# "Mahindra Finance Q3 Financial Year 2015 Conference Call"

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**Moderator:** Ladies and gentlemen, good day and welcome to the Mahindra Finance results conference call, hosted by JM Financial Institutional Securities. As a reminder, 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. I like to hand the conference over to Mr. Karan Uberoi of JM Financial. Thank you and over to you Mr. Uberoi!

**Karan Uberoi:** Thank you. Good evening everybody and welcome to Mahindra & Mahindra Financials Services earnings call to discuss third quarter results. 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 VP President and Mr. Rakesh Bildani, who is - Senior Manager, Treasury. May I request Mr. 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 am sure the numbers must have already reached you. So in details of the number if you have anything particular we can take it up in questions. Just to give you some basic highlights, I think this has been the most pressurizing quarters over the last few quarters that we have seen and I think this quarter performance has been something similar to what we witnessed as the third quarter of last year.

Right at the upfront, I would like to state that unlike the general understanding and belief of things getting better, we have been saying this for the last at least six months or so, there is nothing that we have seen any major improvement at the grass root level. When we make this statement, I think it is also be substantiated from the fact that when you look at sales of vehicles, tractors, or any activity around semi-urban and rural side, you will get the reflection of the same in terms of the rural economy continuing to remain under pressure.

We all have kind of witnessed below average monsoon and this was expected that there would be pressure on the yields and this again was stated by us also in the past that the delayed sowing will obviously bring down the overall yield coupled with no major support price improvement rather it has been the reverse. There has been a substantial drop in many of the states in terms of their price of the grains are concerned, and that is adding to the cash flow pressures of the customers in the segment.

I think the third element of pressure that we have witnessed is very clearly extended cash flow cycles of the customer, but just to remind everyone on the call that the segment that we work with is completely on earn and pay segment, which means that all vehicles that we are financing, almost all vehicles that we are financing has a potential to generate substantial cash flows to be able to repay for itself and when there is a pressure on that cash flow it does impact the overall program and that is one of the very, very main reason and it also has continuous effect like what started off with heavy commercial vehicle over a period of time has impacted every commercial segment, whether it is the LCV, whether it is the sub 1 tonne vehicle, even up to the three-wheelers, small goods carrying vehicle, it has impacted the entire commercial segment.

So far as the tractor segment is concerned, again as you know 40% or upward of cash flows from haulage application and with so much of weakness in the project side, even projects, which were ongoing, the cash flows are stretched. So therefore the contractors are not able to get their payments on time and in turn they are not able to make payments to individual hirers of either tractors or excavating equipments or even tippers, you know, those kinds of vehicles, so even that cash flow have gone through this pressure.

Then you have this pressure of lack of economic activity therefore the goods movement has been much, much lower and that again has a similar impact on the commercial side. There is one another segment of ours, which is the passenger carrying segment both organized tourist segment, tourist taxi segment, and the private vehicles carrying people. This again is entirely dependent on the local economy of the state. It is very important to know that it is not that all that we say is across the country true, but it is for the first time that we are witnessing in many states we have dual impact. When I say dual impact, we have impact coming from farm as well as economic activity and this is not generally been seen many times in the past.

We have had impacts through poor farm that have been impacted, we have seen due to poor economic activity, but I think this time around we are very clearly seeing an overall impact coming from almost all the segments. Also there has been other natural phenomenon like the hailstorm in Andhra, we went through Jammu and Kashmir had its own problems of flood, you had Uttarakhand problem. Now all of this has added to an impact, but if you look at state by state, I think we continue to see the southern states going through major mess and I will quickly sum up if you look at Karnataka, mining is a problem, paddy is a problem, in crop sugarcane is a problem.

You take Maharashtra, cotton even though yields are out, but support prices are so low that the cash flows have still not come in. Sugarcane already supplied to the sugar factory, but only advances received full payment not settled. Look at M.P. Soya was a disaster, but look at both paddy, paddy is moving towards Rajasthan, because the support price in M.P. is so low. The infrastructure project in M.P. whether it is road projects or whatever, is completely a drag and therefore there is pressure on cash flow.

Look at Vidarbha completely coal excavation is a problem, so you look at state by state there has been multiple problems having at the same time, but the good news is when we meet the customer, definitely we are able to meet customer and vehicle availability is there, but if cash flows are so stretched that somebody who wants move into an NPA slot is not like in the past able to come out of it very easily. He is making some payment, but the payment is inadequate for him to be able to come out and therefore our provisioning keeps going up within the same bucket as well. If somebody is in NPA slot at six buckets moves to the next level, moves to the next level, pays off one installment, but he keeps remaining within that slot where we need to keep making this provision.

Now normally in a collateral back lending the easiest answer is if somebody is defaulting why do not you take back the collateral and transact on it, but with so much of discounts that is going in the new vehicle there has been an impact on the resale price as well. So that is one impact therefore we have to be very cautious and deciding that do we want to take back vehicles and sell them. If so what is the kind of loss one needs to likely to make. You do not take back what is the risk that you are running. So, we have accessed that risk and we feel like product like tractor, pickups, excavating equipments, LCVs, pickup vans, cars, these are not the segment where we need to repossess because the customers are maintaining those vehicles.

It is just that they are not earning enough to be able to repay, but vehicles like three-wheelers or by name like Tata Ace vehicles or a Mahindra Maximo vehicle where the customer cash flow is so stretched that he is not even maintaining the vehicle adequately. Then we take some decisions to even repossess, but we are booking those losses. So, even in this quarter we have had some impact on account of repossessed vehicles being sold and we have booked those losses.

Now, these are the various aspects and they are by state behaving differently. Now we have not been chasing business. This we have said in the past. We have added branches. We continue to believe that deeper penetration and be readiness for future is something that we believe in very strongly. We also believe that these branches will serve the purpose of better collections once we have deep rooted and I want to give you just one data point that if we look at our collection efficiency last year same period, this year same period the collection efficiencies have not suffered, but the customers once have moved into a different age bucket they are not able to come out of it and that is the pressure. Now we also do not think that all this is likely to get corrected in a very, very short time because all that I explained to you are not some fundamental transactional errors.

They are fundamental basic correction requirement. I mean even January crop is extremely good, it is not going to support M.P., it is not going to support Maharashtra, and it is going to support possibly Tamil Nadu. It is possibly going to support parts of Andhra because it is harvest out there and they would get some money, but it is not going to correct this side of the story. We do not believe that there is going to be a hurry to increase the support price and therefore even if cotton is delayed sale, they wait for another one month and sell, but ultimately they are not going to get the price that they got last year.

Last year I think the cotton price was something like Rs.6000 versus this year the price announced is close to less than Rs.4000. So that is kind of a coverage on price is not going to happen even if all projects gets announced as we hear but they will all take time to hit the road and they would not happen before next monsoon. Therefore we think that it is absolutely necessary, be prepared, be ready for a good time to come but I think we will have to live through this pressure of time and ensure we manage the collections while we manage cash flows well. We are not going to do hurried reposition just because we think customers are taking it back, we are not going to reschedule any of our contracts even if customer demands for it. We are saying you pay as much as you can, but we do not want to tamper with rescheduling this contract, but clearly we do see a monthly installment customer is able to pay just about one, one-and-a-half installment maybe in a three month period of his earning, because that is the pressure he goes through. Clearly, as I said the diesel price coming down was a fantastic positive but unfortunately because of lack of load the freight has got adjusted so the operator is not benefited by the drop and you can see the reflection of it that in spite of drop in diesel price vehicle sales have not increased. So I think if you kind of correlate to all that I have said from the point of view of our collection, efficiencies, etc., and map it with how the sales behavior has been you will clearly see that is the pressure.

All the automobile sales growth that we are seeing very urban and it is very new vehicle draw and it is not really reflective of the industry showing that kind of a change trend. Commercial vehicle is still not showing trends. Tractors are falling by the day. You are clearly seeing even cars, other than Maruti who is registered very large numbers, but on a very high discounted basis and discounts on new vehicle has an impact on the second hand vehicle side. So, I think we are going through a pressure point from all round whether it is from the economic cycle, whether it is from the farm cycle, whether it is from sales point of view from the vehicle, even for the same volume of business the disbursement values are low because the discounts continue to happen.

Just to give you another data point and then I will kind of hand it over, which is while we are managing 1.7 million customers our number of customers who are in LPA is about 85000 or so, which was sometime back maybe three to six months back was in the range of 72000 to 73000. So it is not that many customers are moving towards it but clearly customer cash flow pressure and therefore once they move into their ability to come out of it is very, very stretched both delayed cash flow, which is one, which is a cycle impact, another is an absolute cash flow which is an impact of the volume of the business and therefore both of this is putting pressure on them.

We are cautious. We are not going to chase business. Our focus even in this quarter will continue to remain focusing on collection. We are going to go deeper into the market and be closer to customer. Initially use that locational advantage to collections and then change it over to also business when situation changes and you must also look at some of our ratios from a denominator effect, like if the asset is not growing then even the same NPL reflects to be growing at a higher pace. So the 6% NPL looks like a 7% NPL. It is not necessarily that a lot of NPLs have got added by itself but it is also the base effect and therefore if the base is not going to grow substantially one would see even in the next couple of quarters some change to this number in terms of percentage is concerned.

What we are focusing on is to ensure that customers do keep servicing their contract even if not for the full installment, but to the extent that they keep paying every month and keep it live. I think that is going to be our approach. I think the silver line in all of the thing is we have protected our NIMs. If you were to normalize our topline for the income reversal, we have protected our NIMs. We do see interest rates benefit coming to us in the next year may not be fully in this quarter for sure, but next year if the same trend continues one would see some benefit coming out of it and even for such large operations, I think, we have ensured that our overheads do not go out of our control. So we have restricted our expenditure side as much as that we should so therefore we are doing okay in as far as the NIMs are concerned, in as far as the overheads are concerned, but definitely our focus is going to remain on as a quality in terms of better recoveries and improved efficiency on the recovery front, but summarily I would still think that it is far from everything over at the market place until we start seeing revival of economic activity until we start seeing improvement in sales of vehicles and tractors until we start seeing customer walk into dealerships on their own. I do not think we will want to say that things are getting normalized at the market place.

I think that is the way I would like to put out the story for where are and how we are focusing ourselves on. So thank you so much and I think we can now open it up for Q&A.

**Moderator:** Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Mr. Karthik Chellappa from Buena Vista. Please go ahead.

**Karthik Chellappa:** Thank you very much Sir for the opportunity. Sir, I have two questions. Firstly clearly the macro continues to be very challenging but from the feedback you are getting on the ground, what is your sense, at what level our gross NPAs will actually stabilize. The 7% is probably one of the highest we have seen in the last three to four years so, is there a sense on where you think this reaches some kind of a durable bottom. My second question is given where resale values are today, if we were to sell what percentage of the losses or what percentage of the principal and the NPL can we recover right now? Just to get a sense of what is the loss we need to take? Thank you very much Sir.

**Ramesh Iyer:** See as far as gross NPL is concerned, as I told you, even our belief even six months back was to fix the possibility, will it go to 7 or not, but as we speak today clearly we see things have not improved in this two quarter period and it has moved towards 7 for two reasons. One as I explained the base effect of our own assets not growing adequately and second of course the market conditions itself is not showing any improvement. I am not too sure whether I can put a number will 7 become 8 or will 7 become 6, but I still want to clearly make a mention that we would not be able to project a substantial correction to this situation through collection mechanism from customer because the cash flows are stretched. It is not they are bad debt customer or they are non-available customer or the vehicles are non-available vehicles. It is just that they are only earning sufficient enough to be able to pay at best one installment in couple of months time, which means they are not likely to rollback as fast as one would want them to. So, I would still think that is 7 a good number, is 8 a good number or 6 a good number is not a judgment I can put on but clearly the economic activities and the sentiments at this stage there do not give us confidence to at least tell you that 7 will become 6, 6 will become 5 in the next one quarter or two quarter situation. So that is one thing that is clear we can see, but second is asset is not growing and I do not think in the next quarter at least I am not forecasting the auto and tractor industries to show some major turnaround in the next quarter that we get the benefit of growth and therefore we get some base benefit. I do not think even that happening. So that would be our take on where it is moving. In as far as the reposition loss is concerned, I think, it is wrong for me to give you a sense on the whole portfolio but clearly they are all different products. Like if you look at a three wheeler equivalent and then the sub 0.5 tonne, 1 tonne vehicle which I quoted as

Maximo's etc., I think the loss is as high as maybe 40% on the product. If you repossess the vehicle, which is less than 12 to 15 months old because it is a high priced vehicle. Demand for the vehicle is weak because the need for such a vehicle is not felt by so many customers. But if you were to turn it around and you start moving towards tractor or you start moving it towards a pickup or a Bolero type of vehicle, I think the loss will start coming down, but again, you move towards high end commercial vehicle, I think the losses are as high as 40% to 50%, because it is a reflection of demand for such a product out there. And which is why I said that repossession this time around has to be done not from pure debtor's management but it is also to have lot of sense of why should one repossess if so what kind of vehicle and where should one repossess. If you know that the customer is putting his effort to earn and pay you and he is keeping the contract live, repaying we are taking a call that repossession is not the right answer. Unless you vacate the market, unless you vacate a product, or unless you see that the customer is not able to come out of it and he is using and he is depreciating the products I think, these are the only three fundamental reason why one would decide to repossess and other than that there should be no reason why one should repossess, but not repossessing is not going to guide us to reschedule the contract. You will see us explain a high delinquency level or a high overdue level, but we will not want to reschedule a contract because we think that the ground reality is known to us and we believe that like in the past we corrected ourselves. This situation will correct itself once some activity starts commencing. So, we would like to take two quarters to believe that things will start changing and we would start getting that feel in the next two quarters. We would not be in a hurry. Whether it is 7 becoming 8 or 7 becoming 6 as I explained to you is an outcome of the base effect and it is also an outcome of customer's ability but we are not as much worried on that number, but if you look at our net NPL levels as it has moved up from 3 to 3.3 level maybe, but our pricing does protect the 3% level, we will take a call if need be to even push up the price, if we continue to remain in business in some of these markets.

**Karthik Chellappa:** Thank you Sir. Just one followup at what point do we see the benefit of falling funding cost?

**Ramesh Iyer:** I think you must give it one quarter, because it is announced yesterday by the bank starts announcing how many banks will announce itself we do not know and we may get in this quarter maybe one month benefit but again not from all banks and not for the entire borrowing, but more correctly, I think, you should take it from maybe the second quarter of next year or so by the time everybody would stabilize. Let us hope they will make more announcements in the same direction.

**Karthik Chellappa:** Thank you very much Sir for this colour.

**Moderator:** Thank you. The next question is from the line of Mr. Manish Chaudhari from IDFC Securities. Please go ahead.

**Manish Chaudhari:** Just wanted to check, if you could give some colour in terms of collection efficiency during the quarter and in the first few days of January as well?

**Ramesh Iyer:** January I am not sure, but the way I have seen the number October was something like 85% to 87%, because festival month people normally use it for other purposes than discharging liability. That is again historic, but if you look at November and December out collection efficiencies would have been 92%, 94% kind of a range, but overall quarter I think was somewhere around 92% for this quarter. January it is too early to say. I do not have a feel of that, but again January I would suspect that will it cross 100% I would suspect, because again, please remember that between December and January nothing so substantial has happened at the ground level. I do not know if you were there right from the beginning, but the cotton is still in stock. They are not sold. Sugarcane money is still not come back in the hands, paddy prices are 30% to 40% lower so they are still holding and not transacting. The contractor payments are still stretched. So there is nothing, which tells us that is going to be substantial flow of money to clear all of this. I think it is going to be by effort whatever that we can achieve, by fundamental it is going to take time.

**Manish Chaudhari:** If I look at your AUM and disbursement mix for the quarter, it does seem that there is some pickup in your AUMs growth in terms of CVs as well as in tractors as well. So, could you throw some light on it whether it is increasing?

**Ramesh Iyer:** I do not know tractor, but CV surely I can tell you there is no pickup.

**Dinesh Prajapati:** CV in fact is YOY down.

**Ramesh Iyer:** It will be down only and as far as tractor is concerned again, it must be beyond the tractor, which you are looking at because the new tractor sales at least this quarter has been a degrowth over the last quarter unless if you are talking about nine months, you are talking of three months?

**Manish Chaudhari:** I am looking at the AUM at the end of the nine months?

**Ramesh Iyer:** This quarter I can tell you is all these figures are minus for sure.

**Manish Chaudhari:** In terms of the CVs have we changed the incremental LTVs? What would be your incremental LTVs say on LCV and HCV now?

**Ramesh Iyer:** 70% to 72% is what we have to see. If we do not give 70% he is going to borrow from somebody else for the balance.

**Manish Chaudhari:** Are there products on the LCV side in which you are offering 100% LTV as well?

**Ramesh Iyer:** 100%, no way. I do not think. It will be a program. If at all I do not know if you are speaking from some advertisement or something, if there is an advertisement, which says 100% finance, it will be on an exchanged product. So when they bring an exchange vehicle with 30% sale price then the net LTV will still be 70% or it will be on a product, which has an application, which has a trailer or which has a container, which has a tanker attached then the chassis will be 100% the body will be zero. So the project will be 50% to 52%.

**Manish Chaudhari:** Thank you.

**Moderator:** Thank you. Our next question is from the line of Ketav Shah from Anand Rathi. Please go ahead.

**Ketav Shah:** Thank you for taking my question. Sir, I am just trying to figure out two things. One is the quarter-on-quarter rise in provisioning. It is more than the NPA. I mean can you throw some light there? Have we changed any bucketing or etc., over there?

**Ramesh Iyer:** We have not changed. As I explained the customer if let us say even within the first bucket of NPA at Mansik and then he has not paid one more installment, he moves to next bucket, there will be a provision. If he goes to the next bucket, there is an additional provision. So even if the customer remains within the same bucket, there is an additional provision, which happens and then when he jumps bucket let us say when he moves to the next bucket in our case, we make 50% provision. So those must be the impact. As I said by pure number of contracts, the growth may not be as aggressive as you see it from the provision.

**Ketav Shah:** Yes exactly, so I am trying to understand how both work short of that is the only thing. So what is your expectation in the next quarter? You already said that it is not going to be as good as it has been in the previous years, but is there some number that you can give?

**Ramesh Iyer:** Number is difficult for me to put out, but I would definitely want you to understand that anything that is happening even now is mainly by effort, because we have that reach and we are able to meet the customer and pick up whatever money that we can every time we meet it. The fundamentals are not changing. Unless we see some major projects get announced across the country economic activity revival, I think the earliest sign one can see of all of this is you will see first commercial vehicle pickup clearly you will see. Freight loads will go up both in vehicles as well as in railways. I think you have to capture those trends to start understanding the pickup happening in all these segments. The next bet would be how is going to be the January harvest pricing from south, because I am sure the yields would be better. The paddy yield in Tamil Nadu will surely be better, the water levels have been good, but we have to wait and see what is the price that is going to get announced, because the cotton yield is okay. I do not think yield is a problem. Sugarcane yield is okay, unfortunately the support price is inadequate or the industry buying it and not able to pay for it immediately is an issue. So it is completely a cash flow issue out there.

**Ketav Shah:** How would you say we are prepared for growth in the CV space there? Are we gearing for it there?

**Ramesh Iyer:** When did you hear me say that?

**Ketav Shah:** I am just asking would that be an area of focus for us.

**Ramesh Iyer:** Unless the industry revives, you will not see us in CV business. While we have a team, while we have an understanding I do not think we will be the first to commence financing of the product. First and foremost is discount on vehicles have to vanish across. Second is one has to see billing from manufacturer to dealers. If you see in the last quarter, retails have been higher than billing. So they are all on stock correction mode.

**Ketav Shah:** Thank you Sir. That is it from me.

**Moderator:** Thank you. The next question is from the line of Mayur Parkeria from Wealth Managers. Please go ahead.

**Mayur Parkeria:** Good afternoon Sir. Thank you for taking my question. Sir, two questions, if you remember last call you had mentioned that the number of accounts in NPAs were in the region of around 70000 to 72000. So if we look at on a QOQ basis that is a sharp rise, which has come to 85000 from 70000. So, I do not have the presentation and the numbers with respect to GNP and NPL level, what I was trying to come to the fact is, is this actual rise in the NPA number of accounts or is it only because of the bucket change, which you were experienced?

**Ramesh Iyer:** 75000 to 85000 will be increase in number, but you should understand.

**Mayur Parkeria:** The provision, which has increased is what I was trying to get. Is it more because of the NPAs itself rising rather than…?

**Ramesh Iyer:** If you kind of look at new accounts come what is the provisions and accounts move out, what is the reversal they more or less knock off? So the movement will be both ways. Some will come in and some will come in and some will go out. But typically what happens is when the NPL remains within and they do not pay enough then the provision keeps moving up. The benefit of it you will get when these accounts start getting reversed.

**Mayur Parkeria:** Sir similar to the same one is first quarter that was Q1 you know immediately we had the first or relatively not so good quarter where we had indicated that most of the collection efficiencies had got hampered because of **(unclear-31.18**), second quarter if we see was a much better quarter…?

**Ramesh Iyer:** It is normalized.

**Mayur Parkeria:** Normalized, so relatively it got improved and how much of the discretion was towards the growth and how we are prepared and poised to take advantage if the growth picks up obviously. You have clearly indicated that if the growth picks up how you are poised?

**Ramesh Iyer:** I also said that our focus is going to be on collection because we are not forecasting that things are changing at the ground level.

**Mayur Parkeria:** So again this third quarter we are seeing a substantial rise in the NPAs so what I was just trying to understand is this quarter-on-quarter change in the numbers, which is coming in terms of the provision and the higher NPA levels you believe that this is going to be there for another two to three quarters is what you are trying to mean?

**Ramesh Iyer:** Because it is a very unstable market environment. Like you yourself said, let us go back two more quarters before that. You look at our third quarter last year. We had a very bad third quarter last year and clearly the reasons where that the cash flows from farm output had not started coming in. Then the fourth quarter was an improvement when the cash flow came in. Then you had the first quarter impact due to a different reason, which was not a repetitive reason so the second quarter got corrected. Now you look at this third quarter again, you have a mix of events like we explained about how different states are behaving differently from both economic cycle as well as from farm produce output. Now some of this will get corrected in January if cotton gets sold, if paddy prices get stabilized and it gets sold. But if contractors and earn and pay segment depends on contracting activities, mining activities, coal excavation, if these do not get corrected, it is going to have a chain of impact on every product which is dependent there. See one may ask a question why is three-wheeler dependent on coal, but at the end of the day if there are no activities the labour movement is completely stopped. The three-wheeler is without a business. There is excess capacity there. You look at Kerala as one phenomenally classic example. Two years back gulf returnees with margin money bought a lot of three-wheelers and they have deployed it locally. With sand and brick completely stopping activities you find supply side is much higher on the market place. So you will have this kind of impacts haunting when the economic cycles are unstable.

**Mayur Parkeria:** Sir, just one small question if I can add on this. We had capital raising spend some time planned in the mid FY 2016 if things would have turned out, am I correct. That was what our understanding that we could have seen capital raising sometime back?

**Ramesh Iyer:** Good that you are remembering. We are completely forgotten with this kind of process.

**Mayur Parkeria:** Actually that was I was now trying to come from a different point. If our profitability is a little under pressure so will we see in fact a pressure to raise the capital? So the growth itself will be subdued?

**Ramesh Iyer:** We are at 18% plus or 19% level plus for profit pressure we will not have so much pressure on profits that we need to raise capital. I mean if you look at we may explain degrowth, but we are still talking of we are ending the quarter with 130 to 140 Crores of profit. So we are only talking of explaining a degrowth. We are not explaining a loss versus profit situation.

**Mayur Parkeria:** So, it is going to be now as things (**inaudible-35.14**) in FY 2017?

**Ramesh Iyer:** I think capital raising will be only if business disbursements demand.

**Mayur Parkeria:** Thank you Sir.

**Moderator:** Thank you. The next question is from the line of Manish Chaudhari from IDFC Securities. Please go ahead.

**Manish Chaudhari:** Thanks for allowing me to ask the question again. Just wanted to check, if we look at your commentary, which is highlighting basically that the things have not really picked up and probably this is what it has gone worse versus some of the other banks in the similar kind of businesses on retail and CVs, who are saying that the things are getting better. So, one is not really sure of I mean how to read this, if you can comment whether it is a different business segment, whether it is different customer segments, or it is just a question of time when the things will converge?

**Ramesh Iyer:** I think it is a mix of everything. One is when somebody is commenting on commercial vehicle is picking up and especially from a bank's side they definitely are working with much large fleet operators and they are not working with sub fleet operators or first time users or less than three vehicle or five vehicle user. So, that is one. Second is while I am double guessing the bank, but I still think that these are not banks, which work in the geographies that we are working into so many products that we are in right from three wheeler to small vehicles to LCVs to pick up to all these vehicles. So they are one who maybe largely into commercial vehicle segment represented. Three is there must be for surely when they are servicing large fleet operators they are servicing fleet operators who have contract engaged with major manufacturers while the overall volumes have come down, but they still have a stable cash flow of ability to at least repay some money on an ongoing basis if not monthly at least once a quarter basis.

**Manish Chaudhari:** Sir if you allow me one final question, you were talking about at some time of your presentation you talked about maybe even looking at increasing lending rates, do you think if banks cut base rates and lower lending rates on their products, will it be possible to you to even hold on to your rates rather than increased rates?

**Ramesh Iyer:** Again, it will come from geography and it will come from product. If you ask me will we be able to do this for car segment? My answer would be no. Will we want to do it for tractor segment? My answer would be no. But if you want to do it for three-wheeler segment or sub 0.5 tonne segment my answer would be yes. Then again you turn it around and say will you do it in south, will you do it in Maharashtra, will you do it in Gujarat, Rajasthan I think the answer will be no, but can you do it in Bihar, can you do it in U.P., the answer will be yes. So, I think it is products, geography and application. I think all three will go into it so it is not summarily all products will demand an increase in price automatically.

**Manish Chaudhari:** Thank you so much.

**Moderator:** Thank you. The next question is from the line of Chetan Ganatra from BNP Paribas. Please go ahead.

**Avnish Makhija:** This is Avnish Makhija. Thanks for taking the questions. Just a couple of questions; one is can you give us a breakup of GNPAs based on what proportion is it in 5 to 11 months, 11 to 12 to 24 months plus?

**Ramesh Iyer:** The breakup of this you want?

**Avnish Makhija:** Yes.

**Ramesh Iyer:** I think Rakesh or somebody will work on it. You have Rakesh's number?

**Avnish Makhija:** Yes. We will speak to him.

**Ramesh Iyer:** You coordinate with him and he will kind of give it to you at a stage. I do not have it ready with me, but more or less I can tell you if you look at last one year, two year kind of a thing, maybe about 45% to 50% would be in the first bucket. The other two will be in the next two buckets.

**Rakesh Bildani:** First bucket is 50%, second bucket is 33%, and last bucket is 17%.

**Avnish Makhija:** Thanks. Second Sir, collection efficiency, Sir this quarter you stated it is around 92% to 94%. How much was it in the last quarter and last quarter of last year, corresponding quarter of last year?

**Ramesh Iyer:** I think third quarter of last year and third quarter of this year almost has been same. If any it must be 0.5% drop will be there, if that was 92 this was 91.5, 92 kind of a situation. There is no major change, which is what I said. It is exactly same. There is no drop in collection efficiency. What has dropped is the customers are not able to pay for more than one installment stretched on a couple of months basis and which is why they are not able to come out of the NPA, but they are moving.

**Avnish Makhija:** Sir, how much was it in 2Q this year, collection efficiency?

**Ramesh Iyer:** It would have been the same 93%, 94%. Because in every quarter one month was a very, very subdued month and the two months have been aggressive month. Given in this quarter, I think October was maybe 85% to 87% and the other two months would have been 94% or 95% for it to average out at 92%.

**Avnish Makhija:** Got it. Thanks a lot Sir.

**Moderator:** Thank you. The next question is from the line of Jay Mundra from Bank of America Merril Lynch. Please go ahead.

**Jay Mundra:** Good afternoon. Sir, just wanted, if I do gross NPL absolute increase in third quarter, I see a number of somewhere around 370 Crores. Just wanted to understand what would this number be if you add back let us say repossession of vehicles and proceed thereof. Just wanted to get a feel?

**Ramesh Iyer:** This is all inclusive I think. This is total.

**Jay Mundra:** So, I just wanted to understand let us say last quarter the absolute increase is only somewhere around 100 Crores, but I believe you mentioned somewhere around 250 Crores if you add back the recovery and repossession. As compared to 250 Crores last quarter and 2Q what could be this number?

**Ramesh Iyer:** Which quarter we are talking add back? I missed you.

**Jay Mundra:** If you add back let us say the recovery and repossession, you would have netted this number from the ending number that you have reported?

**Ramesh Iyer:** Recovery how to net it off. I mean I did not understand that. I am not able to understand. What exactly is this, because if we have recovered money, we will have to reduce from the NPL only?

**Rakesh Bildani:** Repossession stock is anyway part of the gross NPA. So it will never be excluded at any point of time.

**Ramesh Iyer:** We do not value it and reduce it. At least you must understand that repossessed vehicle in stock are not valued to reduce from NPA. It is the sold that we take the credit for it.

**Jay Mundra:** I just wanted to understand what is the quantum of let us say the proceed that has come from selling of that pool?

**Ramesh Iyer:** This is just my estimate. I am not speaking from a number in hand. If we have sold something like 6000 vehicles, let us say suppose we have sold in this quarter one can estimate a price of roughly about 2 lakh average because it will have a lot of small vehicles **(unclear-42.41**) to that and whatever that amount turns to be, 120 Crores kind of a situation, 100 Crores plus situation, more or less. It is just an estimate. I am not having a data in my hand, but more or less I know it will be around this number.

**Jay Mundra:** Sir, second question would it be possible for you to give this breakup of GNPA across product?

**Ramesh Iyer:** Product-by-product?

**Jay Mundra:** The category that you have, auto, UV, tractors, CV, used?

**Rakesh Bildani:** More or less it will be in the mix. The provision will be same. The rates will be same irrespective of the product 10, 50 and 100. So, the total NPA is known it is there in the presentation so if suppose 55% is in the first bucket, even though the product could be different, the provision will be 10% of that 55%. The product could be anything. It could be tractor, it could be commercial vehicle, and it could be three-wheeler. We will try to give you, but I do not know whether it will help you in anything, but anyway we will try to give.

**Ramesh Iyer:** I think it may not be bad to estimate it in the same line with the product mix of the balance sheet because I think if give or take 2% here or there. If tractors are 18% in the balance sheet in NPA, it maybe 20%, if cars are 30%, they maybe 25% to 24%, it will not be very, very different, because I will tell you why I am saying that is because the profile of customer causes an NPA. It is not the product, which is causing it and the fundamental economic of the geography is causing it. So therefore it will be pretty uniform in terms of every product going in that direction.

**Jay Mundra:** That is helpful. Thank you.

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

**Kunal Shah**: Obviously looking at the numbers, I think it has been slightly weak over the last four quarters, and still the environment is not in favor, but internally maybe how we are trying to set the models say either in terms of collections or say in terms of pricing of the products or something, if you can just give the sense as to what internally are you thinking maybe the company could be taking against which environment and the weak earnings which have been there?

**Ramesh Iyer:** One is clearly we are opening more branches at the village level to be more closer to customer, which will facilitate better understanding of customer's cash flow and be with him on time when he has the money. Two, make it little more convenient for him to be able to come and pay rather than allow him not to travel the long distance to pay. Third is whenever the market conditions improve, the same branches then are ready to even embark on a business opportunity. So that is one clear focus. Second is curtailing business from many of the branches where we think the focus needs to be 90% on recovery and only 10% on business, we would rather not do business and focus only on recoveries. So there are some clearly identified branches in every state where the focus is only on this. Three is getting out from certain application of certain product lines again on a geography basis. Say for example, we got out of commercial vehicle not now, maybe 18 months back or whatever, and we have still not got back into that in any form, but the same thought process is also in our minds to look at even LCV if need be because now it is impacting LCV for the last couple of quarters or more in the same way that the heavy commercial vehicle in the past was impacted. Fourth is overall sentiments within the organization is to more focus on recovery and less on business. Therefore no policy corrections on business front to lend increase LTV for increased period of lending. So we have frozen our products to say 70% LTV, 72% LTV or whatever, and not going beyond 36 months, 42 months. So we are not going to 85% to 90% and give five-year loan because that is what the customer can today want to pay as monthly installment. So create all environments in terms of MIS, controls, review, process, everything towards recovery orientation, recruitments more towards recovery orientation and less towards business orientation.

**Kunal Shah**: Thank you.

**Moderator:** Ladies and gentlemen that was the last question. I now hand the conference over to Mr. Karan Uberoi from JM Financial for his closing comments.

**Karan Uberoi:** On behalf of JM Financial, I would like to thank Mr. Ramesh Iyer, the senior management team of Mahindra Finance and all the participants for joining us on the call today. Thank you and good-bye.

**Ramesh Iyer:** Thank you.

**Moderator:** Ladies and gentlemen, on behalf of JM Financial that concludes this conference call. Thank you for joining us. You may now disconnect your lines.