



“Mahindra & Mahindra Financial Services Limited
Q3 FY-18 Earnings Conference Call”

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MODERATOR: **MR. KARAN SINGH – JM FINANCIAL LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Mahindra Finance Q3 FY18 Earnings Conference Call hosted by JM Financial Institutional Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Karan Singh from JM Financial. Thank you and over to you, sir.

Karan Singh: Thank you. Good evening everybody and welcome to Mahindra & Mahindra Financial Services earnings call to discuss the third quarter results. To discuss the results, we have on the call Mr. Ramesh Iyer who is Vice Chairman & Managing Director; Mr. V. Ravi who is the Executive Director & CFO; Mr. Dinesh Prajapati who is Senior Vice President-Treasury & Corporate Affairs and Mr. Vishal Agarwal who is the Senior Manager (Treasury & Investor Relations).

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: Hi everyone, thank you for joining the call. You must have already seen the result so I am not wanting to kind of deal with individual numbers but I would like to kind of take you a little back to what we have been saying for the last two quarters after we started seeing things moving in the direction that we saw it was moving.

I am happy to state that the way we scripted the possibilities is the way it is panning out and therefore you can see the results also in that direction. Now what are the things that we see and we believe that they are the fundamental trend change, I would one, think that the rural market continues to respond to the positive farm cash flow and the sentiments continued to hold positive and this has been one of our past statement to say that if the monsoon turns out good, if the yields are good and if the support price announces average plus, then one would witness that the rural sentiments will turn positive, consumption story will begin to happen. In some form we are clearly seeing that happen.

I must at the same time bring out to your notice that while we are registering a growth in our disbursement, in our AUM, etc., but the underlying industry whether it is the overall auto industry, whether it is the truck industry except possibly the commercial vehicle industry which is more aggressively growing, I think the other industry is still growing at 8%, 10% kind of a story and they are more backed, at least the car industry is more backed by personal segment, urban launches, new model, etc. etc., of which Mahindra Finance is not a direct beneficiary.

So our strategy of remaining closely penetrated into the villages and very close to the customer through our branches and with our local presence, continuing to remain our strength and that is helping us maintain a growth and in this quarter if we had added disbursement growth of about 17%, it has come at the back of gaining some market share for some products as well as the kind of commencing our growth on other products which are reaching out to the rural market.

So our strategy will continue to remain that we will continue to penetrate deeper. We have not added too many branches in the last one year while we have had about 200 odd collection branches. As things change now, we do believe that some of these branches will get converted also into a business branch and we do have an approach that in the next three months, four months, six months we would add close to about 100 branches which will commence to happen from February.

So the branch penetration, going closer to customer, multi product approach working with every dealership of all the OEMs, using our existing customers and through them to generate more customers in the local market, will continue to remain the story of our growth. We have had extensive discussion with various OEMs in the changing scenario and we are happy to state that they continue to believe that we are one of their most important strategic partner and that has helped us get some volumes in the Renault type products, Nissan and all these products. And Maruti with their Nexa entering the rural market, I think open close to about 250 dealership and in one month that they have operated from we have had a number of about 500 odd vehicles in Nexa that we have done already.

And therefore if their growth story comes from these showrooms, we do believe that will remain another growth story for us. Normally the fourth quarter is one of the best quarter for our kind of business especially in the rural market and we have not seen any adverse signals to believe otherwise. So we think that the fourth quarter will turn out to be an exciting quarter from the market perspective.

The OEMs are driving hard for higher volumes, they are continuing with their discounts as the inventory levels continue to remain high and they do see that with programs launched the volumes will definitely pick up in this market and if that was to happen we believe that we would be the beneficiary of the volumes that could happen.

The pre-owned vehicle has seen a little subdued traction in the last couple of months after the GST introduction because the rate for pre-owned vehicle remained very high. Until just couple of days back where there has been a clarification of the change of rates. We do think that this change of rates will make that business once again look up, while I may not want to say it will go back to its original position because even now the brokers are not as participating in this business. It is a very organized player game now and therefore the volumes may be not as high as in the past but definitely would be higher than what we have seen and we have a very clear focus on growing this business, either our customer selling vehicles to another buyer of the vehicle would be one program or using the True Value or Mahindra First Choice Wheels outlets is the other program, as well as some of the organized brokers who convert themselves

with the registration to participate in this business. So I think pre-owned vehicle will remain one.

Commercial vehicle turning out to be a new story they have registered a very high growth rate from the market while it is still bought by strategic customers they are not necessarily our segment of customer but from the semi urban rural market we do see midsized operator, midsized contractor adding volumes and we do get some benefit of that and therefore in this quarter the growth is driven by commercial vehicle growth that we have had.

Amongst various segments of our, commercial vehicle has registered a decent growth for us and we do think that that will remain to be a good story to look at. On the tractor industry front again, we have moved from beyond Mahindra and Swaraj tractor financing and we are averaging upward of 1,000 plus tractor for non-Mahindra tractors. So that is another storyline for us to add to our growth. But even more importantly we have become a significant player in pre-owned tractor financing and where we are averaging upward of 1,500 to 2,000 plus tractors. Certain months we have had volume going even beyond 3,000 tractors.

It is a very, very large market but one needs to be very close to the customer. We need to know the quality of the asset that is getting sold as well as one needs to know who is selling it to whom and that is a direct advantage and that does not have any competition around since we are one of the most significant player as far as tractor financing is concerned.

Net-net I would think the disbursement excitement continues to remain. I think after about two years of over follow up on collections and trying to maintain quality, the last three quarters has registered growth and we do see trajectory going in the same direction. And that is our belief and we think that we will continue to remain focused on growth as well.

I would not want to say that the quality has completely improved and everything is back to kind of its original position. But clearly we do not see any increase in the NPA for the last three quarters despite to the fact that we have moved to 90 days. I think our NPA gross has remained at what it would have been if it was a 120 day kind of a number which means there is an improvement of around 1% gross NPA and we do think that even in the next quarter trends remaining the same, cash flow supporting the way it is, we do believe we can do further correction.

We have had one kind of a commitment if you may call in the past that we were driving that is to keep the a gross NPA levels at around 10% which was our I think last year's March number was 9% plus on a 120 day basis. So we do believe we can drive towards that number and if that was to happen on a large asset base it would be a good reversal of provisions that could happen which is a direct improvement to our profitability leading to our returns improving substantially.

I think the AUM crosses Rs. 50,000 crores is another significant landmark from our point of view. While the AUM growth one may look at as a little subdued at 13% odd but it is also a net growth that there are contracts which mature and therefore the net being what it is.

But clearly AUM growth is the direction that we are willing to bet on and we see that is happening. I think the new organization structure that was put in place about a year, year-and-a-half back is yielding good results. There is clear focus on every activity and when we see support from the market activity wise, we seem to get a direct benefit of it.

On the liability side again I think we are adequately supported by all the banks as well as any other instrument that we borrow from whether it is the provident fund, the pension fund, insurance company bond, mutual funds. Everyone is very participative and we do see that availability of funds for a product like this is not been a challenge. With all your help and support we have adequately capitalized and as you see and we are on record to say we would have raised capital only for growth and I think that is what we are demonstrating having raised this capital.

So net-net I would put and then few points on our subsidiaries. I think they are keeping pace with growth. I do appreciate that the rural housing has had a similar NPA issues in the past but they also seem to be coming out of it. I think their problems are large only in one state which is Maharashtra and in the third quarter gone by they did see correction and in the fourth quarter you would see further correction to quality of asset even for them.

The insurance broking is of course is a fee based business and in the last quarter again they also had a 30% growth to their overall revenue, etcetera. On the P&L side there was I think one transactional entry of a long term benefit which was taken and therefore the net profit looked lower than previous but adjusted for that even the profit had a 30% growth.

I think all our businesses I would imagine are back to where it belongs to. We have gone through the most difficult times and with everyone participating and supporting us, I think we seem to have come out of it and the story of the business on which it was built fundamentally remains the same, closer to customer, understanding customer cash flow designing products and delivering at the doorstep and ensuring collection as the customer has money and in case of failure of the customer to pay and if intention, collateral management is the strength, circumstances partnering the customer is the strength.

So I think we would stay with that approach of partnership and we believe that with support from all the OEMs that we work with and with the reach that we have developed with the large team that has been focused, activity wise will help us kind of bounce back from where we left. So we measure ourselves from 2013-14 as we close the book to we speak today are we getting back to the growth story rather than measure our growth on the basis of book that got closed in 2016 or 2017.

I think that is the overall storyline. I would now open it up for Q&A where we can cover all the aspects of questions that you may have.

Moderator: Thank you very much. We will now begin with the question-and-answer session.

We have the first question from the line of Varun Saboo from Citi Capital. Please go ahead.

Varun Saboo: Just wanted to understand on the disbursement front there is a pickup which we are seeing. Is this faster than what you were expecting and are we seeing a similar trend or probably we are seeing disbursement should be even stronger from here?

Ramesh Iyer: So at the end of the day we are only an enabler. So if OEMs are going to sell more vehicles we do not see competition which is pressurizing us to do anything less. So I think, and our understanding is OEMs are going to run large programs in the fourth quarter because the inventory levels other than Maruti are still at a very high zone and we do see programs continuing, discounts continuing and the commercial vehicle as I just said in my initial talks, that commercial vehicle is doing well. Pre-owned vehicle which has remained subdued in the last three months will bounce back in this quarter with the GST rates getting adjusted. So I think we have reasons to believe that we would be very important and required by the industry. And if that turns out to be a good growth rate, the answer is, yes.

Moderator: Thank you. The next question is from the line of Digant Haria from Antique Stock Broking. Please go ahead.

Digant Haria: Sir, I wanted to check that I have seen that last two, three quarters your commentary has consistently been positive and now we have some proof of that rural cash flows are better because of two good monsoons. But sir, you have just stopped shy off saying that this is a strong trend which will continue for at least for like two, three, four quarters. So sir, what is it that is holding you from like saying that this is the trend or may be what should happen for this trend to accelerate? If you can just share your view on this.

Ramesh Iyer: If the English did not have a word if then I would not have shy off that comment. Unfortunately English has the word if, what to do. Okay, my comment would be as follows. Are we seeing in every activity, every geography, every trends leading positive; my answer would be, no. Let us take Karnataka, let us take Tamil Nadu, let us take Andhra as some example. I think things are not as good as one would like them to be when you compare them with may be other states. So unfortunately, it does so happen that Rajasthan, Gujarat, Maharashtra, MP are going in for or one has already gone for election, the others are going in. So the trends are very different from the ones which are not going in for election. Like UP has already finished the election so are we going to see infrastructure story as aggressive as they were going into election. So when we look at many, many trends of this nature I am not still very confident to say everything has got corrected.

But definitely our tone has become positive because we do not see negative trends while we do not see extreme positive trends. And that is one of the reason I always say that it would happen. Like between business and collection, I would be more confident today to tell you that our NPA growth would get arrested because we have already moved to 90 days in September and we need to ensure that they do not deteriorate any further. But at the end of the day for business I am depended on someone to do more vehicle and I do not want to be seen as someone who is trying to sell vehicle.

We are very clearly someone who is helping somebody buy a vehicle provided they have decided to buy a vehicle. So therefore, the if is more for our business and not for recovery. On recovery, I am very, very confident to tell you that at least the three quarters that we have seen the NPAs have not moved up and in spite of moving to 90 days we have not seen the same level of deterioration that we saw when it moved from 150 to 120 days. So therefore you must please read our comments from for business we are still cautious but on recovery we are little more confident that we were ever.

Digant Haria:

Sir, second question is that on the commercial vehicle side we were one of the very early ones to pull out or to go slow long back in 2013. So sir, now if the cycle is turning around like are we ready to capture the upside which will come in this segment say over next 12 months or so?

Ramesh Iyer:

So the readiness comes from even when we pulled out of the business we did not dismantle the organization. We had head of commercial and construction equipment continuing. We had the whole team continuing with us. We engaged them in to doing commercial vehicle, LCV, what you call JCB kind of backhoe loader and pickup range of vehicles and not go overboard on heavy commercial vehicles which became a very strong banking product because the people who are adding capacities are all large fleet operator, logistic companies and they were all asking kind of rates that was even lower than our net interest margins currently.

So it did not make any sense for us to be in that business and we forecasted that the industry will go through a bad cycle, not that we are great predictors of that but luck would have it went through that. So therefore we moved out. As we now get back into that we do not have to redo a big organization again for it. But I must tell you that even in this round you will not see us going and financing 100 vehicles to somebody. We even finance 5 vehicles, 10 vehicles to someone who is planning to buy 25 vehicles provided we see 15 vehicles are being funded by a financier who's acceptable to us.

Like if Sundaram Finance is giving 15 commercial vehicles to someone, we do not mind doing 5 vehicles to that fellow if he is buying 20 vehicles. But I would not be the single financier of those 20, 25 vehicles to those individual fellows. But commercial vehicle we will remain, I do not know what by number but we will be amongst the top 5 but we will be after the third. We will not be the first, second, third, fourth in that business for sure. Because there are stalwarts there and it is a very urbanish product, it is a large fleet operator product and therefore our volumes will continue to be about 7%, 8%, 10% of our total book. It will not be 15%, 20% of the book.

- Moderator:** Thank you. The next question is from the line of Abhishek Murarka from IIFL. Please go ahead.
- Abhishek Murarka:** Sir, so I have two questions. One is if I look at your pre-owned vehicles and notwithstanding the GST effect if I look back seven, eight quarters it has been around the Rs. 4,000 crores AUM mark and it is not really gone up or down much and especially in the last I mean 2Q to 3Q it is actually come off by about 8% sequentially. So the question is, what is the strategy there in this period of six, seven quarters we have seen other competitors grow that book quite aggressively. So what is it that is probably holding you back from growing that book?
- Ramesh Iyer:** So I do not know who are you comparing us with but I think pre-owned commercial vehicle must have shown that kind of a growth and our pre-owned does not have commercial vehicle in that number. Ours is basically UVs and cars and those kind of products.
- Abhishek Murarka:** And tractors would also be separate?
- Ramesh Iyer:** Therefore by value itself they will be very different.
- Abhishek Murarka:** And used tractors would be, pre-owned tractors would be captured?
- Ramesh Iyer:** That is part of that story.
- Dinesh Prajapati:** Since this car and UV, the end-to-end tenure of this loan is also mostly two year. So it runs off also equally fast.
- Abhishek Murarka:** And sir, on this SME and others now again there on a sequential basis there has been a sharp drop from almost Rs. 6,000 crores to Rs. 5,100 crores or Rs. 5,200 crores?
- Dinesh Prajapati:** So that if you recall in last call we had explained that there is an advance given to the dealer for the retail conversion and pre-festival period there is the advance level goes up. So if you see in the September call we had specifically said that there is an advance level which is higher to the dealers and which gets converted in the retail form once the billing happens to the retail customers. So effectively that translates that.
- Abhishek Murarka:** And sir, second thing is on the asset quality can you share some collection efficiency numbers this quarter versus last quarter on an overall basis what they were?
- Ramesh Iyer:** I think if I think right in this nine months we have never gone below 90% and it would have ranged between 91%, 92% to about 95%, 96%.
- Abhishek Murarka:** And that would compare with sub-90% or 88%, 89%?
- Ramesh Iyer:** It will be 4%, 5% higher than what it was the previous year. I mean because last year we should not forget that the demonetization screwed up to a 76%, 77% kind of collection

efficiency. So if that was to be normalized we would be 3% or so higher than previous year. But if demonetization taken together we will be at about 5%-6% higher than previous year.

Moderator: Thank you. The next question is from the line of Manish Ostwal from Nirmal Bang. Please go ahead.

Manish Ostwal: Most of my questions have been already answered. Only one question. In terms of our full year AUM growth and the gross NPA target, could you share those numbers?

Ramesh Iyer: So normally we will not want to put out a number that way. I can just add that if nine months has seen a 13% AUM, fourth quarter is normally one of the best quarters for us. So one can imagine it will not be below 13%.

Manish Ostwal: Okay and secondly sir, you said certain territories still you have some problem and in 2018 we will see certain assembly election. So do you believe that will have some impact on the collections?

Ramesh Iyer: So when we said certain states, we did not mention that they are states which are giving us problem. I think that was an answer to a question why certain states still do not show growth and therefore why are we little cautious about when we speak on growth. So I think it is important to understand that those states do not necessarily add to bad quality or they are not the ones dragging us down. But they are the ones who are not giving us confidence to speak loud to say growth across the country story. So that is one.

As far as the assembly, I mean the state elections are concerned, if the states spends lot of money on the infrastructure, it is a great positive. And around the election time of may be three days, one week kind of story, we have to be extremely cautious in repossessions and recovery of cash from the market. There is not big negative out of an assembly election.

Moderator: Thank you. The next question is from the line of Viral Shah from Credit Suisse. Please go ahead.

Sunil Tirumalai: This is Sunil Tirumalai from Credit Suisse. Sir, I have a couple of questions. On the tractor business we have actually seen quite a few of your competitors beginning to show good disbursement figure almost matching up with you to your numbers in a few quarters. I mean we always thought that I mean this is a segment where penetration of finance is fairly high, it is a dealer driven business and rural, etc., where your strength in franchise should be fairly strong. But looking at the peer's numbers there is a doubt that are the entry barriers really so high or is it something that this can also easily replicate. So your thoughts on that please?

Ramesh Iyer: Okay so while value may be similar or lower, first I am not sure whom are you talking but their value possibly will not be as high as ours. Even if they are they will not be for Mahindra and Swaraj tractors because we do not do competing tractor they have an edge over us in the competing brands like Massey Ferguson, Escorts or Eicher, Sonalika, these kinds of brands. So it is important to possibly look at the number by brand and look at the number by state.

And if what I think is the right than those are the brands that we are talking of then this must be companies which are very strong in Rajasthan, these are the companies which are very strong in Punjab, in UP, in Gujarat whereas they will not be possibly as strong in Maharashtra, AP or what you call Tamil Nadu, etc., where we have a decent market share. Now what you need to look for us is while we had a 30%, 35% market share for Mahindra tractors and Swaraj brand we have also started penetrating into the other brands.

So the way to look at it is what was zero for us has now become about 1,000 plus tractor or 1,000, 1,500 tractor monthly rather than looking at that others are doing about 2,000, 3,000 tractors which earlier they were not doing. And just to put the number right I think we are doing about 9,000-10,000 tractors, plus another 2,000, 3,000 pre-owned tractors together we must be doing not less than 10,000, 12,000 tractor a month.

I am not sure that other's number match up to that. But I am very comfortable that for Swaraj and Mahindra we do not see too many players around. We having 30%, 35% all other shares balance and we are now penetrating into other tractors for our growth. All this said I think there are many more players in tractor financing than they were before and they have come not to take away from us but they are taking away from the nationalized banks who are going pretty slow.

So if you look at the 100 tractors sold and you look at one to two year back you would find all the nationalized bank and you will find Mahindra Finance and may be one or two companies. Now you will see all these players have come in and you will see the number for nationalized banks have come down substantially. So it is their number which is being taken. So one should wait and see when nationalized bank come back into tractor in a big way how that industry is going to behave and who is going to gain or lose.

Sunil Tirumalai: Just to clarify I mean if there are 100 tractors sold in the country how many would be on finance and of the financed what would be your share?

Ramesh Iyer: 101, tractor industry is that way. Some tractors get double financed also. So therefore it could be 101 but on a real term it will not be less than 80%, 85% of that.

Sunil Tirumalai: And your share of financing?

Ramesh Iyer: So we do as I said Mahindra tractors we do about 32% odd, 15%, 16% of the industry will be with us because Mahindra is about 45% of the industry so that gives us 12%, 13% and another 2% we get from the other products.

Sunil Tirumalai: My second question is on your spread's movement which has been quite impressive this quarter. Just wanted to get a sense on yields, funding costs, what are the trends you are seeing, what is the outlook?

Ramesh Iyer: I think the spread is an outcome of also a benefit of income reversal whereas our yields have always remained in the range of 17%, borrowing cost has come down so may be the average

borrowing cost could be 7.75%, 8% or so or may be even 8.25%. So to that extent the spread might be there but if our NPA continues to show trends of decrease or stability then you will continue to see the NIMs remaining there because the income reversals then would not be high.

Sunil Tirumalai: And the reason for the OPEX being quite high, there was a bit of surprise?

Ramesh Iyer: Is it high, okay it has not come down may be?

Sunil Tirumalai: Well, okay on a quarter-to-quarter basis it grew faster than usual trend. So just want to understand what is your view? It is up about 16% quarter-to-quarter which is any one-offs over there or is that a sustainable base?

Ramesh Iyer: I do not think there is any major one off in that. Are you talking of including the salaries and all that employee overheads included then one of the reason is, normally our increments are announced pre-September and this year we had delayed it waiting for a better performance and therefore the increments were done only in this quarter. And that is a one off entry if you may think and that cost had reasonable impact. And that would not be there in the next quarter for a fact.

Moderator: Thank you. The next question is from the line of Hitesh Gulati from Haitong Securities. Please go ahead.

Hitesh Gulati: Sir, my question is on your CV and CV book. So I wanted to understand what proportion of this would actually be construction equipments and in construction equipments what are the exact sort of equipments that we are financing? And also on the CV side, are these the large trucks or what is the exact nature of the CVs that we are doing?

Ramesh Iyer: So construction equipments we are mainly only into backhoe loaders which is either JCB machine or Mahindra what you call that as Mahindra EarthMaster. And that is the equipment and therefore they are not large contractors. They are midsized contractors who are sometimes subcontractor to the main contractor kind of a consumer forum. So far as the overall book of commercial vehicle, construction equipment together is about 7%, 8% and I would imagine construction equipment would be 1%, 1.5% kind of a thing. Not beyond 2% for a fact.

As far as the mix of the commercial vehicle is concerned, we do have heavy commercial vehicles, mid commercial vehicles, some tippers into that as well as LCVs and the pickup kind of a vehicle non-Mahindra which are also a part of that story. Therefore we never call ourselves as significant commercial vehicle player. So we are in the industry but we are a mix of all of these.

Hitesh Gulati: Sir, what proportion will be M&HCV, LCV and tippers do you have those numbers?

Ramesh Iyer: That is too much of an analysis but I would still think that if we are doing Rs. 500 crores a month, this is a just my estimate. Please do not hold me to reconciliation on this. But I think

about Rs. 100 crores, Rs. 125 crores would be commercial vehicle rest will be mix of everything like construction equipment, pre-owned vehicle, LCV, Pickup all kinds of things. May be Rs. 25 crores, Rs. 50 crores here or there.

Dinesh Prajapati: 50% is the smaller segment which is LCV Tata Ace and all those kind of segment. And 7% what Mr. Iyer expressed is HCV and CE put together.

Ramesh Iyer: So just to kind of since you are asking why will this breakup be of interest to you, just I mean more as a clarification?

Hitesh Gulati: No, just because in the past we had highlighted that we have pulled out of the CV segment so trying to understand what are the segments you are looking to get in to?

Ramesh Iyer: You can continue to believe that we are not supporting the large fleet operator, logistic companies those kind of segment which is not our edge at all.

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

Kunal Shah: Sir, I joined the call later so I do not know if you have addressed it earlier. But firstly in terms of the write off number what would have been in this particular quarter?

Ramesh Iyer: One more question is there?

Kunal Shah: Yeah, the other one is if we look in terms of the trend between the 90 and 120 so on a quarter-on-quarter movement there is not much of a change bid in terms of the number of contracts under NPL in 120 day category. But in 90 there is substantial improvement. So is it to do also with the change which has happened at the ground level in terms of collection efforts getting into this 90 day norms? Is it a reflection of that because may be otherwise moment should have been at least?

Ramesh Iyer: No, let us first of all be clear because somebody says from tomorrow NPA 60, customer is not going to pay. He must have the money to pay.

Kunal Shah: Yeah, that is what we have been saying all through that?

Ramesh Iyer: And I will continue to say that. Now let me explain to you 90 versus 120. And this again I have said any number of times in the past our customers, at any point of time has an ability to pay only one installment. So when somebody is in 90 day and he pays one installment it does not become an NPA and when somebody is on a 120 he is also paid one installment but he continues to remain in NPA. That is the way you have to look at.

And therefore 90 by nature will not become NPA going forward if we control it by collecting one EMI and the 120 fellow will come out of NPA over a period of time when he start paying

little more than one EMI or after he starts paying when he finishes his contract and he continues to pay the balance installment.

Kunal Shah: But largely despite may be the stronger cash flows out there in the rural still I think so in terms of a customer payment also it has been with one EMI may be it is not coming more than one EMI that is the another indication which is there?

Ramesh Iyer: So 57% of our customers moved into NPA have registered movement which means they continue to service their installment they may even pay little more but not adequately enough to come out of NPA.

Kunal Shah: And that is largely the similar kind of a number which has been there over last two quarters as well?

Ramesh Iyer: Yes. But one should see that the last two quarters are not necessarily the best quarter for rural. Third is one of the good quarter, fourth will be even a much better quarter historically if you see and therefore if every condition of the rural market that keeps them happy like in the past happens, you may see some improvement to this installment some may even pay 1.5, some may even pay 2 installments.

Dinesh Prajapati: And to your first question we had a Rs. 62 crores write off in the quarter.

Kunal Shah: And last quarter it was quite high?

Dinesh Prajapati: Because every September and March we take a technical write off as per the rule.

Kunal Shah: And lastly, just you highlighted in terms of tractors, you are moving out of and actually getting into the other manufacturers as well. So as a proportion of the overall AUM do we see the tractors moving up?

Dinesh Prajapati: So we were always in the range of 15%, 17%, 18% type. Will it become 20%, possibly yes. Will it remain at 18%, that is all can be the moment because we will never get to 30% market share in non-Mahindra.

Kunal Shah: Okay so any which ways as a portion of overall AUM also it will not be much?

Dinesh Prajapati: Because others are also growing. Yes, 18% will look like 24% if others stop growing.

Moderator: Thank you. The next question is from the line of Varun Balachandran from Catamaran. Please go ahead.

Varun Balachandran: Sir, just one I think you referred to the different regions in the country recovering in different ways in terms of the rural demand. So sir, if you could just talk a bit about which regions actually have enough structural improvement and what are the underlying factors for the improvement beyond let us say monsoon and infrastructure? Are there any other factors from a

structural standpoint that point to a strong recovery in let us say in the next two or three years and which regions do you see improving in that sense?

Ramesh Iyer:

Beyond farm and beyond infra in rural I am not able to see anything else because we do not find another financier coming and saying I buyout somebody's loans so you please do not repay them. Whatever is an urban practice of top up, purchase back of loan from somebody that we are not seeing in Rural. And nor are we seeing I think the third, yes, in the past we have seen this people selling land if they get some price and discharge liability.

I think that is the trend which we are yet not seeing. So currently it is a very, very retail cash flow coming from farm or coming from infra only. It is not out of either asset sale or out of alternate borrowing. It is not that.

Varun Balachandran:

Okay and if you just mention which regions are actually doing well? You mentioned Tamil Nadu, Karnataka are lagging, which ones are actually doing well beyond the ones that you have high market share?

Ramesh Iyer:

So from a business point of view I would think so UP has done well, Bihar has done well, Rajasthan has done average plus; Maharashtra is kind of borderline, it is not very good but not bad either. MP also has been average plus, Gujarat has been average plus; east is anybody's guess, East is doing very well but by size they are not as big as North or anyone. So it would not reflect that but they are doing well. As far as Andhra, Karnataka and Tamil Nadu is concerned, I think they are going a little slow for two reasons.

One I think these are very, very what we call aggregator car market in the sense Ola, Uber, Zoom all of them are operating in this market and they seem to be buying less cars than before and therefore the car industry is a little subdued out here. And that is impacting their volume. These are also very strong pre-owned market and the GST impact of pre-owned vehicle has impacted this market. But if you were to measure them by tractor, I think tractor wise this will do well in January which is their harvest time. So therefore you would see Andhra, Tamil Nadu, Karnataka possibly doing okay in January and February months.

Moderator:

Thank you. The next question is from the line of Alok Shah from Centrum Broking. Please go ahead.

Alok Shah:

Sir, I had a question for you. I am just trying to understand the extent of discounts going on the market. This is also to kind of try and link that to the AUM growth for us. So comment is there on the discounting part?

Ramesh Iyer:

So I will not put out product wise discount because I do not want to speak for Maruti or for Mahindra or anybody else. One thing I know that every product is available at a discount and the range could be 5%, 7% whatever, commercial could be higher or lower. But when we speak of our growth one is if you look at volume growth and then taken disbursement net of discount to arrive at an AUM and which is why I keep saying that for the same volume the

disbursement remain a little subdued and once the inventory levels get corrected then you will find that for that volume even the disbursement starts looking higher and better.

Alok Shah: So may be let me put it this way. How is the discounting between Q2 and Q3?

Ramesh Iyer: They are at the same level except that Q2 had only one festival of Dussehra in the month of September and that program continued into Diwali and then one saw that November-December excitement not so high and we continued with the same program up to December imagining year end volumes will be corrected. So there not so good news, I think the volumes correction did not happen so much because they had built enough and therefore the inventory levels went up. So we believe January is continuing with the same story.

Alok Shah: I do not know if this is right way of looking at it. But when I look at the new contracts on a cumulative basis this year December and same time last year, it is an 8% growth and you are still at 13% odd AUM growth. But when I look at September quarter it was a 7% growth in terms of the new contracts on a cumulative basis and we were clocking 14%. So I am just trying to understand where would we end in terms of AUM growth may be not 18%?

Ramesh Iyer: So I think the number versus value growth is a product mix again. So while we have grown at 7% or so it also has been contributed by CV/CE volumes coming in which was not there in the previous year for us as much. Second is our personal segment in Mahindra even though the Mahindra market share has remained the same what has gone for us is the three-wheeler volumes of Mahindras have gone down and we have been able to get some market share from products like Scorpio, XUV, Bolero which are high products.

So in a way even though the volumes are 7% if you were to look at by value it is doubles the value of the same product of the previous year. And therefore you see this mismatch that is visible. In terms of AUM growth where will we end up, I think only one thing I can tell you is our market share for Mahindra will remain at 32%, 33% for auto; tractors will remain at the same level of 30%, 32%. Maruti will be around 7%, 8%; Hyundai will be about 5%, 6% or 7%.

I think Nissan, Renault, etc., will be at 6% kind of a thing. So market share wise we would remain same. If they sell more vehicle our AUM growth will be better. We do not see price increase by them nor do we see discount vanishing. And we promise you that our LTV will not be changed to gain growth.

Alok Shah: So going back to something like even 18%, 20% will entirely be a function of how the industry volumes shape up?

Ramesh Iyer: Absolutely, yes. Unless the industry volume picks up, unless discounts vanish, unless price comes back, growing to 25%, 30% will not happen. 15% the way it is another 5% once the discount vanish 5% is the volumes pick up, 5% is the price increase happens.

- Alok Shah:** May be just one more question on the point of tractors. You did give a breakdown of monthly volumes that you do for Mahindra and Swaraj and other players. When I look at our tractor AUM growth we are somewhere closer to 13%, 14%. The industry is clocking 16% odd. So anything more specific to read into it or we should comprehend.
- Ramesh Iyer:** So from the industry if you kind of take Mahindra Swaraj and look at our growth it will be in line with that kind of a thing, with 30% market share that we have because we are still only 1,000 tractor or 1,500 of the others, who are 55% of the market. So if we start doing about 3,000, 4,000 for them then you will start seeing 16%, 17% kind of a number for us also.
- Alok Shah:** And any thoughts of doing that may be not immediately in quarters to come through?
- Ramesh Iyer:** Since you used the word immediately, my answer is, yes. If you did not use the word immediately, my answer would have been, no.
- Moderator:** Thank you. The next question is from the line of Gautam Jain from GCJ Financial. Please go ahead.
- Gautam Jain:** Sir, your credit cost is declining this year quite significantly compared to last three years. So can you guide us what will be the credit cost for next year FY19?
- Ramesh Iyer:** I do not want to put a number and I can tell you that the trends are positive. Our asset is growing, recoveries are improving and customers are circumstantially better than they were six months back.
- Gautam Jain:** Okay would you be able to give a range say we want to keep between 2% to 2.5% or like that?
- Ramesh Iyer:** Difficult for me to put a number. We have never guided it that way. But I think take our words for things will only keep seeing improvement from here.
- Moderator:** Thank you. The next question is from the line of Viral Shah from Credit Suisse. Please go ahead.
- Sunil Tirumalai:** Sunil Tirumalai again. A follow up question. Sir, on the rural housing business you did allude to the high NPA levels while the growth is good, the NPA number is definitely worrying for a business there nobody else really sees this kind of NPA numbers. And I believe you are also at the moment expanding into larger ticket or full home financing versus just home improvement financing earlier. So just wanted to get some comfort on those NPA numbers at the time of this transition in the business?
- Ramesh Iyer:** So I think rural housing if you do not read this as a housing business, this NPA will not be alarming. Because no sooner you call it a housing business and compare with someone like HDFC and all then you will think what is happening here. So this is a very small ticket Rs. 1 lakh kind of a loan and the cash flows are not fixed cash flows of these customers, it is a farm

cash flow or a rural cash flow and therefore the behavior of the cash flow is directly impacting the NPA of this business.

But I must tell you that NPA of this business is not equal to bad debts of this business. You will eventually find on a portfolio basis that they lose no money and that has been the experience also so far and once the money comes in the hands of the consumers you will also find pre-closure is much higher than any other housing company in a business like this. The second way to look at it is that in spite of such an NPA number and provisioning, the return is 21%, 22%, 25% on return on equity which means this risk is factored in pricing in some form. So we are not doing business at the 8%, 9%, 10% IRR and then struggling with this kind of a NPA.

So when we got into the business in rural markets we had a fair idea of the NPA will be very, very high and it will come off in the good times and therefore we price the customer accordingly but I am not taking an excuse to say the price is high so let the NPA be high. We are only saying that the returns will be much, much higher when the money comes back. So these are temporary momentary period through which this NPA kind of keeps going and even in this year if you look at their number in the first half versus third quarter independently they have registered the same kind of a correction that you see in Mahindra Finance and more so they only have one state in which they have this larger problem where the book is large also, is Maharashtra because of demonetization, the cooperative banks are not participating and therefore the consumers were not getting the seed and fertilizer loans and the consumers ended up using the installment money for that purpose. Now that problem has been sorted out you will see correction happening. But I still want to tell you that the NPA of this business will never be similar to that of a housing finance NPA etc. They will remain elevated number but they will also have the ability of full correction and money not being lost is something that we can assure you.

- Sunil Tirumalai:** So in this business have we had experience of actually repossessing an asset in the past?
- Ramesh Iyer:** So we have one or two but that is not required. Once we get an order we go there that fellow settles.
- Moderator:** Thank you very much. We take that as the last question. I would now like to hand the conference back to Mr. Karan Singh for closing comments.
- Karan Singh:** On behalf of JM Financial I would like to thank Mr. Ramesh Iyer and the senior management team of Mahindra & Mahindra Financial Services and all the participants for joining us on the call today. Thank you and goodbye.
- Moderator:** Thank you very much. On behalf of JM Financial, that concludes this conference. Thank you for joining us. Ladies and gentlemen, you may now disconnect your lines.