



“Mahindra & Mahindra Financial Services Limited
Q3 FY2022 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to Mahindra and Mahindra Financial Services Limited Q3 FY2022 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 “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over Mr. Alpesh Mehta from IIFL Securities. Thank you and over to you Mr. Mehta!

Alpesh Mehta: Thanks, Neerav. On behalf of IIFL Securities, I welcome you all to this 3Q and 9M FY2022 earnings conference call of Mahindra & Mahindra Financial Services. The company is represented by Mr. Ramesh Iyer, Vice Chairman and Managing Director, Mr. Vivek Karve, CFO, Mr. Amit Raje, Chief Operating Officer, Mr. Raul Rebello, Chief Operating Officer, Core Businesses, Mr. Dinesh Prajapati, Head Account and Mr. Rajesh Vasudevan, Senior VP Accounts. Now without much you do I hand it over to Mr. Iyer for the opening comments and post which we will have a Q&A session. Thanks, and over to you Sir.

Ramesh Iyer: Thank you. Good evening, everyone. Thank you for joining this call. We had our results announced about an hour back. We had our board meeting, and the results were announced an hour back.

Just to give you a very summary of how the quarter has been for us, I would very strongly think that the quarter has been in line with what we had envisaged for the quarter which is we were focusing on getting back to a growth in our core business as well as to focus on the collections and the recovery from the NPA accounts and after our first quarter results, we had put out on how do we see the following quarters pan out and we had kind of put out saying that by end of March we should reverse at least 80% of the provisions that were made in the first quarter and as we close the books in this quarter we do see that we have been able to reverse upward of around 60% of the provisions that has been so far made.

What is causing this to happen and how do we see it from here clearly the segment that we are operating in and the geographies that we are operating in has had a decent last two quarters, the economic activities have returned back to a kind of I would say semi-normalcy though not full normalcy given certain segments did not open up fully but nevertheless it was substantially better than what we saw in the first quarter.

The monsoon turned out to be good, the harvest went by was very good, the yields are very supportive, the support price given is also equally good, but we do see that the cash flows from different state governments are being paid to the farmers on certain installment basis, but still there is a commitment the crop has been brought and therefore we do not see a pressure arising from that segment.

Rural sentiments are holding a positive. We are seeing demand for vehicles at the dealerships. We are continuing to see the footfall at the dealerships are increasing but the problem truly is the

non-availability of a vehicles and that is building some pressure on the aggressive disbursements which otherwise could have been achieved.

The tractor business has seen some slowdown and my understanding and belief is that it is at the back of the contracting segment yet not buying tractors or replacing their current tractors and that therefore is causing a little pressure on the overall volume but as otherwise the farm side of tractor buying was very good and I think it is important also to note that the previous year volumes on tractor had a very aggressive growth and therefore one has to look at, at that base and from where that we have to see how the growth is.

On the commercial vehicle front, again there has been a decent movement by the fleet operators. I think the low less than five acre owners etc., are still resisting the buying of new vehicles because possibly the vehicle price is too high and their economic viability is not something that is comfortable for them and therefore we are yet not seeing buying happening in that segment but overall I would think that the volumes are picking up and if the vehicles were to be made available which is what we hear from the OEMs that the vehicle availability will start improving, I think that should result into a good number even for us.

All of this has led to our disbursement growth on the pre-owned vehicles side we have seen good traction again demand is very, very high on the pre-owned vehicle side but again there the supply is a little weaker. The new vehicle availability being a challenge, people are not offering to exchange their existing vehicle until there is an assurance of getting the new vehicle. So once that side starts improving, we can even see action on that front.

We have seen good collection efficiencies and we have been putting this out on a monthly basis and in December we actually had 100% collection efficiency and in the quarter we had upward of 95+ percent collection efficiencies. I think overall the collection efficiencies have been good even if you look at our delinquent accounts which were which moved into NPA in the first quarter, we have seen movement in very large percentage of the accounts, we have seen movement in collection while yes people are not yet been able to clear their entire past dues but for sure they are able to service their monthly installments and many of them are in fact also paying an additional installment the reason why we are able to see the reversal of NPA happening clearly.

I think therefore on the ground the fact is that the customer cash flows have improved, demand continues to be robust and that is helping us kind of look at both business growth as well as collection and overall delinquent correction as the direction that we had set for ourselves after the first quarter, and we have seen that happen in both the quarters.

During this period, we have regained our leadership position in the tractor business given that the volumes of tractor at the various counters where we had a little pressure on the market share has been regained by us by putting in a specific team looking at that specific analysis of various dealerships as to where we had lost certain market shares and therefore what was needed to be

done has been done with and therefore that has also helped us regain the volumes in tractors and leading to an increase in market share.

As a matter of fact in every product we seem to have gained some market share though not substantially in certain products but every product has shown a trend of gaining market share whether it is the Maruti range of vehicles or whether it is in the Mahindra Auto Segment including the new product launches that Mahindra did of the 700, Thar etc, which are a short supply product at this stage and is a heavy competition to finance this product from every end but given our relationship with the dealerships and our local presence out there has helped us gain volume cement in that segment and that adds to the overall volume.

We are confident at this stage to definitely make a statement that even going forward you will see a growth trajectory from overall disbursement is concerned as well as our collection efficiencies will be maintained at the levels that we are and we would say reversal of NPAs happening for sure the way we have projected but of course all this is at the back of the practices that we had so far with the new regulatory guidelines or guidelines that has come from RBI to look at NPA a little differently I think it is important to recognize that on the ground for the customer, honestly nothing changes with this kind of a regulatory change.

Our practices will undergo definite change, the future products that we would launch will factor in this requirement and therefore certain product designs will have to be done in a manner that can accomplish this because the current book is concerned, I think this will require a re-approach to aligning with the requirement and to meet the customer cash flow as to how do they behave which way do they behave, so we have taken some very definitive actions in terms of setting up collection war rooms. We have kind of created separate teams for different contract segments, different product applications requiring a different approach to all of that. We have resorted to talking to customers on negotiating and offering them some kind of settlements where they are able to bring in large installments, but all this is definitely going to be an effort on our side to ensure that the requirements are fully communicated to the consumer.

It is also about learning ..., but you know as I said as far as customer earnings, customer cash flows, customer overall business practices are not going to have a dynamic change because of this changed approach. It will have to be initiated from our side. On the overall cost front, I think various actions that we have put in place have worked in our favor even at this enhanced level of business and at the enhanced level of collections etcetera., we have still been able to retain our cost of operations to be around 2.7 to 2.8 type levels and once the volumes do pickup I think we are a little invested into future in this but once the overall volumes do pick up and the AUM starts to grow from here we can definitely see the correction to this number further from where it is so I think net-net the point that we are making is that the businesses kind of come back and we are seeing growth and we will continue to see a growth trajectory which will then lead to AUM growth clearly collection efficiencies are holding up and that will lead to asset quality maintenance and improvement in asset quality and as was promised we would see that 80% percent of the provisions are past getting reversed.

The investment in the people front both in terms of their capability building and competence building is helping us productivity improvement but also some specific actions on cost taken is yielding benefits of over overall operating costs coming down. There is a lot of effort that have gone into the data and the digital front. We have a very large team which is working on it and there is a core team looking at how the core business and what percentage and what processes of the core business could be digitized and that would further bring in a better improvement of the overall cost going forward but more than that ability to handle larger volumes into deeper pockets. Our strategy to penetrate continues and we have identified to open another 150 odd branches during the year and I think we will embark on that journey because we have identified several locations which require a more closer availability to the consumer which could help us gain further volumes and improve the overall collection.

On the liquidity front, we have not had any kind of a pressure point. Sufficient funds have been available, available at a very competitive price for us and that has helped improve the margin when it comes to our ability to borrow at the very, very fine rate. We are also sufficiently carrying liquidity buffer to be able to meet any challenges if it was to come.

The pandemic wave 3.0 was little scary to start with and there was this pressure on it spreading fast and it could have a serious impact etcetera, but I think the good news so far is that there has been no major impact out of the third wave. The branches are all up and working, people are all on the streets able to meet customers, customers are able to come to our branches. So, all that is happening in a very normal manner and the third wave has not had a serious impact except in January of course in different pockets, different markets, there were some temporary kind of a pressures that was going through but nothing in a continuity basis like what we saw in the second wave. So even on that front there seems to be a better comfort.

Overall, rural sentiment I would kind of say that it is not still at its best if we were to look at any past history and if we were to say has the rural come back to complete normalcy, I think we would say it with a little hesitation that it has come back to full normalcy, but directionally we are able to see quarter-on-quarter things look better. So far there are no serious signals of things slowing down in a big way. Overall, people have become cautious when they want to acquire an asset or if they want to spend money on any kind of consumption or whatever, people are little cautious, people are holding back some money for their future, for sure, but it is far-far better than what we saw at the end of the second wave.

I think if at the end of if I had put rural 3/10 I think we able to move the scale to say that rural is very clearly now at 6/10 or close to 7/10 but there is sufficient scope still to improve from where it is now that the schools are opening up, we are sure that the school bus operations will become good, tourism sectors are opening up so the tourism will pickup, I think overall economic activities are beginning to happen, I think we are seeing a lot of directional talk about mining opening up, coal excavations beginning to happen, so I think all of this will contribute to the overall growth so I still believe that there is sufficient action and activity on the ground to believe things will go positive and we remain very positive to see that even this quarter that is in our hand we will see it that way.

The month gone by has been a favorable month in all the fronts and therefore that would remain to be the trend is what we believe and therefore we could have a good quarter. We are very clearly reviewing the entire RBI guidelines as required and as all of us know that the fourth quarter for us is always the best quarter and we would see a good collection efficiency, a good NPA reversal and therefore even under the IRAC norms, the gross NPA would stand corrected to a different level and if there is a gap that is required to bridge by making any additional provision, we would be more than willing to do. As of December 31, as you have seen the provision required under IRAC and Ind-AS has compared we are carrying a much higher provision in the Ind-AS since we have a high coverage of 53%.

In the end of the fourth quarter there is a gap if you need to if you were to take the IRAC number as of today and if you were to believe that will remain as it with no moment whatsoever and the worst-case scenario is that we may need to do about a 1500 Crores kind of a number which we do not think will be the reality. We will see substantial reversal to this number happening as well, but I just still want to make a mention that all this rule change etcetera, will require a revisit to how we do certain things in future but the fact of the matter is that the customers business, customers way of earning, customers way of engaging his vehicles, they are developing this cash flows may not undergo any major change because of this, so I would stop here and then invite questions for us to be able to answer. I think the whole team is here and therefore any questions that you may have will be jointly answered by all of us. Thank you and over to you!

Moderator: Thank you very much. We will now begin with the question-and-answer session. The first question is from the line of Sanket Chheda from B&K Securities. Please go ahead.

Sanket Chheda: My question on was on your last update that may be in Q4 we are likely to take 500 Crores to 1500 Crores of provision. Sir just wanted to understand how this number has been arrived? Is it like 500 Crores is the best case and 1500 Crores is the worst case and if that 500 Crores is best case then why not take it in this quarter itself? So, what has been the thought process and how this number has been arrived in particular?

Ramesh Iyer: So, I will give you my comment and then Vivek can add to that. You know what we have done is we have analyzed the NPA as of today and that is as of the December end and we have seen how many customers are paying what kind of amount already and if these customers were to continue to pay in the fourth quarter how would they be in terms of their overall repayment and therefore how many of them would actually come out of NPA even under the new guidelines and thus reach the level of NPAs that we would reach by that latest and therefore you know why consider a provision when we are able to see very clearly that they are able to come out of somebody carrying an excess provision under the Ind-AS so we would want to give it a complete try this quarter to reverse them, get them collected even there could be settlements with customers all of that actions will be put into place and once that is done and then if there is a gap and if that requires any provisions to be done, is what we would do and that estimate has led us to believe that at the worst what it would be and at the best what would be. Vivek, anything that you may want to add, over what I said you may please go ahead.

- Vivek Karve:** You absolutely right, Mr. Iyer. It would have been premature on our part to take any provision in the third quarter because our attempt will be to reduce the GNPA which we have upped, we informed the markets at about 10900 Crore as of December end to a reasonably lower level and we are all doing when we said this about 500 Crores to 1500 Crores, provision, this is in order to bring our net NPA as per IRAC below the debt, so as to by the compliment the norms. Therefore, we will definitely watch the provision during the fourth quarter and based on what we are able to achieve by the quarter end, we will take a necessary provision. That is the reason that we did not take any premature action on this matter.
- Sanket Chheda:** I will put it other way unless you see a case wherein you can reach this 6% under IRAC norms without any incremental provisioning that is the 500 Crores is lower end that you have mentioned is there a case wherein it is possible that you would not have to even take that 500 Crores also and then it makes sense not to take in this quarter otherwise if that is the best case I think that should have been taken. So, I wanted to ask whether such scenario exists wherein you would be able to reach this 6% under IRACP norm without taking any incremental provisioning?
- Ramesh Iyer:** That is a judgment call we are making because as I said when we looked at how many accounts have shown movement in their repayment even though they are not able to come out of the NPA in this quarter and the fourth quarter is the best quarter for us from the overall customer collection possibility and also we have aggressive programs of settling it with the customers where we are negotiating and closings and therefore the call is that maybe if you reach the best case, there may be hardly anything required to be done and therefore like Vivek said why take a jerk reaction rather than go through the process that we have put in place.
- Sanket Chheda:** Ok so, the range that you are giving is on a very conservative basis that this could happen?
- Ramesh Iyer:** That is right. Like that 1500 Crores is that if nothing happens to the NPA that is today then what will be required to be.
- Sanket Chheda:** Thanks a lot.
- Moderator:** Thank you. The next question is from the Gaurav Kochar from Mirae Asset Global Investments. Please go ahead.
- Gaurav Kochar:** Good evening. I had just couple of questions, just continuing from where Sanket left in the previous call, the total if I look at you know the provisioning and the difference that you have given between the Ind-AS and IRAC norms and you mentioned 500 Crores to 1500 Crores as a number. So is that considering the write backs that you are taking in the Q4 about 500 Crores write back that you will be taking so is that net of that number so on a gross basis is it 1000 Crores to 2000 Crore. I just wanted to understand that 500 Crores to 1500 Crores number and if I compare that to the slide number 25 wherein you have given the breakup of IRAC as well as Ind-AS that number looks slightly on the higher side, so the absolute difference of stage 3 is 3700 Crores so even if I do a 40% sort of PCR that number comes to the higher end of the guidance. So just wanted to understand that 1500 Crores or 500 Crores how is that been arrived at?

- Ramesh Iyer:** So Vivek will explain but you are right like at 3000 Crore when I said that let us say that today's NPA under IRAC nothing moves in the next quarter right then the high end is that 1500 Crores number, what we have made an estimate on how all, what all can move and therefore what can be the loop and can we even avoid any provision requirement. So Vivek can explain the logic of what you have asked, but specifically but that is the way you need to look at it.
- Vivek Karve:** I think that is that is correct. The estimates that we have put out are based on a certain assumptions of how we see the gross NPA by end of the year and that is exactly the reason that we have given a range because sitting today it is difficult for us to predict what that number will be but we wanted to be transparent with our investors and analysts that is the reason that we have put out a range as on date.
- Gaurav Kochar:** Any color on what the kind of estimate on stage 3 is as at the yearend which is resulting in only 500 Crores so is it 200 basis points, 300 basis points improvement in stage 3. I mean just wanted to understand the base case in case of 500 Crores.
- Vivek Karve:** I think our attempt will be to bring our gross stage 3 to the same absolute level that we started the year with at the beginning of the year.
- Gaurav Kochar:** I mean stage three at the beginning of the year I am not wrong was 7% Sir, if I am not wrong?
- Vivek Karve:** No. It was around 9%.
- Gaurav Kochar:** Sir that was one and just one more question just wanted to understand the collection efficiency that you have quoted for the quarter at 95 so once an account becomes an NPA do you still keep billing that customer? How does that process work?
- Vivek Karve:** Certainly. I think the account becoming an NPA and billing or not billing are very, very different matters so the billing will definitely continue and insofar as any account whether in whichever stage it is it pays right it gets into my numerator for calculating the collection efficiency. So, collection efficiency is completely a subject matter of the current demand which is the monthly demand that we raise and the collections that we are able to make from the customer both from the overdues as well as from the current demand for the month.
- Gaurav Kochar:** The current demand also includes NPL account so the denominator of 100 will include the NPA demand also. Is that correct?
- Vivek Karve:** Certainly.
- Gaurav Kochar:** In that context can you throw some light on what would be the non-NPA collection efficiency, the blended collection efficiency is 95% just wanted to understand X of NPL or X of stage 3 what was the collection efficiency number?
- Vivek Karve:** I am sorry at this granularity we do not normally publish any number. So, I will not be able to share that.

- Gaurav Kochar:** Thanks, and all the best.
- Moderator:** Thank you. The next question is from the line of Rikin Shah from Credit Suisse. Please go ahead.
- Rikin Shah:** Thanks. My question is for Vivek. Vivek, if I look at the GNPA under the IRAC norms, it is currently around 17% and the net NPA is around 12% assuming that we make another 1500 Crores of provision and the gross NPA per IRAC does not change the net NPA as per IRAC still comes down only to 9.7% by the next quarter so just wanted to understand whether we are expecting, I mean I am just trying to reconcile earlier to Mr. Iyer's comment that even if the GNPA does not move at all the maximum provisioning that we would need be only 1500 Crores.
- Vivek Karve:** So, the way we look at it is like this. Our gross GNPA is 10,897, the IRAC required provisions for GNPA is 3189 but you would also see there is 1,877 of overflow that is the excess of Ind-AS provision over IRAC provision and if you are appropriating this number to be to the GNPA that number comes down to about 9.9% and what the what is this whole idea of IRAC provisioning, the whole idea is that we need to be below 6% at the net NPA level and we also need to be adequately provided for on all the standard assets. Insofar as the provision required to meet both these requirements is fully covered by the provisions that we are making under Ind-AS we should be good. That is how we are looking at it as of now and hence we have put out a number of 500 Crores to 1,500 Crores depending on the range of GNPA number that we should be able to reach by end of the year.
- Rikin Shah:** This is helpful and in this case what we are saying is that if we appropriate this excess 1,877 Crores as of March we would not have any excess provision over the IRAC right than over Ind-AS provision would broadly be similar to IRAC?
- Vivek Karve:** You are right. We would be adequately covered and while doing so we would be achieving two targets one in Ind-AS, we would be below 4% which was the regulatory expectation from RBI to bring that number below 4% and as per the IRAC we would be below 6% so as to meet the PCA norm.
- Rikin Shah:** Thank you.
- Moderator:** Thank you. The next question is from Kunal Shah from ICICI Securities. Please go ahead.
- Kunal Shah:** On this movement of stage 3 when we look at it there has been 1,800 odd Crores which have got resolved, at the same time there is a huge net addition as well of almost 1,360 odd Crores so I am not sure maybe how should one look at it because I think the last time, it was quite contained and this is not even the forward flow so anything to read into this? In terms of this stage 3 movement, obviously that there is a resolution of 1,860 Crores and there are forward flows of 340 odd Crores but still there is there are net additions of almost 1,360 odd Crores and that seems quite high compared to that of what we saw in Q2 so is it because of some unseasonal rainfalls or floods or any particular geographic giving the pain because this net additions seem to be on the higher side?

- Vivek Karve:** I would not call any specific reason for this. It typically happens and insofar as the overall trend is decelerating, we should be okay with that because the business is like the business is all about online pay so there will be customers who will enter the customers who will exist; however, insofar as the overall trend which is what we have demonstrated that from 12.7 we have brought it down to 11.3 and another thing is while there would have been addition in Q3 it does not mean that these guys who entered stage 3 did not pay. So, they have all made a part payment of close to 50% of the exposure belongs to people who have done part payments during the quarter. We do not want to read too much into it. This is a business as usual, and this is how earn of the customers behave.
- Kunal Shah:** Okay and maybe in terms of GNPA, so 10,897 is the current number and for 6% we need to get the net towards 3,800 odd Crores, and I think adjusting for the outstanding provisions which are there even under Ind AS we are somewhere around 5,300 odd Crores. So that is where maybe at the upper end we are saying it is 1,500 odd Crores which can slip even if there is no recovery, which happens in Q4.
- Vivek Karve:** The thing is absolutely correct.
- Kunal Shah:** Perfect and what could be this number of GNPA as of September and maybe net NPA we have done some allocation from 3,200 to 3,700 so net NPA would have come off, but if I have to look at GNPA as of September how much would that have been.
- Vivek Karve:** See the thing is this daily stamping started only effective. So, the IT system capability was ensured only from that day onwards. Other than that, the systems are not equipped to look at that data, to be very frank.
- Kunal Shah:** Sure, now the only thing was almost 30% of stage 2 is something which is getting classified as GNPA. So, which is maybe much higher compared to what we are looking at for peers, so I do not know maybe is the collection efficiency out there quite comfortable because when we look at it the difference between GNPA and stage 3 and that is almost 30% of our stage 2 assets. So that seems to be quite high.
- Vivek Karve:** But I would say that that is typically the nature of our customers. Our customers are, many of them are first-time borrowers, their online pay vehicle, their cash flows are completely dependent on vehicle. So, it is not unusual and that is the reason why Mr. Iyer in his opening remarks said that if we need to control the GNPA flow forward going forward we may need to re-examine the kind of cohorts that we would like to give loans to or we may have to make certain amendments, to the way we collect from these customers.
- Kunal Shah:** So that is and maybe even if like 20% of this comes back 500 odd Crores in terms of the reversal of the provisioning then what will be required will get offset would that be the way to look at it the way there has been the write-back and maybe whatever is the write-off that could be the hit to P&L and Q4 broadly. Great. Okay got. Thank you.

- Moderator:** Thank you. The next question is from the line of Piran Engineer from CLSA. Please go ahead.
- Piran Engineer:** Congrats on the quarter. A couple of questions, firstly for Mr. Karve the net NPL ratio we are targeting at 6% rather than 4%. Did I hear that right and if so why because then we cannot pay out dividends right.
- Vivek Karve:** It is like this, these are two different ratios first of all that we are talking about so one ratio is under NPA as per Ind AS which is in the ECL terminology called Stage 3. So, we are targeting a net stage 3 below 4% because that was the regulatory expectation from RBI that is point number one. Point number two is the net NPA below 6% is as per IRACP and this is to comply with the PCA norm, which is the Prompt Corrective Action norm, and it is not just for the dividend, but it is basically to avoid any regulatory action or any regulatory interference from the, I would not call it interference, but I would say a greater degree of oversight from RBI.
- Piran Engineer:** Sir, I get that but is not the RBI norm does not it say that if you had more than 6% net NPL in the past three years then you have to get it down to 4% in order to pay dividend.
- Vivek Karve:** No, in fact if you look at the extant regulations of RBI on dividend payments, they actually talk about 6% only they do not talk about 4%.
- Piran Engineer:** Just to clarify from an accounting perspective this 1,500 to what a 500 to 1,500 Crores hit is going to go through the P&L it would not be like an adjustment to impairment reserve or any such sort of accounting adjustment, right.
- Vivek Karve:** No so it will be by a way of management overlay provision.
- Piran Engineer:** Got it. Since firstly we did restructuring in Q1 which had a six-month sort of window where we pay lower EMI I know it is too early to say but can you talk about how collection trends from that restructured book has been now that it has come out of the six month sort of moratorium.
- Vivek Karve:** So I think this is one area that we continuously monitor. As of now we do not believe there is any reason for us to be very concerned about it but this is an area that we will keep watching and any curing that we do out of this pool will be completely a function of how do these accounts behave because quite separately RBI has already come out with a formula wherein how the cueing should happen and we will also watch the payment behavior of these customers and accordingly we will take a curing. In any case by end of Q3 that is December 31st no curing has been done. So, the only change in the restructured accounts has happened either because the accounts have got created closed or the account where natural progression have moved into stage 3.
- Piran Engineer:** Got it, and just lastly if you could elaborate more about your collection war room has been how is it structured how many people just some more details would really help and if you have really changed some underwriting practices in the past 18 months maybe in terms of LTVs maybe in terms of avoiding certain types of products or people because the idea is that once all of this is

over, COVID is over, and then so on a steady state basis do we get back to their sub 2% credit cost or how do we think about say beyond the next two, three quarters.

Ramesh Iyer: I will ask Raul to explain the collection war room and the credit parameter changes and how we are using data for better decision making. Raul you are there in the call.

Raul Rebello: Yes Sir, I am there

Vivek Karve: Can you go ahead can you explain the war room concept and how we have set it up and what we are doing.

Raul Rebello: The collection war room as all of that was set up after Q1 and the objectives largely were to look at how collections can play a very active role in proactively seeing how the forward flows can be mitigated as well as recover as much as possible from the existing stage three. So how we have gone about it we do have a large collection team and this collection team has been enabled with a lot of data insights on how to create cohorts of customers more visibility on how these customers contracts behave not just on Mahindra Finance but also how they behave on other lenders and accordingly each of these cohorts are dealt with these differently. So, our whole collection mechanisms the way in which we approach customers for even settlements and where we have to use legal tools maybe for repossession all that is streamlined which is this central nervous system that we created at corporate office. Having said that the collection war room continues to operate with full throttle even now considering we had committed as Mr. Iyer said to get back to our GNPA levels of last year that means we will have to reverse significant amount of provision. So the collection war room besides doing the whole collection activity also is looking at incremental business whether we are for example a large number of our customers are into to credit so the way in which we underwrite these customers definitely have got revisited we are looking at enablers on-boarding itself and whether it is LTV's etc. all of that also is baked in into a new on-boarding.

Piran Engineer: And on the underwriting parameters or something has really changed.

Moderator: 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. As far as the increase in the stage 3 is concerned in IRAC compared to Ind AS of 3,674 Crores which is the product that is contributing maximum to this increase.

Vivek Karve: So this across segment.

Karthik Chellappa: So it is not like segment like tractor or something is contributing maximum to this increase there is no specific product category or segment is it which is contributing to this increase.

Ramesh Iyer: I do not think so even in the past we have explained our NPAs or our collections are more geographical impact rather than really truly product impact except of course when certain times

as we explained in the last three or four segments which are not done well. So even within the increased NPA you will see a similar pattern that you see for our basic NPA. It will not be skewed towards any particular product or anything.

Karthik Chellappa: Got it and given that the increase has come maximum from stage two to stage three why have we taken down our coverage ratio on stage two.

Vivek Karve: Sorry are you saying we have taken our coverage down on stage two.

Karthik Chellappa: Yes from 13.6 to 12.7 so if you look at the reduction in stage through loans and the reduction in provisions it is actually slightly disproportional but given that we still have about a 500 to 1,500 Crores of buffer which we are expecting in Q4 why did we choose to reduce the coverage on stage two.

Vivek Karve: No, so there are two things here. So what we do is there is a quarterly difference that keeps happening on the LGD and PD ratios and this is the feature which is there on a quarterly basis. So based on that there could be some moment in the underlying ECL model itself that is point number one and point number two if any of the restructure assets have by natural progression move into stage 3, so while the coverage on stage 2 will come down but actually as they enter stage 3 the coverage under stage 3 will go up.

Karthik Chellappa: Okay this is very clear. Thank you very much, Sir and wish you and your team all the very best.

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

Nischint Chawathe: Sir, this is actually on the cost of funding it looks like there was a sharp decline in the cost of funding this quarter. So just kind of curious what really happened and what proportion of your total borrowings are linked to external benchmark.

Vivek Karve: Nischint can I request you to repeat what is the question

Ramesh Iyer: No, he is saying your cost of funds have come down during this quarter and what percentage of your borrowing is linked to the external environment linkages and as anything specific happened because of which your cost of borrowing has come down. Nischint that was your question right.

Dinesh Prajapati: Yes, Vivek should I go ahead and answer it?

Vivek Karve: Yes please go ahead.

Dinesh Prajapati: Because so Nischint as you would have been noticing that we have an advantage of underlying asset which qualifies for a PSL so we continue to get a very decent pricing from the marketplace for our not only on landing PSL from the banking system, but also a decent securitization deal which we have been doing every quarter. So that is definitely helping us reduce our borrowing

cost. At the same time overall market had been quite liquid and which also enabled us to continue to borrow at a very, very decent price to your point on, the last point what you specified Nischint.

Nischint Chawathe: Linkage to the market.

Dinesh Prajapati: Yes, around 17% of our borrowing is linked to the external benchmark which is either to repo or the T-bill.

Nischint Chawathe: And in anticipation of rise in some of these benchmarks have you kind of affected rate hike on the asset side.

Ramesh Iyer: So not yet, but we are in the process of putting out our prices from the end of this quarter. We would not want to do it immediately because there is still an advantage of the overall cost of money, but as we start seeing that fresh borrowing starts to happen at a new rate then we would also start pushing up our rate accordingly. Dinesh maybe there is one more reason it could have come down if some of your past borrowings which were high-rate borrowing could have matured and you would have replaced with a new borrowing at a low rate.

Dinesh Prajapati: That is true in fact there is still a scope for us to continue to see that our cost of fund may continue to remain lower because our mix of borrowing if you see our short-term borrowing continues to be at a very, very low. So incrementally we have a scope to go borrow through the short-term source.

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

Moderator: Thank you. The next question is from the line of Mihir Ajmera from Enam Holdings. Please go ahead. Mihir I will request you to come back in the question queue. The next question is from the line Mayank Gupta from Citadel. Please go ahead.

Mayank Gupta: Thanks for taking my question. So, this 3,700 Crores extra that we are sort of showing how much of this is coming from the impact of reversing the NPL upgrades versus the impact of daily stamping that we might have seen in the last one or two months.

Ramesh Iyer: Dinesh anybody has got that breakup.

Vivek Karve: Between the gross stage 3 and gross NPA right.

Ramesh Iyer: No he is saying that 7,000 versus 10,000 the difference is coming from the daily stamping.

Vivek Karve: On account of daily stamping only because these are the accounts which as per our ECL model does not stage 3 so in terms of their gaining they are below 90 DPD but because they had touched 90 DPD and they have not come back to zero DPD they are being classified as NPA under the IRACP norms. Hope I have been able to clarify.

- Mayank Gupta:** Got it but so what I wanted to ask is two things that over the next three months would there be certain accounts which are zero DPD right now or might miss, now the question essentially that I want to ask is that typically in Q4, we see a lot of recoveries a lot of NPL upgradations because people pay up this time around because of the NPL upgradation norms will we be able to see the same sort of recovery that we have seen in the past Q4s.
- Ramesh Iyer:** So far as the stage 3 is concerned you will see the same but as far as the IRACP NPA is concerned which is why we have taken the additional range of provision that we may have to do in case they do not completely reverse.
- Mayank Gupta:** Got it and just to confirm you said that the target is to keep net NPL at 6% and net stage 3 at 4% right.
- Ramesh Iyer:** That is right.
- Mayank Gupta:** But would not that mean that our IRAC that the total provisions that we hold under IRACP would be lower than the provisions that we hold under Ind AS if you are keeping net NPL at 6 and stage 3 and 4.
- Ramesh Iyer:** No, if you look at our Ind AS I think we have a 52% to 53% cover right under the IRAC the provision norms are very different from the way the state three provision norms are under ECL. Vivek is that right you may want to clarify that is the reason that IRAC will always be lower than the Ind AS requirement, right.
- Vivek:** Yes, you are right and also you look at it this way that as on date we have an excess provision of 1,900 Crores and the estimate of 500 to 1500 that we have put out is after utilizing this excess. So we are primarily looking at a scenario that in order to comply with both the ratios of below 4% under Ind AS and below 6% under NNPA we may not have any excess of Ind AS over IRAC but we will be adequately covered at the same time.
- Mayank Gupta:** Got it. So just if I can slip in one last question and this is more sort of the business construct or the change in business that you are talking about to manage these RBI NPL norms. Now what I understand is that a lot of our cash flow is, or the customer's cash flow is agri based and I understand that banks when they lend to agri segments they get to collect or they get to recognize NPLs in terms of cash crop cycles or crop cycles logically because that is how the customers make money. So, given this constraint how are we going to be able to collect money on a monthly basis from the customers because this essentially creates a disparity between how regularly we will collect money from the same customer versus how regularly the bank needs to collect money and are we representing this to the RBI because this clearly seems to be a distressed year?
- Raul Rebello :** If I make an attempt that you are right that banks can specifically this they do for their agriculture loans which is crop loans. So that they have a 365 day norm of even recognition of NPA, but when it comes to structuring loans to underlying customers whose cash flows are dependent on

agriculture especially attract the portfolio there too we are able to match the repayment cycle to mimic the cash flows of the customer. The difference only will be in the recognition of NPA which banks probably especially for their crop loans have a slightly longer duration to recognize NPA.

Mayank Gupta: Understood all right that is it from my side. Thank you so much.

Moderator: Thank you. The next question is from the line of Dhaval Gala from Aditya Birla Asset Management. Please go ahead.

Dhaval Gala: Thank you for the opportunity. Just one question, if you could talk about growth momentum coming back, we see improvement or pickup and disbursement but last four or five quarters there is a lot of noise or stoppages in work because of COVID waves. So, if you could talk about what type of trend do we expect in the next 12 months when it comes to growth and pickup and disbursement and therefore AUM growth.

Ramesh Iyer: So clearly if you see I alluded to this even in my beginning comments which is we have started seeing gaining market share in almost all the OEM product line we are seeing definitely demand up there and once the vehicle availability improves we should start seeing growth continuing in the all segments that we are looking at and we are very bullish about the pre-owned vehicle that is refinancing that is we are very bullish because the demand there is very, very high. We also see very clearly that the commercial vehicle pickup is beginning to happen though slowly, but that will begin to happen and last whole year we had not done much of commercial vehicle lending at all and with a revised product offerings to certain high-end customer at the rural segment we are able to also get traction from high-end customers in rural through our smart branches and through our digital initiatives, etc. and our additional branch network that we are looking at to go more deeper put all this together I think maintaining the growth of around 20%, 25% is very clearly visible, but of course subject to availability of vehicle etc. The only area where we see there is a little slowdown at this stage is the tractor volumes, but as I said we are even confident there that once the contracting segments do start participating in the tractor purchase that would also start adding up. So apart from the fact that one year, one and a half year back definitely our focus was more on collection one, two the rural was resisting and not adding too much of buying there that was adding to some volume drops that we had and the certain segments were not buying at all and I am very reasonably sure that once things open up like you said once the COVID is behind us and the tourism starts to happen schools begin to happen all those segments will come back to start buying vehicles which are very strongly our segment of customers so I think our confidence is high in terms of disbursement growth beginning to happen leading to AUM growth is something that we are very confident of. We are seeing it on the ground things beginning to change and we will watch it by the month not even by the quarter and we are already seeing benefits of that flowing towards us. Raul anything else that you may want to add in terms of any particular geography, product.

Raul Rebello: No, Sir I concur with your view. I think you have covered it.

Dhaval Gala: So the strong disbursement growth should translate **(inaudible) 56:15** how are you seeing the repayment cycle also moving in tandem to improve the AUM growth.

Ramesh Iyer: Sorry, what will change you said I missed the word I do not know if somebody else heard it.

Dhaval Gala: What I am trying to understand is that the strong disbursement-based growth should translate into AUM growth as well in the coming year.

Ramesh Iyer: Yes, it should because so far the AUM has been little stagnant because their recoveries have been much higher than the overall growth that has been happening once the disbursement growth starts to happen more strongly even though collection should be maintained at a high efficiency level, but the net will start adding to AUM.

Dhaval Gala: So, believe that 20%-25% type of disbursement growth in FY2023 is very much possible.

Ramesh Iyer: I would strongly think so because the market would support I think what we have seen the previous year is a large part of non-availability of vehicle has played its role and the run up to the next election next three years we would see buoyancy in rural and with infrastructure opening up and focus on various infrastructure projects I think all of that will add to the rural consumption at least when it comes to vehicles like Pick-up, LCV's, the JCB kind of Backhoe Loader these kind of products will all start doing well in the next three years, I mean, run up from now to the next three years.

Dhaval Gala: Sir just if I can push one more question. Your outlook on net interest margins and how are we placed a point of view that there could be some slight increase in rates either by the regulator or the short-term rates moving up already to some extent what would be our stance and do we expect margins to remain stable.

Ramesh Iyer: So two or three ways of looking at it, one is we will continuously look at our product mix on the borrowing side to see how do we remain the most efficient and like Dinesh explained our assets do qualify priority sectors so the securitization routes do continue to give us the advantage of borrowing cost. Second is some of our past borrowing which are actually high cost borrowing even when replaced now the current rates at which we would borrow would definitely be possibly lower than the rates at which it has been averaged out in the past. So therefore, even though the current rates may slightly go up, it may not actually increase our borrowing costs overall. The third is once the borrowing cost starts to move the market does allow you to price yourself for future lending also accordingly and we have always maintained this stand if just about 15, 20 basis points go up we would not change our lending rate, but if we do see that kind of a stance and we see 20, 30 basis point and go beyond that then we will also offer new rates to the customer and the last is our focus is going to be little higher also on the pre-owned vehicle financing which comes as a different yield and once more we have become number one financier for tractor, the tractors also come at a little higher yield. So, that product mix change also will increase our overall yield at the lending level, put all this together I think to protect the margins

at which we are operating even when the rates were to slightly go up is not our major worry at this stage.

Dhaval Gala: Sure, Sir. Thanks a lot for your time.

Moderator: Thank you very much. Ladies and gentlemen, that would be the last question for today. I now hand the conference over to Mr. Alpesh Mehta for closing comments.

Alpesh Mehta: Thanks, Neerav and thanks everyone and the management for joining on this conference call. Thank you and stay safe.

Ramesh Iyer: Thank you. Thank you everybody. Thanks a lot.

Vivek Karve: Thank you all for patiently listening to us. Thank you so much.

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