentioned that you are planning to become top three NBFC for consumer and small and medium business finance. So I think there are two segments, consumer, of course it is very broad term and SME business finance. So how you quantify this when you say to be among top three?

**Sanjay Chamria:** So this is the vision for Magma Version 2.0, and this is a four year vision which has been put out is starting now and going up to FY25 which means by March 2025 and up till now Magma was positioned as a MSME lending and affordable mortgage company. But now with the change in the management and the change in the shareholder with Poonawalla Group coming in and the lower cost of funds, there is a change in the product and the customer strategy. And it will now be positioned as a consumer as well as the small and the medium business finance company.

So when we talk about consumer then we talk about consumer durable loans. We talk about EMI cards. We talk about personal loans and we talk about loan to professionals, so these would come under that category whereas when we talk about small and medium business finance and also the car loans. So small and medium business, when we talk then it is the SME lending both secured and unsecured.

Then we are talking about medical equipments, we are talking about machinery finance, we are talking about merchant cash advance. So these are all the loans that would qualify under the small and medium business finance. So these are the two. There will be a very huge customer centric approach and therefore one on the consumer side, the other on the SME side.

These are the product range that we have, one which will get launched immediately and the second one which will get launched before end of March 2022. Now when we talk about the top three NBFCs, this is the aspiration and the vision that when you do not have the limitation of capital when you do not have the disadvantage of a cost of fund compared to the largest NBFCs in the country or even a bank, then you want to grow faster and you want to gather market share and where the branch network that we have aided with that the digital lending platform in which the Poonawalla Finance team already has an experience.

It is one of the youngest NBFCs which built up a portfolio of almost about Rs. 1,400 crores completely doing digital. In fact from 8 or a 9 branch network it was doing more than Rs. 100 crores of lending till February 2021 which is just before the lock down which happened. So therefore it is in terms of the AUMs that we aspire that we will grow and become very large in these two product segments and customer segments.

**Rajesh Kothari:** So in your opinion, these two customer segments within that whichever buckets you are planning to have a strong presence into, what is the total size of that? Do you think in terms of the number 1, number 2, number 3, we will be number 3 in your opinion and what will be the size?

**Sanjay Chamria:** So rather than getting into specifics of that on naming the other companies, I think what we have mentioned in the same slide, which is slide number 21, that the accelerated growth that we are looking at given our current AUM at about Rs. 14,000 plus crores we are looking at about Rs. 45,000 crores, Rs. 50,000 crores AUM by March 25 and focus on these two customer segments. This is basically what we are looking at.

**Rajesh Kothari:** And sir, since you talked about the growth AUM and the slide also mentions about cost of fund, about 200 bps reduction, and net NPA below 1%. So basically when you go to three times current AUM, what you think will be number 1, your leverage and number 2 one slide I think which is probably is missing is that what is your view on the cost to income ratio and how you plan to improve that over the next 2, 3, 4 years? And last but not least, what will lead to ultimate to ROA and ROE over a period of three, four year?

**Sanjay Chamria:** So you see that till now, and I mean we have experienced this in the last few years with the liquidity crisis that these because of the lack of strong parentage and the capital base the cost of funds has risen to about 10.06% in FY20 which has come down by 36 basis points for FY21. It is still we have a good 150 bps to 200 bps disadvantage compared to the peer group which is operating in the same segment and that makes us uncompetitive and also results in the adverse customer selection.

So therefore what we are saying that now with the leverage which in the parent company which is Magma Fincorp is at about 1.3 times and Magma Housing it is at about 2.5 times makes us possibly the lowest leveraged company in the sector. And with the capital of over Rs. 6,000 crores in the parent company and over Rs. 1,000 crores in the mortgage company, it positions us very well to seek benefit of the lower cost of funds. One because of the leverage and the capital adequacy and two because of the brand name and the parent's support.

This, we believe then should help us reach the best cost of funds in the industry. And we believe that the best companies have the cost of fund which would be anywhere between 7% to 7.5%. So this is where this comes from. And when this happens this will also accelerate the growth rate of the company because right now we are constructed in the customers who we can service. Now with this kind of a cost of funds like this in case of housing finance we can cater to mass affluent which actually look for the better rate and also superior service.

Similarly loan to professionals or in consumer durables. So all of these products that we are talking there you are competing with the best and the brightest, and that you can do only if you have a strong analytics and the digital engine as well as the lowest cost of funds. So this is how it will happen.

Now, in terms of the cost to income ratio, I am afraid right now I am not in a position to share with you, but I guess over the course of the quarter you will have chance to interact further and we will be able to provide more details.

**Moderator:** Thank you. The next question is from the line of Shreepal Doshi from Equirus Securities. Please go ahead.

**Shreepal Doshi:** Sir, my question was with respect to the product bouquet that we are sort of expanding. So how are we, what is the thought process on the branch expansion side and also on the employee base side? Because these products will require a completely different skill set and also the underwriting processes will be very much different than what we have been inherently doing. So if you can just throw some color on these lines?

**Sanjay Chamria:** Yes Shreepal, very apt question and you see again, this is where this merger between the Poonawalla Finance and Magma brings about the strength of both the organization. So Magma has had a traditional strength in distribution network, branches, collections, and those kinds of things whereas in Poonawalla Finance the strength lies in the digital, the risk analytics and sourcing the customer digitally.

So therefore combining these two and that is where I shared that loan to professionals and personal loans being done digitally through tie ups with various association and industry bodies is something which Magma did not do, and therefore that is what will get launched immediately.

And you are right in terms of the skill sets that you require is very different, and that is where when I mentioned that 10 to 12 senior leadership position, we are looking to fill up and either offers have been rolled out or in the process and we expect the people to come on board by September 21. So there we are looking at subject matter experts be it on the digital engine, be it on the risk analytics and these areas and/or some of these products also.

In terms of the future strategy on the branch and on the people I think we are looking at one with the superior cost of fund and the digital a complete 100% electronic mode of collection through the e-NACH. Right now we have a significant part of the team which is actually engaged in the field collections door to door visiting customers every single month and almost about 40% to 50% of our five lack customers, we have to collect in cash.

As opposed to that now the lending will be done where there will be 100% E-NACH and that is also what will bring down the operating cost because then only in case of bouncing you need to go and contact the customer through the telly calling and then personal visit by the field executives. Second, in terms of the branch network you see, the world is now more moving towards the branch light model, because again now even in the tier towns and the interiors people are very savvy using the mobile phones and the DigiLocker to provide their KYC and do the dry signatures to be able to take the loan and also service the installments through the electronic mediums.

So I think going forward with the kind of growth that we are looking to achieve the branch and the employee growth will not happen in the same fashion and that is where the benefits of scale will come in and the benefits of technology will come in.

**Shreepal Doshi:** Sir, my second question was with respect to the non affordable housing loan product that we are launching so that will be part of the housing finance subsidiary that we have. So then the business model of the housing finance company will also be changing and your thought process of 2.5% to 3% ROA might get changed. Is that a fair understanding?

**Sanjay Chamria:** So what I will do is I will let Manish who is the MD and the CEO of the Magma Housing Finance take the question with regard to the customer segment and how we are proposing to do that and then related to ROA part if there is anything missing then I will take up. So over to you, Manish.

**Manish Jaiswal:** Thank you, Sanjay. So let us keep it simple. To begin with what we have we will preserve, we will develop and the important thing with this development in the organization is that Magma Housing Finance has now got two things, cost of funds and deep credibility which are absolutely essential in the mortgage space. With an expected much lower cost of funds and we charge in the range of 200 to 250 basis points our ability to cater to contiguous segments of salaried or customers with better credit rating significantly expands.

And not only this, if our cost of fund indeed if we are able to get at sub 7 levels, we would certainly explore our strategy. We need to refine our model. There could be two engines of growth, one which is completely affordable and second, which is completely prime. So these are developments in the organization which will take its own time for incubation. We have to look at how we can leverage our combined distribution in the best possible way. So, this is an early start.

I will not have all the answers to your questions, but the direction is very, very clear that given cost of funds and deep credibility, and from whatever we have already built up a franchise of almost Rs. 4,500 crores and having grown by 30% for last three year's CAGR, it does seem to me that we can now look at a much more sharper growth and a much more qualitative growth by developing into contiguous segments.

**Sanjay Chamria:** Thanks Manish. So Kailash, do you want to take up the remaining part of this question?

**Kailash Baheti:** Sorry, I think the only point which was mentioned was non affordable LAP. Where will it be done and there I think while Manish mentioned but non affordable LAP or SME LAP.

**Manish Jaiswal:** So Kailash, if I can answer that question, the SME LAP is a cash flow based LAP, which could be a higher ticket size and therefore, while it looks like LAP, it is actually LAP is property is just a collateral and a security. So what we do right now on LAP is a Rs. 10 lakhs, Rs. 12 lakhs ticket size loan which is really non affordable below the GST being threshold of those companies.

As you graduate into a better cost of funds structure your ability to look at more organized customers with better balance sheets and therefore look at cash flow based lending their collateral is where residential or mortgages is a collateral. So those segments open up and that is the reason if you see that is where we can immediately start going. We anyway have a very rich SME business which is dealing with unsecured loans.

The same sorts of customers who are through and probably have collateral and they are sufficed to say they do not have adequate bank limits, can be also our client. So this is something where we can get started in this year itself.

**Moderator:** Thank you. The next question is from the line of Kunal Shah from ICICI Securities. Please go ahead.

**Kunal Shah:** So firstly in terms of this entire transitioning, if I broadly understand I think one of the key levers to this entire scale up would be the cost of fund advantage. So just trying to gauge in terms of say if Poonawalla Finance had Rs. 1,400 crores of the portfolio, we had Rs. 1,400 crores, Rs. 1,500 crores. So was it like Poonawala Finance was more in terms of maybe getting the processes, systems and digitalization in place and now it is prepared for the scale up which will add on to the growth and for us largely and the way we have been in the transitioning phase for last 3-4 years in fact the cost of funds would actually add on to the overall growth lever.

And ideally when we look at it in terms of almost like 3X kind of the portfolio in say, four years from now, how broadly would be the split between what is existing currently in Magma's book and what will get added because of the new products which are getting rolled out either this fiscal or the next fiscal?

**Sanjay Chamria:** Thanks Kunal, for your views. One is that the thrust on housing obviously will be more because we are expanding the product as well as the customer segment. Both in the home loan we are looking to expand in the non affordable which is mass affluent and as well as in the LAP from affordable LAP we will also go into SME LAP. The SME LAP of course will be done in the listed company, which already has a SME franchise.

And as Manish mentioned, that when we deal with and we have serviced more than I think 40,000 SME customers and they have a requirement for a secured loan as well as the unsecured loan.

Till now we were catering only unsecured. Now we can also do the secured. So that will be done in the listed company whereas in the Housing Finance Company where we are doing affordable home loan, affordable LAP there we will do the non affordable home loans also. So because of the longer tenure of the home loan compared to the other loans like SME loans or the car loan or the personal loans or the consumer durable loan the share of home loan will actually grow over a period of time.

Now in terms of various products, how the mix will look like I think is right now difficult to comment. Maybe it will take some more time for us to share the details as we have more and more leaders come and join on board, but broadly I think the share of housing will increase.

And second, the used car. We are very, very bullish because one we have a very strong presence in the market over the last many years and there again we were constrained by the cost of funds and therefore we were operating in the informal segment in the tier town and segment B so segments Covid, segment D and then formal income and in the metros in the large cities. So if you look at the entire market, these markets, which we were not able to cater was also more than 50% of the overall market. So I think that is another segment we are looking at a huge growth opportunity going forward.

So that way I can give you a qualitative flavor of which are all the products that we propose to grow. The third one is the loan to professionals; consumer loans and the personal loans and all of this will be done significantly leveraging the digital footprints and the strength that Poonawalla Finance has built over the last 2-3 years and have a successful, proof of concept and have built a portfolio of about Rs. 1,400 crores.

So all of this I think will be start from the second quarter itself, which is from July onwards immediately as we are looking. Right now we are in the process of just integrating the technology and the operations function so that we are able to move together in the field.

**Kunal Shah:** Sure, and that Rs. 1,400 crores the portfolio, so where would it be more concentrated currently on?

**Sanjay Chamria:** So I will let Kailash to take up this question in terms of that portfolio and how do we supposed to integrate. Over to you, Kailash.

**Kailash Baheti:** The Rs. 1,400 crores growth portfolio has actually run down and would now be standing at close to Rs. 1,200 crores. We are still looking at all the options whether we can on board given the technology requirement etcetera. So we would not be able to exactly say it when it could be taken over into Magma Fincorp book. What we can say is that the intent of launching all these products.

So Poonawalla Finance had stopped doing any additional loan to professional, personal loan, non affordable home loan etcetera. Sorry, they were doing loan to professional, personal loan and SME loan. So they have stopped all these products right now and these would be on boarded within the current quarter hopefully in Magma Fincorp.

**Kunal Shah:** And one last question in terms of this entire provisioning policy I just want to understand the thought process for such a conservative policy? Today it is like even after not growing and being very, very conservative on growth, our provisioning is very high and in terms of the write offs also would it continue going forward as well, and should we assume that because such write off policy the credit cost will always be higher than where the industry is because we will continue to be conservative and this is not one time?

**Kailash Baheti:** Sanjay, should I go for it?

**Sanjay Chamria:** Yes, you go ahead.

**Kailash Baheti:** Okay, so Kunal, there are two parts to it. One is when your cost of credit will be high going forward, I would say that credit cost brings the culture in the credit underwriting. So if you are taking early write off means there is a pressure on the business team on the underwriting team that you have to be very, very careful when you are underwriting and not let the products, the contracts flow forward and secondly on the business and collections team that you collect it before 180 DPD or it is going to be a loss for you. So this is clearly going to bring in the required improvement in quality of the portfolio.

Unsecured loan 90 DPD I think it is a no brainer. Unsecured loan there are other peers who are doing at 90 DPD and even affordable housing finance 730 was a no brainer, because 730 is when you generally like to provide. So I think the more concentration would be 180 DPD. Is it going to give you more hit? Maybe in the interim, maybe for some time, but ultimately it will improve the credit quality.

Now coming to the second part of your question as to why we have taken additional provision. The additional provision has everything to do with the Covid wave 2. And as Sanjay mentioned, there has been significant deterioration in the credit quality or collections efficiency. I will not say credit quality because portfolio credit quality probably will not deteriorate so much and we must see something bouncing back. But right now what we see is that the RBI provided scheme of OTR has not taken off. We are not able to provide any significant assistance to our customers.

We are not able to hold the flow forwards etcetera and this will not be only for us, but for the entire industry that this is a problem. In fact IBA in yesterday's statement has also mentioned that they are seeing difficulty in implementing the OTR and its implementation so that challenge is there. And if that challenge remains as it is then the quarter 1 is going to be difficult, quarter 2 is going to be difficult for the industry and that is how and we are sitting today on 31st May, knowing that this is what is happening, we could not have kept our eye away from the reality of the situation.

And then we looked at what kind of additional provision we need to take. We did our calculations and found that there is need for management overlap and therefore have gone ahead and done this management overlap of Rs. 621 crores. This should help us in preserving our FY22 performance. It should be back to a normal year even when we have COVID wave 2.

**Sanjay Chamria:** So I will just add on to what Kailash has said, because this is the single largest item in our P&L for Q4 and FY21. So one I think your question and straight answer that the provisioning or the write off policy that we have evolved, we do not intend to rollback. So therefore it is here to stay. Second, the intent is very clear that there should be pressure on the entire management team right from top to bottom that this is the write off policy, this is the provisioning policy that we are going to follow so that one right from the initial stage when you are doing a selection of a customer went to servicing and then to taking a hit in the P&L.

And everybody is the bonuses and stock options everything is linked to the performance. So therefore the interest of the organization and interest of the leaders is completely aligned and there is a lot more awareness in terms of underwriting and in terms of servicing of the customers. So this is the second point.

The Third Point is that also when we have raised so much of capital and we are looking at a product some of the products being discontinued, some of the products being getting introduced, so then we thought that this is probably the right time when we should align the write off policies and the provisioning policy what is the best norms in the industry and there of course in the end result we found that with the two months of visibility on collections in April and May, which I think a number of our peers in the industry would not have had we decided that let us factor in all that declarations that could happen and therefore make a provision in Q4 itself and like last time you see on 27th March RBI came up with a moratorium policy.

On 17th April, RBI came out. I think with that provisioning policy and then RBI came with the OTR, but this time the OTR policy that RBI has come out with on 5th of May is not as similar to what it was last year. This time it appears to be more of a patchwork and there are certain exclusions in both the individual and the small businesses on one end and the MSME on the other, which we believe that it may not give too much of a relief to our customers and therefore we thought that let us also make sufficient provisioning such that COVID wave two, we do not feel the impact or the stress on the P&L or the balance sheet in the current year.

So these are all the various parts of the answer on this particular point that you and some of your other colleagues have raised in the call.

**Moderator:** Thank you. The next question is from the line of Utsav Gogiraj from Investec Capital. Please go ahead.

**Utsav Gogiraj:** Sir, I have couple of questions. First one largely if I look at your vehicle finance book, you are largely vacating from there and first I want to understand the reason behind it why we are vacating in the used business and what will happen to the employees who are working on the mid level or ground level? Do we plan to shift them towards the new products or what is the thought process behind that?

That is first question and second question is with respect to the new product launches which you are planning to do it. So if I look at the new segments which we are entering, it is broadly similar to the largest diversified NBFC Bajaj Finance. So is it kind of we plan to replicate that kind of model in the next two to three years, is that something which we are targeting or is there something else we want to build?

**Sanjay Chamria:** So you see, like the way the model that we followed in the past is that the guys that we have in the field they are doing all the products in the used segment which is cars, CVC and the tractors. Now we want to focus on the used car segment and therefore the guys who Were sourcing business in the field they will, instead of focusing on 4 products, they will focus on one product and this product we have seen that today for example, last year also in pandemic year the India sold about 4 million used cars, which is about 1.8 times the number of new cars that were sold.

But in terms of finance penetration in the used car, it is less than 25%. And that is because the sale of the used car also 70% is unorganized and less than 30% is organized. So the opportunity there is huge and it is a lot of white space and Magma till the pre pandemic time we used to do about almost 60,000 used cars in a year which gave us almost about 5% share in the overall financing of the used car market. So we believe that now with the value prop that we have to fund the C and the D segment cars then the formal income segment customers, then in the metros and the cities, something that we were not able to operate earlier.

Because earlier our lending rates were about 16% to 17%, whereas this segment that I am talking still mainly happened at about 12% to 13%, but with the cost of funds at 7% we can easily compete there and grow the universe of the used car both in terms of the product range as well as in terms of the customer segmentation.

So I do not think that it will have any impact in terms of the employees who are doing something else and cannot do this. So they were doing the used car earlier. Second also we have a portfolio which is quite sizable and therefore servicing the existing customers also we will meet the team so they will do that. They will get shifted there.

Third, even in the past whenever we have launched any new product, we have undertaken a re-skilling program of our employees. So what we have seen that in a customer centric approach product become secondary and how you go and appraise the customer, how you close the deal in terms of the commercials and then do the documentation that is more important and therefore we have a very strong LND program in which we can re-skill the field executives and the first line supervisors.

Of course, at a leadership level we are expanding by getting in number of subject matter experts either on the digital side or on the sourcing side or on the underwriting side. Therefore, we do not want to take any chance there. I hope that answers the question you have put?

**Utsav Gogiraj:** Yes sir. On the journey which is it like you are planning to replicate what Bajaj Finance has done in the business because I see the product segments which we are offering, they are broadly similar? The share of housing we want to increase the medical equipment and personal loans. Is that right understanding?

**Sanjay Chamria:** Well, actually Bajaj Finance today is a gold or platinum standard in the retail NBFC space in India and they have done quarter-on-quarter, year-on-year very successfully. So I do not think it would be appropriate for me to say that it is replicating that model.

But yes, I think today in terms of the branding, in terms of capitalization, in terms of the cost of funds, in terms of the digital analytics and lot of other expertise, I do not think that now our platform would have any of the handicaps that it has had in the past, and therefore it is time for us to chart out a new journey with a relook fresh look at the product, with a fresh look at the customer segmentation and cost to income ratios and also assemble our best in class leadership team which has the proven expertise in their respective areas of operations.

And then I think see over the next four to six quarters as to how our journey will pan out and then it will be there for all to see as to whom are we aspiring to replicate or we are carving out our own niche.

**Moderator:** Thank you. The next question is from the line of Rohan Mandora from Equirus Securities. Please go ahead.

**Rohan Mandora:** Rohan here from Equirus. Just coming again on the strategy part wherein we are trying to move more towards a better quality of customers. So just wanted to understand like obviously currently we have healthy capital adequacy and so we will be able to do lending. But as we are trying to grow 3X AUM in by FY25 housing leverage will increase.

And so just want to understand, how do we see our competitive positioning in terms of the pricing power? And being able to compete in the segments which we are targeting and also like if you understand, so that is first part of the question. Second, is that right now we have seen like using digital many organizations are trying to move into those segments where the lending was difficult earlier, and with the alternate data coming in and use of technology, they are trying to move into newer segments where the yields are higher and we are actually trying to move away from that segment.

So this is a slightly like I am just trying to understand obviously how do we correlate this thing in terms of? It is just because that historically we have seen a higher stress on the asset quality that forcing us to move into this strategy or something else is there?

**Sanjay Chamria:** So I actually lost track of your question. Maybe you can just briefly tell me your question?

**Rohan Mandora:** Yes, so first the first part of the question is that as we grow over next three to four years and the leverage increases will there be enough competitive advantage to us in being able to compete on the pricing power given the fact that right now we may be able to compete if given higher? That was one.

**Sanjay Chamria:** Yes, I got your question now. See first of all, I think on the competitive advantage in the cost of funds at the cost of sounding immodest, I think we can say that with the positioning that we have today with a Rs. 6,000 crores capital with the leverage at 1.3 times with the capital adequacy at 69%, I think there is no doubt that we will aim to be the best or compare with the best in the industry. So therefore, in terms of a competitive advantage, for sure we are looking at having that. And very soon as the loans get re-priced or we contract new loans, I think you will see every quarter that benefits flowing into the P&L.

The second part of your question that we are looking at a very risk adjusted return kind of a price metrics. So at one level when we are looking to do the loan to professionals and personal loans and consumer loans, these are at a high yielding IRRs. And these are done through the digital means. So your cost of acquisition is lesser.

Do I mentioned to you I mean, someone else that we will have going forward 100% electronic modes of collection through e-NACH as opposed to current where 40% to 50% of the customers we have to reach to their home every single month to collect money and deposit in the bank. So this will also bring down the operating cost.

The third is on the other end I also mentioned that the share of mortgage will increase in the overall portfolio, which comes in at a lower yield but then that also gives you the lower operating cost. So you look at the affordable housing companies which are built to scale their Opex is less than 3%, but if you look at the non affordable their Opex could be even less than 1.5%.

And now we are looking to also do the non affordable segment where you have a higher ticket size, you have a formal segment customers, therefore, your operating costs are lower and there you also have the asset quality which is quite pristine. So I think it will be a combination and the product mix will ensure that one we have a proper cost to income.

We also given the stringent provisioning and the write off norms have the eye on the ball in terms of how it is moving the provisioning and so on such that so you have a bouquet of products both in this secured which is secured by property or secured by vehicle, or the equipments versus you have unsecured where you are doing personal loan, durable loans or loan to professionals and then have a ready mix of risk return ratios.

**Moderator:** Thank you. The next question is from the line of Neha Mudaliar from IFC. Please go ahead.

**Neha Mudaliar:** I had a quick question. Could you provide a brief overview of the new CEO? Sorry I could not get that from the presentation and also given your significant experience building Magma over three decades what is your role going to be going forward? And how will you continue to be engaged with the company which we hope you do?

**Sanjay Chamria:** So Neha, when I was looking to have a separate call with you, Supriya and Mr. June but anyway since you are on the call and you have raised this question and I am sure it would be of interest to other people also on the call. So I will answer it.

So far as the CEO is concerned, Vijay; Vijay actually is currently the Business Head in ICICI Bank and he has been heading the services sector business and having dealt in the NBFC space over the last few years with all the leading and the midsized companies in the country he has a very deep understanding of how does this sector operate, what are the various levers on the liability side and on the asset side, given the challenges owing to the liquidity crisis and then the COVID crisis that happened.

So that is one. Second he also has handled in the last few years the services business, which is largely digital and the technology lead and this is what is going to be the focus area in new avatar of Magma Version 2.0 that I have been talking about.

Third is Vijay even prior to this for a period of five years, also managed the debt syndication desk at the ICICI Bank raising significant amount of debt both in the domestic and in the international market. And what we have seen and with my own experience of more than 30 years in the NBFC space that liability side, which is actually more important than the asset side you need to have long term source of funds, you need to have competitive cost of funds and your pricing power should be there to be able to compete in the market and you need to have confidence of the lenders.

So therefore we experience on the liability side having multi diversified sources and as you scale up and reach Rs. 40,000 crores, Rs. 50,000 crores AUMs you cannot simply rely on the bank source of fund. You need to have a diversified mix and I think there over five years experience would really come in very handy for Vijay and prior to that he was also heading the commercial business as the head of the zone in the north of India. So overall he has about 12 years, 13 years in ICICI in the current strength and he is an IIM graduate from Ahmadabad in the year 2002 with almost about 19 years post qualification experience.

So that is the background on Vijay. So far as I am concerned as a part of the arrangement and the deal that we have done with Poonawalla this is a clear change of management and the shareholder. And Mr. Adar Poonawalla acquires 60% in the expanded equity in the company. So he is the dominant promoter and my role is the second promoter and we have 13.3%.

So that makes us the second largest shareholder in the company and I will be the representative of the current promoters and continue as Executive Vice Chairman. My role going forward will be in terms of supporting a very successful transition, because whenever there is a M&A that happens, there can be certain casualties and if there is a culture, there is a product, if there is a people issues, there is the customer segmentation, there is a distribution network and then there are three, four companies that we have and there is a whole lot of cross selling and the sharing of infra and so many things.

So therefore, as we build each of the companies to scale, how do we kind of make them independent. So there are a whole lot of roles that is there over the next three to four years, which I will be playing supporting the existing management and the new leadership team that comes on board.

**Moderator:** Thank you. The next question is from the line of Gaurav from Bowhead India. Please go ahead.

**Gaurav:** You have very nicely explained about your role, how it will evolve over the period of time. Sir, just another question on these lines. After a month or so, we will have the MD and we will have CEO which you just talked about. What will be the role played by these two guys and is there any overlap between them? How will these things work?

**Sanjay Chamria:** So what I would suggest that let us save some of these questions once the new team takes charge. In fact, MD is taking charge tomorrow morning, which is Abhay. And Vijay will take charge in first week of July. And what I would suggest that Jinesh who is our Head of IR, he will actually schedule interactions with them and you hear from the horse's mouth. I think that will be the best way to go about your query on this matter.

**Moderator:** Thank you. Ladies and gentlemen, this was the last question for today. I would now like to hand the conference over to Mr. Udit Kariwala for closing comments.

**Udit Kariwala:** Thank you so much the team Magma for helping us know the status of current business as well as what lies ahead. I thank all the participants and management for having this call. Thank you so much.

**Sanjay Chamria:** Thanks Udit for organizing this call. Thank you very much.

**Moderator:** Thank you. On behalf of Ambit Capital Private Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.