"Mahindra & Mahindra Financial Services Limited Q3 FY '20 Earnings Conference Call"

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MODERATOR: MR. ABHISHEK MURARKA, IIFL SECURITIES LIMITED

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Mahindra & Mahindra Financial Services Limited Q3 FY '20 Earnings Conference Call hosted by IIFL 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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Abhishek Murarka from IIFL Securities Limited. Thank you and over to you, Sir.

Abhishek Murarka: Thank you, Raymond. Good Evening everybody and Welcome to the con call. From the management team, we have Mr. Ramesh Iyer – Vice Chairman and Managing Director; Mr. V. Ravi – Executive Director and Chief Financial Officer; Mr. Dinesh Prajapati – Senior Vice President (Treasury and Corporate Affairs); Mr. Vishal Agarwal – Deputy GM (Treasury and Investor Relations); and Mr. Rakesh Bildani – Deputy GM (Treasury and Investor Relations).

I would hand over the call to Mr. Iyer, request him to make some opening remarks and then we can go onto Q&A. Thank you and over to you, Sir.

Ramesh Iyer: Good Evening and thank you for joining this call, so as you would have seen the numbers already so I am not going to deal with individual numbers out there, but summarily we think that the quarter has gone well for us given what is happening in the environment. We feel that it has gone to a pitch that we were looking at what we wanted is to what we have reached really to achieve. To kind of set the context, I think the overall sentiment from the business continues to remain a little subdued and it comes from various angles, I think it starts with hurdles in the auto space, it starts with transiting to BS6 from BS4, and therefore, the whole focus is on reducing the inventory levels and not really looking at large numbers, but even otherwise we do see that the buying sentiments are yet not picking up. I think it is kind of a mix of various things which is causing that again, this is the extended monsoon delayed the farm cash flow, and more speaking from the rural market perspective and also that the **infra** story is yet to adequately open up for the cash flows to improve, but we do see signals of some positivity around all of that. To us more specific, I think in spite of volume pressure that we witnessed at the marketplace, given our deeper reach, given our presence in all product lines, we have been able to gain some momentum and as against the industry de-growth story, we have been able to maintain some very marginal growth though not much to celebrate, but at least it is not a negative for sure.

As far as the collections are concerned again what we have seen something very unique is and I talked about it even last time, most of the time in the past we have seen from the rural market when the business is good even the collections are good and that is a reflection of the overall cash flow in the market, but in this round what we have been continuously seeing is even though the business sentiments are weak, but the customers are surely wanting to discharge their liability, which means the customers do have cash flow and they are putting it to a better use of discharging the liability rather than wanting to acquire assets, so that has helped us maintain our NPA position and we have gone back to almost the last kind of a December level of NPA position in spite of the fact that the sentiment overall has not been that conducive to this kind of outcome. Also on the liquidity front, I think we are very, very comfortably placed in our ability to raise funds and also ability to raise funds at a very, very competitive price and therefore, the borrowing cost has seen continuous decline and that has helped us maintain or improve our net interest margins and I think the product mix is the other reason why we have been able to see some improvement there. I think we are clearly seeing the pre-owned vehicle segment showing traction and that always comes at a higher yield and the net therefore helps improve that, but if I have to speak where do we see all this going forward, I think there is still wait and watch kind of a situation. We still want to wait and see how the BS6 really pans out and once the BS6 models do come in, they start getting accepted, then we will start seeing the volumes pick up better.

In as far as tractors are concerned, I think the next season is expected to be even much better for the simple reason that the farm cash flows will improve, the water levels are good. The next crop season is definitely expected to be far superior, so if I have to put all this together, we would think very strongly that the growth if any we have to talk, we would rather pitch on the next festival season where we would start seeing things to look much, much better. Our concentration is continuously going to be on ensuring asset quality protection. Our focus is going to be ensuring tightening of process, looking at cost, and bringing them down continuously, I think we have taken some very strong initiative and that has helped bring down some cost and I think the benefit of that would unfold actually in the following year more seriously. I think we also believe that we do not have to look at India as one story, but we would rather like to look at it state-by-state and there are some very clear signals from certain states where we would like to focus and which would help us grow better and they would be possibly UP, Bihar, Madhya Pradesh, Gujarat, and we are yet to wait and see what happens to Maharashtra and the other southern states, but it is going to be a story that we cannot really talk of overall as one story, but rather look at state by state.

Our bet as I said, we will continue to invest in the technology space, we will continue to invest around our consumers, improve the experience with the consumers much better and we think there is enough opportunity there to in fact grow our business through our existing consumers by even offering to them different sets of product and not necessarily the products from the same auto and tractor family and we have made some beginning there in the form of small ticket loans to existing customer with excellent track record of the past and we think that will help us not just grow the balance sheet to an extent, but more importantly improve our profitability and the productivity and reducing cost, I think that is the approach that we are going to take. But for the year specifically if we have to speak, I think we would more concentrate on ensuring asset quality improvement and taking a position on aggressive provisioning if required and whichever way required. Just to kind of bring one highlight to that, I think in this quarter we have taken a view to, by assessing certain consumers and we have taken some additional provision as may be required and that has already factored into our financials and also that there are one or two one-timers which Dinesh or somebody would explain as we go along, but I think overall we have taken some additional provision of 90 odd crores and two one-timers totaling to something like about 35 crores, which means the PBT is factoring about 120 crores order additional items, which are just one-timer.

Overall, I think we are happy with what has happened out as the performance given the overall environment out there, but summarily we think the sentiments are yet to get very positive. I think everyone is on a very, very cautious kind of a position out there and as I said asset acquisition is not their urgency, but people are conserving cash or discharging liability that is the feeling that we have when we interact with consumers across. So far as our subsidiaries are concerned, I think they have also maintained the performance. You would have seen the housing numbers as well, I think the quarter had growth of 17% growth in profitability, but they still continue to have the pressure of NPA in that single state of Maharashtra and we do believe that improvements are seen, but not really galloping fast to show substantial improvement, but as we have said always in the past this kind of buildup takes about couple of quarters before we can say that all problems out there is over, so I think in the next couple of quarters, you would continue to see improvement in that book happening. So far as the insurance distribution business is concerned, we have made investments in the digital space and that has brought may be some pressure on our PAT, but minus that investment I think we have also had a good double-digit growth happening there, so overall I would kind of want the summarize to say that it would still be a little wait and watch kind of a situation, not rush into growth. I think growth would not be our very urgent priority, but ensuring controls, ensuring asset quality improvement, ensuring process revisit, and ensuring cost reduction would be the approach that we would take for the period. While we may not miss out on any possible opportunity of growth, we will ensure that the market shares are not lost. We will ensure that our multi-product approach and with a little more focus on the pre-owned vehicle, we do get benefit of whatever little growth that we can.

Out of all the product lines that we are in, I think the biggest pressure that we currently seem to see is from the commercial vehicle segment while for every other product, we have been able to control and curtail the NPA for sure but as we all know the way the commercial vehicle industry behavior has been, we will have to give them a little more extra time before anything positive can really emerge out of that, but totally all put together, I think the overall sentiment to turn extremely positive will depend on few more Government actions, the budget is one of them and we can wait and see what do we hear from the budget and how positive that drives the whole market, but with the infra opening up, with the farm cash flow likely to improve in the next couple of quarters, we would think that the next September-October, one can start seeing some better results to start coming from the semi-urban rural market. I would stop here with this as the summary and then open up for questions and then we have the team here who will take the questions as they come along. Thank you.

Moderator: Thank you very much. We will now begin with the question and answer session. The first question is from the line of Kunal Shah from Edelweiss. Please go ahead.

Kunal Shah: Sir, just on the provisioning side wanted to understand the overall collection efficiency in the market, there has been some jump in the GNPLs of 40 odd basis points, I think primarily you highlighted across the product it seems to be more on the commercial vehicle, but besides that if any of the product segments or the geography we are seeing the inch up and there is some reclassification of may be in terms of gross Stage-III assets between the business assets and the total assets, so just wanted to get the sense of it as to what that reclassification is?

Ramesh Iyer: I think reclassification is more simpler. Earlier, the percentages were represented on the total balance sheet side, but now we have kind of taken only the business asset to represent the NPA arising out of that, so that would happen to even the comparative year so therefore there is not a big change from that perspective, but it is just that the non-business assets like companies assets, vehicles, computers, etc. our investments that we make could all be left out and only the assets which represents the clear business is what is being considered.

Kunal Shah: So it is only merely loans now?

Dinesh Prajapati: All lending activities, primarily if you see after the LCR guidelines and the liquidity crisis, the liquid pool of investment have increased in the company, so it was to some extent distorting the picture of the true NPA percentage terms. Absolute terms it was always available, but in percentage terms on a total asset basis, so it was prudent to move to the business percent basis.

Ramesh Iyer: So far as the category of NPA etc. is concerned or specific to any particular geography is concerned, I think it is not any particular geography and as I said it is only the category of an asset and that also the heavy commercial vehicle and the kind of family of heavy commercial vehicle including tippers etc. because two types of reasons what brings this impact. One is the customer not able to recover their money from various contracting segment including the Government payments etc., so delay on their side to make their recovery which they are delaying the recovery to us as well. The other is of course the overall industry pressure of the lack of load factor, therefore, the ability to deploy vehicle and earn enough out of that, but this I would think, this is nothing new as far as the commercial vehicle segment is concerned, I think they are just cyclic impact and one would start seeing the improvement as economy starts to improve, you will also see the improvement to this kind of asset quality very surely, but as otherwise I think from a geography perspective, we are not seeing a very great difference between any particular state versus any other state, but one more factor that all of us need to keep in mind also is some kind of disturbances that we see out of certain actions that is being initiated by Government and that reduces the number of days of operations in different pockets at different points of time, so that is also caused some pressure in the third quarter which we believe as we move along into the fourth quarter that kind of a loss in number of days possibly may substantially reduce.

Kunal Shah: Generally when we see sentiments during the festive season, it has not been that great plus the BS6 transitioning, that is also not happening on the expected lines, so here on maybe in terms of the asset quality do we see a further pressure no doubt, Q4 is relatively better but if I have to look at it in terms of the month on month collection efficiency, are we seeing some further deterioration out there?

Ramesh Iyer: When you say month on month, moving into the fourth quarter or next year?

Kunal Shah: No, Sir if I have to look at it October, November, December, and January, how has been the trend may be is it on the improving side or it is maybe one or two months it was better, but now further it is deteriorating because…?

Ramesh Iyer: As I said if you were to normalize it for the number of days that we operated in December, right because we did lose some number of days in North-Eastern States, in Jammu Kashmir etc., but if that was to be normalized, we did not see too much of deterioration, I think you must also read my comment where I said that this time around customers have the money and they rather want to discharge liability and not really pick up assets.

Kunal Shah: But in terms of like how Q4 would be and how we would end in terms of the collection efficiency, how are we seeing it?

Ramesh Iyer: I think we would not be over bullish to say it would be far superior to any previous year, but I do not see them to be too different from any previous year as well.

Kunal Shah: This 90 crores of provisioning additional?

Ramesh Iyer: We have kind of assessed certain customer class and who have not been paying for a little longer time than normal and we have taken a forward-looking on them to see how would they really behave and we have made that additional provision.

Moderator: Thank you. The next question is from the line of Darshan Mane from Lark Consultants. Please go ahead.

Darshan Mane: Are we facing any issues in North or Eastern region because we have significant exposure over there, so has anything improved or deteriorated I mean from January 1st till now?

Ramesh Iyer: From January 1st till now nothing significant has changed, but definitely because of the new political direction on CAA etc., we do find that there were some agitation in different states at different points of time, and therefore, the number of days that were available to really have some execution of activity did suffer.

Moderator: Thank you. The next question is from the line of Udit Kariwala from Ambit Capital. Please go ahead.

Udit Kariwala: Sir, I just wanted to get some sense around the provisions, the number is around 20%-21% if I calculate the way we have been doing it, so do you think this number should hold up through the year or given that we are seeing some challenges around the commercial vehicle segment, which you mentioned earlier in the call, there is a chance that this number moves up?

Ramesh Iyer: We do not see that happen in the fourth quarter for any further deterioration over where we are. Our thought is that it should only improve and not deteriorate.

Moderator: Thank you. The next question is from the line of Alpesh Mehta from Motilal Oswal Securities Ltd. Please go ahead.

Alpesh Mehta: Second quarter also you had a contingency provision of around 42 crores, so did we utilize anything out of that and what is the outstanding contingency provision?

Ramesh Iyer: We have not used anything out of that, in fact our ECL number has actually gone up a little from 29 odd percent to 30 odd percent, so the one which we took at 42 crores was more forward-looking on how the behavior of the economic factor or the Agri factor is likely to be and then we took that and that has got kind of we did not have to make anything additional on that front in this quarter with the collection improvement that we saw, but we have not drawn anything out of that for sure. As a matter of fact, as I said Stage-III has slightly moved up based on from 29 odd percent to 30%.

Alpesh Mehta: Are there any write-offs during the quarter?

Ramesh Iyer: In September, we did that write-off and possibly in March that we will do.

Alpesh Mehta: How was the trend that you are seeing in terms of the used vehicle financing, the resale rates and the demand right now because as a percentage of the incremental disbursement that number is like 18%-19% on a constant basis?

Ramesh Iyer: We had said that that is our focus and that is our growth engine and we did believe that it will go between 15% and 20%, I mean since the overall disbursement has been low, it looks like almost close to 20% but if the disbursement was to be normalized at 15% growth then I think, the pre-owned would look like something around 13%-15%. So far as the price is concerned, I think it is how we assess the value of a vehicle that we are financing, so it is left up to us to understand what really the true value of that asset is and we are not guided by some kind of metrics to say all vehicles at the same price types, and so far as demand is concerned I think given currently that the overall cost of operations will and continue to remain under pressure, there will always be a demand for pre-owned vehicle in such circumstances where people have certain activity in hand, but cannot or does not want to invest in a new vehicle, will look for a pre-owned vehicle from used perspective.

Alpesh Mehta: My question was more on the sides of basically the new vehicle prices are definitely under pressure, are the used vehicle prices also seeing pressure and whatever the assumption that you had on the Loss Given Default at the time of repossession, are you seeing those losses increasing or it is more or less in line with the expectation?

Ramesh Iyer: I think it is lined with expectation for simple reason that if your LTVs are well maintained that 75%-77% and if the customers' vehicles are repossessed after they have repaid some installment that even if the drop in resale price due to various new vehicle discounts etc. does not have a huge impact on the pre-owned vehicle. The real impact will be if you are over financed or very close to 100% finance, then you will have a direct impact.

Moderator: Thank you. The next question is from the line of Aadarsh P. from Nomura. Please go ahead.

Aadarsh P.: Sir, you did mention in your opening remarks about the cost initiatives and if you note in the last five-seven years, your cost numbers have actually inched up rather than going down, so if you can talk about what are these initiatives and over the next two-three years what kind of cost to asset, on what metric should one measure the improvement that should come?

Ramesh Iyer: First and foremost is the overall cost that we are running currently is also to accommodate and possibly handle a growth rate of 15%-20%, so to that extent until the overall market improves and disbursements and things like that improve, we will not see substantial drop to the rate happen. When we talk of cost improvement, I think we very clearly talk about each line item that gets reviewed to say what of this, where there can be some rationalization that can be done and we have done that to almost every line item of the cost side. Also we have to look at what are the processes that can be re-addressed and we do not need to run those processes given all that has changed out there, and the third is, what of it can be moved to a technology platform or instead of physically handling them, put all this together there will clearly be if you talk of next three year horizon, I think if we are today at a cost of 3% or 3 plus percent to asset, I think we can surely show improvement of at least 50-60 basis points if all these gets put to practice and then things start to stabilize. Very specific to what has happened now, I think in this quarter we have had a saving out of all this to the extent of about 25-30 crores that would have come in and if the whole year is looked at going forward, we could see a benefit in the same direction quarter-on-quarter, but they are more to ensure that any wasteful expenditure or any expenditure which are irrelevant from a current perspective are the ones which are being addressed and nullified and there are serious review of various methods by which this can be saved either by process change or moving them to technology and which is what cumulatively will help us save at least 50-60 basis point over a period of time.

Aadarsh P.: Sir, I will just reflect or dwell on this again is like it is good that the company is taking initiatives to bring the cost down, apart from say disbursements, which probably would have lacked maybe in the last two to three quarters, but was okay before that FY '19 and FY '18 were pretty decent years, when you think about strategy on cost and everything, could you reflect why you did not have some improvement where business growth was okay, what led to cost not coming down and hence what will change incrementally?

Ramesh Iyer: Very clearly as I said, this is a very variable model, so if the business increases and we open number of branches, we add number of people than the cost will stay up and it stays at 3% because the asset also grows accordingly. The typical problem is you have invested in that cost and then your asset does not grow, and therefore, the percentage starts to look very different, as otherwise if you kind of look at since you talked of the period couple of years back, you look that we have added something like maybe 300-400 branches during that period and that will all come at a variable cost. Our fixed cost is only around the zonal office and the head office, rest are all a very variable model. I mean just imagine a situation that the cost is same and the business starts to grow at 25% in the following year, without any effort the cost will come down by 50 to 60 basis points or maybe more, so we must always understand that we always remain over invested for a future readiness and that cost is close to about 40-50 basis points and we cannot be so flexible that we can incur the cost when there is an opportunity and reduce the cost when there is none because what we lend today has to be recovered, so if you break down our total cost, 60% to 70% of the cost will be recovery based and 30% will be business based, but the 30% business cost will substantially contribute if the business by a market force starts to improve by 25% to 30%, so you must take it in the overall perspective and then recovery is an outcome again of the market behavior. If you look at let us say the next year monsoons go bad, next year market does not improve and we have to put two times, three times the effort from where we are and all the variable cost of recovery will go up, the conveyance cost, the travelling cost, all of that will catch up, so I think what we do is we consider a range of 2.8 to 3.1 as the range which we have to price the customer with and from there whatever reduction or saving we can make adds to the bottom line directly.

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

Umang Shah: I just had two questions, in your opening remarks you made a comment that there were roughly about 120 crores of one-offs during the quarter, so what was the balance one-off apart from the 90 crore provision?

Ramesh Iyer: The 94 crore was that and I think about 90 odd crore is coming from some kind of a tax demand which we have negotiated and closed.

Umang Shah: Sir, my second question was the 94 crore provision would be a part of our Stage-III provision coverage, right?

Ramesh Iyer: That is right.

Umang Shah: Just to confirm no write-offs have been made during this quarter?

Ramesh Iyer: That is also right.

Moderator: Thank you. The next question is from the line of Anirvan Sarkarfrom Principal India. Please go ahead.

Anirvan Sarkar**:** One question, could you tell us what percentage of your car disbursement for the quarter were made during the festive season?

Ramesh Iyer: This is a guess number may not be exact-exact number, but I think if we take the three months volume, at least about 50% of the volume would be during the festival season, fortunate that festival season was both month October and November, so if you kind of even it out I would think that 25% will be December and the balance 75% would be distributed between October and November. Just out of interest, why that specific number is interesting?

Anirvan Sarkar**:** This is just to gauge…

Ramesh Iyer: How the future will look like if festival is not there, so you must use the word festival was average, which means it is like any normal month, it was not an overflowing festival demand because every month was the inventory correction, no fresh billing happening from OEM and some of the vehicles were also stocked out and they could not fulfill the demand etc., so the festival being average is coming from a comment of the previous two quarters, the market sentiments were so weak for retail that everyone was expecting that festival will be a boom, but it was not to be, it actually was an average.

Anirvan **Sarkar:** Sir, one more question, on the contingent provisions of 94 crore that we have made, so does this have a segment color to this, the problematic customer that you saw is this from a particular segment or is this across segments?

Ramesh Iyer: I think it is across segment and few geographies. I think little more largely may come from South possibly and will have color from every State, but if I have to put a percentage, I would think that it is large coming from the southern markets.

Anirvan **Sarkar:** Sir, I see your employee count has gone down by 500 in this quarter, have you done any kind of rationalization or how should we look at this?

Ramesh Iyer: I think people who would have naturally resigned and all that, we would not have been able to replace them immediately that is all.

Moderator: Thank you. The next question is from the line of Nidhesh Jain from Investec. Please go ahead.

Nidhesh Jain: Sir, firstly on the provision coverage ratio, do we have any plan to increase it further or we will continue to go with the ECL norms?

Ramesh Iyer: We do have a process to keep continuously reviewing them at every stage and which is why even in this quarter we have pushed up a little by adding 94 crores and whatever and we would have the similar approach every quarter. We would kind of look at where else and what else because ultimately the Ind-AS approach does not allow you to make any kind of an ad hoc provision per se. We need to have a rational for why do we do that and we will therefore look at every quarter what best can be done and try and do how do we improve the coverage continuously or how do we reduce the NPA substantially.

Nidhesh Jain: So we should expect this PCR to continuously go up and tend towards 30% over time or?

Ramesh Iyer: Yes, we would be happy if we can start moving towards that if the market conditions do not improve, see ultimately if we start seeing a natural recovery process then we are not overly worried about is the coverage adequate or otherwise, but if you see extended pressure from the market, as a company we would also take conscious view and see how do we start making higher provisions.

Nidhesh Jain: Secondly, in the housing finance business, still GNPA remains quite elevated and I think it continues to go up on a sequential basis, so when do you see this correction happening in the GNPAs in the housing finance?

Ramesh Iyer: At least what our review tells us is that if you take even in this quarter while it does look to have gone up, but if you were to split the quarter by three different months independently, December actually has shown lot of correction over October and November, so there seems to be there is an improvement that is visible, but I want to be absolutely sure and clear that what is built up over a period is not in a hurry going to come down in the next one or two quarters, but will we start seeing a declining trend going forward I would want to bet that it may look that way. Surely, the fourth quarter will see the decline and we will try and curtail it at that level, but it has few market forces working that the farm cash flow have to improve in Maharashtra if that had to happen. If Maharashtra goes through some pressure point either politically or economically, then once again we will continue to have an explanation and not an execution.

Nidhesh Jain: Lastly, in terms of margins we have seen some improvement in margins in this quarter, should we expect further improvement in margins going forward?

Ramesh Iyer: Improvement in margin from improvement in our borrowing cost and as and how our old liability keeps maturing, I think the new liability comes at a low price and we continue to keep reaping the benefit but that is again a very volatile situation. We may think today it is all coming down, who knows due to some action outside in the next quarter, one will start seeing a pressure once again out there, but given the trend I think the answer is yes, changing liability mix or changing past liability to a new one will show us the trend of declining borrowing cost leading to margin improvement.

Nidhesh Jain: At the same time we have increased the share of pre-owned vehicles, we have defocused on the NBFC book and CV growth also seems to be muted in the near future, so that should also help margins, right?

Ramesh Iyer: CV muted is a market force again, I mean the overall vehicle sales have come down substantially and that will continue to be so, and therefore, you will see a flattish or a declining trend in the CV business and let us be clear by value the pre-owned vehicle will never have an ability to offset the declining value of a commercial vehicle because the price differences are too high, but yes the lending yields are very different for both of these product, and therefore, as and how the pre-owned vehicle volumes continue to keep picking up, we would see some improvement in the average yield on product mix basis.

Moderator: Thank you. The next question is from the line of Sanket Chheda from B&K Securities. Please go ahead.

Sanket Chheda: Sir, just one clarification, I heard you saying on some earlier question that it should not deteriorate from here on it should get better, was that on asset quality?

Ramesh Iyer: Yes, that is right.

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

Mayur Parkeria: Sir, are any players because of the current situation have increased their LTVs in the recent, because we read some one or two players have increased the LTVs on car financing, so is it the case?

Ramesh Iyer: You give me the name of the player, I will provide their telephone number, how can I answer for them you tell me.

Mayur Parkeria: Are you seeing in the market that LTVs are being increased to compensate for the growth or to compensate for the current market situation?

Ramesh Iyer: We only know that we do not increase and so says …

Mayur Parkeria: You are seeing any competitive pressure as of now at least?

Ramesh Iyer: At least dealer pressure is not there, competitive pressure was never there. Normally, LTV is an outcome of a dealer pressure neither competition nor customer, and therefore, somebody who is fresh and new who is trying to gain market share will fall into the hands of dealer requirement and seasoned player who have been in this market for so long will not necessarily have that pressure.

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

Kaitan Shah: Sir, in your opening comments you mentioned that you are all moving into non-auto loans as well, so if you can articulate your strategy there and target segment that would be great?

Ramesh Iyer: We have launched a small ticket loan for our existing customer and those customers are who have repaid our loans at least for 12 months without a default or more than 12 months without a default and we try and meet their maybe temporary requirement, health, education, or any kind of such requirement, mortgages, and normally this loans are for a period of 6 to 12 months kind of a repayment, max-max may extend up to a 18 month kind of a situation and definitely, they are in the form of a personal loan but collateralized with the current security that we have because the current asset value is much higher than the principal outstanding of the premier loan, and therefore, even with this small ticket given to them, the asset protects the loan on both side and typical loan size is anywhere up to 50,000 and 75,000 kind of a requirement and they are for a shorter period of time and at a much better yield then the original lending rates, it is about 18%-20% would be right.

Kaitan Shah: In terms of your product mix obviously it has become quite varied overtime, are all the products being offered from all the branches or is there some penetration there like?

Ramesh Iyer: It is being offered from all the location except that the variation in terms of percentages would obviously be different in different branches.

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

Nischint Chawathe: Just couple of questions, if you could reconcile this 400 crores of provisions to the P&L with increase in outstanding ECL of around 268 crores?

Ramesh Iyer: Outstanding of what, sorry?

Nischint Chawathe: If you look at the outstanding ECL on your balance sheet, between the second and the third quarter it has gone up by around 268 crores, but if I look at the provisions of credit cost on P&L that is around 400 odd crores?

Ramesh Iyer: If you kind of remove the termination loss and bad debt recovery from those losses then it is only 140 crores.

Nischint Chawathe: So that is basically the difference?

Ramesh Iyer: Yes.

Nischint Chawathe: And the extra provisions, I wanted to just clarify that is the part of Stage-III?

Ramesh Iyer: That is right, 94 crores is the part of Stage-III.

Nischint Chawathe: I think typically you review your PDs and LGDs in the first and the third quarter, I am assuming you would have done that?

Ramesh Iyer: June-December, that is right.

Nischint Chawathe: It is done this time around, so I guess we are set for next two quarters?

Ramesh Iyer: That is right.

Dinesh Prajapati: Which is what Mr. Iyer commented in his statement also, our LGD which was 29 point something has gone to 30 in the current quarter.

Nischint Chawathe: Just final one on loan securitization, just trying to understand how should one really think about it, can you increase the ratio of loan securitization in your overall funding here on and I get it is incrementally the cheapest cost of funding for you, it is always the cheapest cost of fund for you?

Dinesh Prajapati: Yes, it is always cheaper from the point of view of the PSA classification. We have been always trying to maintain up to 15% of our liability mix from the securitization source as a liability program, however, this time around given the bond market remaining on the shallow side or remaining on sideline, probably we may look at increasing up to 20% of our liability mix.

Nischint Chawathe: That ratio can further go up, but there is no restrictions from any rating agency or any lender?

Ramesh Iyer: Nothing on that.

Moderator: Thank you. The next question is from the line of Jignesh Shial from Emkay Global. Please go ahead.

Jignesh Shial**:** Sir, I just missed the opening comments this time, can I get the Q3 slippage and recovery and write-off number for the quarter and for nine months?

Dinesh Prajapati: We will share with you, right now we have just asked somebody to pull it out, will share with you that number.

Jignesh Shial**:** Second question is that I am seeing there is some surge happening in the NPAs on your home loan book specifically in Maharashtra, now few of the players have indicated because due to monsoon in Southern Maharashtra there have been issues happening out there and same is the case with coastal Karnataka also some issues are happening, are you seeing the similar areas where the problems are happening, and number two, is this crisis only pertaining to home finance or Maharashtra is also seeing a CV finance also getting stuck out there?

Ramesh Iyer: CV finance per se may not have the same impact that housing is seeing through because the CV finance is more an outcome of large fleet operator, extra capacity, lower load, so they do not have direct relationship therefore to the kind of extended monsoon, cooperative bank non-functioning in the past etc., but housing as the specific problem because the segment that they work with is also that not a very high investing segment, it is a low-end segment where they have their income almost kind of depending on these kind of sources, and therefore, any impact to Agri source etc. has an impact on their income and we would not want to relate this to every class of asset. In one of the questions that I answered, if you look at October, November, December three months, December saw an improvement in recovery even in Maharashtra whereas October saw it go down further because of the extended range over stretching, that has that direct impact.

Jignesh Shial**:** If I understood it correct you said that your overall festive season had been more or less an average one and you are seeing a growth pickup might happen in the next festive season?

Ramesh Iyer: Yes.

Jignesh Shial**:** So there is a subdued growth might stay for couple of quarters at least for one or two quarters from now?

Ramesh Iyer: The reason for us saying that is BS4 nobody is now really billing BS4 and the inventory levels have come down and if all inventory gets cleaned up in the next couple of months up to March, it is going to be a volume lower than what we saw the last quarter, so that is one clear answer. The second is that BS6 billing will start to happen, but customer sentiments to start picking a BS6 at that price will also be a wait and watch, they will also try and wait to see how the performance of the product is, what are the operating cost behavior in terms of fuel price etc. all of this had to be normalizing, our belief is that it would go into the next festival season for sure.

Dinesh Prajapati: To answer your first question for the nine-month period provision charge was 650 crores and for the current quarter it was 259 crores.

Jignesh Shial**:** This is what addition or?

Dinesh Prajapati: Provision charge for the period.

Jignesh Shial**:** Can I get addition to NPA?

Dinesh Prajapati: Slippages part we will share with you.

Jignesh Shial**:** Just concluding, correct me, the growth is remaining subdued, however margins are improving for us and the credit cost have one-off of 180 crores, otherwise the trend is more or less flat sequentially?

Ramesh Iyer: 94 crores, not 180.

Jignesh Shial**:** 94 crores in the one-off and apart from it more or less the credit cost normalizing sequentially or rather improving?

Ramesh Iyer: That is right.

Moderator: Thank you. The next question is from the line of Piran Engineer from Motilal Oswal Securities Ltd. Please go ahead.

Piran Engineer: Sir, I have a couple of questions, firstly over the last six months or so, what sort of rate hikes have been taken across the portfolio, just given the environment that where we have more liquidity than others, I am guessing that we can bargain better, so to that extent have we taken any rate hikes?

Ramesh Iyer: I mean if I say yes all the product head sitting around me will beat me, there is no scope for increasing any price to the market at this stage where OEMs are giving away everything, dealers are giving away everything, there is absolutely no scope for increasing lending rate, yes, what we have done well is we have not dropped the rate in spite of our borrowing cost coming down.

Piran Engineer: Okay, so in this environment has like dealer commission increased?

Ramesh Iyer: No increase.

Piran Engineer: Sir, my second question is what is the geographic mix of our HFC subsidiary like what percentage of the book is it like say Maharashtra?

Ramesh Iyer: I think Maharashtra is about 40% to 45%.

Piran Engineer: What are the other states?

Ramesh Iyer: Tamil Nadu would be about 20% and the rest will be almost even another seven to eight states will have an equal number of 5%-7% each types.

Piran Engineer: That is largely in South India, is it?

Ramesh Iyer: No, we are there in MP, we are there in Rajasthan, Gujarat. UP and Bihar is new introduction with maybe 3%-5% kind of a number or may be low but South yes, we are there in Andhra, Karnataka, Tamil Nadu, and Kerala, Kerala is the lowest of the four and Tamil Nadu is the highest of the four.

Piran Engineer: Sir, this last question is out of your overall portfolio now disbursements, what percentage is already BS6 compliant because I believe Maruti has rolled out all BS6 models already?

Ramesh Iyer: I think Maruti has rolled out six models from November onwards, and therefore, it will not be a very significant portion because I will tell you the reason for that also is largely it is urban billing which has happened and we are not a significant player in urban.

Piran Engineer: Okay, so bulk of your disbursements also this quarter were to BS4 vehicles?

Ramesh Iyer: Even next quarter we would almost see it that way expect new age vehicles like Kia Motors etc. which already comes with BS6 and whatever number that we do will be a BS6 but very, very miniscule number on the overall basis.

Moderator: Thank you. The next question is from the line of Aditya Jain from Citigroup. Please go ahead.

Aditya Jain: Sir, from your comment on LGD has increased to 30% marginal increase I guess, but in 4Q when we do a write off, the reported coverage ratio will likely fall, right?

Ramesh Iyer: That is right.

Aditya Jain: Then the additional provision that was made in 2Q and I think that was in Stage-I and -II, that is still within those stages or has it moved to Stage-III?

Ramesh Iyer: It is in the same stage because you would see improvement happening there also.

Dinesh Prajapati: It is on the portfolio basis and that was done through a PD uptake.

Moderator: Thank you. The next question is from the line of Aadarsh P. from Nomura. Please go ahead.

Aadarsh P.: Sir, just a quick question, last couple of quarters you all have had decent securitization where I think income gets upfronted so is some part of the margin expansion related to…

Ramesh Iyer: Before you complete the question, I want to tell you that upfronting of income in securitization is gone story long back.

Dinesh Prajapati: That upfronting is permitted only in assignment transaction and we are not doing assignment route sell down, we have done all our deals only securitization route.

Ramesh Iyer: The asset also remains and the income also is accounted on amortization basis.

Dinesh Prajapati: It remains in the book only, even post securitization as a liability

Ramesh Iyer: Not any kind of a profit management program.

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

Mayur Parkeria: Sir, actually I got confused about this one time 35 crores impact, you said this was related to tax something and was it in provision because earlier I think?

Ramesh Iyer: It is now charged because it was a disputed claim we have negotiated and we have made a provision as to how much we will have to pay, therefore, it is charged to P&L.

Mayur Parkeria: It will be part of the tax provision?

Ramesh Iyer: No, it is not income tax, it is an indirect tax, so it is a part of expenses.

Mayur Parkeria: Which will be in the expenses?

Ramesh Iyer: Correct, otherwise we will not have told.

Mayur Parkeria: Second, just to understand it properly if we look at some of the comments which you are saying, so on one side we are seeing improvement in pre-owned share. We are seeing new other loans which you are personal kind of loans which are at a higher yield while that proportion share maybe very less, so that is the second thing. The third is reduction in the borrowing cost as it stands now, the fourth is improvement in the securitization percentage which you may look for this year, so will it not mean that the overall NIMs should improve much larger even with no improvement, no growth uptick?

Ramesh Iyer: Percentage wise, yes, but under the revenue growth by volume, absolute value of NIMs improvement will not be as high.

Mayur Parkeria: But qualitatively the NIMs should see a sustained improvement, right?

Ramesh Iyer: Which we have seen already, borrowing cost is the largest cost and if that shows a declining trend then definitely we will see improvement in NIMs.

Mayur Parkeria: If the growth plays out, then that will be further cherry on the?

Ramesh Iyer: Depending upon which product brings that growth.

Moderator: Thank you very much. That was the last question in queue. I would now like to hand the conference back to the management team for closing comments.

Ramesh Iyer: From our side, we thank everyone for participating and we shall hope that we have answered everyone's question to their satisfaction. Thank you.

Moderator: Thank you very much. On behalf of IIFL Securities Limited, that concludes this conference. Thank you for joining us, Ladies and Gentlemen, and you may now disconnect your lines.