"Magma Fincorp Q1 FY'21 Earnings Conference Call"

August 10, 2020

MANAGEMENT:	**MR. SANJAY CHAMRIA – VICE CHAIRMAN & MANAGING DIRECTOR** **MR. MANISH JAISWAL – MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER, MAGMA HOUSING FINANCE & SME** **MR. DEEPAK PATKAR – CHIEF EXECUTIVE OFFICER, ABF BUSINESS, MAGMA** **MR. RAJIVE KUMARASWAMI – MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER, MAGMA HDI GENERAL INSURANCE** **MR. KAILASH BAHETI – CHIEF FINANCIAL OFFICER, MAGMA FINCORP**
MODERATOR:	**MR. PRADEEP AGRAWAL – PHILLIPCAPITAL (INDIA) PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Magma Fincorp Q1 FY'21 Earnings Conference Call hosted by PhillipCapital (India) 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. I now hand the conference over to Mr. Pradeep Agrawal from PhillipCapital (India) Private Limited. Thank you. And over to you, sir.

Pradeep Agrawal: Thank you, Stanford. Good morning, everyone, and welcome to the Q1 FY'21 Earnings Call for Magma Fincorp. To discuss the results we have with us Mr. Sanjay Chamria -- Vice Chairman and M.D.; Mr. Manish Jaiswal – M.D. and CEO, Magma Housing Finance and SME; Mr. Deepak Patkar – CEO, ABF Business; Mr. Rajive Kumaraswami – M.D. and CEO, Magma HDI General Insurance and Mr. Kailash Baheti -- CFO. I would now like to hand over the call to Mr. Chamria for his opening remarks. Over to you, sir.

Sanjay Chamria: Thank you, Pradeep, and thanks to all of you for joining us. Hope all of you and your near ones are safe and healthy.

The current year 2020 continues to be unpredictable and extremely volatile for all of us as we face each day and learn and implement newer dimensions and living our life. India has already surpassed all countries barring USA and Brazil in terms of COVID positive cases and the incremental per day rate is now highest in India and it is spreading across the small towns which has caused lockdowns in certain states like West Bengal, parts of Bihar, Odisha, Eastern UP, Maharashtra, Karnataka and a couple of more.

Government of India with the limited fiscal resources and RBI with concerted efforts, have been quite proactive to seek feedback from the industry association and held consultative sessions and initiated a series of measures during the last few weeks again to relieve the liquidity crunch faced by the borrowers through one-time restructuring and expand the scope of ECLG Scheme to include individual MSME borrowers.

I m happy to share that we at Magma have been very actively engaging with the government and RBI both in our individual capacity and through the aegis of FIDC, CII and FICCI which resulted in the government and the Reserve Bank providing substantial support by way of several liquidity enhancement measures and bringing needed policy changes.

While the economy in general is not doing well, the rural economy seems to have made faster recovery especially with the agricultural sector outperforming. There is an upfront upside to this as far as the performance of monsoon is concerned and vehicles for freight movement in tier towns and providing better load to our customers.

During our last call in June, we had shared with you that at Magma we have adopted the principles of "Survive, Revive and Thrive." along the seven majors comprising #1, Employee Safety and Welfare Programs; #2, Customer Engagement and Support; #3, Capital Preservation; #4, Prudent Liquidity Management; #5, OPEX Control; #6, Portfolio Quality, and #7 and the last, the Digital Platform for Contactless Lending and Collections.

We have continued to focus on the principles and at the end of July five months of pandemic, we have managed to survive and build good liquidity and maintain portfolio quality while taking full care of our employees across India and reaching out to our customers and doing two full scale surveys covering more than 2.5 lakh customers each time.

I would like to share a "Brief Overview of How Things Have Progressed in Q1 Amidst the Pandemic:" I am happy to report that 94% of our branches are operational and disbursement have resumed although we have been cautious on fresh lending. As mentioned earlier, 20% of our branches were impacted during the last few weeks of COVID rebound in smaller towns, which resulted in intermittent closure of these branches and did impact the normal functioning of collections and customer servicing.

We had already launched a scheme to help our customers financially looking at their cash flows and providing them additional working capital. And now with the coverage of individual salaried and self-employed customers under ECLG Scheme, an extension of one-time restructuring scheme, it will gain impetus and we can help our customers overcome the period of low revenue due to lower capacity utilization and then normalize as the situation improves.

We estimate that the demand pickups would happen from October with the onset of the festive season and by then hopefully the COVID impact will also stabilize.

We believe that strong balance sheet is what is required for companies to survive, revive and thrive.

To protect the balance sheet we are working on the four points agenda. The first and the foremost is on the "Moratorium and Collections Management." Magma has made emphasis on collection; we have seen a good pickup in collections in June, and July has also seen further improvement over June though not as expected due to frequent and intermittent lockdown in several states. Number of customers opting for Moratorium 2.0 has significantly reduced to 45% in June '20 and it has further come down to 40% in July. Our efforts will continue to bring this number substantially down in August and September so that we can make an orderly exit in the month of September.

"Provision Management." We have chosen the path of conservative approach in provisioning and have made substantial additional provision during the quarter to cushion the impact once the moratorium period ends. Apart from the total COVID provisions of Rs.148 crores, we are also holding additional Rs.78 crores of provision which is retained on contracts which have either normalized or move to lower buckets through part collection, but where the customers have opted for moratorium on the fresh installments. These provisions would be released once we exit moratorium and therefore the bucket standstill.

"Liquidity Management," the second most important one. The company has excellent liquidity buffer of Rs.1790 crores as on June 30 and is comfortably placed to service all its repayment obligations and continue normal disbursals. Our new borrowings have been at substantially lower cost of funds, leading to a reduction of cost of funds by about 24 basis points sequentially. We have received overwhelming response and support from the state-owned banks to meet our long-term funding needs and we will rather access the same depending on the demand revival.

The third one is the "OPEX Management." We are focused on reducing our OPEX to bring in line with the industry. We have been able to reduce our OPEX by Rs.41 crores YoY and Rs.25 crores QoQ. While the OPEX is likely to increase as we step up disbursals, we remain confident of achieving significant reduction in our OPEX ratio YoY as also the absolute amount of OPEX. As a result of our sharp focus on protecting balance sheet, so, this four point agenda, in spite of further additional provisioning of Rs.32 crores for COVID during Q1, our PAT for the quarter is Rs.38 crores against Rs.11 crores in the corresponding period last year.

We would now "Outline the Segment Wise Performance" and I will request Deepak to take you through the ABF. Over to you, Deepak.

Deepak Patkar: Thank you, Sanjay and good morning, everyone. The environment continues to be challenging with COVID-19 spread across the country. However, with the easing of lockdown and a slew of government measures, we are clearly seeing some return to normalcy happening, especially the borrowers with agri-based income sources and the ones dealing with essential goods are showing up the revival for us.

This augurs well for us, given that we operate mostly in the tier-two and tier-three towns. This has encouraged us to resume disbursals in our focus product category towards the later part of June, though the number has been quite modest at Rs.40 crores.

We have continued with our relentless endeavor to stay in close touch with all our customers through customer service, trying to understand their asset deployment and cash flow situation. And we have seen a good improvement on both counts towards the end of this quarter across the product segments of CV, CE and Commercial Car. The tractor customer revival has been the most encouraging with majority of our rural customers having sold off their crop, leading to a better repayment behavior. Based on these insights, we have realigned our underwriting policies with regards to the customer and the product segments.

Following the announcement of moratorium on EMI repayments, we did grant moratorium to around 84% of our customers in phase-I; however post relaxations of lockdown and the start of economic activities, we witnessed a good traction in collection in June; the collections in June was around 60% of what the normal June month collection should be. 53% of our portfolio is still under moratorium as at June end which is an improvement of 31% from the 84% that was there in phase-I. This improvement has been seen across all product classes, though as expected commercial vehicle borrowers have availed moratorium to a greater degree and it is least for our tractor customers.

We had also stated in our last call that we have made substantial investments in the collection infrastructure last quarter. We are happy to share with you that we are already seeing the benefits of the same and are confident of continued benefits in coming quarters.

Continuing with our focus on cost optimization, we have undertaken several measures to reduce our operating expenses and the result of the same are already visible in Q1. Sequentially, our operating expenses has reduced by 15% in value terms.

For Q2, we are closely monitoring the situation on-ground and the economic activity picking up especially in the rural belt, we plan to gradually pick up the pace of our disposals. In that respect, our focus towards used assets and tractors will hold us in good stead.

On the collections front, the focus is on lowering the portfolio under moratorium in current bucket and reducing outstanding dues in delinquent pockets.

With that, I will request "Manish to give you an Update on the Housing and SMA Business." Thank you.

Manish Jaiswal: Thank you, Deepak, and good morning, everybody. I will first talk about "Magma Housing Finance." Over last three years, Magma Housing Finance has evolved into a national scale affordable housing finance company which focus on retail and granular assets. The company's strategic mission of "Go Direct, Go HL, Dig Deep," are now imbibed as a culture in the organization. Women borrowers constitute 96% of our total loan origination. 72% of our loans have been disbursed in tier-two and tier-three towns. Magma Housing Finance is focused on minimal construction risk assets. Our entire portfolio has only 2% of loans as builder construction apartment and the collateral construction risk is minimal.

Over the last two months of gradual lockdown lifting, our mortgages portfolio have shown resilient on bounce back. The moratorium customer count substantially stand reduced from 51% at peak in May to a little below 20% by end of July. The mitigated impact of pandemic in rural and semi-urban areas is expected to regress as people learn to live with COVID and initiate business revival.

Magma Housing Finance adopted a caution with care approach given negative externalities of lockdown and restricted mobility. We got in touch with more than 90% of our customers through direct engagement. Our teams have worked relentlessly during pandemic to send over 1,571-odd PMAY cases to NHB so that our customers get the PMAY subsidy of Rs.2 lakhs to 2.5 lakhs. Such a large quantum of PMAY subsidy not only deepens bond with our customers, it also seeds in probability of better asset quality behavior in future.

Magma Housing Finance disbursed Rs.133 crores in last quarter and the AUM of Magma Housing Finance now stands at Rs.3,400 crores. In fact, our overall mortgage business just crossed Rs.4,000 crores in July as we speak. The company reported a PAT of Rs.7 crores for the quarter. The company has been able to hold on to the asset quality with a marginal improvement in GNPA which now stands at 1.59%. We have made additional provisions of COVID-19 worth Rs.4 crores in Q1. Just over last six months, Magma Housing Finance aggregated COVID-19 provisions of Rs.12 crores equivalent to 0.4% of the AUM.

The overall PCR of the firm now stand at 40% and it is expected to normalize once the pandemic settles. The company reported improvement in operational efficiencies as OPEX ratio reduced from 3.2% to 2.7% in the first quarter.

Magma Housing Finance is in a comfortable position on liquidity and ALF. During the last quarter, the company has been able to garner Rs.502 crores of incremental liquidity at weighted average cost of 8.19% which is almost 2% lower from our costs about a year back. Magma Housing's overall cost of fund has thus improved for the quarter by 23 basis points. The company is looking at gradual pickup of momentum and disbursals and will continue to build assets with sharp focus on portfolio quality, collection, and most importantly, the prime focus of the company in these tough times will be to stand by our employees and customers and weather the storm together.

I will now come to the "SME Business." The SME business took long stride as Sanjay mentioned earlier in working with the Ministry of MSME, SIDBI and NCGTC to give fillip to the initiative of ECLGS, which is Emergency Credit Line Guarantee Scheme under Government of India's Atmanirbhar Program to provide timely liquidity support to MSME.

Deploying the best of fin tech capabilities in our SME business, the team digitally access and disburse 500 loans to SMEs amounting to Rs.43 crores in last quarter… rather mostly in the month of June itself through paperless and seamless processes at the backdrop of 100% government guarantee. Almost 46% of eligible MSMEs who need revival capital have been beneficiaries of ECLGS under our "Go Digital SME Initiative". We are exploring such collaborative opportunities and more to deepen our contributions under this program.

The pandemic times have provided us the opportunity to re-dimension the SMA business towards "Go Direct and Go Secured Strategy." Product, Process, Policy and filling activities in line with the above three methods have been completed duly in the last quarter, and the launch pilots are underway to build a long-term steady state relationship-driven business. The soft testing of SME Go Direct was witnessed as our teams were in medical coverage of 600 MSMEs in this pandemic time.

In line with our agenda of supporting MSMEs to reboot their business model, the company entered into partnership with a global leading philanthropic institution, Wadhvani Foundation and has access over 500 MSME customers. Under their Samhita program, the MSMEs would be offered provisioning-bono consulting and advisory towards digitizing, business rebooting, reserves management, financial and revenue enhancement programs.

The company maintained its focus on portfolio quality and the moratorium cases in SME business have reduced from the peak of 56% in the month of May to around 25% in terms of value by end July. In line with the company policy to ring-fence SME portfolio, 71% of our book as of June '20 is covered by the Credit Guarantee Scheme. In ensuing quarters, the company would focus on ECLGS, essential goods and further bolster the franchise for Go Direct and Go Digital Initiatives.

I now hand over to our colleague, "Rajive Kumaraswami, the CEO of Magma HDI to give an Update."

Rajive Kumaraswami: Thanks, Manish. Good morning, everyone. The economic crisis has impacted the general insurance industry as well. The low vehicle sales and consequent sharp degrowth of the motor segment has been cushioned by a heightened realization on the need for health insurance as well as reinsurance-led rate increases for the commercial business. The industry registered a degrowth of 4.2% in Q1 where a sharp fall of 23.6% in the motor segment was counterbalanced by the growth of 6.4% and 16.2% in the health and commercial segments respectively. Against the market degrowth of 4.2%, our drop was 19.5%, much sharper primarily due to a current high level of dependence on motor as a class of business. However, after registering two consecutive months of degrowth in April and May, we have registered a growth in the month of June. This trend of growth in June continues in Q2 as well and we are confident of pulling back the degrowth of Q1.

Our investments in technology ensure that while we continue to work from home as an organization, more than 3,000 intermediaries use our platform to issue policies. The usage of our "Pre-Inspection Survey App" increased from 27% in Q4 to 41% and the usage of Touchless Claims Settlement increased from 13% to 49% in the quarter.

We continue to expand our OEM spread and we have gone live on the program of one more prestigious passenger car manufacturer in June. This enrollment trend continues in July as well, and the company is getting impaneled and commencing business with more OEMs in Q2.

Traction in Health business has been the most satisfying achievement on the quarter gone by. Our retail health numbers in April to July this fiscal has actually crossed the full health numbers that we did in the entire year of 2020. The composition of health insurance in the first quarter stands at 5.9% vis-à-vis 4.5% in the previous year. We have delivered a profit after tax of Rs.10.5 crores on a GWP of Rs.240 crores this year. However, a decline in the business volume impacted our combined ratio which stands at 124.4% this quarter vis-à-vis 120.7% for the full fiscal last year.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Anita Rangan from HSBC Asset Management. Please go ahead.

Anita Rangan: Can you give some color on your liquidity you have in your balance sheet? You said you are getting active traction from PSU banks. How much sanctions you are getting and what is your available effectively what you are seeing?

Samjay Chamria: So, as we mentioned, our total overall liquidity as on 30th June stood at Rs.1,797 crores. We had drawn about Rs.502 crores in the first quarter from various banks. We have further drawn about Rs.550-odd crores in the month of July. The liquidity is coming from various facilities such as emergency credit line, the TLTRO, the ECG bonds, etc., and we have further sanctions in pipeline apart from Rs.550-odd crores which we already withdrawn, about Rs.850, 900 crores of sanction lines which we can draw whenever we want. So, this liquidity is almost good till maybe December this year and even beyond.

Moderator: Thank you. The next question is from the line of Abhijit Tibrewal from ICICI Securities. Please go ahead.

Abhijit Tibrewal: Referring to your slides 16 and 17, can you help me understand how should we read your NCL of 93 crores in Q1 and Rs.139 crores in Q4 FY'20 versus COVID-19 provisions that we have done?

Sanjay Chamria: So if we go to slide #17, the total NCL for the quarter is Rs.93 crores. The composition is you would see the third line which is loss on settlement repo which is about Rs.20 crores and obviously, the activity was low during the quarter. You could not either do settlement or deposition... and deposition was even not desirable in the given circumstances. So, most of the activity was settlement and this happened in the month of June. So, when you settle, there may be some provision release and some loss. So net-net in this quarter we lost about Rs.20 crores. Then you would see the ECL provision line. Usually when you have bucket strength, you would not have any roll forward and therefore, our actual loss on account of standstill was not much. What has happened is that there would be contracts which are for SME moving to (+450) due to the time passing by. So, say, some contract which was in 360 would automatically move to 450 because neither is there collection nor is there any **(Inaudible) 24:53** these cases which are in higher buckets, and at 450 DPD, we have a cut off for 100% provision and write-off. Similarly, in ABF we have 730 as the cutoff for write- offs, so, anything which moves to 730 and that the movement would have continued. So, these are the contracts where we would have made 100% provision. And apart from these, as we said additional Rs.32 crores provision which is on account of pre-COVID. So, additional provision we have made. And this provision has been largely made or entirely made in the standard assets bucket. In NPA bucket we do not see any necessity for any further provision. But in standard buckets, there are some contracts in 31 to 90 who have taken moratorium and have not paid any overdue installment. That is where we thought that there is some increase in credit risks and therefore we should provide more. That is where we have provided additional Rs.32 crores. So that is the total Rs.70 crores for you.

Abhijit Tibrewal: But the question here was, in Q4, you had NCL of Rs.139 crores and out of that Rs.58 crores was loss of settlement or repo. If I take that out, how have you provided Rs.117 crores of COVID-19 provisions I am sure you are doing on standard assets?

Sanjay Chamria: So, the way it happens is that in the last quarter, which is January-February-March, we are able to roll back significant amount and this has been the trend all now. So, usually you would see that January-February-March we will hardly have any credit loss, there would be release of provisions because the higher buckets actually shrink and therefore whatever we have provided, there would be release. So this time was no different until about 20th of March, we had a large number of contracts moving down and there was a release of provisions. So, if we had not provided Rs.117 crores of provision for COVID, you would have seen the ECL provision line as negative. Instead, what you see is Rs.72 crores positive. So that is how the total NCL was Rs.139 crores including Rs.117 crores of COVID provision.

Abhijit Tibrewal: We have now classified tractors or agri as one of our focused products now. Just trying to understand in the last quarter most of your peers saw very good traction in tractors and for that matter they have reported very good disbursements in tractors and some of them have even reported very high market share gain. Why is it that we chose to stay away from tractors especially when we have seen very good collection efficiencies in tractors, I mean, what I am trying to understand is in cycles, I have seen that when we are doing tractors, the others are choosing to stay away from tractors and now that others have started doing tractors, we have not disbursed as much at least in Q1?

Management: You are absolutely right. And there has been traction in the tractor sales and tractor disbursement. However, we have actually chosen to look at it from a different angle. What we have tried to look at is what is our customer actually saying on the ground? Even in tractors if you notice we have got the large amount of moratorium running at this point of time; 40% customers have availed moratorium in spite of the economic activity that we have seen, and therefore we have decided to stay away for a while from any kind of aggressive disbursal. Honestly speaking, we did not see any specific signs on the ground in terms of why we should aggressively disburse during this quarter. Our focus for the quarter was collections and portfolio management and that is what we are stuck at.

Abhijit Tibrewal: And what will be the stance in Q2 now?

Management: So, there is quite a bit of positivity that we are now seeing, like I mentioned, we are seeing improvement in the moratorium situation from June to July as well, August also we hope to be better and therefore, we will have a measured approach in terms of how we ramp our disbursals and there will be activity or disbursal that you would see in Q2.

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

Rohan Mandora: Sir, if you could help by sharing the details on what percentage of customers have not resumed business activity post COVID as on July end in the vehicle finance and SME segment? And secondly, after the restructuring scheme that has been announced by the RBI last week, in case we chose to restructure any of our portfolio within that scheme, will the stress be considered as stage-1 or stage-2 and how will the provisioning move because we follow IND AS and the requirements is for minimum 10% provision, some clarifications, that would be helpful?

Sanjay Chamria: I will take the second question first which is about restructuring. This restructuring scheme is not new. And we started giving the relief of restructuring to deserving customers even before RBI had announced the extension of the scheme. The scheme has been there for some time. It started in the year '19 in January and then was extended in the current year in February. The way it operates is that when we have IND As provisions, say some contract is 61 to 90 and under IND AS we may have provided say about 10% or 12%. If we give restructuring, RBI says that you have to provide additional 5%. So, we continue to maintain that 12%, we make additional 5% and then provide the restructuring benefit to our customers, so, we do not take any advantage. RBI says that you need to provide 5% additional. Here we deviate a little bit from IND AS provisioning and actually go conservative. When you provide restructuring, there is a little bit of increase in the credit risk. So this is how we take care. The 12% continues for one year and 5% also continues for one year. After one year, whichever bucket, the customer would be sitting on, that is the bucket on which provision will continue.

Sanjay Chamria: To your first question, let us go to slide #16 and look at note #2 where we have said that the total number of customers who are sitting in the 1 to 90 bucket and who availed the moratorium and who did not pay any installment in the first quarter, the total portfolio stood at about Rs.900 crores, which means that these customers at the time when they were given the moratorium, they were already having one to two installments overdue and therefore they were sitting in the 1 to 90-bucket. Now, as you also know that RBI provided for a standstill treatment on the opening bucket. So, these customers, while they have not become NPA, they have not paid the overdue installment, and on the current installment anyways, they have got a moratorium. Now that amount is reduced to about Rs.700 crores in July. So about Rs.200 crores worth of customers have paid some overdue installments while they have availed the moratorium. I think this is one data point. The second one is when we did actually two surveys, one we did in April which continued till middle of May and I think that I shared in the June call, and the second survey we did in the month of July, both the time when we did the survey, we covered over 2.5-lakh customers who are live customers with us. And there we found that now, in terms of the tractor customers, those who are principally into farming, and are largely dependent on farming, they have all got a good amount of money and last time we said that about 50% of them had received the harvesting remittance, but the rest of them were waiting and they were waiting for the prices to improve, but this time, we found that almost all the customers were in cash flows. So far as the truck customers are concerned, last time we had mentioned that only 6% customers were having a deployment and 94% customers did not have deployment, whereas in case of construction equipment, we said about 8% to 9% customers have deployment and 90% customers did not have deployment. This time when we did the survey which ended by last week of July, we found that a good percentage of customers, almost about 50% to 60% of the customers were able to deploy but still about 40% to 50% of the customers did not have deployment, and even among the 50%, 60% who had deployment, the load availability was about 50%, 60% and which is what is reflected also, if you look at the note #3 in the slide # 16, it says that while in July the overall moratorium portfolio has gone down to 40% in July from 45% in June, but in respect of the vehicle financing, it has actually gone down to 49% from 53% in June. When we further look at the breakup of this 49% there we found that in respect of commercial vehicles and construction equipment, this percentage is even higher which shows that the customers who have taken the trucks and the construction equipment, they are still having a deployment issue and even it is borne out by the surveys that we conducted that while about 40% of the customers did not have deployment, 60% of the customer had a deployment, but that was also about 50% to 60% and therefore it is not good enough to take care of their expenses and the installment. And that brings to the second point, which Kailash tried to answer that we have also developed a program called "Sahyog" which we launched from 1st of June. And that is under the restructuring allowed even under the 11th February 2020 circular of RBI for the lending to the micro and small enterprises and wherein in RBI had allowed the time till December 2020, which last week when they announced the one-time restructuring for all kinds of borrowers, for this category of borrowers also, they have extended it to 31st March 2020. Like in moratorium 2.0 we have not given carte blanche to every single customer. Under Sahyog, what we are doing is that we will look at cash flows of every single customer based on the deployment, what asset we have funded, which territory is he operating in, is it under intermittent lockdown and how much revenue is he earning, and therefore, should we reduce the installment by 30% 40%, and do we need to reduce it for second and third quarter, and can we increase it to 75% by fourth quarter and then full installment maybe from April. So, here we are doing a revaluation of each and every case where the customer would need and then we will provide that one-time restructuring. And as Kailash mentioned that under the RBI guideline, if you restructure any account, then you need to earmark it separately and then make additional 5% provisioning, over and above, under IND AS what you are required to provide depending upon the bucket in which that particular contract is residing. So, I hope this is the overall wholesome answer to your both the questions.

Rohan Mandora: Individual truck owners are classified under MSME restructuring scheme or are they covered under any other scheme right now?

Sanjay Chamria: This was one of the big victories for our industry as such. And as I said that we both as an individual company and as a part of the industry body, represented vigorously to the government that one, they should not only be treated as a priority sector under the lending guidelines and therefore we get concessions from the banks. Two, under the interest subsidy also, we get certain subsidy which we provide to this customer. Third, also under the ECLG Scheme, they were not covered originally and it was inadvertent because while they covered all the micro and small enterprises, but they excluded the individual borrowers. I personally even had an interaction with the MSME Minister and the Finance Minister and the bureaucrats and we pointed out to them that there are 70 million MSMEs in India, and of which 99% are individual borrowers, they do not form a sole proprietorship or a partnership firm to launch their business. So, therefore, the intent of the ECLG Scheme cannot exclude 99% of the absolutely bottom of the pyramid micro and small enterprises. And then we also got in touch with the NCGTC officials, which is the National Credit Guarantee Trust Companies set up by the government to provide this Rs.3 lakh crores guarantee and eventually then last week they came up with that clarification in which they have also included the individual borrowers provided the loan is taken for a business purpose. And this time they also said that commercial vehicles and construction equipment customers are specifically included. So, now they have benefits under all the government programs.

Moderator: Thank you. The next question is from the line of Subhankar Ojha from SKS Capital. Please go ahead.

Subhankar Ojha: I have a slightly different question. So, your perpetual bonds are trading at 18%, 20% which is basically a strong negative signal. What is your plan about this -- can you not call it back?

Sanjay Chamria: Perpetual bond by nature is something which does not have a redemption period and you get the benefit of perpetual bond into the upper tier capital calculation of the capital adequacy as allowed by the Reserve Bank of India. And you might be aware that the perpetual bond I think is allowed to the extent of 15% of the pure tier-1 capital. And after minimum period of 10-years, then if the company wants to redeem it, then it can do so with the prior permission of the Reserve Bank of India. So, these are the statutory guidelines. So far as the discount part is concerned, I think it is more a reflection of the market sentiment about the overall economy and the sector per se. And there are 'n' number of companies where perpetual bonds are unsecured by nature and they also have unlimited tenor. And I can share with you and I am sure you are from the market you will know that between three to five years secured bond also are being traded at a huge discount and are giving a good yield to those who want to invest and buy. So I think it is not a reflection on the company. It is more a reflection of the market sentiment.

Moderator: Thank you. The next question is from the line of Pradeep Agrawal. Please go ahead.

Pradeep Agrawal: While disbursement for the last quarter have been severely impacted due to lockdown, by when do we see that we going back to the earlier level of disbursements or things getting normal?

Sanjay Chamria: In June when we had our annual results, that time also we said that first quarter we were not expecting disbursements, in fact, we did about Rs.200 crores but then we did not really budget for it. And second quarter, we have budgeted for disbursals but obviously it will be a low key. Today, you see commercial vehicles and construction equipments, the deployment is very soft, and there is no point taking additional exposure, where you have more than 55% of the customers having opted for the moratorium even after five months of pandemic. So it actually is indicative of very poor load availability in the market. So far as the SMA business is concerned, there again a lot of them have been impacted, and as Manish mentioned that we are focusing on the sectors like daily provisions, pharma, which are not negatively impacted and these are very few and far in between and we are largely providing support to the existing customers under the ECLG Scheme, all the customers who are coming in from these positive sectors under the pandemic and obviously, it would reduce the overall pie for lending opportunity. So far as the housing is concerned, of course, there we are as usual bullish and we have done also disbursals and we will continue to do it and so would be in case of agri business, where tractors and for other needs of our farming customers, we will do it. So from that standpoint, I think second quarter, we have started disbursals, but it will be nowhere near normalcy and I would guess that as I mentioned in my initial address that from October with the onset of the festive season and also assuming that the impact of COVID would have stabilized, and that means we would not have intermittent shutdowns in the different states as we have experienced in the last five, six weeks, I think, in the third quarter disbursals could be about 60% to 70% of the normal disbursals, I mean, in the last quarter which is Q4, it could be about 80% to 90%, but in terms of reaching the 100% normal level of disbursal, I think, this year we will be hoping it to be very optimistic.

Pradeep Agrawal: So since you said that COVID we have seen last three, four weeks, it has spread to tier three or tier four towns as compared to prior periods where the spread was only seen in bigger cities, so do you see the impact being there in Q3 or Q4 from these smaller cities in terms of operations getting impacted or disbursements getting impacted in these areas?

Sanjay Chamria: So this is precisely what I was saying that it is quite unpredictable like June the scenario improved dramatically and then we thought that now we are past the peak and situation will gradually normalize. So while in July we did somewhat better than June in terms of collections and our moratorium cases came down to 40% from 45%, but this was not as we expected, we thought that we will bring it closer to maybe about 35% or 30%. But that did not happen and there we found that roughly about 18% to 20% of our branches from around 10th of July for the rest of the month were intermittently shut down and these are in the tier towns and I mentioned the states like Karnataka, Maharashtra, Bihar, Odisha, Bengal, parts of western UP, these all actually got impacted and there like you find that in the industrialized states like Maharashtra, Tamil Nadu and Karnataka 70% of the cases are coming in from the top four cities, whereas in Bihar and UP there you find that the top four cities account for only 23% of the cases, that means 77% of the cases in these states are coming in from the tier towns and that shows that the spread of the COVID is more in the tier towns and which is where then it would impact the economic activity. So, it is actually difficult to predict as to what will happen in Q3 or Q4, but I mean second quarter, anyways the rainy season is there, for the vehicle financing the load movement is the lesser. So with the onset of the festive season in October and assuming that we are able to peak out by September, then I think from October we can expect 60% to 70% of the normal activities, load and demand for the fresh loans, etc., and maybe from the last quarter and hopefully by then things would have settled quite a lot, it could be about 80%, 90%. That is what my cautiously optimistic projection.

Moderator: Thank you. The next question is from the line of Abhijit Tibrewal from ICICI Securities. Please go ahead.

Abhijit Tibrewal: I am just referring to your slide #16 where we talked about additional provisions from the Rs.78 crores which we have not released from some of the contracts which might have upgraded during the course of this moratorium period, did I hear you right when you said that you will be looking to release these provisions in Q2 after the moratorium is over?

Sanjay Chamria: Yes, that is right. RBI guidelines say that when standstill both going up and going down, so while on some of the moratorium overdue contracts, we may have collected money, the contracts have remained in the same bucket and have not gone down. And when the moratorium stops for these contracts, the provision will automatically get released.

Abhijit Tibrewal: In point #4, Kailash, you were saying about collection efficiency for Q1 was about 103%. So this collection efficiency, how have we calculated it – it is excluding those people who have been provided moratorium?

Kailash Baheti: So the way we calculate collection efficiency is our entire collection divided by our entire billing and since the billing is lower, that is the billing we have taken and it is the entire collection as the numerator.

Abhijit Tibrewal: The last question I had was around SMA book. Out of those Rs.1,742 crores of your SMA book, have we done an evaluation what proportion of the AUM is eligible for this Emergency Credit Line Guarantee Scheme?

Manish Jaiswal: We have done a fairly deep evaluation. One is that customers who are entitled, should you go and give ECLGS to them because it is available and there is 100% guarantee, there are some players who would take those chances. But what we have very cautiously decided is that we have our proprietary model M-Score, where it essentially grades the customer's risk profile. We have chosen very specifically around 5,300-odd customers who we believe, we will be putting good money after good customers for what if government get guarantee and therefore, we have very cautiously chosen to get up to 200 customers, out of which very close to 2,000 customers already availed and we believe that there should be a 50% strike rate, so which means that 2,500-3,000-odd of our overall pool of our customers, would be beneficiaries under this government program of Atmanirbhar and ECLGS.

Abhijit Tibrewal: Manish sir, do we have the discretion of deciding who we want to extend that loan to and who we do not want to extend that loan to or anyone who is eligible under the scheme, we have to extend a loan to them under the scheme?

Manish Jaiswal: All I can say is lenders are under no obligation to finance everybody and anybody. If we believe there are profiles of customers who we do not wish to finance, we are happy to give the NOC much as anybody would like to go and finance them, that is absolutely fine. Similarly, on quid pro quo, there are also customers who are with other lenders and where the other lenders either have their own issues of liquidity or whatever, they are approaching us with NOC and we are looking at those customers as well. So it is in a sense the quid pro quo, but we are very clear that under SME business, today as we speak we have more than three quarters of business which is credit guaranteed, under Atmanirbhar, every business which they do is 100% credit guaranteed. So, we would continue to ensure that while we lend on one hand, we have ringfenced our portfolio through various such schemes.

Abhijit Tibrewal: And now that some of our vehicle finance customers especially the CV and CE customers will also be eligible under this individual ECLG Scheme, I mean, have customers already started reaching out to us for taking disbursement under this individual ECLGS?

Manish Jaiswal: It is a little premature. The ECLGS extension to individual customers happen quite recently and we are in the process of evaluating but we are quite confident that there will be a significant chunk of our customers into the CV and CE portfolio where this can be extended.

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

Deepak Poddar: Sir, just wanted to have some comment on what sort of credit cost we might be looking at this year?

Sanjay Chamria: So the credit cost this year also will be a function of the special provisions that we are making like if you see in slide #13, if you see the NCL, till about 1.6, which is prior to special provision of COVID and 2.3%, if we include that 32 crores of special provisions that we have made and this is on an annualized basis. But I think this is not a reflection truly and so, like normally when we make a provision, we assume that the credit cost could be in the current times about 2.5%. But then again, it will depend upon how the post moratorium the bucketing would move. And that is why like us every other player also have been building buffers. And you saw that in slide

#16, we have shown that the total buffer that we are now currently sitting on, is almost about Rs.227 crores, which is about 1.4% of the AUM. So, we feel that with all these buffers that we have built in, plus another buffer that you saw was the Rs.70-odd crores, the portfolio where the customers paid, but then because there was standstill or a moratorium, we have reported them as NPA, because we do not know as to post moratorium, how will they behave. So, we have a comfort that the performance of the customers relative to our peers in the industry, we have done well and therefore our credit cost this year should be lower, if it is not, then at least at par with the peers in the industry like last year it was higher. This is what I can say at the moment and we are also taking it quarter-on-quarter basis.

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

Shreepal Doshi: Firstly, a data keeping question. What would be the interest capitalized component in the AUM currently in 1Q number?

Management: I think we do not have that number. You will have to get in touch with Dinesh after the call and he will give you the number.

Shreepal Doshi: Since we are saying that we are comfortable till December '20 on the liquidity front, I understand that you have given that 60% to 70% disbursement in 3Q and 70% to 80% in 4Q, what kind of trends do we assume on the disbursement and collection front while we are saying that we are healthy on liquidity till December '20?

Sanjay Chamria: When we calculate the liquidity and we make a statement that we are comfortable till December, it is based on three factors. The first factor is that what is the current available liquidity. And that is where you see out of Rs.1,800 crores which is mentioned, almost close to Rs.900, 950 crores is the money that we have in the bank which we can draw without anything. Rest of it is the lines which we can draw for the purpose of fresh business. Then we have another Rs.700, 800 crores worth of sanctions in the pipeline which will come in the Q2 and thereafter where we have a clear visibility. Apart from that, we also look at what is the monthly collection trend. So, with about 40% of the portfolio which is in the moratorium, our monthly collection itself is in the range of Rs.300 crores to 350 crores, and that money is coming in. So, from a repayment to the bank on our existing borrowing from the angle of doing a fresh disbursal, from the angle of available lines where we already have got the drawing power, then the money that we have got in the fixed deposit and the money market instruments where we incur a negative carry and the pipeline of fresh sanctions. So if we do a sum total of all of these things, there we feel that as on 31st of July and as on 30th of June in terms of liquidity, we are in a far better position than we were one year ago or three quarters ago and that is why right through March till August, we have not taken moratorium for any single month from any single bank either on the interest or on the principal repayment because we have been collecting money and therefore we have been paying to them. So, that is the background Now, let us assume that if the disbursals instead of say 50%, 60% in Q2, that becomes 80% or in Q3 from 60%, 70%, they become 90% to 100. So, that is a happy situation because we have so much of sanction pipeline and banks are also under pressure to lend to the companies which are engaged in the retail lending and which are lending to the micro and small enterprises or in the priority sector, we are finding there is a significant appetite. Actually in the last four or five months, as I mentioned the state-owned banks and in addition thereto you have three institutions which is NABARD, SIDBI and NHB, they have also been providing a credit and the government has provided them more than 60,000, 70,000 crores to help the companies which are into the retail, secured and priority sector kind of a lending. So I do not really see any issue from a liquidity standpoint whichever angle that you look at.

Shreepal Doshi: One last question is with respect to our affordable housing book wherein we have 33% moratorium book, so what would be the mix with respect to salaried and self employed customer profile or say formal and informal customer profiles?

Manish Jaiswal: So, our deep rationalization as an organization is more towards self-employed customers and that is what truly differentiates us. The core tenets of our affordable housing finance business is to find self-employed borrowers in semi-urban, rural economies, and we, as an organization have three decades experience and capability to assess the credentials of such customers. We are pretty focused in that segment. We do not want to change that and apparently it does look like that our strategy is also reasonably well playing out while most salaried are seeing certain stress on maintaining their salary, but we find that the self employed customers who are almost two-thirds of what we finance, they are showing resurgence and they are coming back in businesses, while their top line might shrink, but it also shows that from peak of 53% under morat by number of count of customers, we are now down to a little shade below sub-20%. So long story short, we believe that we would stay focused in this segment on self-employed and that would be our forte and we wish to access these customers directly as you observed in one of our slides that about 80% of our business is sourced directly, we find a customer directly, our model is around 10 lakhs of ticket size, largely self-employed. If some salaried come on the way, we pick them up, but that is about 20%, 30% of the customers.

Shreepal Doshi: So basically, salaried segment is seeing more stress with respect to paying as compared to self-employed, that is what you are trying to put it across, right?

Manish Jaiswal: No, I am not trying to put it across. I am saying by very conscious choice we have made a choice in our business model and we are focused on self-employed, which comprise two-thirds of our customers and that is our business model. So there could be stress on some salaried, but there could be also stress also on self-employed. Our expertise and capability and forte is self-employed customers and we are staying on course with our plan and we feel that this segment gets affected fast, but it also bounces back fast because it is a resilient sector. People have to keep working on their livelihood and they need a home to stay in this COVIDian time. So therefore, we believe it is a safer sector overall from our strategy point of view.

Sanjay Chamria: I like to further add on to what Manish has mentioned that more than 70%, 75% of our total customers are in the self-employed category and less than 30% are in the salaried category. And if we also further look at, then within 70% self-employed, around 50% would be informal and 20% would be formal. Similarly, if you look at less than 30%, which is salaried, again, there we will find that more than 20% would be formal and less than 10% would be informal. So therefore, if we look at the salaried segment also, most of the guys that we are funding the salaried segment would be working in the SME enterprises either in the formal or in the informal segment. This is the question of positioning because a salaried customer will look at a 9% to 10% rate of interest on a home loan whereas our yields including LAP which is about 30% of the total book, would be about 13.7%, 13.8% and we operate in a ticket size of 9.5-10 lakhs. The second point and which is quite significant that more than 85% of the customers both in the salaried and in the self-employed that we are financing, they are under self-occupied residential property. So, therefore, it is not that they would have a godown or they would have a shop or they would have investment made into a flat and on which we would have funded. They are living there with their own family and that is more than 85%. Then a very significant part of the balance 15% is also where we have funded the LAP loan where the customer is having self-occupied commercial property which means it is a shop or workshop or a showroom or a salon on the basis of mortgage of which we have given a loan. Apart from my emotional attachment, there is also a dependence of the customer on these things and therefore, the tendency to default is much less. And finally, as Manish mentioned in the inaugural address that the home loans that we are giving which is about 70% and of that 70% which is about 49%, 50%, they are also qualifying for the PMAY subsidy. Now, one of the conditions under the PMAY subsidy also is that the customer has to keep his account current. If he is a delinquent customer, then he loses that benefit and which is quite significant at about 2-2.5 lakhs on a total ticket size of 10 lakhs. So from all these angles, we find that there is a sufficient amount of ring-fencing in terms of the portfolio behavior.

Moderator: Ladies and gentlemen that was the last question. I now hand the conference over to Mr. Pradeep Agrawal for closing comments.

Pradeep Agrawal: Thank you, Stanford. On behalf of PhillipCapital, I would like to thank Mr. Chamria and the entire senior management team of Magma Fincorp and all the participants for joining us on the call today. Thank you, and have a good day.

Moderator: Thank you. Ladies and gentlemen, on behalf of PhillipCapital (India) Private Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.