



“Mahindra & Mahindra Financial Services Limited  
Q3 FY2021 Earnings Conference Call”

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**Moderator:** Ladies and gentlemen, good day and welcome to the Q3 FY2021 earning conference call of Mahindra & Mahindra Financial Services Limited hosted by ICICI Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “\*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kunal Shah from ICICI Securities. Thank you and over to you Sir!

**Kunal Shah:** Thank you Margaret and good morning everyone. Today we have with us on the call Mr. Ramesh Iyer, Vice Chairman & Managing Director, Mr. Vivek Karve, Chief Financial Officer, Mr. Rajnish Agarwal, Executive Vice President, Operations, Mr. Dinesh Prajapati, Head, Accounts, Treasury & Corporate Affairs, Mr. Rajesh Vasudevan, Senior Vice President, Accounts from Mahindra & Mahindra Financial Services to discuss their Q3 FY2021 earnings and also give us the ground level feedback as to now what is happening in their area of operations and discuss the financial updates at length. Over to you Sir!

**Ramesh Iyer:** Good morning everyone and welcome to this conference call to discuss the results of quarter 3. Let me begin with what is happening on the business front before we go to everything else. What we have seen, and it is a repetition of what I have said even in the past that definitely we continue to see the sentiments remaining positive and we have seen month on month improvement on the volumes. Yes, we have still not caught up with the pre-COVID kind of a number and situation and it is at the back of two or three things, one definitely we have seen volumes coming down because the vehicles are not still being made available sufficiently both in terms of vehicles and tractors and what we see in December at least what we saw from the industry numbers they are more updating number and vehicles have still not been retailed out. So clearly we see volumes to pick up going forward I will speak about it, but in this quarter, we have seen vehicles nonavailability as one of the reason. I think we have also seen the other reasons like the cash purchases have once again gone up at least in tractors and in smaller vehicles because when the vehicles are in short supply, we do see people making arrangements for funds with the expectation that full payment made may get them a better allocation of vehicle and that actually brings down the overall volume available for financing particularly and that has been the other reason and that has had some impact on us and the third reason is there are certain segments of customers who are still shying away from buying of vehicle, while their earnings have restarted and when we talk about collections we will talk on them and the specific segment the we are referring to clearly are the aggregator segment, the school bus segment, the infra segment that is people using their vehicles for infrastructure projects like mining etc., I think these segments are still not buying vehicles and therefore that segment is definitely registering a lower volume and that was directly our kind of a business volume out there. Putting these three together we have had little pressure on our volumes as compared to what we thought we would end up the quarter with, but there has been some drop in numbers arising out of that very clearly.

I still want to confirm that there is not too much of competitive pressure coming from any NBFC per se in these segments, but very interestingly we have seen in the car segment, the salaried

when I say not necessarily high corporate salaries but even low salary people in that segment are buying personal vehicles and they are looking for a seven year loan and therefore State Bank has been little more active and aggressive in that space, that volume has gone towards bankers. So put all these together, we have seen therefore there is some decline in volume definitely, but clearly the visibility of volume with now I mean discussions with all the OEMs most of them have confirmed, rather almost all of them have confirmed that they are billing sufficient stock in the systems, their production is back to normal and we do expect that volumes will pick up in the fourth quarter and you would see a very different numbers from us when it comes to the fourth quarter number, there would be a growth visibility on the number and we are also somewhere predicting that it could be as high as what we saw in the fourth quarter of last year.

The volumes would return back to some kind of a growth number from this quarter, but interestingly we have talked about, quarter over quarter we have definitely seen increasing volume and disbursement value while up to the third quarter it has still not caught up with the previous year.

On the interest front that is on our borrowing cost front, we very clearly are seeing that we have an advantage of funds being available and multisource funds available and that has helped us to definitely bring down our borrowing cost while we still carried a large sums of money in terms of protection fund if you may call as a liquidity and therefore the holding cost that we have incurred for holding such large sums have been little high. We have revisited that requirement based on the overall collection and overall availability of funds from the market and we are recalibrating ourselves and we will bring down the overall liquidity holding position by at least a couple of months and that should release cash and ease interest saving from that fund and as disbursement starts to pickup and we start consuming fund and the holder funds get paid off and the new funds come in, we will also see further improvement. So we clearly see in the following quarters the margins to improve coming from a better liquidity management as well as better mix of funds coming as we start to consume. On the overhead funds, we have stayed with our clear focus on looking at various line item to bring down cost and while we you will see that the overheads to the asset has substantially come down, but just to remind as we said in the past as overall volumes pickup and activity level starts to go up, this will start moving a little up, but we do expect that they will settle down somewhere at 2.4, 2.5 type levels, which would mean a saving of 50 to 60 basis points over the past and we stay committed to ensuring that we even on a growth basis we bring down the overheads to at least a level of 2 to 2.25 over a period of time, but to start with we would have a 50, 60 basis point saving. Currently the savings are much higher we are already at about 2% level, but that is at the lower transaction level that we have saved.

Now coming to the overall collection and delinquency, I think right upfront I would like to state that what you see as our NPA and what you see as our provisions, my very strong belief is they are very temporary to our this quarter and this is the reason I am saying that and the reason why I am saying that is we have seen substantial movement in various stages of collection and we are very, very excited about the changes that we have seen to the collection percentages and at the back of that, if you recall, we had initially forecasted that we would have to do a restructuring of

about 1,50,000 account and when we closed the third quarter we have virtually done no restructuring of account at all and why have not we done the restricting, it is not that it is our decision not to do, it is ultimately the customer decision whether they want it or otherwise so we have reached all the these 1,50,000 customers across geography in various states and we try to understand what really is happening on the ground when it comes their earnings and very important and interestingly, most to the customers have serviced loans during these three months and they feel that taking a restructuring and paying an interest for a longer period will be an unnecessary burden on them. We have definitely recognized the fact and the sentiments. We have also re-verified the facts on an overall basis through the month and through the quarter with our branch team and we are very happy to kind of let you know that when we looked at this 1,50,000 contract which originally we had forecasted will need kind of some restructuring which were in the three buckets of auto, commercial vehicle, and car, and we found upward of 94% to 95% of the people have been able to service their loans during this period and close to about 55 odd percentage of people have actually paid the full installment in all the three months. So that is a extremely good news from our point of view and therefore we took this very conscious decision of not to go in for restructuring, but rather stay with the high level of provisioning if required and we very strongly think that they are very temporary in nature for this quarter and we would see them substantially get reversed in the following quarter. Same is when it comes to the stage 2 accounts, when we kind of looked at the total number of contracts that are currently in stage 2 is about 3,16,000 contracts and very interestingly there again only 6% of them did not pay any installment during these three months and out of that 6% almost about 2% is someone who is already holding a credit balance and that is the reason they did not have to pay and there is another percent or so whose contracts have matured and just about an installment or two will be outstanding who would settle their account. So here again the news is very, very exciting for us that while the number has moved up from what it was in September and I think it is a wrong measurement against September for very simple reason that they were just out of moratorium and they would not necessarily been stage 2, but in spite of three installments falling due between October to December we have found that upward of 96% to 97% of the people have been able to make movement or were already holding some credit balance, so we do not see this account going into NPA in the future.

So two things very clearly come out in spite of not doing restructuring we are seeing movement in those accounts and they are expected to reverse from where they are and in the stage 2 account there are substantial movement for us to believe that they would not progress into stage 3. Even when we come to the stage 3 account in particular, that is 1,61,000 accounts which are in stage 3. Even there we have found about 26% of the contract have started making payments while they have not made sufficient payment to roll back into a stage 2 or a stage 1 level and that is the other good news that we have is if from this 161 if another 30 to 40000 accounts are likely to roll back I think we have an extremely, extremely strong position to believe that in the fourth quarter our NPA numbers and the provisioning numbers should see a great reversal from the position that we are in and looking at all of these data and numbers is why we consciously decided to go in for the provision instead of going in for any kind of a restructuring even on a continuous convincing basis to customer. But if you look at on a gross to net basis and compare it to even December, while the gross NPAs have definitely gone up, but we are substantially provided for and have

increased the coverage and the net NPA levels have been almost similar to what we had in the last December. So this is the other factor that I would like to remind that if the contracts are moved to NPA they are not under provided, they have sufficiently moved the coverage to ensure that we do not need to have any further provision coming from them because when we look at the underlying asset and their valuation, we are very comfortable and confident to believe that even if repossession had to be resorted to some of these customers, we would not have to book any loss considering that we have already carrying a provision.

I would also like to give you one more data point on the moratorium accounts. Where we have done moratorium, given moratorium to about 15 lakhs customers during this period and then there again it has been a very, very interesting news for us where we have found upward of 94%, 95% of the people have serviced their loans during the period and 6% of people who could not service this loan and ones who have not paid any amount have already moved into NPA so there is nothing more which is likely to move from this account into NPA. Putting all of these together we have extremely high confidence to believe like every year we would see a real, real bumper fourth quarter with the harvest money coming in and as well as the infrastructure, which has opened up and we are witnessing cash flows coming in from them and we are very sure therefore that all these contracts who are providing their services already by repaying their installment would show very clear resemblance of how they would be really repaying in the fourth quarter. I just have one more comparison to make just for better understanding which is we looked at whenever before we had a similar disruption in the near past and we found after demonetization in 2016-17, the gross NPAs had even that time moved to around about 11% or so and then it kind of fell back substantially in the month when it opened up in the fourth quarter and the message that is coming out of this very clearly is when there is a sudden disruption that happens in this geography, the customers do resort to holding back their funds instead of servicing their loan and as things stabilize, then the correction starts to happen very, very sure. There are lot of similarity between what happen in 2016-17 versus 2020-21 when it comes to the earnings of this customer and then their ability to therefore reverse it as the earning begin to happen. Even when we look at the three to four segments that we were talking of in the past, which are under pressure, which is the taxi aggregator segment, the school bus segment, the mining kind of a goods carrying segment as well as the people carrying segment and very interestingly we have found that the contracts which are in stage 2 of these segments have also registered a very high percentage of collection during that period. All of them above 90% or 94 to 95% of the people have been able to service their loan during that period, but yet not all of them have not paid all three installments, upward of 50% of them would have paid three installments, but definitely they have started repaying. We also looked at October, November, December as three independent months and looked at how is the overall collection behavior has been and we found that while in October we had a collection efficiency of about 84 odd percent moving up to 87-88%, in December it has gone as high as 97% so there are enough indications to believe how things have stabilized during this quarter and putting all these together gives us sufficient confidence that we would be able to see correction to these numbers in the fourth quarter and not waiting too long as well as they would start seeing the benefits of the volumes kicking in including the pre-owned vehicle and like us maybe other NBFCs will also resort to repossession which was not in action so far and we will very, very surely know for a fact that the pre-owned vehicle segment will also start to pickup

during this period as the vehicles start becoming available very, very immediately from this particular quarter.

Just on the stage 2 when I was kind of narrating about the 6% of the contract who have kind of not been able to service the loan during this period of the 3 lakhs odd people which means around 20000 account, 50% of the 20000 accounts are in tractors whose money would come in this quarter because the yields are out, the support price has been announced, but in certain states the cash flow did not come through like in MP, etc., and it has already started coming in as we speak in January and you would find that in 50% of them are tractors you will clearly see them get corrected during this process. I think for us while definitely we went through this pressure in this quarter, but I think we were very conscious of the pressure that we are going through having looked at all these data, having interacted with customers at large in every state, having taken inputs from our branches, and having understood how the overall earning potentials are beginning to happen, I think we have taken this decision to stay with this pressure for this quarter so that we could once for all really stabilize better and I want to confirm that this kind of cyclic impact that we were going through, we somehow believe that now in every line item we have taken sufficient corrective action for us to feel confident that the model is pretty well stabilizing towards the return that we were looking for. If you look at each line item the action that we have taken, I think we are getting ready to clearly move towards a growth orientation as well as an ROE levels that we always wanting to achieve. Our own internal directions are how do we bring down in this quarter with all this cash flows and the behavior of the customer that we have seen bring down the gross NPA level to anywhere between 6% and 7% and we will for sure maintaining this high provision levels will go to sub 4% is what the whole attempt is and the whole direction is and with their sailing from margin as with the borrowing cost as well as sailing from the overheads with the growth coming back, I think we are all ready for embarking on this stable growth journey that we were talking of. I think I would stop there and then maybe invite questions from you and then we will take them as they come along. Thank you very much for joining this call.

**Moderator:** Thank you very much. We will now begin the question and answer session. The first question is from the line of Mahrukh Adajania from Elara Capital. Please go ahead.

**Mahrukh Adajania:** My first question what factors drove the sharp improvement in collection efficiency in December because it is nearly 10% jump? That is my first question.

**Ramesh Iyer:** So as I said it is all completely activity based and I am sure the customer must have also cumulated some cash flow in his hand when he starts to repay I mean one thing that we have to understand the sentiment of this market is until they see a stabilization to their earnings in the market, they always hold back the little cash that they have and when they saw that the revenues have return back and they are able to offer it at least 20 to 22 days in a month then they are confidence built up to say that now we are back to earnings. So you look at various segments, look at the taxi aggregator segment right why are they started to repay because offices have restarted, entertainment has restarted, tourism has restarted in many states, the airports have opened up, so their business has come back to some kind of a normalcy. Many of the school bus

operators and when I say school bus do not look at it as a bus, but the mini vans, the omni vans, etc., they have put them into an alternate use because they know for a fact that the schools are not going to open until April so many of them in the last four to five months have recast their vehicles and have started using it for the alternatives. The mining has restarted, and lot of governments have released cash during this period. The government has settled a lot of I think up to September, October billings have all been settled for contractors. If you put all these together and then crop money came in part of from some of the states the crop money started coming in already in November, December, so put all these together both the infra, on-the-ground operations, and the farm cashes were coming together has really pushed up the December collection and so will be January, February, March.

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

**Udit Kariwala:** Thank you Sir. My question what went wrong with the guidance of the last quarter because last quarter also you were very confident that there will be no spike in NPA while I agree that you have not taken restructuring, but did you envisage such large amount that it could flow through? That's first. Second, if I understood right you said that a lot of 1.5 lakhs account where you ask customers for restructuring, but they have not availed, so does this impact their credit score and what happens because what we hear is that the businesses are reviving so logically customers would have availed is what we are hearing so your thoughts on these two things.

**Ramesh Iyer:** So when we kind of said the NPA would not spike it was definitely on the basis that if a lakh and 50000 contract that is the kind of the customers who are under pressure if they were to be given a restructuring then you look at our NPA numbers would have been 2% to 3% less in terms of gross NPA if the entire 1 lakh 50000 guys would have opted, at least 40000 out of them would have move to NPA would not have moved. We have taken a conscious decision where the customers have started to pay. Customers have just told that we will pay next quarter we do not want restricting, we would not have agreed to, but they have demonstrated repayment during this quarter. They have actually paid two installments some of them 56% of those contracts have actually paid the entire three installments now therefore the need for restricting is not felt when they are servicing the contract, right so it is not a judgmental error, it is a transactional shift from whether to restructure or not to restructure and not to restructure decision comes from an actual activity of seeing collection and the money flow through and therefore the confidence this contracts will revive itself in the following quarter.

**Udit Kariwala:** In terms of the bureau score does it get impacted and what would be the quantum of exposure for this 1.5 lakh accounts?

**Ramesh Iyer:** No I think they should not forget that this 1.5 lakh accounts were all regular accounts even before they moved into whatever stages they are, they are all zero and one account even pre March, and etc., etc. They are not kind of delinquent accounts moved to normal and all this so they are all regular accounts and if you take average of, I do not have a ready number, but I am just putting a number around by an average basis, a lakh and 50000 accounts if you take an exposure of 3 to 4

lakhs per guy you know that would be the kind of number, but very, very important and interestingly there are earn and pay segment the bureau score, etc., is not something of a significant importance to them or even to the lender for that matter because one should know let us say there is no COVID, there is nothing there even on a natural basis they have always seen that they do default on one installment or two installment based on the local circumstances so I think they are not high salaried customer whose credit score get impacted and all that they are one vehicle, two vehicles owner using the vehicle locally for their livelihood and therefore if the circumstances of less number of days operations it does get affect, their earnings do get impacted so I think it is not a concern from a credit rating score per se and the restructuring is a choice of the customer. We can make this offer to them and they would chose whether they want to or not, but if we as a company feel that without making any payment they are also not resorting to restructuring, I think we would have had the better discussion with them to make them to take it. When we saw the payments forthcoming, I think it is a very prudent call not to burden them with this additional interest which could then lead to some kind of a further pressure. It is a very conscious call.

**Moderator:** Thank you. The next question is from the line of Abhishek Murarka from IIFL Capital. Please go ahead.

**Abhishek Murarka:** Sir, a few questions, one when I look at this slide #33, the moratorium availed accounts, I just want to clarify a few things. So out of the 14.97 lakh accounts, let say 15 lakh accounts, 6% have paid nothing in 3Q, so around 90000 accounts have paid nothing in 3Q and if I look at the second line that 2.75 is it part of this 15 lakhs or is it...

**Ramesh Iyer:** No they are all part that is a breakup out of 15.

**Abhishek Murarka:** Fair enough. Let us say 90000 accounts did not pay anything in 3Q out of the 15 lakhs and if I look at 2 lakhs 74000 then 16% of it which is around 44000 accounts which have paid nothing in 3Q and also probably nothing through the first six months either so now the question really is out of these 90000 and 44000 has this 44 flown into GNPA and what about the rest 45 to 46000 accounts whether those are still in stage 2 or they are already in stage 3?

**Ramesh Iyer:** So this is what I was coming through if you look at the 90000 account they are while in stage 2 because they have serviced their current amount and therefore they have not flown but interestingly there is a substantial part of that 90000 who actually had credit balance as well as their account has kind of come to an end just with one installment, two installment outstanding so whatever where a regular account where the installment has fallen due during this quarter and not paid up already flown to stage 3. Okay so when we say 6% of them have not paid and if out of that 40 odd thousand people paid nothing let us say and they would have already flown to stage 3 and therefore if Vishal in this call, Vishal what percentage of this 6% will be having a credit balance is that number available?



**Vishal Agarwal:** Sir will check but it will be around 52% have moved to stage 3 from the balance there will be mix of contract whether there they would have been tenure completed plus credit balance and then even low EMI cost.

**Ramesh Iyer:** So let us say that out of 3% actually needs to be added to the 94% so technically 3% of the moratorium contract who did not pay anything, but they have already moved to stage 3 and provided.

**Abhishek Murarka:** Remaining 3% you are saying some sort of either accounts have been closed or they have one or two outstanding balances and then...

**Ramesh Iyer:** Or they would actually have some of them have credit balance because they have paid in advance and therefore they did not have to pay during this period.

**Vishal Agarwal:** Sir 1.5% had credit balance.

**Ramesh Iyer:** So 1.5% had credit balance so they did not have to pay anything and there will be some who has got a quarterly installment which would be paid in the following quarter so technically the ones who have not serviced anything, which Vishal said is about 50% of that so about 40 odd thousand contract they have already moved into stage 3. So we do not expect any further movement from stage 2 moving into stage 3 in a big way.

**Abhishek Murarka:** Fair enough that's what I was trying to figure out. Thanks for that. Second question is disbursement, when I see you competitors and their disbursement for 3Q so far everybody seems to have reported a pretty sharp reversal in disbursements and back to very close to pre-COVID levels or even higher, but you are still about 30% to 35% below on a Y-o-Y basis in terms of disbursements so what really made you let us say go slow in the quarter or is it a function of lending only to M&M vehicles and therefore losing out market share. What really happened in the quarter?

**Ramesh Iyer:** So let me first clarify. We don't lend only to M&M if you look at our disbursement mix, our disbursement mixes 50% comes from M&M, 45 odd percent and balance comes from non M&M. Now definitely in M&M volumes we had a pressure because they could not supply vehicle and therefore we suffered little more than anyone else would have suffered. Second is it is also important to understand the product mix of others versus ours and the geography in which they are operating. I am not too sure that people are exactly in the same segment and similar product have had a much higher registered growth or whatever and over what base is the growth happening also. So if you look at the only segment from where we have really gone little slow which is our conscious decision to go slow was in the non-Mahindra tractor segment which I explained even last time because we were very strongly present in states like Bihar, UP, etc., and there were some pressure that we witnessed post election in this geography and we resorted to go a little slow and the second reason is percentage of cash purchase in this tractors have definitely gone up and when the cash purchase goes up, the available volume for financing comes down and if you are not a significant player, one could end up with not getting the best of customer so

to some extent we have resorted to go slow on that product that is a internal conscious decision I am not too sure to claim that is a very right decision, but based on what we saw, what we heard, what we understood we took the decision that may get corrected over a period of time for sure, otherwise we have not seen a very sharp decline to our market share or a lot of volume as compared to what everyone else has done and I am honestly not exposed to everyone's number, but if you kind of slice it by product you will find that is not the right story to compare in the sense of we have not lost substantially for someone else to have gained substantially, but yes in certain product line it could have happened like if somebody is very strong in second hand commercial vehicle, the demand for that product would have been higher, but we do not have that product as our financing product. So therefore there must some decline that is happening if somebody is in a fleet operator financing, we are not financing fleet operator, truck operator and they were the ones who bought during this time somebody would have registered a growth there but if you want to look at Mahindra UV, tractors, car segment, and pre-owned vehicle other than commercial vehicle segment I think we got a decent size of the market that was available to be financed and which is why I said right in my beginning commentary that when the vehicle becomes start available to this market you would see our number looking very different from the following call.

**Abhishek Murarka:** Lastly if I look at slide 34 the table on cumulative COVID-19 management overlay, in December have you used up some of the provisions that you had made, the balance is down from 1484 to...

**Ramesh Iyer:** Technically someone can explain. I think my simple understanding is that the stage 2 provision if you are looking at the table is what would have come down from 79 Crores to 70 Crores or whatever and that particular number changes because now some contracts have come into stage 2 and would have taken a natural provision course so that is my understanding, Vivek go ahead and explain what technically the whole thing is.

**Vivek Karve:** So I think you have explained the bulk of it, the reason is some of the overlay that we were carrying in stage 1 have not recharacterized in the normal provision so just to summarize most of the almost 1000% of the overlay provision as on 31<sup>st</sup> December would be towards stage 3.

**Abhishek Murarka:** Okay so out of the 1400 Crores that you provided this quarter how does that breakup into specific management overlay can you give a breakup?

**Vivek Karve:** Yeah we can provide that breakup to you this entire thing is overlay 1454 Crores

**Abhishek Murarka:** 1400 is entirely overlay?

**Vivek Karve:** Overlay only, everything is overlay only that is not the entire provision, this is overlay provision.

**Vishal Agarwal:** Abhishek are you asking for charge to P&L this quarter?

**Abhishek Murarka:** Yes, charge to P&L.

- Vishal Agarwal:** That is all normal. That would be all normal provision along with charge on account of losses as well as other losses.
- Vivek Karve:** That 1387 numbers that you see on P&L is the total charge for the quarter.
- Abhishek Murarka:** That is all towards specific accounts?
- Ramesh Iyer:** Yes.
- Abhishek Murarka:** Right got it, thank you. Those are my questions. Thanks and all the best.
- Moderator:** Thank you. The next question is from the line of Sandeep Jain from Aditya Birla Capital. Please go ahead.
- Sandeep Jain:** Thanks for taking my question. Have you done any write off in this quarter and if it is what is the amount of the write off?
- Vivek Karve:** We have done about 300 Crores of write off in this quarter.
- Sandeep Jain:** So you have 300 Crores of write off you have done in this quarter so if I can understand 1400 Crores you have provided in the PL charge and if I can understand that 500 Crores of overlay is getting down write in the 1400 Crores 300 Crores is because of the write off, is that understanding is right?
- Vivek Karve:** Yeah you can say that, we can give you some specific numbers but broadly yes.
- Sandeep Jain:** Broadly yes, so remaining is 1100. Now the question is when you are so much confident that quarter 4 would be good in terms of overall collection and many other things will come back and as Mr. Iyer has also said that the management is thinking to moving on to the ROE trajectory and is stable in terms of asset quality and all, so why if you are so confident we could have taken a more management overlay and kind of done in the quarter 4 if we come across in terms of more collection and then it can be get back so what is the thought behind there to keep that COVID related provision here because we have created because of this revenue right. So what is the overall management thought here not to utilize remaining 1000 Crores in overlay and not to utilize them?
- Ramesh Iyer:** See what we have seen as collection efficiency as well as what we have seen each contract serving the customer, the customer serving their installment, I do not think it is prudent for us to get extremely aggressive and say reverse everything and kind of have nothing left out there. We should not forget that we are still facing situations, suddenly something could emerge and then we run around to say should we now make another provision so you will see this getting corrected in this quarter if you see collection efficiencies hold up the way we saw in December month and January we are already witnessing it to some extent and you will see a natural correction happening so we did not feel the need and the hurry to kind of do everything into one quarter, we have already taken one conscious decision of not adhering to the restructuring

requirement of consumers and therefore we are leaving with the judgment of the collection and the judgment of the ability to earn to pay. Now we will look at it in the fourth quarter and we see similar trends which we strongly believe, and we have every reason to believe it is going that way you would see the benefit of that flowing in. So we just took a conscious decision of not wanting to do everything in the same quarter.

**Sandeep Jain:**

Okay, in the longer term if we see some kind of consistency in the performance what kind of watch list or what kind of provision we would like to keep in the books because the business model is like that you can see this kind of some quarter there would be some kind of problem in some of the state or some quarter there would be some kind of another thing which is coming right so what kind of watches you would like to keep in our book to show some kind of consistence in the performance because pre-COVID, post-COVID we have some kind of struggle in terms of maintaining the consistency and the profitability?

**Ramesh Iyer:**

Correct, so I think one of the approaches that we have taken for sure is, you know these write offs which we normally use to do twice a year that is once in September and once in March. We will now make it more stable to say every quarter we will take a view and then do the write offs were required. Second is we will always want to try and maintain as of 4% net NPA level and if that calls for any higher provision to be done we would definitely like to do. Our belief is that with the coverage ratio of about 35 odd percent, we should be very comfortable to be able to manage that so in a way one can consider a 35 to 36% kind of coverage ratio being maintained to bring stability to the model because we do expect that in the next two or three years as things open up in rural the way we are seeing we would be in the category of maybe a 6% out of 6% gross NPA level for the next three year size and if you were to maintain the third person coverage we should be able to maintain a 4% net NPA. More or less that is the kind of policy or process around which we are working and definitely when we move to every quarter we will look at accounts which needs to be moved to bad debt rather than moving it only twice a year.

**Sandeep Jain:**

Okay. Thank you.

**Moderator:**

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

**Piran Engineer:**

Hi Sir, congrats on the quarter. I just have couple of clarification. Firstly what do you mean by credit balance, if a morat customer paid EMI during the moratorium period did it create a credit balance?

**Ramesh Iyer:**

That's right. See many times what happens is this customer because they have some lump sum cash flow coming from either sale of a product or by harvest or whatever they do not necessarily pay you only one installment they end up paying more than one installment and then in the future months when they are not able to service their loan, that credit balance get utilized. So therefore we always have this is not a new situation we always have situations where customers have paid more than their normal EMI and run a credit balance.

- Piran Engineer:** Okay that is in a normal scenario, but during the moratorium month they were not supposed to pay, but if they paid did you count it as collection for that month and reduce the principal or are you adjusting it against future months as a credit?
- Ramesh Iyer:** I think Rajesh or somebody can explain better but I think we did adjust and we try to bring down their overall loan but some of the customers have insisted that the loan should not come down and they would like to keep the credit balance. See ultimately it is a customer choice right suppose I come and pay three EMI we as a company would decide because it is a moratorium period installment coming in we will want to bring down principal and reduce his total liability the customer may choose to say no I am expecting the next three months to be more difficult so please hold this balance and when the installment recommences to adjust it toward installment do not bring down my principal both situations but I think largely they reduce principal, Rajesh you are there on the call?
- Rajesh Vasudevan:** Largely it has been adjusted in the principal.
- Piran Engineer:** Again on slide #33 the 274000 odd account how many of them were NPL during the moratorium period?
- Ramesh Iyer:** Sorry how was that?
- Piran Engineer:** The 2.7 lakhs contract, which I had not made any payments in September these are not only standard asset contract Sir those were also NPLs? Are these contracts subset of 2 lakhs 74000?
- Rajesh Vasudevan:** Piran it will be a subset of the former and none of them would NPL earlier because moratorium was only offered to non-NPL customers. So this is a subset of moratorium availed contract.
- Piran Engineer:** Okay understood and this is my last question in terms of in December while 96% is your collection efficiency can you just tell us how many customers you know actually paid you all and how many did not pay you all?
- Ramesh Iyer:** We have 23 lakhs customer live so when we say 96% collection efficiency
- Piran Engineer:** But Sir this includes arrears collections also so I just want to understand excluding the arrears collections what would it has been?
- Ramesh Iyer:** Okay I think somebody will pull out the detail I do not have it ready with me.
- Rajesh Vasudevan:** We will share it subsequently.
- Piran Engineer:** Okay sure. Thank you so much and all the best.
- Moderator:** Thank you. The next question is from the line of Anitha from HSBC Asset Management. Please go ahead.

**Anitha:** I had a couple of questions. So when I compare yours versus your subsidiary Mahindra Rural Housing there the asset quality performance has not seen like a similar trend in fact it has improved Y-o-Y and even Q-o-Q so how different is that subsidiary versus yours because I understand both are extremely entrenched in the rural areas, so can you give some color on that?

**Ramesh Iyer:** I think you should look at it from where that correction has happened for them. Largely their NPA numbers were very high in the state of Maharashtra and we they seen improvement in collection that happened because of their agri cash flow coming in because they are not All India present for making a like to like comparison directly. So in case of comparison you will have to do some specific state comparison between housing and us and you will see some pattern of similarity. So if you look at their improvement if it has happened in Maharashtra and if you see our collection in Maharashtra possibly would have shown a similar trend I am just quoting one state example, not necessarily that is the state. Likewise if you look at MP or if you look at Rajasthan so what we can do to help you understand the question better, Vishal if you can kind of make few states comparison where rural housing is present and how the behavior of Mahindra Finance in that state has been as well, but just to be more clear and specific about it we have taken this view even on the basis of part installment received from the customer and we see visibility of the cash flow being good. We have not touched and done any restructuring of the customer and in rural housing cases, it is quite possible that installment could have been quarterly whereas we have a monthly installment somebody would have paid them one installment would be out from a collection whereas in our case they have to pay three installment to be out. While the geography is same the overall structure the overall program everything is very different so it may be little necessary to go deeper rather than just make an absolute comparison.

**Anitha:** Thanks and just a couple of more questions like what is driving the good reduction in opex for you if I do a Y-o-Y comparison again because both on the employee front and the other expenses has come down in an environment where things are pretty collection heavy and followup you need to do what is driving reduction in opex there?

**Ramesh Iyer:** So one is we have been explaining this several times, we have looked at every line item and we recast ourselves like for example some of our regional offices which were kind of call center and not really contributing and with the use of better technology and use of one office to serve more branches we have been able to bring down the number of regional offices so that is a direct reduction to the cost one can see. Similarly, we have looked at the security services that was being provided across the country for all our branches, they have been relooked in the sense of is there a need to have that kind of a security services now with various other alternate methods of money transfer into the bank, etc., happening not so much cash left in the bank branches and therefore that is the other area which has been looked at and there has been reduction that has happened. Similarly on the people front, given the current scenario what is happening in the market place I think all of us are aligned to a variable structure rather than a fixed structure for certain percentage of compensation for even the field people and therefore based on the performance level that cost has definitely come down. Likewise every item has been looked at whether it is courier charges, whether it is telephone expenses and traveling expenses, but please

be mindful of the fact that what you see as total reduction is not necessarily the reduction all time because of the transaction levels being low, traveling being less, definitely those cost will in some form come back when things open up, but undoubtedly from a 3% plus to a 2% level we have come some may inched back to maybe 2.4 level, but it is a conscious decision to look at every line item and re-cast that expense and to stay at that low level.

**Anitha Rangan:** Thank you. What are the undrawn lines in addition to the cash liquidity which you have on the balance sheet?

**Ramesh Iyer:** It approximates around 1500 Crores.

**Anitha Rangan:** Thank you very much.

**Moderator:** Thank you. The next question is from the line of Karthik Chellappa from Buena Vista Fund Management. Please go ahead.

**Karthik Chellappa:** Thank you for the opportunity Sir. My first question is would you be able to share the PD and the LGD for stage 1 and stage 2 that you are working with from an assumptions point of view?

**Ramesh Iyer:** Meaning has a percentage, what is the question when you say assumption?

**Karthik Chellappa:** As a percentage for example if it is stage 2 asset what percentage do you expect to fall in to like PD and then what LGD are you assuming on that?

**Vivek Karve:** We will share with you offline.

**Karthik Chellappa:** The context in which I asked this question is compared to September there have been actually a sharp drop in your coverage ratio for stage 2 assets from about 19 odd percent to close to 13 and you have also used maximum the COVID overlay from stage 2 so how do you gauge the sufficiency of this 13% coverage ratio for stage 2 assets that is what I was getting at?

**Vivek Karve:** So if you recollect in September there are few contracts in stage 2 which we had assessed on a case by case basis and we had created the only provision on those. These are the asset that may worsen and become stage 3 in the third quarter so when we analyzed these contracts in Q3, we realized that while some of them have indeed moved to stage 3 in which case we are anyway carrying the provision not under stage 2, but under stage 3, but quite a few those contracts have continued to remain stable at stage 2 and actually improved from stage 2 to stage 1. As a result either the provision has got now re-characterized at stage 3 or the provision is no more required that is the reason we see that reduction in the coverage for stage 2 from Q2 to Q3.

**Ramesh Iyer:** So add it to Vivek there was also a supreme court basis decision some of the contracts which were classified as stage 2 in the earlier presentation and which were because of the provision for the stage 2 looks little higher because even though the contracts were in stage 3 they were classified as stage 2 and the provision was made as per stage 3 so Karthik that portion will also now is directly reflecting in stage 3.

- Karthik Chellappa:** So in other words the 13% range that you have right now more or less matches your PD and LGD model from a coverage sufficiency point of view is that we can say.
- Ramesh Iyer:** You can say that. That is a good conclusion.
- Karthik Chellappa:** My second question is 150000 which were initially up for restricting or at least proposed to be restructured the number of MPL accounts we see this quarter is about 155000 which was about 100000 last quarter so can we say out of this 150000 about 50 to 55 odd thousand have actually slipped into the delinquency bucket and you also said that 50% have actually paid all the three installments so that is like another 75000 so basically 125000 would be either of this two categories with a vulnerable category only being about another 25000 accounts.
- Ramesh Iyer:** About 6% of them have not paid only 9000 odd contract would be in the vulnerable category if you may call and some would not paid anything would have moved to NPL would be I think about 40 odd thousand not 50 odd thousand because 9000 are still hanging out here and ones who have paid are in regular category they are not moved to anything. Maybe the vulnerable account is 9000.
- Karthik Chellappa:** Thank you sir for this and wish you and the team all the very best.
- Ramesh Iyer:** Thank you.
- Moderator:** Thank you. The next question is from the line of Amit Ganatra from HDFC Mutual Funds. Please go ahead.
- Amit Ganatra:** I just missed earlier point one clarification this cumulative COVID management overlay of 1000 odd Crores has it been included in this 4396 Crores or this is over and above 4396 Crores?
- Ramesh Iyer:** No it is included.
- Amit Ganatra:** So 4396 includes 1064 already?
- Ramesh Iyer:** Yeah, overlay is just slice of the overall total sum.
- Amit Ganatra:** Okay, understood. Thank you.
- Moderator:** Thank you. The next question is from the line of Roshan Chutkey from ICICI Prudential AMC. Please go ahead.
- Roshan Chutkey:** Sir what is the stage 2 asset number, stage 2 asset proportion which is 14% as of 31<sup>st</sup> December what is that number looking like as of yesterday or sometime this week if you have that number with you?
- Ramesh Iyer:** However you know this data is an unpublished data so to that extent we may not able to quote.



- Roshan Chutkey:** Okay, alright. Thank you that's all from my side.
- Moderator:** Thank you. The next question is from the line of Naishi from Acko General Insurance. Please go ahead.
- Naishi:** My question is how much percent of the book would be secured?
- Ramesh Iyer:** When you say secured meaning I think all the loans with vehicle or tractor or whatever?
- Naishi:** Even the rural loans or SME loans?
- Ramesh Iyer:** Yeah we do not have any kind of unsecured large lending maybe few 100s here and there could be there, but if you look at the overall book it is all completely secured loan with underlying collateral.
- Naishi:** Alright Sir. That's all and my previous questions have been answered. Thank you so much
- Moderator:** Thank you. The next question is from the line of Nishant Shah from Macquarie. Please go ahead.
- Nishant Shah:** Couple of questions from me. First of all could you just help me understand, which are the portfolios where you would have said quarterly installments instead of monthly installments so is it primarily only in the tractor segment or...
- Ramesh Iyer:** Mostly tractor I do not know if Shantanu or somebody is on the call, Rajnish maybe truck, maybe very few but largely in tractor.
- Nishant Shah:** Okay what proportion of the tractor book would be having quarterly or six-monthly installments if you could have rough breakup of it?
- Ramesh Iyer:** Don't hold me to that number but I would imagine both the quarterly and half-yearly together should be somewhere around 45 to 50% type levels. Kamath you are on the call?
- Kamath:** Sir you are right it is around that number, 45 to 50% is quarterly and half-yearly and some part of our car customers who are actually farmers they are also in quarterly and half-yearly, but they are very small percentage.
- Ramesh Iyer:** That will be few 100s, that will be very negligible as a percentage.
- Nishant Shah:** Second question on the tractor segment itself in proportion of the disbursements I am seeing is like within our overall disbursement it is coming off tractor industry overall has been doing quite well like the industry is only in tailwinds could you explain like apart from like some supply related constraints which you articulated like what other things are there, are they losing any market share or other OEM just gaining a lot of market share and therefore that is what reflecting how do I think about the asset quality in tractor as well as the growth in tractor?

**Ramesh Iyer:** I think our overall tractor had three elements one is Mahindra tractor, Mahindra and Swaraj brand together, second is we were doing a small number of non-Mahindra tractor and third is we were into used tractor as well. When it comes to the Mahindra and Swaraj tractor brand because of some supply constraint as well as cash purchases there is a market share loss that has happened to us but not to the competition as I said but overall volume coming down and cash purchase being high this market share percentage is looking different. So far as non-Mahindra is concerned that we were doing about 2000 to 3000 tractors and I have been explaining this quite some, this was spread across and we were chosen to be a little low in certain geographies that we were present because of when your volumes or less and you are not a significant market share and if cash purchases are high we always have the fear are we getting the best so there we did take this here I am not saying that this is a great strategic view and we have right to do that somebody else may think very differently about it but that's all internal view and we kind of relooked at that number and we kind of lost that number for sure in the last two to three months that we have not been in that stage. So far as the pre-owned tractor business is concerned I think we are not finding people coming and exchanging tractors to buy new tractors people are wanting to use their tractor for little longer than otherwise plus as you know every month resorted to low repossession even availability of the second hand tractors and vehicles for finances have gone down and there together has really causing the drop in the number, as we speak as I told the OEMs at least are very confident that the supply would get restated and therefore volumes will go up and you would see a increase in volume and market share for us from the Mahindra and Swaraj brands. We do believe that in some of the market share things have stabilized will we kind of get back to some numbers of non-Mahindra to premature but definitely that is the next correction that could happen but more importantly the preowned tractors availability will start to improve because we now see as the infra opened up that is the time the exchange number starts to go up because it is a contracting segment we normally come for exchange programs and as I have been saying the infra is opening in many of this stage and you would see that volume coming back and then that is where the new number will start to happen for us and which is where the confidence of growth for it comes.

**Nishant Shah:** Just quick comment if you can have on the existing customers asset quality in the tractor segment as far as I remember like those were the customers who took really some amount of moratorium and given the strength in the rural economy is it a fair assumption that is best performance portfolio?

**Ramesh Iyer:** In fact always we have seen historically if the harvest is good you will see tractor portfolio performance in the third and fourth quarter substantially improves and in the first and second quarter they normally build up so clearly we see the tractor performance could be something which will be one of our good performing portfolio as we speak.

**Nishant Shah:** Perfect that is it from me.

**Moderator:** Thank you. The next question is from the line of Radhika from Mirae Asset. Please go ahead.

**Radhika:** Just wanted to get to the number on the Performa GNP as a percentage if you can give me?

- Ramesh Iyer:** 9.9% GNP
- Radhika:** Is that the Performa GNP or the actual GNP?
- Ramesh Iyer:** Both are same for us.
- Radhika:** Also if you could just give a little color on the stage 2 assets which was at 5000 last quarter to 93000 this quarter and similarly for stage 3?
- Ramesh Iyer:** We did not understand your question the data that you are asking for would be there in the analyst presentation.
- Radhika:** I am just asking like if you could give me little color on the increment like the reason why it has increased over the quarter?
- Ramesh Iyer:** Which one?
- Radhika:** Stage 1 and stage 3.
- Ramesh Iyer:** As we have been explaining very clearly the customers who have come out of the moratorium post August and you know the rural cash flow is just about picking up and they were not able to survive all the installments that fell due during this quarter and therefore they have moved to the respective stages that they have. Suppose there were one EMI outstanding and if three installments are fallen due during this period and if you have paid just two they would stay in the stage 2 if they have paid all three they would stay in stage 2, if they have paid nothing or they have paid just 2 out of 3 they would move to stage 3. So it is purely arising out of how many installments have been serviced and which is why we are seeing 94% of the customers are able to make repayments but not all the installment and therefore we have gone by their sentiments and not done the restructuring and left them at the stages that they are.
- Radhika:** Thank you so much.
- Moderator:** Thank you. Ladies and gentlemen, due to the time constraint, that was the last question. I now hand the conference over to Mr. Kunal Shah for closing comments.
- Kunal Shah:** Thank you everyone and thanks a lot the entire senior management team of Mahindra & Mahindra Financial Services who share their insights and perspectives which was extremely helpful. Thanks and all the best for the future projects. Have a good day.
- Ramesh Iyer:** Thank you for hosting us today. Thanks a lot.
- Moderator:** Thank you. On behalf of ICICI Securities that concludes this conference. Thank you for joining us and you may now disconnect your lines.