"Mahindra Finance
Q3 FY2019 Earnings Conference Call"

January 25, 2019

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Moderator: Ladies and gentlemen, good day, and welcome to the Mahindra Finance Q3 FY2019 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, 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, Vice Chairman and Managing Director; Mr. Ravi, Executive Director and CFO; Mr. Dinesh Prajapati, Senior Vice President, Treasury and Corporate Affairs; Mr. Vishal Agarwal, Deputy General Manager, Treasury and 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 sessions. Over to you Sir!

Ramesh Iyer: Good evening everyone and welcome to the call. Normally I kind of start with the market, but I am sure there is a burning question in all your minds on the PAT number for the quarter so let me first kind of deal with that before I go into anything else.

While we have met on every parameter that we had said how the growth rates are, how the company is progressing what are the opportunities that the market place, I think one quick clarification on the PAT numbers, one, compared to the quarter last year of the same period is one we had one exceptional item of stake sale, which had a low tax rate of being a long term capital gain item and therefore there is a 50 Crore PAT, which is sitting in the third quarter of last year. Other than that you would see that the tax rate as reflected in the working looks a little higher than normal for a very simple reason that when we moved into Ind-AS, the income reversal also had to be considered for the purpose of taxation, which has been given effect to and therefore on a nine month basis you would see no change, but the effect has got done during this quarter and therefore the PAT seems to look adjusted, but if you therefore look at the PBT level it has kind of reflected the growth that we were looking for.

Also on the other items of the P&L if I have to deal with on the cost, I want to kind of be upfront clear that we have stayed invested with additional branches, additional people and programs of marketing that we have run during the period and therefore the benefit of the cost incurred would therefore flow into us as the period passes by and therefore if you look at overheads as a percentage to asset or overheads as a percentage to income they would not have reflected big change, but if the cost has to be looked at over third quarter of last year to cost of this quarter, it looks to be a little growing number, but as otherwise I think the margins have either stayed stable or improved while we have not been able to pass on the full borrowing cost to the consumer as we have always stated that cost has been shared amongst various entities and that is the reason the margins remain protected. More importantly I think with our deeper penetration and larger presence across every OEM we have been able to maintain our disbursements growth upward of

30% and even going forward we believe, even though the market as projected by various OEMs remains subdued the stock levels, the dealerships are high, but with our penetration and lower competition in the areas that we represent, we believe that maintaining a disbursement growth upward of 25% does not look to be a big challenge, but more importantly we continue to stay with our AUM growth, we believe will be upward of 20% plus, which is definitely maintainable.

Even in a margin front there has been no pressure on our margins, we have not dropped our lending rates and to some extent we have corrected our lending rates and therefore the margin remains well protected. As we have seen Q-o-Q asset quality has shown continuous improvement to asset quality and we have always maintained the second half is the best second half for us of which in this quarter we have seen that correct and going forward we would see corrections in the same direction. Just as the number if I have to put out the number of accounts, which are in NPL are almost at levels lower than March 2018 that we had, which is a good news for us that it is a first time ever that during the year already we have reached a level lower than even the previous closing numbers in spite of the fact that even one takes a 12 month period we have underwritten at least half a million account, which means no additions are happening to NPL whereas there has been only correction to the quality that is continuously reflecting. So I would think that in all fronts whether it is in the asset growth front, whether it is in the margin protection, whether it is in the disbursements, whether it is in the NPA reduction, we are seeing positive trends for us from the rural. But it is important to understand what is the overall sentiments in the market that we represent, we continue to believe that the pressure at the OEM and dealership levels remain high, the stock levels remain high and the footfall at the dealerships while are high, but the conversion to sales are not as aggressive. I think it has been caused by various market factors, it started with fuel price increase, it kind of got impacted also with the interest rates remaining a little high and I think it is also coming from a fact that the customers who are coming in for exchange of vehicles are expecting a better price since exchange programs, I mean exchange vehicles are not fetching them the desired price, the program also is undergoing a little subdued approach.

I think one surprise element in all of this growth that we have seen clearly is the dip of commercial vehicle cargo segment growth, which maintained an aggressive stand if one looked at last one year back story, over a period of time, while the tippers and construction equipment side continues to remain very buoyant, but the cargo has shown a dip may be arising out of the new overloading rules, which came in, which therefore allowed loading of goods in capacity higher than it was earlier, 15%-20%, which is 20% additional was allowed, which therefore has put in a break in adding new capacities in that segment. Barring that I think almost all OEMs are talking of a growth rate anywhere upward of 10% plus and we stand beneficiary of not just that growth rate, but we are also gaining little market share in the rural market. Our strategic intent continues to remain to go deeper and add additional presence in various villages that we are currently not present at. The pre-owned vehicle is a growth engine for us, having customers who are selling their vehicle after the contractual completion and therefore we get an opportunity to also finance them and then of course multi product penetration with all the OEMs including in the tractor beyond Mahindra and Swaraj, put all of that together has helped us maintain our growth both in terms of disbursement as well as in terms of asset growth term.

Our subsidiary companies in the same breath are performing well, rural housing, which had a challenge of their NPA has started reflecting corrections to their numbers while we believe that as things passed by and as we close the year you will see further improvement to their numbers, as otherwise their margins are well under, kind of a control in as projected.

The liquidity, which was a bigger challenge of the quarter for all of us as NBFC, we have been able to go through that process pretty smoothly, we have not had any opportunity where we were refused of liquidity from any lending source and therefore we had not to curtail our disbursement as far as Mahindra Finance is concerned, but rural housing is concerned, they took a conscious decision to focus on quality mainly in the state of Maharashtra and they curtail their growth from Maharashtra, but overall they have also maintained their growth stand.

Insurance subsidy again has maintained their growth and penetration into the main business and therefore their contribution to profits is in line with the expectation as was mentioned earlier. The asset management company again has operated well within its budgeted parameter and the losses as projected by the company is not exceeded what was expected to be and therefore they are well in line, they have crossed Rs. 5000 Crores of asset base as we speak to you. The housing business has crossed around Rs. 7000 Crores of asset base and we collectively believe that we are absolutely in a right position when it comes to rural, even taking into consideration the sentiments have gone a little subdued, there are mixed signal that comes from the market, OEMs are sending out signals of marginal growth and not a very aggressive growth stands, but our deeper penetration, multi-relationship with multi product, large existing customer base were looking for a sale of their vehicle offering as an opportunity to do second hand vehicle financing to other customers, all put together we are comfortable and confident to maintain AUM growth upward of 20% plus and protecting the margin going forward, we are adequately capitalized. Our ALM match is perfect and we have no anxiety on any front on those fronts and as I said we are continuously seeing improvement to our NPA and if you look at in one year space the gross NPA by number of customer has come down close to about 5% odd whereas in value terms it would have definitely come down at least by 3% odd. So we maintain the stand that second half, which was expected to be good of which one quarter as gone by as expected and the next quarter is likely to be in the same direction going into future. I think with those comments I now open it up for your questions on any clarificatory or other things. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. We have the first question from the line of Keyur Shah from Emkay Global. Please go ahead.

Keyur Shah: Thank you for the opportunity Sir. Sir if you can share with us what is the growth levels that you are seeing in second hand vehicles sales through which you go for and what is your outlook on the same?

Ramesh Iyer: So for us I think currently second hand vehicles would represent around current is 9% and we expect that going forward our expectation is that we should hit 15% odd number and I do not know when you said market, we do not have an understanding of the overall second hand market size so therefore if I have to speak from our point of view we believe that you know if the book is expected to grow at 20% odd, we would think that pre-owned vehicle of that would be anywhere between 15% to 20%.

Keyur Shah: Okay, so you would take this book to 15% by end of Q4 right?

Dinesh Prajapati: No 9% cannot go to 15% in one quarter.

Keyur Shah: I agree so far in one year?

Dinesh Prajapati: Incremental growth rate in the pre-owned vehicle is higher than the overall book, but since the base is smaller it will take at least two, three years time for us.

Ramesh Iyer: You take it like this, today we are at say 9% or 10%, if the book is kind of going to grow at 20%, I do not see too much of change to the mix happening in one quarter. The whole growth only comes from pre-owned vehicle, which is not our projection.

Keyur Shah: Thanks.

Moderator: Thank you. The next question is from Sangeeta **Purushottam**from Cogito Advisors. Please go ahead.

Sangeeta Purushottam I wanted to understand two things, one is that even if we take away the impact of the exceptional items there is a small dip in the PBT that we have seen compared to the same quarter last year and this is from whatever I can make out from the numbers primarily because although there has been growth in the topline, our interest cost has gone up and as you mentioned the other expenses has also gone up. Now going forward, do you see the Q3 numbers in terms of the margins actually continuing going forward or are we likely to see any improvement, so does the net interest margin this quarter become like a base for us going forward or is there any scope to improve that and the reason I am asking this is that the operating environment has got tougher although we will increase market share because of our relative strength vis-à-vis the other NBFC, buthow do you see this panning out and in terms of the other expenses that we have seen go up is that likely is there any scope to contain that going forward or how will that pan out if you could just give comment on the two because despite a good topline growth we have still seen PBT levels come down slightly?

Ramesh Iyer: It may also be important for you to look at the nine months number instead of just one quarter number therefore the real question would be that if nine month number the right number to take it to a 12-month number, I think one answer is yes, that is the way it would go and two reasons why we say that one is you know as all of us know that this quarter was a liquidity pressure quarter and we have untime borrowings have been done, normally one borrows only just about the time when one wants to lend whereas in this quarter we have borrowed as and when there was an availability and as and when we felt it is necessary to store, so there is a carrying cost, which is there in the interest, while it may not explain the whole of that. Second is, all the disbursements that get done, the revenue stream for that will continue to keep coming in future whereas the cost of that will not be the same, let us say that if we lend Rs. 2000 Crores in this quarter, we would have to borrow and pay one month interest of Rs. 2000 Crores, but the revenue for that will start flowing in future and also in a growing book you will always see this problem of borrowing and the cost of borrowing first coming in before the revenue stream starts coming in, it does do a little catch up and therefore we do not see that is why I started by saying if you look at our net interest margin levels, there has not been too much of pressure on that.

Sangeeta Purushottam: So actually what I was trying to understand is that we have two factors, one factor is working in our favour, which is that our market share should go up because many of our competitors would be facing funding constraints whereas we have been relatively much better off, at the same time the market is getting tougher right, we have one positive and we have one challenging factor?

Ramesh Iyer: Let me explain to you, so I want to state clear that we have absolutely no pressure when it comes to our lending rates are concerned, so if you look at our lending rate now and if you look at our lending rate may be a year back, I think we have not gained market share by dropping the rates or whatever and in fact we have slightly increased our rates, so our net interest margin is largely an outcome of a product mix change. So instead of 20% tractor suppose I end up with 30% tractor or a 25% pre-owned vehicle, you will definitely see the margin improving because the lending rates for these products are different. The growth comes from the market opportunity of what product is selling well, the advantage of low rate product is they are also expected to bring low delinquencies, so you must continue to look at ROA that we give in spite of increased, let us say borrowing cost, our ROA is not dipping, so the productivity will kick-in for the overheads to come down because we have set up branches, we have added people, as they start producing more you will start seeing the cost also comes down, so one measurement is to look at the overheads to an asset while as the line item the overheads may look to have grown, but when you look at it as an overhead to asset it will almost remain same because they are contributing the growth of asset. So I would think that while a quarter or a month may have a certain impact whenever you incur this kind of cost and they get normalized as they start producing going forward.

Sangeeta Purushottam: Okay.

Andrey Purushottam: Ramesh, Andrey here just one question, you know generally historically Q3 and Q4 has always been very good quarters for Mahindra Finance right, now if you are saying that this Q3 has had some peculiarities around this do we see the normal momentum which goes around Q4 returning to us in terms of your business prognosis. I am not asking to make a forward looking statement, but just to give a some kind of indication as to whether Q4 will return to the historical trend of being a good quarter for Mahindra Finance?

Ramesh Iyer: So if you look at historically the Q4 or Q3, normally Q4 was one of our best quarter ever more by correction of NPA, it was never on the front of a disbursement or never on the front of overheads coming down, etc., it was always that the profitability used to be substantially higher on the back of lower provision, which is a reversal of the provisions that you normally take, but if you look at this year, as well as the year gone by the previous year every quarter we have shown improvement in our NPA, which had touched at one stage almost 12% has come to a 7% kind of a level. Now therefore it may not be very reasonable to expect that the same level of correction will happen even in the next quarter when it comes to second quarter being better than any quarter of the past, but therefore if you look at I mean never before, our first second quarter profits would have also been at this level. So in a way the yearly profits have got evenly distributed with overall market conditions improving, but given that situation we are getting the benefit of further improvement and which is why nine months number if you look at we are at 30% growth on all the items. Now whether 30 would become 35 or 30 would become 25 we believe that an asset growth of 20% plus is not a challenge even given what the environment is, we believe that there is no pressure on margin, we are not dropping our rates to get market share and therefore we do not see pressure on margin and as the raised money gets better utilized you will see the cost also getting adjusted through better improvement in revenue.

Andrey Purushottam: Thanks a lot Ramesh.

Moderator: Thank you. The next question is from Prakar Agarwal from Edelweiss Securities. Please go ahead.

Kunal: Sir Kunal over here, Sir firstly in terms since elections now being around the corner and lot being talked about the rural as well as farm loan waiver so what are the, may be the positive or the negative picture we should look into as we move forward over the next two quarters or being an election year based on the past elections what is the trend, which you could suggest both on the positives as well as on the challenges?

Ramesh Iyer: I think the positives the way we look at it is, all of us believe that the focus of the government is going to continue to remain very rural based whether it is central or state because even though there may not be state elections, but the state government would try to focus in rural so as to give support to their respective national party run up to the Lok Sabha election, so it does not matter who the state government is. Their effort will be to support rural growth even through state programmes so that it eventually helps some numbers for their respective parities, so we think that the rural cash flow will hold up and we do not want to believe that those are permanent cash flow and therefore rural has become a new shape from then on, so one has to definitely look at them more transactionally, as to in the next one quarter, two quarters until the central election, will there be these kind of buoyancy and of course we will take full advantage of that cash flow either for our better collection, reduction of our NPAs, etc., etc. When it comes to vehicle buying, I think it is important that people do not buy vehicles for three months. They buy it for minimum three years to five years and therefore you do not see substantial increase to demand coming because of elections. Yes there are some temporary demands will come, like for example like in states like Telangana, etc., or in Chhattisgarh when they gave concessions to tractor buying, the tractor volumes went up. In such concessions to asset buying is done surely asset buying will also go up that may be due to election, but purely, purely if you were to look at because of election will vehicle buying go up, my answer would be no. It will be cash flows, which will only help transactions around that time, but if asset support is provided like concessions given by the government to buy tractors, buy JCB machines or whatever, then definitely you would see that happen. I think our view would be that irrespective of what the outcome of the elections are, since we are so locally present, we will take full advantage of anything that we will see it as positive. At the same time, anything that we see is not so very positive, we also have the flexibility to be conservative about where we want to do and how much we want to do and we have demonstrated that as well, so my take would be that we would wait and watch and progress on the basis of the opportunities that we see. On a summary basis, we currently look at it as a positive since the focus is so much on improving the rural cash flow I think we seem to be the direct beneficiary of it, which has reflected in our overall collections and NPA correction.

Kunal: Given our operating segment of relatively higher ticket size and a secured base we would not see any impact of the farm loan waiver nor have we seen any impact on any of the pockets wherein it has been announced so far, are you seeing any change in the behaviour or so?

Ramesh Iyer: No, I have said this many times in the past, we are providing loans to people who bring in 25% margin money, which is upward of Rs.2 lakh, so they are not the consumers who ever look for waivers, but why not, in my area if there is a waiver, I will also come and discuss with the company to say can I get some interest concessions or whatever, but again please understand these are actions and transactions, which will last around the time when they are announced and for a couple of days until the period is over and then only it goes back to natural, so we have seen loan waivers in the last 25 years, we have operated in this area we have seen loan waiver many, many times and that has not impacted the credit culture or that has not impacted the Mahindra business fundamentals on a permanent basis.

Kunal: Secondly in terms of the SMEs obviously there has been a decline in the overall disbursements out there, but what would be the view going forward may be now if liquidity is stabilizing would that be again the focus area and we should see the proportion inching up or maybe the cautious stance towards the SME would continue?

Ramesh Iyer: I think if you kind of recall our earlier discussions whenever we have had, we are very focused on auto, engineering, agri as our segment where we focus for our SME growth and as we forecast the market and we see a little slowdown in the auto industry, as we see a little slow down in the agri area, etc., it is just a conscious decision to be very selective about what and how much we want to do and we have always maintained that our SME as a book to the total could always be in the range of 8%, 10%, and 12%, so it is not going to be a game changer like will SME become 25% of the book if we have enough liquidity, so it is not for reasons of liquidity that SME that we have gone slow it is for reasons of cash flow pressures that the SME segment will go through is one of the reasons that we take a conscious view.

Kunal: Lastly in terms of the coverage so we have seen the drop in the coverage both for the stage 3, so what would be the reason for that in terms of one quarter drop from almost like 35% coverage to almost like 26% to 27%, this will be based on I think the trends over the last so many years, so any particular reason for such a drop in the coverage from September?

Ramesh Iyer: I think one of the reasons for that would be that normally in a year earlier we used to do twice a year than we possibly are now moving it to once a year kind of a thing where adequately provided or a matured contract outstanding we move it to bad debts, so when that moment happens you will see a drop happening and they are not on account of any lower provisions. We have not changed any norms of provisioning, which have caused this.

Kunal: Sorry Sir did not get this, this is on account of?

V. Ravi: There is certain assets, which are there provided for in the gross NPA has been moved out as bad debt, so the provision along with the assets will go out from the gross NPL, the gross NPL will come down, the provision will come down, the net NPL will come down, the result of which is that the impact in the coverage ratio, again you will see this climbing, so now this 26% theoretically what will happen is that this 26%, 27% will be closer to the LGD, loss given default in our company somewhere around 28%, 29%, this will be towards that, but you will see slowly, again till we make yearly once we will be passing this bad debts entry, so it will again start climbing towards the 30%, 35% then again it will come to the loss given default ratio, so you will see this kind of situation, but the whole thing is that we have to look at it in the present ECL model whether the coverage is adequate given our track record of in the earlier five, six years, the kind of losses that we have incurred in our portfolio and the ECL model suggest that the loss given default is something close to 28%, 29% and the coverage fully takes cares of that.

Kunal: Yes. Thanks a lot.

Moderator: Thank you. The next question is from Sahil Shah from Ambit Capital. Please go ahead. There seems to be no response from the line of Sahil Shah, we will move to the next question. The next question is from Gurpreet Arora from Quest Investment. Please go ahead.

Gurpreet Arora: Thank you for the opportunity. As you highlight the AUM growth, could you also highlight the growth in terms of the number of loan accounts and give some aspect on the number of new customer accounts added, number of repeat customers, that is my first question?

Ramesh Iyer: So in terms of number of account that is in the nine months growth is, you wanted to know during the year?

Gurpreet Arora: Yes, the nine months of the current fiscal?

Ramesh Iyer: It is about 27%; it is almost in line with the disbursement number of 30% odd.

Gurpreet Arora: In the same sense, what would be the percentage of new customers added?

Ramesh Iyer: These are all new customer, within that I would think about 10% would be repeat customer or one.

Gurpreet Arora: My second question is with respect to the cars and UV segment if you can qualify what sort of growth in the non-Maruti segment are you witnessing and what sort of asset quality if you bifurcate car and UVs into Maruti and non-Maruti?

Ramesh Iyer: I think mainly on the asset quality I can tell you that for us it is not by asset class, it is by geography, because in our whole business the cash flow of the state matters rather than cash flow of the product, except for commercial vehicle, which is a different product where the customer earning decides its ability to repay, whereas in all other products while customer earning is the fundamental reality, but the earnings is an outcome of the activity in the state, so irrespective of whether it is car, tractors or UV, you will not see a very substantial variation in as far as NPA numbers are concerned, yes there will still be 1% NPA difference between a tractor versus a car, but they will not be substantial.

Gurpreet Arora: Sure and if you club the car and UV segment together what would be the growth levels for Maruti and non-Maruti portfolio?

Ramesh Iyer: So I think non-Maruti for us the base is very, very low like if you take 30% odd is our car, of which 60% odd is Maruti, so the other 35%, 40% non-Maruti might have registered a higher growth, but the absolute volumes will be very low, for example if I have to tell you Renault our growth is 80%, but that 80% would be last year we would have done 100 vehicle now, we do 180 vehicles, whereas Maruti we are doing consistently 12000 plus vehicles, but the overall car number I can tell you we do about 17000, 18000 cars, some months 20000, but of which Maruti would consistently be about 12000, 13000 and 5000 to 7000 would be all other cars and between UV and car if you want to know like Mahindra would represent around 25% of our portfolio and whereas cars overall represent about 30% of the portfolio.

Gurpreet Arora: Sure, my third question is actually on the operational side within the tractor segment?

Ramesh Iyer: Just one correction, the cars are 21% and auto is 26%, not 25%.

Gurpreet Arora: 47% totally right?

Ramesh Iyer: Yes.

Gurpreet Arora: My fourth question is on the tractor segment, would your yields differ with respect to the capacity of a tractor in terms of HP?

Ramesh Iyer: Our yield, our lending rates?

Gurpreet Arora: Yes.

Ramesh Iyer: It is again risk base pricing on a customer and application rather than the product.

Gurpreet Arora: My last question every quarter you have been highlighting about a few districts or geographies where you are slightly cautious, if you can help us with that in the current scenario?

Ramesh Iyer: We continued to think that Karnataka and Tamil Nadu are still in our watch list and they are not offering some aggressive growth, certain parts of Maharashtra continued to remain little subdued so far as we are concerned, but I think asked otherwise I would think Bihar, UP, Rajasthan, Gujarat, Madhya Pradesh, Maharashtra, they would all kind of stack up to the same level. East I would think is doing well at least north east is doing well, but they are not very significant from an overall portfolio perspective.

Gurpreet Arora: In absolute terms Karnataka, Tamil Nadu and Maharashtra would be what percentage of your gross NPA?

Ramesh Iyer: Not even Maharashtra I would think Karnataka and Tamil Nadu is what you will have to put something that we are cautious about and I am not too sure, but portfolio would be cumulatively not more than 8%, 10% I would think.

Gurpreet Arora: Okay, that is helpful. Thank you. This is all from my side. Good luck. Thank you.

Moderator: Thank you. The next question is from the line of Abhishek Murarka from India Infoline. Please go ahead.

Abhishek Murarka: Good evening. Sir, two questions, one if you can share the gross slippages in the quarter and the amount that was written off or moved to bad debts and the second question Sir this quarter there has been a slightly extraordinary amount of securitization or assignment, is that assignment and if it is assignment can you share how much of the income was upfronted?

Ramesh Iyer: Dinesh will explain the assignment in the meanwhile we take out the detail.

V. Ravi **:** Rs.985 Crores of bad debts have been shifted from NPA to the bad debts.

Dinesh Prajapati: And as far as - during the period, it was purely securitization not a single deal was assignment, so it was completely amortized model, so no upfronting of income.

V. Ravi: RBI guidelines do not permit upfronting of income anymore.

Abhishek Murarka: In assignment I thought it was.

Dinesh Prajapati: In assignment it could have been, but we have done only securitization. We have no upfronting.

Abhishek Murarka: The slippage part, the gross additions to NPA during the quarter?

Dinesh Prajapati: Rs.400 Crores slippages.

Abhishek Murarka: Sir just finally one more data point, these contracts under GNPA, so in this bad debts written off Rs.985 Crores how many contracts would that have been?

Ramesh Iyer: Around 15000, 30000, so totally now we have after moving to bad debts we have lakh and 20000 contracts, which are in NPA.

Dinesh Prajapati: 128000.

Abhishek Murarka: How many contracts with respect to that Rs.985 Crores?

Ramesh Iyer: 30000 contracts.

Abhishek Murarka: Thank so much and all the best.

Moderator: Thank you. The next question is from the line of Nischint Chawathefrom Kotak Securities. Please go ahead.

Nischint Chawathe: Just a couple of questions relating to the numbers. Any specific reason why your employee expenses were up significantly quarter-on-quarter and even year-on-year?

Ramesh Iyer: So, there are two, three reasons. One is we have made a provision as additional incentive to be paid to employees because of our 25th year, so it is a one-time kind of an event, it is an ex gratia payment and that is not permanent and that is not all time in nature. Second is of course number of employees itself have gone up from then to now given the overall cumulative live contract that we have, so one is the volume impact and very marginal increment impact of 8% to 10%, which we have paid.

Nischint Chawathe: What would be the quantum of ex gratia?

Ramesh Iyer: Quantum of ex gratia is the value that you are asking?

V. Ravi: Ex gratia plus one time 13%, one-third of the increase is due to ex gratia.

Ramesh Iyer: Silver jubilee payment, so it is about 13% plus. It is about Rs.18 Crores, Rs.20 Crores roughly.

Nischint Chawathe: Anything on the other expenses line item?

V. Ravi: Advertisement went up.

Ramesh Iyer: We have resorted to some below the line advertising during festival season and all that since we are now very active in the non-Mahindra segments as well, so we need to be little more visible, so that was not our earlier expense item, but again these are not continuous, repetitive in nature.

Nischint Chawathe: The other thing if I look at the disbursement numbers, it looks like there was fairly high growth in commercial vehicle segment, could you just explain may be I missed the initial comment on this one?

Ramesh Iyer: Is it a percentage you are talking or absolute value you are talking?

Nischint Chawathe: Percentage.

Ramesh Iyer: That is because the base is low right I mean if you look at the previous year commercial vehicle and now if you look at it what it is, there is a significant change in terms of base number and that is caused, if you recall our discussion we have created a separate vertical for commercial vehicle, construction equipment purely focusing on that business volume and we are getting benefit on growth there.

Nischint Chawathe: Just one last point was on clarification on the income tax part, there is a tax rate for the quarter was 39% and I think you made a comment, but I thought I have missed out?

Ramesh Iyer: No so the comment was that earlier when we had an income reversal, which is the income part of the NPA when we had the reversal to be offered for tax and instead of adjusting in the previous quarter after moving to Ind-AS it has got adjusted in this quarter, if you were to kind of distribute it over the nine month period, therefore you look at a cumulative nine-month number they average out, but that has got accounted for in this quarter when this entry was done.

V. Ravi: In other words since the Q2 marginal rate was lower than 34% and Q3 would be slightly higher, if you take for the nine-month period at 34.8% it is more or less marginal.

Nischint Chawathe: And this pertains to interest reversals?

V. Ravi: Yes it is both of interest reversal.

Nischint Chawathe: Sure great. Thank you very much and all the best.

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

Mayur Parkeria: Sir historically we have understanding the election cycles for two cycles based on what we have been understanding the company, the cash movement during these period is always restricted so what kind of disbursement or what kind of business changes happened over the last many years where the cash component as a percentage in our disbursal or in terms of repayment or in terms of the handling of the cash if you can give some colour and how do you see that impact during these three, four and five months, which can come?

Ramesh Iyer: Let me first clarify cash movement during elections is restricted provided you carry them without appropriate records and you kind of carry it in a very unaccounted manner if I may put it. So if you are able to correctly explain, justify there has not been too much of restrictions that is one. Second is I think there are also other modes of repayment, which has started where people are coming to our branches, which are more closer now than it was in the past so the distance between us and the customers have also shrunk so that is not going to be a new challenge. Third is that the overall disbursement I must tell you that not even a single rupee gets done in cash so it is all vehicle and tractor financing and all that and margin money with the customer brings and he pays it to the dealer and he give us a confirmation receipt that dealer has received and therefore our disbursements are only amount finance that we need to release, etc., so I do not think cash movement restricts what you call disbursement per se because in any case the rule has come that above 2 lakhs we cannot take cash and all that so that has already moved to cheque and other.

Mayur Parkeria: Sometime repayment can it impact just for some time?

Ramesh Iyer: I think that will also be few days it will never be for a few months, etc., etc., so it will be kind of for a few days and it is not for all customers and it is not always. See first of all customer is able to explain from where this money is coming there is no problem he can still come and pay us and we can explain by a proper record as to who have paid us, also can be explained. It is we who are also extremely cautious during those times not to travel with so much of cash, etc., so to that extent there will be some delay normally we collect cash even in the late evening hours, those things get restricted, daytime collections do not get so restricted at all.

Mayur Parkeria: Sir second question a little bit on the ROA colour, we have always maintained that 9% NIM can be divided into three ways, 3% for the cost, 3% the provision and 3% as ROAs?

Ramesh Iyer: 2.2 has been achieved.

Mayur Parkeria: Just what I am trying to understand is in a way we are seeing one of the good times for the company in terms of provision, the NPA levels have come down substantially from 12%, 11% and the NIMs are also maintained and the product mix are helping the NIM side and as a percentage of AUM as you said it is not likely to go up, though quarter and quarter, but when do you think we have a likelihood possibilities of hitting ROA closer to 3% because now it has been two to three quarters where we are in this range so now do you think?

Ramesh Iyer: If you recall my explanation in the past when we were some 1%, we have gone to some 1%, we said that in two years' time we should get back to three so in one year time we have come back to 2, now we are at gross NPA of 7.7 around that, so they will also start correcting further as we go along, certain growth in our AUM is happening and the cost will stabilize as the AUM growth happens in the same cost. If you put all of this together so where are we to get that 1% from, can we get 0.25% coming from NPA, 0.25% coming in margin and 0.25% coming in let us say overheads, if the three things happen then that will get to that 3% and that is the only way it will get to 3%. I do not think we have an ability to tell you that provisions can save us another 1.5% ROA, it is not possible, we have come to one of the best ever possible times of the past in terms of 90 days norm, if you take we are at 4.0% in terms of number of account and may be around 5% odd when it comes to the net NPA. Can it go down to about 4% of course the answer could be yes, but it will now be contributed from each line item. We believe as the interest rate stabilizes and we start protecting our margin from the disbursement that we are currently doing at the current rates, 25 basis points possibility is visible, overhead 25 basis points possibility is visible through productivity and provision 25 basis point is possible for us to get to that 3%. Will it happen in this quarter, my clear answer is no, but will it happen in a years time there is a visibility.

Mayur Parkeria: There is a visibility. Thank you very much and wish you all the best.

Moderator: Thank you. The next question is from the line of Kushan Parikh from HSBC. Please go ahead.

Umang: This is Umang here. I just had one question with regards to opex, over the last one year we have added about 135 odd branches and 2500 employees, if you could just give some colour as to what is our plan over next 12 months in terms of branch addition and employee addition and on opex as you mentioned that we are yet to see the benefits of operating leverage as the book scales up, so I just wanted to understand the dynamics between the same?

Ramesh Iyer: I think we are on a format of adding close to about 100 branches in 12 months' time and we believe that would happen if we talk of the next 12 months, we would add that kind of branches, but for the branches then to become fully productive, you must add another three to six months depending upon the locations where they are, because not all branches are meant only for generating business, they also largely support recoveries before they can get to business right, so therefore sometimes what happens is that when we measure overheads to assets and they are recovery branch right, then you will not see that overheads climbing down because they are contributing the profit directly by provision drops, so we are not in a model where we breakdown this overheads between provision reduction and business development, while internally people are distributed to do all of that. So one would see improvement in profitability, which would happen, which I just in the previous question as I said 25 basis points improvement provision can happen that will also happen through the same cost that has already been incurred, so I think the way to look at us is, with the same overheads can we now manage a 20% growth to the book, we would think without adding much cost we can do that, which is where the cost will start coming down, but then we will add 100 more branches to maintain a similar growth in the following year.

Umang: Understood that is helpful and second question was relating our asset quality, so clearly we have seen our NPAs or gross stage 3 assets kind of coming off over the past four to six quarters. Now if we look at the whole media rhetoric or when we look at certain data related to the rural consumers clearly the data is not quite encouraging, but the asset quality trends and growth trends that we are seeing are kind of pointing towards the other way. If you could just kind of help us understand as to where exactly is the growth or rather how the rural cash flows are kind of sustaining, so to say?

Ramesh Iyer: The kind of product lines that we are in which is tractors, vehicles, they are not aspirational product, so irrespective of the pressure in the rural, you will continue to see a demand for this product, yes the growth rate will get calibered by if the good times, the auto, tractor, etc., grow at 15% plus will it grow at 8%, 10% I think that is the number on which we are currently working because OEM seems to be saying that the growth rates are kind of remaining subdued, they will be in the range between 8%, 10%, 12% whatever, different, different products are talking different numbers. So our growth of 20% odd when we say, we based it on a 10%, 12% growth that though OEMs are talking about. So it comes to us from multi-product approach and then it also gets added by commercial vehicle, construction equipments where our base is low and it comes from pre-owned vehicle where we have a clear program to take it from current 8%, 9% to 12%, 15% kind of a number over a period of time. So our growth rates will come from multiproduct, will come from deeper penetration, will come from low base products like pre-owned vehicle and commercial vehicle construction equipment, which is where the growth rate would come and it does not really therefore overly worry as if we hear numbers from OEM where they talk of 8%, 10% growth we believe with that growth of the OEM we can manage our growth of 20% plus. When they have grown more aggressively, we have registered aggressive growth for ourselves as well. For some reason let us say in this quarter we start seeing once again OEM growth rates go back to 15%, 20%, you will see a growth 25%, 30%.

Umang: Thank you so much and wish you all the best.

Moderator: Thank you very much. Due to time constraints we will 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 good bye.

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.