"Mahindra Finance 3Q FY16 Results Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Mahindra Finance 3Q FY16 results conference call hosted by JM Financial. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal for an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Karan Singh from JM Financial, thank you and over to you sir.

Karan Singh: Thank you, good evening everybody. To discuss Mahindra Finance's third quarter FY16 results we have on the call Mr. Ramesh Iyer who is the Managing Director, Mr. Ravi, who is the Executive Director and CFO, Mr. Dinesh Prajapati who is Vice President (Treasury) and Mr. Rakesh Bildani who is DGM (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. You must have possibly received the results and must have seen it so instead of going through the numbers in detail what I would do is I will kind of take you through some of the reasons for what is causing the numbers to be how they look and then we can go into details with specific questions if any and Dinesh and Rakesh are available in case of any clarification on the numbers is required.

So kind of to quickly take you back to what we said in the second quarter and when we kind of were discussing on our results for September and we continue to believe that the semi urban and rural market is yet to register any kind of a significant improvement at the marketplace and unfortunately as we speak even now we continue to have the same pressure at the semi urban rural market and therefore the activities, whether any from the infra front or even in some of the markets due to insufficient monsoon or even some places may be access monsoon have caused pressure on the farm income. So the segment of customers that we work with whether they are farmers, traders, contractors, even at the local level people carrier, I think we are seeing pressure all through in all segments of customers. And here we would like to kind of little more be granular in the sense that it is not an all India phenomena that we are seeing, there are some states which have registered positive trends which are Bihar, UP, Rajasthan, Gujarat, Andhra Pradesh, Telangana, we are seeing things are better off there whereas states like Kerala, Tamil Nadu, Karnataka, Maharashtra, MP, continue to build pressure for us in terms of the overall activity levels are concerned.

In this quarter while we did see a disbursement growth of 19-20% or so but I think it's important to understand that the disbursement growth is at the back of the festival season demand that was built up. But again, I don't still believe that the demand was so automatic, it was more triggered by lot of supporting offers that were made by OEMs whether in the form of discounts or even in the form of exchange programs and things like that and that triggered volumes during these months and when we look at our numbers, the same 4 or 5 states where there has been a positive buoyancy, the states like Rajasthan, Gujarat, Bihar, UP, Telangana, Andhra, are the states which have also registered growth for us. And the States like Kerala, Tamil Nadu, Karnataka, Maharashtra, MP, have actually de-grown from even a disbursement perspective over the same period of last year, which again is an indicator that markets are yet to register any kind of a growth.

Also if you look at the supporting numbers, whether it is from auto or whether it is from tractors or whether it is from LCV or three wheelers or two wheelers, any of these kind of products in this market also don't seem to be registering any kind of a growth. But it's also interesting to note that in this quarter while you may look at an NPA provision numbers to be where they are, but these provisions are not caused by lot of new customers coming into becoming NPA. They are existing NPA customers of ours who have not been able to clear their past dues while they may be servicing their current instalment and when they change bucket we need to make higher provision and that is causing a pressure in terms of excess provision and that's also kind of indicative from the figure of our coverage ratio, has gone up. So typically, if the NPAs were caused by lot of new entrants then the coverage ratio would not really go up because they would be in the first bucket of provision, so it's something important to note. But the good news around that is while the provision in the P&L is high and the coverage is high the collateral will now have the ability to actually protect the principal outstanding. So contrary to our first two or three quarters, we were wanting to collect as much as from the customer, we were willing to kind of wait for customer to be repaying and we have reached a stage now where we are confident that the collateral has an ability to protect the principal and therefore in some of these markets we may resort to some kind of repossessions and disposal of vehicles to kind of recover from whatever has been provided and outstanding.

And typical of this market, normally the first two quarters are definitely not as buoyant, the third quarter slightly tries to pick up and we did see that in our collection efficiencies if you look at, while provision is one number to look at and as I said it comes from the existing contract where we need to make higher provision but if you look at our overall collection efficiency for the last one year versus this year, I think the numbers have remained at the same level of collection efficiencies. So that's another indicator of, to some extent, the market has behaved okay to the third quarter. And fourth quarter typically is normally a good quarter amongst all the four quarters but I want to be extremely clear and careful when I say that the fourth quarter is expected to be better, is purely from the point of view that we don't yet see the fundamentals changing big time. We are not forecasting that there is going to be a big volume jump, that is going to happen in this market. I think one shouldn't forecast on the basis of what happened in the third quarter out of festival, is not necessarily the way the fourth quarter would go. Our strategic intent, we'll continue to go more deeper, be closer to our customer, continue to focus on recovery, except that we would add this additional action of trying to repossess vehicles wherever we think customer is unable to service even the current loan, that is their current instalment and if the principle is well covered by the collaterall, I think we are willing to look at that as one clear option that we may want to exercise during this period.

The Chennai rains, while the city was very badly impacted, we do not have any major exposure at the city level but paralleling the overall water level in the state of Tamil Nadu has gone up and we do expect that after last two years of struggle, this year could be a better year from a crop output and it was also indicative from the festival that went by, that is Pongal where tractor deliveries and tractor demand was once again slightly better than what it was the past two years. So we do expect some recovery to happen from Tamil Nadu, and Tamil Nadu could be a turnaround story to look at.

So far, as Madhya Pradesh is concerned even though the crop prices remained subdued, the soya yield were low, but I think there has been some support price increase to soya which has happened but there is a shift of cash flow which has happened in some of this market, including in Maharashtra for sugarcane, etc. I think we believe in January some of these payments would get released from this market and like exactly we had a similar problem last year I think, we do believe that once the January cash does come in there would be some support that we would receive from these markets as well.

But to restate once again, these are the states which are basically if you look at states like Kerala, Karnataka, Tamil Nadu, Maharashtra, Madhya Pradesh and to some extent Assam and West Bengal, are the states where there are pressures and the market has not still revived, there are no major infra activity on the ground, I think because of poor monsoon even the support price has not been very attractive and the yields are also low. So given that situation in these 5 or 6 major states and actually from these states about 60% of our NPA would come from these states. And having now gone to the provision levels, coverage upward of 56-57% types, we do believe that there are chances for us to start focusing on these contracts, even more than before and try and recover as much as we can or even repossess vehicles if necessary and revive from this situation. But in our opinion we would remain in this zone of a little elevated NPA levels for even another couple of quarters until the fundamentals change substantially but our strategic direction would be to focus more on recovery and less on chasing business until the market conditions correct themselves.

We are adding branches, we have added people, we are investing clearly in our technology space as well as in people training and therefore we continue to believe that once the connection happens in this market like all-time in the past that we have seen, we could be one of the beneficiary of what we have built already in the form of coverage and that could possibly get the reversal benefit as we go along and the market conditions improve. But as we speak to you now, we do remain under the pressure of market conditions remaining subdued. We are under the pressure of the fundamental volumes not yet picking up even for OEMs while we have broad-based our approach to many more OEMs, so to that extent there will be a marginal growth that we would witness but to get back to substantial growth, I think it's necessary that the volumes for all the OEMs pick up as well.

So with that, the initial thought on what we are and where we are and how we want to go about I think we’ll leave this now open for your questions. Maybe another two minutes I'll take or 5 minutes I'll take, you must have seen also the numbers of two of our subsidiaries and if you look at the insurance subsidiary I think they have done well, they have had a growth of about 11% or so and again they are strategically well aligned to the Mahindra Finance customer requirements and therefore their penetration is going to be their success story. They are looking at renewal as the big next event for them and therefore they are putting in a team which will focus on renewable of insurances and that will help them to grow much better.

So far as the rural housing is concerned, in spite of the fact that they are on a low base but they have also registered a good growth of upward of 40-45% to their numbers and that's again coming from their continuance deeper focus, adding states and going to more locations in the state and therefore they continue to register growth. I think their AUM has come close to about 3000 crores, little short of 3000 crores, is their current AUM and they continue to keep the growth pace of close to 50% over the previous year. We believe that that's a very large business opportunity and therefore they continue to focus going more states more deeper and they will also strategically move towards semi urban housing financing, which was one of the intent that was expressed even a couple of quarters back. They have already started getting into that business, I guess currently about 10-12% of the book comes from semi urban housing and the focus will continue to remain there.

So the two subsidiaries continue to do well while on a smaller base but they do have pressures of recovery and as far as rural housing is concerned, in similar states and for same problem that we expressed, but being on a smaller base and having widespread customer base, they are able to manage situations little better than what they were in the couple of quarters before.

But summarizing all of this together, we do believe that the semi urban rural market will need to bounce back for a growth future while they are not ready already and therefore another couple of quarters of our surviving through these situations will help us get benefit of whatever investments we have made in terms of branch, people, technology and relationship that we have built with all the OEMs.

So we expect, we need to wait a little more for this but we are fundamentally ready to embark on the growth story once the change does come in, we would possibly get the benefit of all that we have built.

So with that I kind of now open it up for questions for you, and Ravi is here, Dinesh, Rakesh, all of us are here and any questions that you have we will be more than pleased to answer. Thank you.

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Mahrukh Adajaniafrom IDFC. Please proceed.

Mahrukh Adajania: Firstly, what would be the early indicators of a revival that we could look for? And the next question is on ground level infra activities, so of course, one knows about farm incomes and how they are dwindling but in terms of infra activities so is it that there is no real major pickup in ground level rural level infra activity? How do we view this?

Ramesh Iyer: The first one, on what are the signals one needs to pick up? One is, when you visit a customer and you get your instalment on the day you visit him. Currently you visit him more than twice, thrice in a month and you pick up some part instalments. So if you look at our tractor if the instalments are Rs. 60,000-70,000 per quarter or whatever, we are able to collect Rs. 30,000-40,000 and maybe Rs. 10,000-15,000 and that's because their own cash flows are not stable and uniform. Second is, when the discounts on vehicles vanish and the demand for vehicles pickup in rural, it's a clear indicator of there is enough cash available and therefore activities pickup. The third indicator is when the demand for second-hand vehicles pickup and when you have a second-hand vehicle, you are able to sell them much faster than you expect them to and the price of the second-hand vehicle holds up good. Fourth is when there is no demand for high LTV in a product. No sooner you see customer come and say 'I will pay only 5%, can I get 95% loan', it only means he wants a vehicle but he is not sure as to should he invest in it or not and these are traditional trademarks and traditional trends, these are nothing new and that's how we decide whether to repossess, that's how we decide whether we need to really lend in this market, that's how we decide whether we need to even look at LTV at all or not, so we have been very focused to say, 'No, let's not increase LTV even if we lose some volumes'. So these are the trends one needs to look for very clearly.

And so far as the second part of the question is concerned, most of our customers are earn and pay customers and when we say infra, we don't look for these customers to be deploying some large assets into these markets. But if you just look at, if the road projects pickup at state levels, then the small excavators start getting jobs, therefore the tippers and small vehicles start getting jobs, so it's a sequential activity which happens. Similarly, when the farm output is good, then all the LCVs and the tractor with trailers start getting deployed better. When the coal mining or when the mining activity overall begins, then you see tractors with trailers getting deployed much better. So all our customers are not the ones with large tippers and excavators, we are not talking about major contractors, we are talking of individuals who are deploying their asset with contractors and therefore getting their weekly, monthly, kind of a payment out of them and we don't see yet that happen. And it's important again to understand, I kind of pulled out few states where we don't see this happen and they are Karnataka, Tamil Nadu, Maharashtra, MP, so these are the states where we continue to see pressure of no major activity. But there are simultaneously states like Bihar, UP, Rajasthan, Gujarat, Andhra, Telangana, which we said that there are some activity and therefore, we see some good states where things are happening and there are some states where there is a pressure.

Moderator: Our next question is from the line of Kunal Shah from Edelweiss. Please proceed.

Kunal Shah: As you highlighted in terms of maybe there are no new additions which are happening so how many are the number of customers under say delinquent customers as of now which were say 1.25 lakhs as of Q2, so have we seen that number going up?

Ramesh Iyer: It's gone up by about 15,000 or so, so it's about 140-145 types number.

Kunal Shah: So pace in accretion as we see say in Q1 it was 1.07 which has gone up to 1.25 and that pace still continues.

Ramesh Iyer: Because if you do half a million customers a year even if you apply a normal percentage of NPA of 5-6% that has to happen of that quarter business which was done a year back or six months back, so that base number will come.

Kunal Shah: The other thing was last time may be confidently we highlighted that the credit costs have not crossed 3% and we do not expect to **(unclear-19.06)** its level but when we annualize this quarter's number it is actually say upwards of around say 340 odd basis points.

Ramesh Iyer: Let me just quickly clarify because you are taking an NPA number to do that math but there is an underlying asset which we have not repossessed and if we were to repossess and sell with 57% coverage credit loss won’t cross beyond 2-2.5%.

Kunal Shah: So that guidance pretty much in terms of say the credit cost not crossing so I think it's more because of not having a major repossession.

Ramesh Iyer: We’ve said consciously we have decided not to do knowing what the market conditions are and it is important to note that there is movement in our NPA contract by their servicing the current loan. They are not able to pay the past instalments fully and therefore there is a containing provision and when the bucket change happens a higher provision comes in. And now if you look at many of the customers they would have repaid including the margin money that they initially invested, they would have all repaid something like 50-55% of the asset value would have been recovered. Now it makes lot of sense if somebody wants to surrender or if we have to repossess we would protect our principle very well.

Kunal Shah: So what would be the strategy going forward? So we won’t be doing it?

Ramesh Iyer: We will do but we can't go out and do repossession of all vehicles across the country.

Kunal Shah: Not very aggressive.

Ramesh Iyer: Yes. So we will be conscious but like every year that we do in the fourth quarter, third-quarter, we will take that view and we will do some repossessions but I continue to believe that this market is going through pressure circumstantially and there are no intentions not to pay and therefore we will continue to live with the customer, we will not reschedule a contract even if we go through the pressure of provisioning because we know once the market conditions change we will get all of this coming back to us.

Kunal Shah: When we look at it in terms of disbursements so it would be seasonal in nature but still there is a fraction which is coming through in terms of disbursements.

Ramesh Iyer: Let me clarify that again and I said it in my initial remarks that there are four or five states which are doing well and the growth has come from those states. The states where we have a

NPA those states even from business point of view are not doing well and the states are Karnataka, Kerala, Tamil Nadu, Maharashtra, MP and you can correlate this number to every other OEMs number as well and you will find tractor sales in this market and car sales in rural market, two wheeler sales in rural market of these states have also shown decline.

Kunal Shah: So that is the reason maybe the growth is not getting correlated with improvement in the asset quality.

Ramesh Iyer: So if we were to look at NPA in the growth states of business the NPAs are not as high possibly as the states that we are referring to where there are no growth.

Kunal Shah: In terms of the disbursements on the rural housing side, so last 3-4 quarters it's just been in the range of 340 odd crores but obviously the potential is huge, now we have the entire team in place. So you mentioned may be they are like similar states which are impacting housing portfolio as well. But that's the only reason wherein we are not seeing any growth coming.

Ramesh Iyer: There also on a controlled growth because while they are present in 8-9 states the contribution comes from 4-5 states.

Moderator: Our next question is from the line of Gaurav Agarwal from ENR Advisors. Please proceed.

Gaurav Agarwal: Currently we recognize GNPA on 135-day basis, right?

Ramesh Iyer: That's right.

Gaurav Agarwal: And this **39085** **22.48**crores is on the same days?

Ramesh Iyer: Yes.

Gaurav Agarwal: Can I have this 150-day number? Can I add this 248 crores to get the 150 days basis GNPA?

Ramesh Iyer: You can.

Gaurav Agarwal: This 50.5 crores of provisions which includes income de-recognition, can I have the two amount separately, the income de-recognition part and the……

Management: 19 income reversal and 31 provision.

Gaurav Agarwal: Can I have a breakup of the provisions in terms of write-offs, standard assets and for NPAs?

Ramesh Iyer: I think write off will be some 30-40 crores. One minute. Or if you have Rakesh's number or somebody's number if you can call so that we don't hold everybody in the queue?

Gaurav Agarwal: No problem, thank you so much.

Moderator: The next question is from the line of Anita Rangan from HSBC Asset Management. Please proceed.

Anita Rangan: My first question was around the fact that you mentioned about repossession of assets so in that sense when you repossess the assets will it be at the book value of the loans or the entire loans will be written off, will you repossess at that stage, I mean I want to know what stage will you repossess the assets?

Ramesh Iyer: Repossession is at any stage. On the stage when repossess what's the stage of the book is what we can look at. So as I said let's take all our NPA, it's a macro number, suppose we take all our NPA and if you were to say we are already having a 56% or 57% cover, therefore the balance of that book will be close to something like 2000 crores and the underlying asset by value will be much more than that.

Anita Rangan: Just also on the repossessed market at this stage there are lot of players in the market also who are like repossessing assets and trying to sell them……

Ramesh Iyer: Not in the rural market. I think that's a very urban phenomenon where people have lot of stock. As far as rural market is concerned it is not flooded with stock and I am re-clarifying at least our position that we do see the customers are able to pay as either one or part instalment on a monthly basis. They are not earning enough to clear their past dues and the past dues are continuing to carry provision and when they change bucket we make higher provision and therefore we think these are customers who are circumstantially under pressure and repossession may not be the right answer given the situation. Having now reached a stage where even the asset is able to protect the principle we will go for selective repossessions after negotiating with the customer that in case he doesn't settle all he wants to surrender the vehicle we would be willing to accept and transact on that.

Anita Rangan: The cost to income ratio has gone up on the comparative 9-month basis itself.

Ramesh Iyer: Income has come down, the cost has not gone up by itself but when the income is net of let's say the reversals, etc., and therefore it looks to be and therefore it may be necessary to look at it also from cost to the assets rather than just cost to income.

Moderator: The next question is from the line of Amit Premchandani from UTI Mutual Fund. Please proceed.

Amit Premchandani: Can you give us the number of contracts which are delinquent?

Ramesh Iyer: About 1,45,000-1,46,000 contracts are delinquent.

Amit Premchandani: And what was the corresponding number last quarter?

Ramesh Iyer: Last quarter was 1,29,000.

Amit Premchandani: This 16,000 odd contracts getting added every quarter, was that the run rate even last year around that number?

Ramesh Iyer: This year slightly more because the norms have changed from 150-135 days but if you were to normalize it for 150 days I think it would almost be the same.

Amit Premchandani: In 0 to 30-day due bucket, what are the trends, have the trends changed over the last 1 year?

Ramesh Iyer: Between 0 and 30 days we have about 70% of our contracts remaining in that bucket. I think they continue to be there.

Amit Premchandani: So 30% of the contracts are kind of not paying at least 1 day past due?

Ramesh Iyer: Yes. This is again historical, it is not now.

Amit Premchandani: And 30 days past due the number could be same, that means 30 day past due number would also be same over the last one year?

Ramesh Iyer: Number won't be same because the base number has changed. One year back we had 15-16 lakh live contracts today we have something like 18-19 lakh live contracts.

Amit Premchandani: My question was with regard to the percentage of assets.

Ramesh Iyer: I think more or less it will be. When is say 70% it's in the 0 and 1 month bucket.

Amit Premchandani: That means underlying basis there is no change in the last 2-3 years in the business and slippage continues to be at the same pace.

Ramesh Iyer: It is not at the same pace. Now the slippage is slightly more.

Amit Premchandani: There are no signs of any improvement. So coming from that are you thinking about changing the asset side of the balance sheet or moving into the different segments?

Ramesh Iyer: What segment can be moving to, you tell me. In rural market it is going to be vehicle, tractors, cars, second-hand vehicle. See, I think strategy cannot be changed just because temporarily there is a pressure. We have recognized a number pricing 3% write-off and we don't think we are going to be under pressure beyond that. The NPA provision norms may change, aggression may come in, we may delay……supposing we were continuing repossessing the vehicle and booking the loss. We would have booked 3% loss and the NPA would not have looked where it is looking today. Like let me give you one just quick number, last year we used to repossess including customers surrendering about 4000-5000 vehicle a month which is 60,000 vehicle an annum and we used to transact almost something like 40,000 odd vehicles which therefore bring down the overall NPA number and the loss was booked. Now if you kind of look at it, we have decided not to repossess that number of vehicles because the customers are able to service some loan every month, they are not earning enough to pay the full instalment or even the past instalment. So that cannot kind of take you away from your fundamental strategy. You have to transactionally handle them for some time until the market conditions improve. Now we have reached a stage through coverage of provisions are 56-57% covered. Now we know that the underlying asset has an ability to even protect the balance principle. Now we will decide out of this in which market, which customer, which product, if the customer is unable to service it for any further, how do we handle it even by repossession.

Amit Premchandani: And this will also lead to a provision reversal, right?

Ramesh Iyer: Going forward.

Amit Premchandani: So when do we see that coming into play because of these repossessions?

Ramesh Iyer: I don't want to put a date number and a quarter to it and somebody asked this question at the beginning as trend, but I think no sooner we see demand for new vehicles pickup without discounts, that is a very is strong indicator of the cash flow and the market improving and we have seen it in the past when volumes pick up, collections pick up and reversal starts happening.

Amit Premchandani: Are you seeing any trend of excavator demand picking up because we are hearing some newspaper reports that…..

Ramesh Iyer: Excavator demand and tipper demands have gone up in UP, Bihar, Rajasthan and NCR and Andhra, Telangana and parts of Gujarat.

Amit Premchandani: In that sense demand generally has improved…

Ramesh Iyer: In these states, the states which are causing trouble both in terms of growth and NPA even for us are Kerala, Tamil Nadu, Karnataka, Maharashtra, MP, and Assam.

Amit Premchandani: On a net basis, on the delta basis over all country wise these states which are showing improvement should have a higher weight as compared to those which are showing deterioration?

Ramesh Iyer: Not on a book basis but if you look at this quarter when we said 19-20% growth which has happened the larger growth has come from these five or six states.

Moderator: Thank you. The next question is from the line of Umang Shah from Emkay Global. Please proceed.

Umang Shah: In terms of our earlier thought process of migrating from 135 to 120 days NPL recognition by March 2016 do we still stick to that or we would defer that?

Ramesh Iyer: If you confirm that what we are now is not bad and acceptable to you we will move towards 120. Consciously we still believe we should move to 120. Direction is towards that otherwise we would not even have moved to 135 so it is not about intention but it is also about the market condition.

Umang Shah: Second clarification, our presentation mentioned that our provisioning norms are from 5 months to 11 months but I believe that our provisioning also starts at 135 days?

Ramesh Iyer: Yes.

Umang Shah: So NPA recognition as well as provisioning is at 135 days outstanding basis.

Ramesh Iyer: Yes.

Management: There is an asterisk mark and note given below that the provisioning is starting from 135.

Umang Shah: In our presentation, in our NPL slide that we have wherein we have put in with an asterisk mark that incremental additional assets because of accelerated recognition has actually dropped from September quarter to this quarter if I look at the stock of gross NPLs actually that have gone up so is it that we are seeing, was not able to correlate that.

Ramesh Iyer: Simply put we moved to 135 in the last quarter itself therefore there is no significant impact in this quarter due to 135 days.

Moderator: Thank you. The next question is from the line of Karthik Chellappa from Buena Vista Fund. Please proceed.

Karthik Chellappa: What would we our gross NPA ratio be if we were to move to 90-day today?

Ramesh Iyer: Why you are insisting to scare us?

Karthik Chellappa: We have already got scared so let us get scared fully.

Ramesh Iyer: About 25% higher than the current levels, you can take. (Edited for facts)

Karthik Chellappa: My second question is slightly a strategic level question, in the last 6 to 7 quarters we have invested significantly in branch infrastructure, employees and focusing exclusively on collection while the macro has been bad if you look at the states that you just mentioned and if I look at the few NBFCs who are more levered to those states than the others their NPA has not been as bad as ours, how do we reconcile this?

Ramesh Iyer: I think they are not in the same product line, I do not know which companies you are referring to but in the states that I referred to both as good and bad states we do not have any NBFC doing products like tractors or LCVs in that market or three-wheeler in that market to a segment of customers and in the rural geography that we are actually present. Yes, there are many NBFCs in the same state, there are many NBFCs doing some of these product definitely not in the same location that we are in and secondly many of them are not even in the product that we're in. If someone is in let us say consumer durables or someone is in loan against property, etc., we do not think those products are behaving the same way because they are not into that deeper pockets of geography into the same segment of the customer.

Karthik Chellappa: As far as our collection efficiency is concerned you mentioned that you are more or less at the same collection efficiency on YoY basis so indirectly what we are saying is all our efforts in augmenting our collection infrastructure has been nullified by the bad macro is that the way to kind of interpret it?

Ramesh Iyer: If we had not built this kind of an infrastructure and gone this deeper maybe we would have had little more difficulty and higher cost of even recovery. You should look at that our overall overheads have not grown inspite of the book remaining stable which means that the deeper penetration is helping us to even produce the results that is happening today.

Karthik Chellappa: In one of the earlier questions as far as your outlook for demand is concerned you said that the demand outlook will look favorable when discounts are withdrawn as well as the higher LTV products kind of go away, at this point of time especially in an asset class like tractor are you seeing any sort of higher LTV products from any competitors on the ground?

Ramesh Iyer: High LTV has always been a very bank supported product and I think it continues to remain so.

Moderator: Thank you. The next question is from the line of Sonal Kohli from ENR Advisors. Please proceed.

Sonal Kohli: This quarter you saw about Rs. 250 crores incremental GNPAs because of change in accounting norms. Last quarter you saw was Rs. 295 crores so what is the reason for the drop if I subtract your 135 days versus 150-days difference is Rs.250 crores at the end of this quarter while it was Rs. 295 crores so what has this got resulted into this reduction?

Management: This is more of arithmetic, it is like more customers have moved into higher slippages bucket and not remained in the pocket of 135 to 150.

Ramesh Iyer: Let us say last year somebody was 135 if some of them have not paid the instalment they would have moved to 150 anyway and vice versa would have happened. It is more how the customer move up and down.

Sonal Kohli: If one was to go to let us say 120 days in next few quarters broadly what kind of incremental GNPA?

Ramesh Iyer: 5000 odd customers will come in.

Sonal Kohli: What would that mean in terms of GNPA?

Ramesh Iyer: Maybe Rs. 25 crores I do not know.

Sonal Kohli: Percentage 135 becoming 120?

Ramesh Iyer: We are at 135 if you go to 120 may be not 5000 it is 8000 to 9000 customers and then the value would be maybe around Rs. 30 crores – Rs. 40 crores provision types.

Management: GNPL will be around Rs.250 crores.

Sonal Kohli: So it is almost double what we saw Rs. 250 crores it will be another Rs.250 crores. I thought we were estimating much bigger numbers.

Ramesh Iyer: Somebody asked for 90 days.

Sonal Kohli: I am not talking of today I am talking of last to 2-3 quarters, I thought we were expecting about 2% incremental GNPA to book if we were to move to…

Ramesh Iyer: I think that is from 150 to 120, so if you're already booked 135 some effect has come in.

Sonal Kohli: Yes but it is only Rs. 250 crores so if I add to it only Rs. 500 crores. It is more like 1.3-1.4%. So the experience is better than what you thought.

Ramesh Iyer: Everything is an estimated can be even better than this if one more state becomes normal.

Sonal Kohli: Or is there any other angle to it?

Ramesh Iyer: Like what is in your mind?

Sonal Kohli: I do not know that so I'm asking you?

Ramesh Iyer: There is no other angle, ultimately these are the customers who have to earn to pay and if we estimate something on certain basis and if the market conditions change the numbers fall and if the market conditions go negative then the numbers move up.

Moderator: Thank you. The next question is from the line of Adesh Mehta from Ambit Capital. Please proceed.

Adesh Mehta: Why are yields so much declining on YoY basis, I do appreciate the fact that we have moved from 150 to 135 DPD but even post adjusting for that difference it does not basically add up, are we seeing some competitive forces playing out in the kind of geography?

Ramesh Iyer: No nothing. There is zero competition in as far as volumes are concerned I do not think that either lending rates or declining volumes is an outcome of any competition at all. One is it could be caused by a product mix change, let us say the pickup is more in personal segment or pickup is more in let us say a commercial vehicle as against tractor or as against the UV then the yields are bound to come down because they are at different yield rates. So I think it is a product mix which is causing it at this stage we still do not see any pressure of margins coming from a competitive pressure.

Management: As income reversal piece which is a sizeable on account of higher NPL.

Adesh Mehta: What is the definition of collection efficiency because many times we hear that the collection efficiency is stable but still the NPAs are going up?

Management: It is the collection over the current demand that is the demand for the month that is the definition.

Ramesh Iyer: If Rs. 100 has to be collected as a monthly demand from customer whatever we collect that as a percentage.

Adesh Mehta: In terms of operating cost are we seeing it going up over the mid-term given that we have seen quite a bit increase in our feet on street as well, so should we seeing this trend sustaining?

Ramesh Iyer: Yes, this is now a kind of stable for some time, we have added people already, addition of people does not really push up the cost substantially unless everything else is also added to that like more branch, more vehicle. So just people added to the existing branches will not push it up so to the extent that we have added the branches the cost is already matured and come in.

Moderator: Thank you. Our next question is from the line of Sandeep Jain from Sundaram Mutual Fund. Please proceed.

Sandeep Jain: Just to harp on the one of the analyst's question when we are saying in our presentation slide that the GNPA from the last quarter when we have migrated from 150 to 135 days Rs. 290 crores and now we are seeing Rs. 254 crores. Is that that 135 days are more contracts are moving from 135 to 150 days and lesser contracts are moving from 90 to 135 days or 90 to 120 days?

Ramesh Iyer: Correct.

Sandeep Jain: But our provision has increased because of the bucketing. In terms of bucketing wise can we get that which bucket is decorating more so that our provision is very high in that?

Ramesh Iyer: The very fact that the coverage is going up it means existing customer moving up is what is happening and not too many new customers are coming into NPA. So there are three types of impact that happens one is remain in the same bucket but move up in instalment there will be some provision coming in, second is when something goes from let us say they were already in 10-9 -8 type buckets which moved to 11 and 12 we straight make 50% provision and that is how the jump will be seen, I would assume some of them will be that which are already at a very high level up there moving one bucket up will straightaway take the provision from 10 to 50% which is why coverage is moving up.

Moderator: Thank you. The next question is from the line of Kunal Mehra from MSD Capital. Please proceed.

Kunal Mehra: You have got disbursement growth of 19% and you had broken your broad market into almost equal number of states that good and the bad, is it fair to assume simplistically that the growth in the good states is almost close to 40% range on disbursements?

Ramesh Iyer: No it does not mean that in other states that are absolutely no growth will not be the story..

Kunal Mehra: I am assuming 5% growth in other states nothing more than that given all the assuming you want more than that.

Ramesh Iyer: Yes about 5-7% must be.

Kunal Mehra: So 30 to 35% move for that disbursements in the good states?

Ramesh Iyer: Now let us come to the second one that when you say growth rate it is over the previous year. The products like tractor, three wheeler have all gone down and what we have got in terms of growth is all big vehicles like XUVs, Scorpios and some commercial vehicle in this developing states who are by value almost 2.5-3 times so if you look at our number growth in the number of growth is only 5-7% it is the value growth which is higher.

Kunal Mehra: In the product mix XUVs, Scorpio mix are we changing our LTV requirement the way they are expecting from the customers versus what we had on average a year ago?

Ramesh Iyer: I think it is continuing, 75-77 is our LTV except that the yields will be bit different therefore you see some yield pressure that you are witnessing.

Kunal Mehra: When you had mentioned yields the pricing assumes about 3% NPA?

Ramesh Iyer: The credit losses. 3% credit losses not NPA.

Kunal Mehra: Right now if we just do some back of the envelop number of contracts that have been slipping away take that numbers say 21-22-25000 levels versus incremental adds that number directionally trending at 4.5 to 5%, are you therefore in light of that trends comfortable with the 3% write off number or you think you mainly to tweak that in the coming quarter?

Ramesh Iyer: No sooner you repossess these vehicles out of these contracts the realizable value that you get and the net write-off that you will have will not be more than 3%. So when you take the NPA and as it is you take it easy as it is 4-4.5% but there is an underlying collateral the credit of which is not considered.

Kunal Mehra: There is a lot of chatter about buckets I will pick you down lower end of the buckets, if you look at say the way this **(Inaudible-47.47)**sustaining around the 70% for us. If I look at the buckets immediately above that can you directionally tell us how exactly is playing out, is it seeing a greater jump or is it moderating or is it staying at the same signal?

Ramesh Iyer: I think between 2 and 4 bucket they will kind of be around the same if you were to club all of them but if you are to split between 2-3-4 as three different buckets then there would be some shift in in these five states that I talked of there will be something moving towards 3-4 and the five performing states the 2 would be higher.

Kunal Mehra: 2 just to clarify is 30 to 60

Ramesh Iyer: Yes. That is right.

Moderator: Thank you. The next question is from the line of Nischinth Chawathe from Kotak Securities. Please proceed.

Nischinth Chawathe: Can you share GNPL number in the housing finance business?

Ramesh Iyer: It is about 11%, but we will re-clarify.

Management: You can speak to us we will share you the number.

Nischinth Chawathe: Are you able to see difference in the delinquency levels for loans which are originated across different periods, what this means is that if you have originated a loan in 2013 versus loan originated in 2014 in the same geography, in the same asset class is there a different probability of delinquency?

Ramesh Iyer: I think delinquency currently is neither by product nor by year, I think it is by geography.

Nischinth Chawathe: But I guess some change in the LTV ratio etc.

Ramesh Iyer: In what?

Nischinth Chawathe: I would assume that there would be some change in the LTV ratios over the last two years.

Ramesh Iyer: If you look at our LTV range the range is anywhere between 70% to 73% to 77% so that 2-3-4% or even the lending rate of let's say 14 to 16 IRR are never the factor for NPA. The factor for NPA are the customer's ability to earn enough to be able to service the loan.

Nischinth Chawathe: Ok. One clarification, the additional provisions including income derecognized I think what you mentioned this quarter is around Rs. 50 crores, last quarter for the same number was around to the 60 crores..

Management: This is a clarification, this 50 is run down version of 60, if you calculate it based on from 150 to 135 what were the number of customers on that what is the provision value, on a cut-off day of September it was Rs. 60 crores and on cut-off day in December it has come down.

Nischinth Chawathe: Had that been exactly a similar number then I guess your provision would have been higher by another Rs. 10 crores.

Management: Correct.

Ramesh Iyer: It would have been the same which means the customer has either moved up or gone out.

Moderator: Thank you. Our next question is from the line of Jignesh Shial from Quant Capital. Please proceed.

Jignesh Shial: Can I get the gross slippage number for this quarter and for the nine months, the total slippages?

Ramesh Iyer: By absolute number September end we had 129-130 number which has gone to 146.

Jignesh Shial: Just clarifying that on the margin front you are not seeing any major competition threat on the yields side specifically and it is more to do with change in the product portfolio mix probably little on the NPA side which has reversed the interest income that is the reason there is a bit of pressure on margin but not on the competition side.

Ramesh Iyer: No. If you look at our market share we have retained, we have not tried to gain market share or anything from this market there is no pressure on that front.

Jignesh Shial: With incrementally overall cost of funds, the bank borrowings being your major part there is a tendency that probably the cost of funds would be declining gradually for you so you might see margin improvement coming up for you or probably would be passing it on to the customers?

Ramesh Iyer: Normally not at every stage we need to pass on and currently honestly there is no pressure on the lending rates to be brought down because of the rates. So maybe for couple of quarters if it comes down we may be able to retain but if the drop had to happen let us say 100 bps then there will be some pressure built to at least pass on 50 bps.

Jignesh Shial: If I am seeing it correct there had been a decline on YoY basis as far as your tractor book is concerned whereas your pre-owned vehicles are seeing a little bit of uptake as well as cars segment also is also seen an uptake. Any specific reason for this decline in tractor or it is purely related to your macro related and a poor monsoon season or any other factors also playing out that cautiously you're doing this particular strategy?

Ramesh Iyer: No, tractor volumes the OEM volumes itself is down, the industry is down for the last almost 1 1/2 years so that is impacting us as well because we are not wanting to go aggressively to gain market share to protect volume. We are just retaining the market share, now the growth preowned vehicle is an outcome of also of our direct marketing initiative if you recall in the earlier conferences we have said where we reach out to our customers directly and through them to many more customers in the same location who may be interested in buying some of the preowned vehicle either sold by our customer or any other vehicle that may be available so that has helped us gain some volume in that segment.

Jignesh Shial: So when you are doing recoveries, getting back the vehicle that you already sponsored due to NPA and then you refinance it that particular vehicle also be coming into preowned?

Ramesh Iyer: It is not necessarily only that there are many-many more, in a month we are doing something like if I am not wrong 8000-9000 vehicles we must be doing preowned vehicles, tractors altogether.

Jignesh Shial: That I understand but that also is part of this particular portfolio?

Ramesh Iyer: Yes but 400-500 vehicles repossessed, vehicles when we sell monthly people want some finance, the new buyer wants the finance that also extends.

Jignesh Shial: Can I get the overall total disbursement growth number for this particular quarter YoY?

Ramesh Iyer: I think it is 19% is the growth.

Management: Value of asset finance is Rs. 7972 crores for the quarter.

Moderator: Thank you. The next question is from the line of Manjeet Pawaria from Solidarity Investments. Please proceed.

Manjeet Pawaria: If you could share in the percentage of coffee AUMs in the five states which you have mentioned which are very stressed right now?

Management: We have not shared this data as per the current regulation requirement we will have to first share it in the public domain before sharing specifically on the call.

Manjeet Pawaria: Ok if you do that at some point of time it will be very helpful.

Management: Yes, we will take this input.

Manjeet Pawaria: Second question I had was last time if I go back in the company's history similar stressed situation in the rural economy was sometime in 2008 and 2009. So just to draw a parallel how would you looking at it today, is it better than then or the factors different from what they were because of the drought conditions?

Ramesh Iyer: If you look at 2007 we were first of all not a multiproduct company then we were largely dependent on farm customers while they bought vehicles but they were all farmers and we were almost a kind of just UV and tractor types we were not into so many products. Currently the situation is more to do also with the economic activity which is so infra based like today if you look at tractor 30-40% of cash flow comes from non-farm application. We are into cars, we are into LCV's, we are into many more UVs so I think it is slightly different and I think the geography is also not same. I remember 2007-2008 it was largely from UP, it was Gujarat, it was Rajasthan and I think part of MP but now the states have also changed it has become more South that time it was North - North West.

Manjeet Pawaria: One final question I had medium-term history FY 14 onwards our interest expenses as a percentage of AUM is roughly been in and around 7% but our interest income as a percentage of AUM has declined consistently over the 10-12 quarters.

Ramesh Iyer: The higher NPA causes the reversal of income of that NPA from the topline. If it is normalized for that then I think that has to also not declined as much.

Manjeet Pawaria: Once the fundamentals change it should come back to the original?

Ramesh Iyer: To that extent and the second is product mix change will bring some pressure on the income because there are different yield levels.

Moderator: Thank you. Our next question is from the line of Lakshmi Narayan from Catamaran. Please proceed.

Lakshmi Narayan: You mentioned that disbursement growth for this quarter, but if you look at the disbursement growth for the last 9 months which of your assets have actually grown larger whether it's been the tractors or the cars or UVs?

Ramesh Iyer: Commercial vehicles have shown some growth, pre-owned that is second-hand vehicles have shown some growth, cars have shown some growth otherwise tractor actually has remained flat or negative and UV also has remained flat or marginally negative.

Lakshmi Narayan: In terms of stress as well as incremental stress which of these four things you're actually seeing much more prevalent is it the CVs or cars or commercial vehicles?

Ramesh Iyer: It is largely CV, tractor and three wheelers and quick reason for that is both tractor and CV is very infra and farm-based and the three wheelers are very -very local economic activity based and when I say three wheelers they are small goods carrier for traders locally.

Lakshmi Narayan: You chose not to chase market share in terms of your disbursement. As we stand what is our market share in terms of tractor market financing?

Ramesh Iyer: We were last 5-7 years I think we are anywhere between 29-30% about 31-32% types of M&M sales. We are not of the overall market if you look at from the overall market M&M is 50% so we will be about 12-13% of the overall market.

Lakshmi Narayan: So essentially Mahindra and Swaraj put together you are 31% of the market.

Ramesh Iyer: That is right. Swaraj is 2% less we are about 27% odd and in FES they are at about 31-32% therefore the average of 29-30% types.

Moderator: Thank you. I now hand the conference over to Mr Singh for closing comments. Over to you Sir.

Karan Singh: On behalf of JM Financials I would like to thank Mr. Ramesh Iyer and the senior management team of Mahindra and Mahindra Financial Services and all the participants for joining us on the call today. Thank you and goodbye

Ramesh Iyer: Thank you.

Moderator: Thank you very much member of the Management and Mr. Singh. Ladies and gentleman, on behalf of JM Financials that concludes today's conference call. Thank you all for joining us and you may now disconnect your lines now.