"Mahindra & Mahindra Financial Services Conference Call"

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MODERATORS: **MR. KARAN OBEROI**
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Moderator: Ladies and gentlemen good day and welcome to the Mahindra Finance Q3 FY'12 earnings conference call hosted by JM Financial Institutional Securities Private Limited As a remainder for the duration of the conference all participants lines are in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call please signal an operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is been recorded. Joining us on the call today our members of the senior management team at Mahindra Finance. At this time I would like to hand the conference over to Mr. Karan Uberoi of JM Financial thank you and over to you sir.

Karan Uberoi: Good afternoon everybody and welcome to M&M Financials earnings calls to discuss third quarter numbers. To discuss the results we have on the call Mr. Ramesh Iyer who is the Managing Director and Member of Group Executive Board, the CFO, Mr. Ravi and Mr. Dinesh Prajapati, who is the Senior General Manager, Treasury and Corporate Affairs. May I request Mr. Ramesh Iyer to take us through the financial highlights subsequent to which we can open the floor for Q&A session. Over to you sir.

Ramesh Iyer: Good afternoon. I think all of you must have kind of seen the numbers so I will not really get into number by number then we can address it through the question if there are any particular queries. But I think overall we are very satisfied with the performance of the Q3, given the scenario that we all went through in terms of were the borrowing cost going up and there were lot of questions on how will the margins really pan out to be and we are happy to say that most of the cost increase has been passed on to the consumer but living behind a little to be uncovered but eventually what we have done well I guess is ensuring the quality of asset is maintained by controlling the NPAs as well as we have brought down the cost of operations so as to be able to well maintain the return on asset level.

What we have also particularly happy about is we have been reading about overall automobile markets not really performing to expectation levels but the semi-urban rural markets seems to be going other way round. The volumes have been high. The demand for therefore financing has also been very attractive and we have not to really resort to any sacrifice on the credit norms or on the lending terms or on the policies in order to get this kind of a growth. We have become kind of very acceptable enabler too much beyond Mahindra now. Of course we were already doing Maruti in a big way but we have also now becoming very acceptable to Hyundai's, Toyota's who are all trying to sell their cars in their market. We have improved our position in the commercial vehicle construction equipment segment even on the second hand vehicle financing we have improved our position whereby if you look at the composition of the balance sheet about 47%-48% is now the Mahindra range of assets and the other 50%-52% comes from the non Mahindra vehicles.

Each of this has actually contributed to our overall growth and the asset book has grown by a close to 50% in the 12 month period that we look at between last December to this December but in terms of actual disbursement also it has kept pace at 38%-40% levels and as we been saying in the past normally the second half is a good half to be in the semi urban rural markets and it has witnessed in this quarter through a good festival season followed by a good wedding season and we do expect that with monsoon being average plus even the harvest is expected to be good and therefore the likely going in this market continue to be buoyant.

As far as overall cash flows are concerned we are again happy to kind of announce that we have not add any situation in any of the state which we need to worry about while the overall collections have maintained pace and therefore the gross NPA levels are remained where it was the net NPL levels have also been at the same level of what it was earlier at about 1% level. The second hand vehicle demand continues to be average plus with the diesel vehicles doing better than the petrol vehicles and therefore the collateral of the strength of which we are in this business is also helping us if we repossess to sell of the vehicle at a reasonable price to protect the principle. We have overall seen the LTV levels actually coming down over what it was earlier and when I say coming down not really quarter-on-quarter basis but over a previous year basis if you look at the LTV levels are currently closed to about 67%-70% levels which otherwise used to be upward of 75% plus. So I would guess that is another good reason to believe that even going ahead the quality of assets would be maintained because even if we were to repossess I think the principle is well protected by the vehicle price around.

The economic viability continues to be normal plus while there is some slowdown one is witnessing on the overall infrastructure front with cash flows from the government does get impacted when there is some kind of a drag that one witnesses but it is not significant to yet feel is there going to be any impact on the demand or the collection while there are some timing issues of the collections do come at the month end instead of as usual that we saw all through the month money was flowing in. But overall asset and labor absorption in each of the market is significantly high and I think even in the month of January as we speak we are continuing to see buoyancy in this market. So far as the borrowing cost is concerned it appears that we seem to have come out of the further increase possibility but whatever increase that has been impacted us as I mentioned right at the beginning not all of that has been passed on to consumer but going ahead if the interest cost had to come down since our asset side is completely fixed price assets we should get the benefit of the borrowing cost coming down and in terms of the liquidity is concerned at least for a company like ours we have been able to resource money from the banking system from insurance companies, from mutual fund, our fixed deposit program continues to be attractive and therefore we have not had a reason to kind of worry about liquidity situation while we also are hopeful that even on the cost front it would get addressed as we progress from you.

In order to take complete benefit of what is happening in the market we have added number of branches during the year. We are currently at 592 branches as against 547 or so that we were last March and we expect as we close this year we will be close to 600 branches. We continue to focus on our strategy of penetrating deeper and getting of benefit of what is happening. If most of you would recall we had talked about a direct marketing initiative, which we had put in place and we are actually happy to report that substantial volumes are coming through that program of getting in touch with our existing customers who in turn are able to refer lot of proposals to us or new customers to us in the geography that we operate, which eventually will bring down not only cost of acquisition but it is also expected to bring good quality asset because they would be through a good known reference of a customer and therefore our belief going ahead is that this would become one more track of an additional volume that we can raise from this market.

So if I really have to put an overall picture to it we have continued growth of not just the disbursement but also the overall balance sheet we have also been able to maintain a healthy income growth coupled with a control on our costs and quality we have been able to maintain the return on asset level and as I said going ahead if the cost of borrowing had to start improving from here it should result into a better margins once again coming to us even from the current level that we have maintaining and liquidity as I said is not really an issue our capital adequacy is at 17 plus at this stage and therefore we do not envisage any raising of fresh capital. We should be doing good with this capital at least for the next about 18 months or so and banking system is well supporting us so we continue to hold an aggressive position of wanting to grow the balance sheet the way we have been growing and the way we are forecasted in the past.

For any specific numbers on profits or any line-to-line item I think it would all get addressed as we take the questions but on an overall basis while we are reading reports of is the rural going slow etc., I think we hold a very contrary opinion to that. Yes one compares to may be the previous year one may possibly start seeing if things looking a little slow but if you go to a specific element of rural which is the automobile, the tractor, the construction equipment side we are not seeing any witness of any slowdown at this stage. Because the first result of any slowdown would actually come from the collection side and as I mentioned in every state the collection efficiencies have been well maintained. The second signal would normally come from both the dealers and the customer demanding high LTVs. I told you that its still not happening. The people are bringing in upfront margin money and the demand for the product at the enquiry levels are also high and that the third is the deployment of the product as we see is continuing to be high and therefore we hold a very contrary opinion to is the rural also slowing down our answer seems to be no to that question because we are seeing almost all automobile manufacturer are continuing to focus in this geography. They are setting up new dealerships. They are launching products more specific to his market and at the end of the day I think the diesel vehicles continuing to be outperforming the petrol vehicle and that diesel vehicles do get sold most of them at least in terms of numbers in the rural market do get sold more than in the urban market so the benefit of that also seems to be coming towards us.

So I would think that either from the ability to continue maintain margins ability to continue resource ourselves adequately to grow the business ability to get enough on the asset side from the demand as well as maintaining quality through better recovery and control of cost through balance sheet growth I think we seem to be on the side were we think we are comfortable from all that is happening and therefore we are optimistic that as we speak to you what we saw in this three quarters and more specifically in this quarter against all odds that was being discussed I think we seem to be going against the tide and we want to continue to project that the markets seems to be favorable to the way we are operating in the geography that we are operating.

I think those would be my summary remarks but Dinesh, Ravi or Rakesh wants to add anything particular to any particular line item or we can open it to questions and we can address each of that accordingly.

Dinesh Prajapati: I would like to highlight one more point is we have done two deals in this quarter which is related to pool sell down by way of assignment route total valuing to Rs.63 Crores and if you see the clause 41 what we have faxed to the exchange and informed the exchange there in we have said in the notes that there is a Rs.18 Crore worth of you know line item income which is coming from the assignment. We wanted to clarify that this of this Rs.18 Crore there is a two split first portion is the interest spread which is the pool yield minus the discounting rate what we have offered to the bank so that is valued just Rs.6 Crores value since the pool was sold around November roughly around yield spread of around 11% on the pool gives a Rs.6 Crore value for a 30 days average period versus that Rs.12 Crore is the portion which is since we have a quarterly and half yearly contract the income which was accrued for the previous period which was clubbed under the income from the finance charges in the separate head is regrouped under this head. So this is more of a regrouping income, which is getting reflected it is upfronting of income.

Ramesh Iyer: That was just an explanation on I mean just to know that its not Rs.18 Crores of income which was flown in, it is just that Rs.6 Crore is the income arising out of the transaction Rs.12 Crore is more of our regrouping so that was the clarification. I think with that we can open it up for questions and I think through that we could address everything else of the P&L and the balance sheet.

Moderator: Thank you very much sir. Our first question is from the line of Mr. Aditya Srinath from Quantum. Please go ahead. We will take the next question from the line of Mr. Prashant Shah from Vantage Securities. Please go ahead.

Prashant Shah: Just wanted regarding your securitization is it a redemption of the activity of it is just one of?

Dinesh Prajapati: See this is market is allowed already for the securitization as per the guidelines. It was only draft guidelines were available as of September and we have done a transaction is through a bilateral deal so technically the draft guidelines virtually cannot be accepted on the face value so as and when any new committee is formed or any new directive comes from the RBI thereafter there can be a discussion whether this type of transactions will be subject to the new guidelines or that. Till then bankers are going ahead and doing a transaction as it was done in the previous period only difference is now most of the transactions are happening in the past structure because of the RBI priority sector policy which says that only principal portion will be considered as a priority asset for their books.

Prashant Shah: But you will be continuing means this quarter you did Rs.663 Crores of two assignment deals so we can see some similar activity on the next quarter also?

Dinesh Prajapati: Yes.

Prashant Shah: Sir coming to your provisions your provision coverage over last three quarter is not on a downward trajectory it is just 74% this quarter. You average about 80% over the full of last year would it not be better to keep your provision coverage at 80% levels?

Ramesh Iyer: I think its important to kind of technically understand that the provision will always be high when you have a bucket change in the let say NPA if they at the last bucket or a 24 months or a 12 months and above NPAs so the provision gets higher. It actually means that is a good news that high provision items are going out either through recovery or repossession and then when you have fresh NPAs which come in which have a lower provisioning it appears to be under covered in sense you know the coverage coming down but either if they continue to remain in the provision bucket then you will see a higher coverage happening if not if it gets recovered then you will see a reverse sort of provisioning happening.

Prashant Shah: Sir just coming to your minor role housing finance subsidiary your disbursement this quarter was slightly less as compared to the last quarter and even on a year-on-year basis if you see your growth has also moderated slightly so what would be outlook on this thing?

Ramesh Iyer: The outlook continues to be the same but if you really look at unfortunately we do not have a year before comparison for this balance sheet because last year also it was a small balance sheet but normally one would see a little slack in this activity during this period. Normally what happens is the profile of the customers are the same rural customers farmers etc., so they normally are active the second quarter and the fourth quarter so you will see again once more in the fourth quarter you will see the buoyancy in disbursement happening. Even if you see last year whatever is the size of the balance sheet but if you were to break it up into four quarters of last year you will see second and fourth quarter will contribute to close to about 70% of the balance sheet.

Prashant Shah: Thank you very much Sir. That clarifies a lot.

Moderator: Participants may be requested to limit your questions to one per participant. Our next question is from the line of Mr. Nilanjan Karfa from Brics Securities. Please go ahead.

Nilanjan Karfa: Thank you Mr. Iyer for taking the question. I have two questions unfortunately the first one is you know medium term perspective you know you have talked about the rural thing and it is not slowing according to you but if you have to look at it the growth that you had seen last seven to eight odd years has also to do with lot of government spending and grants towards infrastructure building and given the situation on the fiscal on both the state and the government side how do you read the situation if for example the grants go down a little bit may be the NREGA which does not affect you to that extent is also cut sentimentally it will be weaker but does it change the fundamentals or will it change the consumption pattern on the total side?

Ramesh Iyer: Let me kind of tell you first of all India's story has to be read as India story has to be read as India by itself and then state by state. So even though one may see a little cut down on the infrastructure story that will more be the government level programs like the power stations and those kind of things may look to have slightly slow down but if you look at each state any state you take the local level infrastructure story has not slowed down. I mean if you were to just as we speak look at Mumbai itself one is able to see lot of state level activities still on or the municipality level activity still on whether it is the flyover, whether it is the metro whatever one wants to look at. So the way we look at it if you kind of look each state the state level infrastructure story has not slowed down which is what is actually consuming asset. When you talk of the national level projects the big ones of course capital expenditure will come down, large projects consumed may be bigger equipment, one may see possibly a little slow down on those fronts etc., but otherwise the kind of range vehicles that we are in they are not necessarily all of them just connected to infrastructure as a story. There are all an add an cash flow benefit which a tractor guy was able to get and that benefit we continue to see at the local level for the projects that are going on. So I am not able to kind of you know subscribe to view that if infrastructure story is little slow is that whole sentiment going to be going a little slow the answer seems to be no because even at the national level to the extent we have gone ahead with the infrastructure one cannot rewind from there one can possibly try a delay it to some extent but there is no rewind that is possible. So we are very bullish to say if the cash flow is continuing to be buoyant the asset absorption is continuing to be buoyant and so far as the NREGA Scheme is concerned definitely if one may think that is the sentiment is going to be a little slow if at all that scheme gets withdrawn but again not that I am required to be quoted on this but until the Lok Sabha election this 2014 I do not think the scheme is going to be revisited. So we are not able to see that. If at all it has to be revisited and if everything gets normalized by then in every form whether politically or economically I would continue to believe that the labour absorption will continue to become high, so I do not think it has any direct impact on our business per se it may have some impact on consumption locally when it comes to consumer durables, when it comes to may be a two-wheeler up to a two wheeler level also it could possibly have an impact but definitely these are not the set of customers on the four-wheeler side.

Nilanjan Karfa: Quick question on the second one can you give me an idea of credit underwriting and either all the finances what is the rough, high medium or low networth you typically is your customer profile?

Ramesh Iyer: Networth if you still I do not know how to profile them that way but I can tell you if we look for people whose EMI that we fix they should at least have 1.5 times the EMI earning potential in order to be able to repay because most of there assets are earn and repay assets. It is not out of what they already earn they are going to pay for this asset. That is the support cash flow, but whatever assets we finance whether it is the tractor, whether it is a UV for people carrier whether it is a commercial vehicle construction equipment or for that matter car for people carrying etc., they are all additional earner for them which is why in the rural if you really look at it why people do not that much go into personal loan is people first try to take a loan for a livelihood product before they can take a loan for any other luxury product.

Nilanjan Karfa: So it is typical risk management is 1.5 times EMI.

Ramesh Iyer: That is right.

Nilanjan Karfa: Thank you very much, Mr. Iyer.

Moderator: Our next question is from the line of Ms. Farida Khambata from Cartica Capital. Please go ahead.

Farida Khambata: You have diversified your operations geographically by type of financing and Mahindra and others going forward where else do you see the bulk of your future diversification coming from and are there any particular geographies you see yourself concentrating on more than others?

Ramesh Iyer: I would like to address our growth two ways. 1) We get the natural benefit of the volume growth that will happen to most of this manufacturer who were focusing in this market be it Mahindra, be Toyota, be it JCB any of them. 2) We will also get the benefit of the price increase this products will undergo and therefore a proportionate amount finance increase that will happen because of the price increase so I would think these are the two basic element of growth that will come from. Then if you look at our balance sheet currently the matured product of our balance sheet is Mahindra Auto, Mahindra Tractor and Maruti. They are the three matured business of our and then there are all other cars now which are entering this market we are now become fairly a significant player also for Hyundai in this market where we used to earlier doing 200-300 cars a month and now we are doing close to about 1200 to 1500 cars a month for them. Toyota has launched their small car and they are tieing up with us for supporting their product. Tata vehicles are being financed by us. So I guess in the car segment beyond Maruti all cars that enter that market will become our natural growth story. Mahindra Navistar has just been launched and they have started doing about 250-300 vehicles a month and they have kind of projected to grow up to 1000-1200 vehicles a month that will get us additional commercial vehicle and we are already a decent player for both Ashok Leyland and Tata and commercial vehicle growth including the LCV will be come the growth for us because we have a low base on that. Construction equipment both Mahindra Earthmaster as well as JCB are the two prominent mid ticket construction equipment which is where we are participating. Apart from all of this I think its going to be the second hand vehicle participation where we see lot of two-wheelers by wanting to graduate to a four-wheeler and therefore I think their natural approach is to move into second hand vehicle before they go for a new vehicle. So this is the product mix in which we will try to grow. So as far as geography is concerned I think today we are very uniformly spread across the country and therefore I would not want to say we would grow bigger in north versus east versus south in terms of penetration is concerned but the geography in terms of population north being larger than east or south therefore in order of growth one would always see north is a little larger for us followed by south and then west and then east that would be the kind of story going forward as is this is what we would clearly look at. The two channels that we will used to grow one of course as I said is the branch network addition of branches this year we will close at 600 branches which is roughly about 50-55 branches over the previous year which is normally are template about 10% branch we ads to the base. So next year we would add another 10% branches which means we go little more deeper more closer to customers and that will get us a much more understanding of the local geography to decide product for delivery. The other channel that we are focusing and which has done well for us I think we are doing close to 7000 to 8000 vehicles vehicle a month is our direct marketing initiative where a team has been set up internally to go and meet our existing customers who are widespread into 165,000-170,000 villages of the country and there are 1.3 million live customer and through them we are trying to resource more business for ourselves. They themselves may not want to borrow for another vehicle immediately but they are able to refer more customers to us and I think that is going to be another channel that we will use for our growth. I think this is going to be the way forward for us in terms of our overall growth is concerned.

Farida Khambata: Thank you so much.

Moderator: Our next question is from the line of Nischint Chawathe for Kotak. Please go ahead.

Nischint Chawathe: Congrats for the great set of numbers. Just wanted to understand this you were able to report fairly strong performance quarter-after-quarter and your outlook on business also remains fairly strong obviously there are concerns in the market regarding slowdown in rural India maybe public banks are talking more about higher NPAs you have seen auto numbers specifically in the tractor segment being more volatile so how do we read this, do we see that there is any slowdown and you are able to kind of walk through the slowdown because of the diversification benefits or because you are able to manage the business very, very well at this point of time or should we say that from a macro point of view we do not really see any kind of slowdown at all?

Ramesh Iyer: See first is I think one has to understand that the two business models are very different so I think conceptually the business model will decide how good or bad the market is going to be for you. The second is the overall product line that you are in. Sometimes it is good to be in multiple products, which can look to be a derisking, sometimes it is good to be in a specific product line and within that be in all products, which seems to be a good story. Now if you look at our story we are automobile tractor finance company but within that we are now in all products so we have derisked ourselves through multi product within one product range, which is automobile and tractor. That does not seem to be effected even if we talks to banks and others anything which has a collateral available and which has a good resale price at the market place is not the once which is going through this difficult time of NPAs or whatever. It is when you are into a particular geography and in that geography are in every product whether it could be a crop loan, it could be a personal loan, it could be some kind of support loan to the local geography, it could be fertilizer loan, all kinds of loans that you are into possibly one can think that is that rural is slowing down. So we are not in that segment. Now coming to that big question of are you not seeing any slowdown at all I think the answer is definitely there is a slowdown I mean earlier I think vehicles are in short supply, today vehicles are available to that extent obviously the inquiry all inquiry is not getting converted to sale so which means coming to buy versus going to sell will be the change one can witness in this from.

Nishchint Chawathe: I guess the diversification strategy at this point of time is actually helping you?

Ramesh Iyer: See today what happened is fortunately this decision was 18 months old or may be little over 18months old when we got into all products now it has become very matured in terms of our balance sheet is concerned multiple product and in multiple geographies it is not that we have limited ourselves to certain geography alone because that is another way were one can build an NPA you are in a specific product in a specific geography for a specific application and if that application had to discontinue like the mining that we here could have the impact on the NPAs of that particular products in that geography. So fortunately the multiple geography approach and multiple product approach through that we have now gotten into multiple customer profile, so all this three is actually resulting into an average good quality over the quarter-after-quarter number.

Nischint Chawathe: Just I think in the introduction I guess you did not mention how many Maruti cars would we be funding per month at this point of time?

Ramesh Iyer: It is anywhere between 8500 to 10300 roughly depending upon their number of course whenever they are 65000-70000 we are about 8000-odd when they reach 90000 plus we go to 10000 plus.

Nischint Chawathe: Thank you very much.

Moderator: Our next question is from the line of Kashyap Javeri from Emkay Global. Please go ahead.

Kashyap Javeri: Good afternoon sir and congratulations for good set of numbers. My question pertains to you known NPA figure you know probably one of the reasons you mentioned earlier about why this year as been sort of going down a related question would be if I look at our sequential increase in gross NPAs seasonally we have sort of little higher NPAs in Q2 and Q3 over Q1 but if I look at this year particularly Q2 and Q3 the gross NPA increase on a higher base as a percentage of the opening NPAs has been much higher so should one read something more in to it or would this be kind of one of. Say if I look at past four years the gross NPA increases on sequential basis would have been 2% to 5% December quarter the gross NPAs have gone up by about 10.5%-odd and we are now working on a higher base, which is about 73-74-odd Crores or so, so anything to read into that?

Ramesh Iyer: Actually if you see in the past because we had a very large opening one would also see a correction happening out of that and therefore the net would have looked a little different. So when you reach a base where the base itself is an acceptable level then when you get into large volume of business this business is bound to bring some NPA. Like in the 12 month period if you take we have done 3 lakh cases and then if you look at only 3000 cases of that have moved into the first bucket of NPA then I do not think they are something alarming to look at but yes on a sequential basis when we look up the number has gone up. But the number would have gone up because you are comparing it to the pervious period where there are corrections happening under the opening balance. So otherwise there is nothing really alarming in the sense of why are things going that bad otherwise the answer clearly is no. As I told you the LTV is continuing to be lower. As I told you our collection efficiencies are continuing to be high and our ability to repossess and sell is also high but one thing that we may want to bring in I think the overall NPA includes also the repossessed assets is during this quarter we did take a conscious decision to bring back vehicles much higher than earlier because now we need to resort to certain legal processes when we repossess so there is a timing issue or notices that got issued in the second quarter would have got rationalized in the third quarter so physically I think about 1000 vehicles stock would have gone up over the previous quarter and that would have resulted into this and one would see the same getting corrected in the last quarter when we sell them.

Kashyap Javeri: If I understand this correctly if I look at gross NPA normally conclusions that we do is opening plus additions minus reductions will be your closing balance it is more to do with that reduction which has sort of slowing down because of which a sequential increase might look at it?

Ramesh Iyer: One might look at it that way. But then one that is why if you are to look then the way overall balance sheet is growing and related to that if this number also growing in that same percentage level then one has to start worry. But if you have been able to maintain our gross and net level it only means that we are able to either repossess or recover from those assets.

Kashyap Javeri: That is it from my side. Thank you so much sir.

Moderator: Our next question is from the line of Kunal Sabnis from JHP Securities. Please go ahead.

Kunal Sabnis: Congratulations and good set of numbers. Just to add to the previous question generally we saw a trend that towards the end of the financial year there was a reduction in the NPA figures recoveries may be post the harvest season and post good monsoons were good but that is not the case in this quarter anything on the recovery's front?

Ramesh Iyer: See either you had two very bad quarters and two extremely good quarters but you have four average quarters, which makes it into one good year. We are in that. If you see the first two quarters there is no increase in NPA like we witnessed in the previous quarter in the previous year. So which only means that the collection efficiency seems to be averaging out all through their instead of restricting itself only to the last two quarters for simple reason that overall cash flow fundamentals have changed in this market. What used to be a very farm dependent geography has moved too much beyond farm dependent therefore the cash flow seems to come from even the non-farm application. Non-farm application recovery need not be restricted to the last two quarters, and which is why even the business growth if you see has been pretty uniform all through the year. Even on the business side normally the second half is normally much, much higher than the first half. Whereas in this year you will see every quarter the business growth has also been inadequate so there seems to be a fundamental cash flow change, which is happening in the geography with the benefit, of which is coming to us uniformly through the year.

Kunal Sabnis: Sir one more question there has been good addition in terms of branches and business has also grown well but the employees quarter-on-quarter have been flat the employee increases I mean have been flat or negative quarter-on-quarter so anything on that front?

Ramesh Iyer: I am not sure whether you are looking at full number because we also have a subsidiary which is called Mahindra Consulting which is basically for housing the transaction people etc., but you are right that we have taken a conscious decision not to add many more people because you know when your profile of customer changes your collections are not necessarily like before physical for every customer and we are able to see 18%-20% of collections do come from postdated cheques and ECS because we now work with contractors, traders through various other sets of products so to that extent we do not have to add as many people that we were adding before when we were purely into UV and tractors. So one would think that the transaction methodology has changed in the sense when you go and work with commercial vehicle, construction equipment and car customer the yields are also low and therefore they are supposed to be bringing in lower overheads. So that seems to be happening as well and to some extent technology does help control cost in the sense of not required to add people all the time to do physical activities.

Kunal Sabnis: So cost to income ratio should see a downward trajectory?

Ramesh Iyer: I think overall overheads to assets also seem to have come down which is what is protecting the return on asset levels.

Kunal Sabnis: Great. That is it from my side. Thanks.

Moderator: Our next question is from the line Srinivas Rao from Deutsche Bank. Please go ahead.

Srinivas Rao: Just I mean you have already touched upon the fact that despite a macro potential slowdown which everyone has been expecting it is still not reflecting in your numbers just two questions I wanted to check with you one you alluded to the fact that there is a seasonality in your business on a quarterly basis has decreased and is it fair to say that is because the share of non-farm has gone up within your top line that is number one, and number two, any light on your how that automobiles are doing that will be great?

Ramesh Iyer: So far as the first question is concerned even the farm products seem to be going in for non-farm application. So it is not just that we moved also into non farm application products like tractor itself has gone for much beyond farm application so that is also an additional factor for the cash flow evening out. So far as the auto malls are concerned it is not our product it is Shriram's product so I am not too sure that I should comment on it.

Srinivas Rao: Have you had a chance to kind of look at that and see if something which is they are value in terms of a similar process?

Ramesh Iyer: I think our answer is no because they are yet for commercial vehicle and not for any other product at this stage but they are different formats of possibly selling second hand vehicles.

Srinivas Rao: Which you at the stage you are not?

Ramesh Iyer: We do. Our repossessed vehicle we sell it from the stockyard itself. So I mean we can put a board outside that called an Auto Mall temporarily.

Srinivas Rao: Just around that the collection on tractor side has they improved remained same on a steady longer which is not just this quarter?

Ramesh Iyer: I think it has improved I mean at some stage we used to have a very high NPA levels and getting corrected only during the harvest. That seems to have completely gone out. Every month we are able to see collections happening while the ones which are still a larger dependent on harvest do seem to bunch towards the third and the fourth quarter but as otherwise I think it is also uniform 70%-80% of the tractors seems to be paying even quarterly very easily.

Srinivas Rao: Fair enough. Thank you so much.

Moderator: Our next question is from the line of Mr. Rahul Bhangra from Lucky Finance. Please go ahead.

Rahul Bhangra: Thank you for taking my question sir. I just needed a small clarification on the value of assets finance that you have started giving it is on I think slide no.25 if you could just explain what that is?

Ramesh Iyer: That is nothing but an invoice value. I mean the total asset because the margin money are the upfront money is collected by us and we release the full payment to the manufacturer or the dealers so we just look at the overall asset value and through that we also measure therefore the loan to asset values is possibility.

Rahul Bhangra: That is about it. Thank you sir.

Moderator: Our next question is from the line of Ganesh Ram from Spark Capital. Please go ahead.

Ganesh Ram: I wanted to just get your sense on if you know were to hypothetically quantify your NPAs on 90 days instead of 150 what would that number be for this quarter?

Ramesh Iyer: Why are you so insisting on carrying us? Actually I do not know whether we have that figure ready but I think more or less if one looks at let us say on a percentage basis if one wants to look at may be 150 basis point increase to 200 basis point increase should happen because from a current year fortunately not 180 we are 150 internally we are doing 30 days less so therefore the a gap is between 90 to 150.

Ganesh Ram: Is it right to say that the increase between 150 to 90 can be linear between say 180 and 150 or is that a ballooning effect?

Ramesh Iyer: Actually I do not know whether I got your question right but to simply put the NPA by itself according to me let me tell you what is in our mind NPA whether you call it 30 days, 90 days 150, 180 whatever they are very temporary charge to the P&L eventually what is true is your credit loss. What we measure is our credit loss well priced to the customer and therefore is we able to efficiently manage well within that. Historically we have seen our credit losses have not climbed beyond 1.3-1.4 level and that is again a factor of your LTV and a period for which you give a loan and your ability to repossess and transact in the second hand market. So I think that is the way we measure our business but otherwise Ravi seems to have understood your question more correctly the first one, if you wants to attempt on the bunching of 150,180.

V. Ravi: See it is we today provide NPA after 150 days so you are right that will not be a progressive movement so what is happening is that what we have noticed from the parts is that the movement is bit stagnant as you reach the higher bucket so it will not be dramatically increasing in fact the percentage increase by simply dividing 90/150 what we are giving you is a very conservative figure if someone is not paying for 120 days is a very highly likely that you would not pay 150 days and you will still not be 180 days in that case 150 whatever is in 150 will be there in 120 also the vise versa so I think it will not dramatically increase it will not be linear equation it would be very rarely people will say after two years.

Ramesh Iyer: Then it will have a specific reason for not having paid. On its general behaviour basis the company has offered 150, 180 I think we will come to know of it at the end of the 60 itself.

V. Ravi: So we have given you because we do not want to give you lower figure and then report a higher figure so you can say there whatever we are giving is a very, very conservative figure.

Ganesh Ram: Secondly what proportion of your assignment book currently does not generate any income as it has already been (indiscernible) 43.34 earlier?

Ramesh Iyer: Any assignment whatever we do is generating income otherwise the banks will not purchase it.

Ganesh Ram: What you are accruing currently?

Ramesh Iyer: If we do not accrue, it will become only for one reason that we do not accrue. That is NPA and no banks will be interested in working and purchasing and the Reserve Bank circular is also there that they cannot purchase an NPA. So what happens is that what Dinesh explained at the outset…

Dinesh Prajapati: Why he is asking suppose you have done some transaction one year back, or two year back what is the size, I mean AUM versus balance sheet difference of which you do not book any fresh income now.

Ganesh Ram: 1700 that will be outstanding.

Ramesh Iyer: About 700-800 Crores will be assets which have assigned two years back, one year back continuing to be in the balance sheet for which fresh income is not being booked.

Ganesh Ram: Lastly what proportion of your liabilities and assets will get reprised in the next 12 months?

Ramesh Iyer: No assets will get reprised. About 20% of the loans will get reprised next year. That is liability side, loans.

Ganesh Ram: That was helpful. Thank you Sir.

Moderator: Our next question is from the line of Aditya Srinath from Quantum. Please go ahead.

Aditya Srinath: I just wanted one clarification on this you have mentioned couple of years back regarding the gold prices and its impact on car purchases in the rural market. I just wanted to check is the income levels alone going up and therefore leading to more purchases or there are multiple asset related factors that are helping it and how will that sustain over the next three-year period?

Ramesh Iyer: I think first time ending for the last couple of months though we have seeing the rural population has become wealthy as well as rich. Wealthy by pricing of gold and land and rich by their regular cash flow being better than before, so I personally think that this is here to stay for some more time because the cash flows that they have now got into is not something very temporary for one month two month, three month it has two impact one is the state level project another is the central level project both seems to be absorbing asset and labor extremely well which seems to be therefore a little permanency to the cash flow that is happening so far as the wealth is concerned I guess it is anybody's guess in the sense if gold prices drop substantially will they become less wealthier then they are today possibly the answer is yes some of the smart ones are selling off a very small part portion of the gold and putting it to productive use already. So that kind of an activity may not be too permanent in nature but so far as the operating cash flow improvement is concerned little more long term story in the short term market.

Aditya Srinath: Just one last clarification on that one of your other finance company who involved in construction equipment financing mentioned about the fact that this business has structural ROE related issues because of various factors would you subscribe to similar view or what is your long term outlook do you want to be in that business?

Ramesh Iyer: We subscribe to that view depending upon the profile of customer you work with. See you work for a subcontractor who is hiring a single machine and letting it on hire for a monthly earning are not the one so and so are badly impacted. Somebody who is into projects who are deploying their own machine as a contractor and are taking larger machines seem to be in that segment we are not in that game at all.

Aditya Srinath: Thank you very much.

Moderator: A next question is from the line of Venkatesh from ICICI Prudential. Please go ahead.

Venkatesh: Thanks for taking my question. I have the question on gross NPA level you have loan 4% on overall book can you tell us what is the gross NPA in the tractor segment and auto segment?

Ramesh Iyer: Tractor is around 6% and Auto is around when you say Auto it will be roughly around 4% and for a Car it is around 3.4% and for commercial vehicle it is 2%.

Venkatesh: Then what would be the number of vehicles got repossessed this quarter and how much was it in the last?

Ramesh Iyer: On an average every month we repossess about 600 to 700 vehicles. In this quarter that is November-December we actually repossessed much more at least in December we repossessed I think about 1200-1300 vehicles. But if one has to look at you know net-net and the sense if you repossess 800-odd vehicle we also sell close to about 600-700 vehicles out of that roughly and as I told you December we would have repossessed I think about 1100-1200 vehicles are so or may be little more.

Venkatesh: You sold less in December?

Ramesh Iyer: Because what you repossess in December same month we cannot sell we need to kind of legally hold at least for three weeks and all kinds of formalities are there so which is why I am saying in this quarter you would say disposal of all that happening.

Venkatesh: But the base underlying trend is it inline with the normal operation or is it?

Ramesh Iyer: Yes, we did 3,00,000 customer in this period of nine months. So it is in fact the level of activity is lower than what it would have otherwise been seen in the past and the reason for that is people are able to repay so we do not have to resort the reposition. LTVs have come down so the customer interest on the vehicle is higher than before. I think more importantly one has to understand also that all that we repossess need not be sold people come back settle the dues and take the vehicle back.

Venkatesh: All right, thank you so much.

Moderator: The next question is from the line of Manish Agarwal from MF Global. Please go ahead.

Manish Agarwal: My question is regarding to your overhead expenses. We have seen your overhead expenses declining in the past several quarters. I understand you have mentioned the reason regarding about improvement in profile name of customer. Just wanted to understand where we can at what level do this overhead expenses stabilize this #1?

Ramesh Iyer: I hope my bosses are not hearing this. It is also one of the care to bring it down but I think one has to also look at it in the previous years the overhead also possibly included the branch expansion cost, so to that extent we have not overspend on that. We have kind of taken a view that if we have done 100 or 100 plus branches so we do not want to over expand the renovation part of it. As otherwise I think this business would normally 3% to 3.5% level of overheads because it is very physically muted yet.

Manish Agarwal: Would you like to see the outlook on your disbursement, growth or loan book growth for next fiscal?

Ramesh Iyer: Difficult to put a number to it but we continue to be very, very optimistic about possibility of growth in this market with multi-product approach. If we were a single product one would always think that the growth is much lower but since we have added almost to all product and some other products have a low-based impact for us I think anything that we do will only add some volumes for us in the right direction.

Manish Agarwal: Thanks a lot.

Moderator: Our next question is from the line of Rahul Bhangra from Lucky Finance. Please go ahead.

Rahul Bhangra: All my questions have been answered. Thank you so much.

Moderator: Thank you. We will take the next question from Ashish Sharma from Enam Assets Management. Please go ahead.

Ashish Sharma: Good afternoon Sir and congratulations on a good set of numbers. Just wanted to get a sense on the asset quality. You mentioned that the net recoveries have been a bit slow can we have the gross slippage's number for the year and how much was it vis-à-vis last year Sir?

Dinesh Prajapati: Ashish what we will do is you can have a discussion with Rakesh subsequently. At this point of time we may not have that numbers right now with us the slippage's number and all.

Ashish Sharma: This one more number you earlier mentioned in the call that what is the total number of vehicles financed because you initially mentioned 6,000 to 7,000 was for certain segment because we are doing currently Maruti at 6,000 to 7,000 a month?

Ramesh Iyer: Maruti we are doing about 8,000 some months go up to 10,000 depending on their volume. For other products in car segment, which is Hyundai, Tata, and Toyota all that together is another 6,000 to 7,000 vehicles. So car by itself may be about 18,000 to 20,000 cars a month is what we must be doing so currently.

Ashish Sharma: Overall how many vehicles a month would be done?

Ramesh Iyer: Overall 42 to 47 that is range in the good month like October we have done 50 plus and on average month we will do somewhere around 45,000 vehicles.

Ashish Sharma: You mentioned about you are optimistic what growth in all FY'13. You have been giving us a guidance of around 25% to 30% growth rate, but I think this year we will be doing closer to 45% AUM growth. Can we still grow at the higher end of the 25% to 35% number, which we earlier guiding for all FY'13 I am talking about?

Ramesh Iyer: I have always said that affected growth is not the challenge. How much we want to grow is the decision what we will have to take on the bases of out ability to resource people, set up branches and penetrate. I explained at the beginning the channels that we are using for our growth and EBIT of this channel is kind of analyzed correctly. I would just want to say that asset side growth is not going to be the challenge of the year.

Ashish Sharma: Just one last question. Our spreads of contracted FY'11 levels from 6.3 to 5.1 we know that it is more a function of increase in cost, but is the 5% now the normalized number going forward?

Dinesh Prajapati: The spread is the factor of couple of one is the asset mix changing. Second is it is also as we move along in the year quarter-by-quarter the spread changes it goes upward. So one would not like to give an indication that this is the new normal. We will have to wait probably for the next quarter to get the numbers and then will take a decision on that.

Ramesh Iyer: The borrowing cost is not coming down because asset side is fixed lending. One can see a different trend from then.

Ashish Sharma: Would it be hard to say that 5.5% to 6% would be actually the normal but 6.3 was a bit higher and 5.1 is bit lower?

Ramesh Iyer: Normally we have said that 3% return on asset is something that we always focus on and we are comfortable to run all the time.

Ashish Sharma: Just one last question. Are we comfortable with equity, do we need to raise the equity in FY'113?

Ramesh Iyer: FY'13 we will see we grew 17% or something is our capital adequacy currently and I think we should be comfortable FY'13.

Ashish Sharma: Even with the Usha Thorat recommendation even then?

Ramesh Iyer: Usha Thorat is not factored. Usha Thorat is talking of tier 1. We have a huge gap in tier 2. 7.5 is tier 1, balance all tier 2. One can if they want but today fortunately for us we have about 14 and odd we have in tier 1 and balance in tier 2. Usha Thorat insists on 12 tier 1 and one has to see something. Otherwise overall capital adequacy is not a big issue.

Ashish Sharma: Thank you Sir. All the best for the next quarter.

Moderator: Our next question is from the line of Jigar Shah from Kimeng Securities. Please go ahead.

Jigar Shah: Good afternoon and congratulations on good Q3. My question pertains to the rural housing finance business. Can you give some color on how this business is now shaping up and what kind of opportunity and growth you would see in the next year?

Ramesh Iyer: We have always maintained that the potential is not a challenge in this business if we get act right and we are currently in about seven states and we have seen through now understand the business much, much better than we understood the same about a year 18 months back. So we continue to maintain our direction of by 2015 a one billion dollar balance sheet is what we set out to achieve and I think we would not be far away from that and this balance sheet should double year-on-year. So last year March was about 400 Crores we are definitely expecting this year will close around 700 to 800 Crores level and it should double every year because the potential is not the challenge fortunately capital is well tied up refinancing from NHB and the banks are happening. So there is no challenge per se from resourcing or the asset side requirement. It is just that we need to put proper controls and train people to understand the document assessment so we have set up a good legal system across the country to be able to do that the ticket size is really a worrying thing in the sense that we set out to do three years back or two year back we thought ticket side would be somewhere around 300,000 to 500,000 requirement. That seems to be much, much lower it close to 100,000 to 125,000 because house renovation, house expansion do not seem to be wanting that high quantum. So to that extend the number of customers that we need to acquire is going up, because why the overhead cost is currently much higher in this business, but getting to that balance sheet size by 2015 continues to be our strategic intent and we are driving towards that.

Jigar Shah: Thank you very much and all the best.

Moderator: Our next question is from the line of Subramaniam PS from Sundaram Mutual Fund. Please go ahead.

Subramaniam PS: Good afternoon and congrats on a very good set of number Sir. I had a few questions, first is on the new branches that you opened last two years you have seen pretty aggressive role out of branches. Wanted to know how are these branches fairing in terms of breaking even how much time is it taking for these branches to break even?

Ramesh Iyer: I do not know. Aggressive is in the sense that if you look at 2008 and 2009 we did not open any branch because of the market condition. Otherwise technically we add about 10% to the base. So every year if you see last year 547 we added 55 to 60 branches will be close to 600 this year and year before was the same. We were at about 500 and odd went up to 547. So 10% is what we add and our opening of branch is not that we open a branch and look for business. Normally a branch would be operating and covering 100 odd kilometers. Once we have adequate cluster of customer there and we need to therefore going to open a branch to start managing those customer and then also do business in that area. So all the branches virtually would be profitable from the time it is started because it will start with the base contract number. Cost is hardly anything just Rs. 3000 to 5000 is the rental cost per month of this branch telephone, computer and vehicle.

Subramaniam PS: Second question Sir is on you said that lot of the growth was being driven by new products that you have been introducing. Hypothetically if you just want to exclude this new product introduction and just took at like-to-like growth what would that number have been like?

Ramesh Iyer: I will think about 18% to 20% it would still contribute because those products are also growing. So fortunately it is not that those products are kind of a flat product like Mahindra has been the most aggressive growing auto company. So when we mean a new product will drive the growth it only meant to say that we have three matured lines of business, which is the Mahindra Auto ranges, the Tractors and the Maruti range of business, but both by volume and the value over increase of those product will also contribute 18% to 20% growth.

Subramaniam PS: Fair enough, and sir any new product clients that could potentially we added something perhaps even a two-wheeler or something you look at?

Ramesh Iyer: Two-wheeler is something that we will not want to very actively get into, because the ticket price is small the cost of operation is high and I think we have enough to do on the four wheeler side so therefore two wheeler is not something that we look at. Same is the story with loan against gold we did put up a pilot project but I think our understanding tells us that we need a separate set of people, separate set of branch, separate mindset to run such businesses. But there are few things strategically that we are looking at possibly looking at the Mahindra Ecosystem and trying to see if SME line of activity with support from the parent in the sense of manufacturing the component suppliers to plant is something that we can look at. Dealer expansions whether we can participate but those will not be at least in a short-term they will not be a game changer. I mean we are managing Rs.20000 Crores balance sheet, which has a potential to grow at least 25% year-on-year if things go the way it is, which would mean whatever we try and do in other products would not substantially change the balance sheet composite.

Subramaniam PS: Sir last question is on state subsidies we have been seeing that in some of the states the states are incentivizing farmers to going for mechanization and giving subsidies on tractors and other farm equipment. Is that trend kind of tapering off or you seen continued support from states in terms of subsidies for farm equipment's?

Ramesh Iyer: On an all-India basis it will never be in all states and on all India basis it will never be that it is not there in all states. So if this year if it is UP it was Orissa couple of years back it will become MP, Gujarat was there some year back, Maharashtra will restart in the year's time. So always somewhere or the other all these things will keep happening all the time, but I think the advantage of all this happening is taken by the manufacturer to start projecting their numbers and eventually the benefit of that comes to the enabler like us.

Subramaniam PS: Thanks Sir. That is it from my side and all the best.

Moderator: Our next question is from the line of Anand Vasudevan from Franklin Templeton. Please go ahead.

Anand Vasudevan: Good afternoon, I think someone asked earlier about potential shift in your NPA norms to 90 days if that happens I just want to know would there be any change in your collection process as well because of that and the fact that more loans on an accelerated basis have been classified as NPA so does that the change in your collection behavior and if there is scope actually to do collections if you were to start looking at these NPA accounts on a NPAs basis?

Ramesh Iyer: Kind of let me explain to your collection process. They are never driven by somebody something or somebody has become an NPA. The collection process is first either somebody who is taking a loan in the very first month if we default it. So what we call as a non-starter customer or whatever one wants to call because that is what tells or gives us of signal to say either the asset is not put to use or the margin money is also borrowed from somebody who is pressurizing the recovery. So they are looked at differently. Then the first three buckets are driven for ensuring that the collection levels are high because if you lend somebody has take 70% to 75% what you have ensure this 6 to 8 months of regular recovery so that then the asset protects the principal. So if eventually people cross this bucket of 90 or 150 would only means that economically he is not able to earn as much as he wanted to and therefore he is not able to fulfill the EMI or the segment in which he is working his cash flows are impacted. In both these situation we look for is the asset available to be think is the asset being put to use and is the customer's ability intentional default or it is circumstantial delay. So whether it is 30, 90, 180 should not really cause a concern to an organization when they look at the recovery process. So 90 days just because they become an NPA when you become more aggressive I think that is not the right approach we will take at all, because ultimately these are all collateral base lending what is your ability to repossess vehicles and sell them in the market and recover your cost. The specific change from 180 to 90 will means suppose we have to repossess double the number of vehicle I think we will collapse the market for no purpose. So we will have to have patience to understand if the same customer earlier was able to repay even after 90 days then we may have to live with that circumstances of his delay rather than hurrying to repossess.

Anand Vasudevan: What was the reason for accelerating repossessions are in this quarter in this EMI?

Ramesh Iyer: No, not really accelerating repossession across, but some conscious decision in Andhra was taken for the three wheeler segment where we thought the micro-finance would eventually impact the three wheeler fellows in Telangana and those kind of belt so we said when the asset is able to protect the principal we will repossess and try in transact on them. So that was one conscious decision and in the second conscious decision was again on certain product basis in different geography like for example I think we went a little aggressive in Jharkhand to repossess some tractors. So if it is more state-by-state conscious decision rather than an overall decision to be aggressive for repossession.

Anand Vasudevan: A related question is that if you look at RBI data for some reason there is a slowdown in agri lending by banks, does that affect the cash flows in your markets. The cash flows of customers in your markets and these are the concern?

Ramesh Iyer: See that is a difference between asset banks funding versus a non-asset bank funding. So when they have say they have gone slow and agree it more on agree loan, crop loan, fertilizer loan those kind of things.

Anand Vasudevan: But that will reduce the cash flows with your customers?

Ramesh Iyer: Not necessarily which is why I was explaining that the tractors are no more just a farm product there are more than 40% to 45% of the cash flow comes from non-farm application. If somebody is borrowing on crop loan and fertilizer loan and trying to clear a tractor loan in any case it is not a healthy customer.

Anand Vasudevan: Would you know if that is a practice?

Ramesh Iyer: Of course we know that is why I used the term initially called non-starter cases if somebody is taking a crop loan and paying tractor he would definitely not pay my first installment he would rather clear the loan that he has taken from a money lender or somebody and which is where we have to get aggressive to repossess the tractor before they get used or misused.

Anand Vasudevan: Thank you.

Moderator: We will take the last question from the line of Pankaj Agarwal from Ambit Capital. Please go ahead.

Pankaj Agarwal: Sir your capital adequacy was 17.4% at the end of Q3 FY'11 and then immediately in Q4 you raised the capital and now your capital adequacy is 17.5% when you are saying you are good for next 18 months. So have you changed your leverage policy?

Ramesh Iyer: See, we are only talking of tier 2 we are planing a Rs.50 Crores preference shares you must have read it from the notice stock exchange notice. So like that tier-2 options are there we are not saying that overall capital adequacy the overall capital adequacy does not mean that we have to always raise primary capital.

Pankaj Agarwal: At Q3 FY'11 your tier-1 was around 14% and then you went ahead and raised capital right now it is at 14.6% so you are saying you are good for tier 1 capital for next 18 months?

Ramesh Iyer: I think it is also an ability of understanding that what can you get as a correct price when you go to the market right. So there the visibility was that we can get a good price so why delay because anyway we will consume it over a period even today if somebody tells was we give you so much more then we will change our thinking to say we should be prepared for future.

Pankaj Agarwal: So it is more about the pricing?

Ramesh Iyer: Yes, of course see otherwise in terms of comfort level we do not need to raise capital if we raise capital then it must been go much beyond that just comfort level which should be priced.

Pankaj Agarwal: Thanks a lot sir thank you very much.

Ramesh Iyer: Thank you. Are we done?

Moderator: It is done Sir. Would you like to add any closing comments here?

Ramesh Iyer: Thank you very much for very active participation and some of the questions help us to re-strategies ourselves but we still want to live this optimistic thinking of ours that the rural is not as bad as one is making out to look rural to be. We continue to be optimistic about what we are doing. Thank you.

Moderator: On behalf of JM Financial Institutional Securities Private Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.