“Mahindra Finance Q1FY13 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to Q1FY13 Earnings Conference Call of Mahindra Finance hosted by IDFC Securities Limited. As a reminder, for the duration of the conference, all participants' lines are in the listen-only mode, and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call, please signal an operator by pressing '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Ms. Chinmaya Garg. Thank you. Over to you, ma'am.

Chinmaya Garg: Thank you. Good afternoon, everyone. Thank you for joining us on Mahindra & Mahindra Finance's Q1FY13 results conference call. I have with us Mr. Ramesh Iyer – Managing Director; Mr. V. Ravi – CFO; Mr. Dinesh Prajapati -- Senior GM, Treasury and Corporate Affairs; and Mr. Rakesh Bildani -- Manager, Treasury. We will begin the call with the opening remarks by Mr. Iyer, followed by a question-and-answer session. I would now invite Mr. Iyer to make his opening remarks. Over to you, sir.

Ramesh Iyer: Hi, good afternoon from here. Thank you for this participation, but .I just wanted to kind of let you all know I will do the initial address, and then Ravi, Dinesh and Rakesh will take the Q&A. I will excuse myself about five minutes out and then I will join you back for any questions that anybody may have for me.

To start with, all of you must have seen the results and right at the upfront I want to tell you that we are continuing to be buoyant and excited with what is happened in the first quarter irrespective of what one gets to hear from the outside market be it in terms of little slowing down of Auto or Tractor, a little slowdown of the Infrastructure story around or even for that matter currently is the monsoon as expected or is it below average. I think considering all of this in the background we still want to put across to tell you that we are as excited and as buoyant of what is happening in the semi-urban, rural market. Strategically, we are penetrating more deeper; we have added more branches in this quarter and we would continue to do so during the year. We also are adequately manning ourselves as required to therefore be able to achieve this kind of a growth that we have targeted for ourselves. We are not resetting our growth target at this stage because we continue to believe that the market is offering the opportunity of growth.

We have now truly become a multi-product company which we consciously been attempting for the last 18 months or so and we have actually reached that stage of maturity to say that we are today really a multi-product company, in the sense of working with almost all manufacturers who in their growth plans have factored semi-urban, rural as their growth story.

I mean if I have to give you a very latest update as early as just a couple of days back we had a detailed discussion with the Nissan who are setting up their shops here to sell small cars, they are appointing dealers across. So, every one, whether it is Toyota, whether it is Nissan, whether it is Toyota, whether it is Hyundai, all of them are expanding their retail reach, expanding their dealer network and are looking at Mahindra Finance as one good enabler to reach them to this market. And even in our product mix, you will see how Mahindra products, whether it is Autos, Tractors are today become somewhere around 46, 47 of that kind of a percentage and the other products are about 52, 53%.

I want to kind of state here that it is not that we are doing anything less for Mahindra; it is just that we have started participating in every other product which is therefore getting this product mix change to this direction. The Mahindra product continues to do well as far as we are concerned. Our market share continues to be upward of 30%.

And just a few lines on Tractors. While one thought that it is the Tractors slowing down, the true story is that not on an all-India basis that you see Tractors going down, India has now become more important to look at geography-by-geography and therefore South is not doing as well as the other geography is and Mahindra being very strong in the Southern market, one would have seen a little dip to the Mahindra number, but we have been able to more than cover it up through the opportunity that we got in the Northern market and therefore our numbers have not shown a slip even in the Tractors.

And if you therefore look in every product, whether it is the Mahindra Auto, Mahindra Tractors, and Maruti. Again, a few lines on Maruti. One would expect is the current change of event going to slow down the Maruti sales, I think it is important to know that at the dealer levels, they have talks for about 45 days plus and one do not expect this problems to linger beyond that period and by the time the supplies would restart itself and we will be able to participate in the growth as well.

Today, we do even Commercial Vehicles, Construction Equipment. Again, on Commercial Vehicles, one is reading about is it slowing down, it is interesting to understand that if you kind of look at Commercial Vehicles between different application of Tippers**,** berth application, goods carrier application, freight movement, in the sense of container movement and project asset movement. If you look at in different categories there are a few categories which have slowed down. It is not overall Commercial Vehicles have completely slowed down. And we being a very small market share player at this stage this slowing down honestly do not impact our growth story.

So, net-net I would continue to think that as far as the assets side is concerned the opportunity has become larger than we expected before with every manufacturer looking at this market and are willing to work with us as an enabler and that has given us a growth story. A little of everything will continue to be our story growing forward.

As far as the recovery is concerned, again, it is important to know that normally the first half is not as buoyant or as exciting as the second half of the year is in terms of overall cash flow is concerned, but to our good luck, to our surprise and to some extent, well-planned strategy, I think the last two years we have seen even in the first half the behavior of collection has been much, much better than ever before. Even in this first half, you would see that our gross NPAs are close to 1% lower than what it was last June. Sequentially, it may look to have grown a little more, it is because normally it gets corrected in the second half which is after the harvest festival, etc. but if you look at the trend, if we are 1% lower June to June, one would expect that the similar pattern is maintained as we go forward, therefore, one would think that there is a possibility of even further improvement to as compared to the previous numbers. However, it is also equally important to know that there is no pressure yet on the lending side as far as the LTVs are concerned. Therefore, the customers are able to bring in substantial margin amount which means the cash flows continue to do well. If the cash flows do well in terms of the buying pattern is seen it goes to reflect that the collections would also be as good. So, we have seen that already in the first three months of how the collections have kept pace and therefore we have been able to control our overdues, we have been able to control the overall NPA numbers, etc. The physical number is very important to know in terms of the physical NPA numbers are concerned. Between last June to this June if you take a 12-month period we would have added close to about 400,000 new contracts during this period whereas the contribution by NPAs into the new numbers are not very high. So that is one important feature to understand. Possibly, there could be a question on our coverage ratios are slightly coming down. Again, coverage ratio is a factor of a mix of high provided item versus the low provision items. Since a lot of actions have been initiated on the 100% and 50% provided items, either through repossessions or through legal action. And when those assets go out of the block of NPA and then you have the low provided new NPA numbers coming in, one would think the coverage is low, but as you close the year one would see that that also inches upward as a better coverage.

Something very important and interesting I may want to share with you is in this quarter we also took a conscious decision to go ahead and make some additional provision on NPA, because if at all we want to look at how the market behavior is, with monsoon, with economic conditions, etc., the first to suffer normally in this kind of scenario is the Two-Wheeler or a personal portfolio segment. While there are small portfolios in our book, what we have done is we have taken a conscious decision to kind of look at them anything which is outstanding beyond 60 days we have gone out and provided for them. So, in the P&L, you will see an additional impact of about 12.5, 13 crores additionally we have made provision which is to reflect that quality of an asset. Yes, if we are able to recover the money in the next six months or so, it will be a writeback in our book, but we have taken a conscious decision to go ahead and make a provision on that which is why one would look at that percentage or that value provided is slightly more. But if you were to look at each of the cost item as a percentage to income you will find that between last June to this June there is actually an improvement in terms of the overall productivity is concerned, the overheads as a percentage to assets have actually come down, incomes have kept pace.

On the margin side, again, one would see a dip in the NIM and it is not a reflection of our inability to pass on the interest rates, it is purely a product mix which is causing that kind of a dip at the NIM's level which means if we do little more of a Commercial Vehicles or a Car, they are normally at a low yield product, but they also definitely bring in low overheads and low NPA, therefore our return on asset level you would not see that kind of a pressure which when you look at the NIM's level. So overall if you look at the performance of the organization, the disbursements have grown at 26, 27%, which is a multi-product approach.

As far as the margins are concerned, we have been able to retain our margins, rather we have been able to pass on the increased borrowing costs minus that 50, 60 basis points which we have been telling you last 12 months which we have consciously not passed on.

As far as the overheads are concerned, they have come down, the NPAs having well under control and therefore the overall profitability has shown this kind of a growth.

Even the two subsidiaries of ours which is the Insurance Distribution arm and the Rural Housing arm has kept pace with the growth story in the same manner.

On the liability side, we have not had any pressure in terms of ability to raise money is concerned. We have as usual been very conscious about our asset/liability match. And we have also been conscious about the product mix on the liability side. And we continue to borrow from banks, institutions, insurance companies, provident funds, our fixed deposit program continues to do well, that has been stuck to close to about 8-10% of our borrowing today come from the fixed deposits program. So, we have a very diversified portfolio as far as the liability side is also concerned.

I would think with each of this in place whether the liability side, whether the assets side in terms of relationship, whether the quality in terms of ability to recover and control, I think we continue to project a picture of buoyancy, we are not overly concerned with what is one able to read outside.

As far as the monsoon particularly is concerned, while it is declared to be 20, 25% below average, etc. I think one silver line is a whole thing is the monsoon this year is very widespread. Normally, even when declares it normal or slightly below average, if there used to be a focus concentration on few geography getting good rain and few getting nothing. This year, the widespread monsoon across the country probably will be good news for the agriculture at the end of it and that is still about three to four weeks left in order to cover up for this at least in the northern states which we are now told is catching up. I mean, the last couple of days have been good rains in U.P., in M.P, etc. One would expect this agricultural bet if they get some normal monsoon the situation can also correct itself.

On the regulatory change front, our belief is that once the regulator has made its intentions known through even a draft paper it is a matter of time when it becomes a reality. One of such being the priority sector, the securitization norms, etc. In our case, particularly, we were not securitizing more than about 10, 12% of our portfolio and even if we were to be continuing in that segment and we were to believe that now a matching fund is to be made available through other sources, there could be a cost impact of about 20 basis points in our overall borrowing program which is also factored as we have been always mentioning.

So far as the capital adequacy is concerned, while we have talked about the 15% levels, etc. we are well prepared with that reality, our capital adequacy currently is about 17, 18% level and our tier-one capital is at about 15%. So, we are not overly concerned about if such a regulatory change had to come.

The third of the regulatory change that is possible over a period of time could be the 90-day NPA. We have always driven our business on the basis of credit loss and therefore, we are very conscious about the LTV, we are conscious about the period for which we will end and our ability to repossess and sell has been the underlying strategy behind our controls on collections and collateral assets. So, while 90-day may bring a temporary impact to the overall P&L is concerned, but that is not expected to tilt the credit loss situation. In fact, if any, it would only put extra pressure in the internal system to be able to focus on recovery much more than ever before and transact on the repossessions, etc. much faster than before. So, we are kind of genuinely okay with even such regulatory changes if it had to be announced and we are more or less prepared with handling of such scenario.

Therefore, summarily going forward, I think our growth story or our strategy is to focus on all products across all geography working with different profiles of customers and that helps us not just grow the balance sheet in terms of asset is concerned, that helps us protect margins through multi-product approach and multi-geography approach and it also helps us control the quality on an overall basis and therefore net-net with the liability side well in place, with our lending grades well-designed to protect our margins and our approach of multi-geography through additional branches, more people in multi-geography. We continue to be buoyant to say that we do not feel maintaining a growth story as we projected in the past in a difficult situation. Yes, one may not want to project a 50-60% growth going ahead but 25-30% growth on asset which we have been talking in the past does not seem to be difficult, we do not want to reset that target at this stage.

So, thank you very much once again. This I thought are my initial summary remarks and the specific questions as I told you, Ravi is here, Dinesh and Rakesh are here and I will kind of join in, in the next five, ten minutes once again if there are any particular questions for me. Thank you very much.

Moderator: Thank you. We will now begin with the question-and-answer session. Anyone who wishes to ask a question may press "*" and "1" on their touchtone telephone. Participants are requested to use handsets while asking a question. The first question is from the line of Kunal Shah from Edelweiss. Please go ahead.

Kunal Shah: Just wanted to understand, within this margins, okay, if you can just let us know within the income from operations, how much has been the assignment income in this quarter vis-à-vis Q1 of FY12 or say Q4 of FY12? And also, how much has been the provision reversals in this quarter?

Dinesh Prajapati: If I were to give the breakup of the income from assignment vis-à-vis the last year writeback of 3.68 crores, this year the write-back for the quarter is 6.71 crores. And there is a net interest spread of 35 crores which in the earlier taken it was upfronted so at that point of time there was no amortization. Since last year onwards the entire deal was on odd per structure. All the income are amortized and so there is a 35 crores worth of income flowing on account of those amortization deal. And there is a servicing income which is close to around 15 crores.

Kunal Shah: How much was this in Q1 of FY12?

Dinesh Prajapati: Servicing income was 2 crores.

Kunal Shah: And net interest spread?

Dinesh Prajapati: Since last year there was no such transaction, we did not had net interest paid income. But prior to previous year we used to do upfronting of income. There was no flow of income of the amortization in the previous cycle.

Kunal Shah: On that account, okay. So, normally, if we see from Q4 to Q1, the margins come off by 200-odd basis points. This quarter it has been just like 100 bps or so. But there has been some benefit coming through over there?

Dinesh Prajapati: But there is interest expense also. So it is a net-off, because ultimately what I said was net interest spread.

Kunal Shah: Yeah, on the borrowings side, if we look at it in terms of CP, I think the Reliance have gone up on the CPs in this quarter. So, now it is almost like 8, 9% which is mainly maybe that has also helped in terms of the overall funding cost. So, would this continue at the similar level or this will be short-term and you would be refinancing with.

Dinesh Prajapati: If you see our strategy of raising the short-term city route or any such short-term money that was almost in between the year phenomena. And in the last quarter of the year usually what happens, banks have a target to give a long-term loan, so we try and borrow in such a manner that in between period we have a short-term raising program wherein we save some cost. And in the second half, when the banks are under pressure of meeting the target, we are able to negotiate at a better term and raise the long-term money. So, in between period, there is always a scope for using the short-term papers. So, you will find that this CP levels or such short-term borrowings will continue to be in the band of 10-12% during the intermediate period.

Kunal Shah: And just coming back to this servicing income how much would be accruals say going forward, it would be at the similar levels as a percentage of….?

Dinesh Prajapati: What we have done last one-and-a-half year deal, say post introduction of this par structure there we have a servicing income. So that servicing income will be based on the reducing balance basis and based on every monthly collection. So, it is linked to our collection efficiently and so one can assume that it will be on a reducing balance based on whatever is outstanding recoverable value of the securitization deals.

Kunal Shah: And so this 35 crores of net interest spreads would be steady and servicing income would be on a written-down basis based on the recovery?

Dinesh Prajapati: Correct.

Kunal Shah: And what would be the overall growth guidance in terms of AUM in this environment

Dinesh Prajapati: As we have been saying that, as Mr. Iyer, in fact, in his speech has already commented that, disbursements growth in the band of 25-30% should not be a big challenge so we continue to believe that should be our driving force going forward

Kunal Shah: Any impact on say, Car financing which we had seen because of this Maruti, you have been the biggest financier over there as well, so anything this entire Manesar plant is that impacting the financing for us? Would that have any impact in terms of the disbursement growth as far as Car segment is concerned?

Dinesh Prajapati: As far as we have seen in the last quarter we have not yet seen such type of pressure on the Car segment in our space where we occupy. However, as Mr. Iyer said that dealers are already holding on roughly 45 days stock and there is a hope that this issue is addressed by Maruti before that time. Nevertheless, since we have a presence with all the manufacturers doing a business in those geographies and now with our multi-product strategy, we believe that even if there is a space created because of one manufacturer is not able to supply the enough assets, maybe some other manufacturer is able to take the market share. To an extent, it should address this type of challenges.

Kunal Shah: How much would be Maruti overall cars…?

Dinesh Prajapati: As of now I think around 65% of our volume, Cars volume is Maruti assets of the Car portfolio.

Moderator: Thank you. The next question is from the line of Parag Jariwala from Macquarie Securities. Please go ahead.

Suresh: This is Suresh here. Just a few quick questions. One thing is on the growth. I mean, I know that you are still pretty bullish but clearly the industry figure suggest a completely different scenario. So, is growth now more a function of capturing of market share or rather a combination of both market share as well as penetration that is one question? And secondly, on the regulatory front, moving from 180 days to 90 days, can you quantify what could be the impact? I agree the losses would not change, but initial transition what could be the impact and if you were to align with RBI norms, all the provisioning? And just wanted a more clarity specifically on that front, because what we are hearing is if we move from 180 days to 90 days generally, a lot of people fear that since the repayment cycle has shortened, many people might shift business to money lenders or private financiers, thereby creating quite a lot of issues. So wanted your perspective on that?

Dinesh Prajapati: As far as the growth strategy is concerned, as Mr. Iyer had given in his speech that our strategy continues to be multi-product and further penetrating in the geography. So it is more of a market expansion which will be a larger pie of the growth strategy along with the new product vertical which we have been getting into, that is the space of Commercial Vehicles, Construction Equipment, used vehicles space, which is going to grow faster than the overall industry space. Secondly, as a finance company, we also get a benefit of the value increase because almost all the manufacturer vehicles price have gone up by 6-8% in the last few months, post announcement of the budget. So, there are three reasons for our growth strategy continues to be in this bandwidth. One, as I said, penetration strategy. Second is more product which we are adding into. Thirdly, because of the price increase we get a value benefit of it. That is one. Now, coming back to your second point, wherein you said that what impact it will have on account of 90-day dpd, we had said that as of March, we had the NPA would have been recognized on 90-day basis. Our gross NPA would have moved up by 200 basis points. So, currently, I would say, we are following 150-day instead of 180-day as it is based on the RBI norm. So, effectively, since the first quarter our usually the NPA levels move up on a YoY basis. We believe that one can assume that it will go up by around 150-200 basis points band on a gross basis which means that around 250-300 crores worth of value of the gross exposure will go up, on which effectively on a start scale of 10-15% bracket as and when RBI announces the percentage provisioning requirement, one can assume that P&L charge will be in the band of 30-40 crores, net of tax will be again 25-odd crores. So, effectively, I do not see even on technical ground or accounting ground, it is having a bigger impact to a company like us….

Suresh: Just to clarify, 250 crores to 300 crores is the one-time transition from 180-day to 90-day and 25 crores is because of 10% going to 15%, right?

Dinesh Prajapati: Yeah, you will have to provide charge on it, so obviously….

Suresh: That is right, okay. So there are two impacts. Total impact will be 325, 25 crores per quarter basically?

Dinesh Prajapati: No, you are not getting, because gross exposure or into that category will be 250 or 300 crores, for that I have to provide a charge to P&L of 10% or 15%. So, on the absolute value of gross exposure, you do not provide 100%. And to your point, since it is this 90-day norm, it is just a recognition norm on accounting entry basis. It does not really come into a short-term bucket. So, there is no reason why it should become a attractive proposition for the money lenders of such type of lending community. And loan continues to be a long-term three year or four year paper.

Suresh: This 20 basis points margin compression which Ravi had guided, it incorporates all the norms, right, priority sector norms changing or whatever is the revise got released and the securitization norms, all those things put together at best your margins will go down by 20 basis points, right?

Dinesh Prajapati: Correct.

Moderator: Thank you. The next question is from the line of Hiren Dasani from Goldman Sachs Asset Management. Please go ahead.

Hiren Dasani: You said 35 crores is the net impact of the securitization spread, right?

Dinesh Prajapati: Net interest spread.

Hiren Dasani: 15 crores is the collections?

Dinesh Prajapati: Servicing income.

Hiren Dasani: Servicing income, collection fee. And 6.7 crores is the …..

Dinesh Prajapati: write back of the earlier deals which we have matured in this quarter.

Hiren Dasani: That is the reversal of the provision?

Dinesh Prajapati: Correct.

Hiren Dasani: Cumulatively about 56.7 crores impact and is this entirely into the income from operations….?

Dinesh Prajapati: Yes, because ultimately it is amortization of income. Since earlier we used to upfront, now since it is no upfronting, whatever transaction we had entered last year, we had done 1400 crores worth of sell-down last year whole year, for which we had done at par transaction and so income flowing from those transactions is amortized over a period of the contract, 36 months or 48 months. So every month whatever is the income flowing is coming as income from operations. And whatever discounting charges we pay to the bank will be netted off against that and net interest spread is booked as income to us.

Hiren Dasani: This would be typically what kind of spread in percentage terms?

Dinesh Prajapati: Roughly, because our lending rate which we have seen in our presentation also, weighted average landing rate is in the band of 18-20% and discounting rate to the bank is in the band of 10-10.25, so difference will be that.

Hiren Dasani: And how do you propose to do this after this 8% spread is imposed by the new guideline?

Dinesh Prajapati: Because of the new guideline, as we have stated in our presentation, if we go through the securitization route, then eventually what will happen since this product will qualify as an investment product in a bank, the base rate is not applicable. So, we will try and see whether the servicing income and all put together is factored in our or our recovery cost is factored in our pricing. So, accordingly, we will try to use that discounting rate at a lower end and then amortize income whatever is... Since the RBI has now in the PSL requirement put a cap of 18%, so we will filter the assets or the contract which qualify as per those 8% spread and sell only those assets.

Hiren Dasani: Or you can also charge the collection fee separately, right?

Dinesh Prajapati: Yeah, collections fees can be charged separately, but anyway as far as the lending rate to the end customer is concerned, we cannot anyway go beyond 8% spread.

Hiren Dasani: 8% over base rate?

Dinesh Prajapati: Correct.

Hiren Dasani: Lastly, there seems to be some reclassification in terms of the disbursements breakup which you provide for the year….?

Dinesh Prajapati: Slight reclassification. What we used to do is that in Car and other if you note that there was a Car and others breakup. So, we used to classify certain non-Mahindra UV into this bracket and so now we try to club all UVs into one bracket, all tractors into one bracket, so that is what it is

Moderator: Thank you. The next question is from the line of Srinivas Rao from Deutsche Bank. Please go ahead.

Srinivas Rao: My question is on the others in the balance sheet. Firstly, given the growth rates which you have talked about in the disbursements, at least the outlook for the particular segment starting from Tractors which probably will be 7% or less, CVs again very, very minimal this year, and Cars of course, overall growth rate is low plus we have the Maruti issue. Can you talk about how you can guess those kind of disbursement rates unless you are telling that the pricing on the products have increased or will increase over the next 12 months? Is that the view?

Ramesh Iyer: First is, I think we all should understand we are adding more products to our portfolio. We were very large Maruti-based, now, we are doing Hyundai, we are doing Ford, we are doing Toyota, all the cars we are doing. Because they are all looking at addressing this market for their own growth. So, one is clearly from that angle we are getting more products to participate in. Second is we have had that direct marketing initiative vertical which we have started where we have put in our separate team which goes to the existing customers and through them gets more business to be done, not the same customers, but through them referred customers we do more business and that actually increases our market share. If you look at non-Mahindra segment, our market share is pretty small market share because we are a new entrant in the market. So, we are visualizing very clearly a growth in market share in each of those segments even for that matter, when you talk of Commercial Vehicles we are not a significant player where the volumes of the market starts impacting us. We are 3, 4% market share player, so we expect our market share to grow from here to may be from 3% to 7% level and which is why we are talking of growth story. And on the Tractors front again, we were not doing as much as non-Mahindra Tractors and now we have got into even doing that in some small number from our direct marketing initiative. So, I think new products added, little market share increased, both in existing products as well as the product line in which we have a low base and you yourselves talked about a little price increase possibility which is about 7-8% price increase one is expecting and our direct marketing initiatives where we are now raising about 15-20% of the volumes come from our direct initiative. So, we add volume to a dealer point rather than just depending on the dealer to be able to sell for the vehicles. All this together is where our confidence to grow our disbursements numbers up.

Srinivas Rao: On (**Inaudible) 33:47** note, are you seeing any slippages or stresses building up in your Commercial Vehicles and for Construction Equipment portfolio in terms of payment tenure, getting elongated…..?

Ramesh Iyer: It is important to look at Commercial Vehicles as I said in the initial address on an application basis. So, the fleet operators normally are the ones who immediately get impacted whenever there is some slowdown. Not because they do not have the money to pay but it is just that the overall cycle goes slow for them. As far as the single truck operator, two truck operators are concerned, they are people who adapts with operators and therefore they get their operating cost coming in every month basis. So, we have yet not seen that kind of an impact yet. The second is, not all Commercial Vehicles are impacted already. The Bus segment is still doing well. Tipper segment in some of the geographies doing well. Definitely, Karnataka is a point where there are problems in terms of the Tipper application is concerned. So, it is not that the overall Commercial has gone slow or every application has gone slow. So, fortunately, that impact that we have not yet seen in terms of the slowness in Commercial Vehicles as it started impacting the collections as yet. And I think, fourth, very important thing is what is the LTV? Normally, when your LTV is very high, then the installments are also high and then once the collections start slipping it starts impacting the quality. But if the LTVs have been maintained at 70, 75% levels on an overall basis, one would not really overly worry on the cash flows being a little slow.

Srinivas Rao: But would it be fair to say that at least at this stage it seems that compared to the demand cycle or the outlook of the demand cycle which we are seeing from the Automotive companies, the finance companies seem to be in a better shape with respect to their credit portfolio which is (**Inaudible) 35:56**…..go a long-time, right?

Ramesh Iyer: No, what is important to understand is people who buy at this stage are real genuine users who have a need for the vehicles as against a buoyant time when people will buy and look for business. That is why the finance companies suffer a little less than the manufacturing company because the manufacturers will have to try and find even sales beyond genuine requirement.

Moderator: Thank you. The next question is from the line of Rishendra Goswami from Locus Investments. Please go ahead.

Rishendra Goswami: Just a couple of questions. You mentioned your strategy of going deeper into the market. So if you could just highlight a little bit in terms of branch reach or strategy going deeper into the rural market? And second, have all your branches broken even, are they all profitable or still some of them are ramping up?

Ramesh Iyer: First is, when we talk of going more deeper, it only means that we are adding more branches to our existing numbers so as to be able to service customers better because we do not open a branch and look for customers. Actually, we already have a branch from where we cover a larger radius and then once we have enough clusters of customers in that area we go and open an additional branch there to be able to service them better. So, that is our strategy when we say we go deeper. And same is therefore the reason for not having a branch to wait to breakeven because they already start with certain opening balance. Therefore, most of our branches will already have a base number from which there is a generation of income and therefore the cost gets adequately absorbed and then they look for better collection efficiencies, they look for more business in that area based on potential and then they grow a profit. But that is not to mean that we will have no branch which make loss, there are certain areas in spite of having some opening balances if the potentials do not move in the same direction that we thought it would we may have some branches which then gets converted itself into only collection branches and no major business get done from those locations, otherwise, most of our branches would already start with a profitable base.

Rishendra Goswami: So meaning this wherever you have branches, you probably penetrate deeper with the sales force in that region to generate more business?

Ramesh Iyer: Exactly. Just to give you an example, let us say, Panvel, we have a branch or any location for that matter, from there we service about 80 Kms or so as a radius to cover customers in that area. Once find in that distances we have about 500, 700 customers and there is a potential to do about every month 40, 50 vehicles then a branch gets opened so that existing customers get service better and you do not miss out on the opportunity which is available.

Rishendra Goswami: And currently most of the branches that you have are profitable, right, you are not waiting for ….?

Ramesh Iyer: Yeah. I mean, excepting maybe the ones which would have been started let us say three months back, there is a infrastructure cost, because we do not own the place and then the furnitures, etc. get ridden off immediately, some vehicles get bought for that place, all that, but they would not be a loss situation, but they may not be as profitable as a matured branch.

Rishendra Goswami: Just one more question on the market share, you highlighted a point that while you are taking market share, so when you say you are taking market share do you mean that you are taking it from some of the established players or is it just the market which is already expanding and you are capturing a portion of it….?

Ramesh Iyer: If typically, one would talk of taking away from somebody the swing is very large. Today, we are, let us say, Commercial Vehicles 3% market share. Suppose that becomes 4% it is very difficult to kind of make sense on are we taking away from somebody, it is just that you are faster than somebody you are faster than somebody, maybe teams are better than somebody at some stage or your existing customers is making a reference of another customer which you are able to convert faster. So, it is kind of too difficult to say, who is losing in the whole game, because 1% market share shift is difficult to identify who has lost actually. But that is large enough as far as we are concerned we look at it 125 branches or one branch of ours will do Commercial Vehicles. Even if we do two or three additional vehicles from each branch we talk of 300, 400 vehicles more which is 1% market share addition.

Rishendra Goswami: In general, if you were to look at last three, four years, would you say that actually….

Ramesh Iyer: If you have to look at a three-year, four-year horizon, I would think that the market share one would take away from a private bank and a nationalized bank. NBFCs will still find a way to hold, there will be very, very few little opportunities for a swing from NBFC A to B unless NBFCs stopped working in an area or shut the business or moved away from that product, etc.

Rishendra Goswami: And just one last question on new securitization thing, if the assignment part of the business goes away, place by securitization or if that does not happen then what do you think would be the RoA impact on the overall business?

Dinesh Prajapati: We had factored that supposedly the entire 10% what we are sourcing currently liability through this route if we assume that this liability is not going to be sourced through these routes, it will have on a margin basis 20 basis points impact which means eventually on a RoA basis, it will be hardly very small negligible value not even five basis points I believe.

Moderator: Thank you. The next question is from the line of Nilanjan Karfa from BRICS Securities. Please go ahead.

Nilanjan Karfa: Just one question more on the asset mix color, could you specify in terms of breaking the asset into geographic mix, for example, the top three states where Tractors was the highest let us say two years back to what it is today, correspondingly what does it look like for Tractors, Cars, CVs, etc.?

Dinesh Prajapati: I would take up this specific data point. Probably you can send us a mail and Rakesh will write back to you, because this maybe a data point since you want a two-year back data of the…. but if you see up to last year Tractors portfolio we were only doing Mahindra & Mahindra tractor vehicles. In last year only through this direct marketing program we have initiated this non-Mahindra tractor profile. So, if one were to go by our presence in Mahindra market share of around 32, 33% one would say that our Tractor portfolio will be more or less in this area where Mahindra used to be larger. Like A.P. or south markets, Tamil Nadu and all that, from that point of view. And now slowly with this post-PTL acquisition, we also have presence in the U.P. and this type of belt where Swaraj brand is popular.

Nilanjan Karfa: And similarly, if you can talk a little bit about UV market and the Refinance, because that is growing pretty sharply. Just a color on that also.

Dinesh Prajapati: Again, almost 85% of our UV portfolio will be Mahindra & Mahindra. And except for the urban assets like recently launched Mahindra SUV and Xylo where the number of vehicles which are sold in the urban market is higher than the rural and semi-urban space. Almost all other assets which are sold by the Mahindra, based on their presence in the respective geographies, we will have a more or less pretty much distributors presence in these markets. Similarly, on the front up if you see Mahindra's recent launch of Maxximo wherever they have launched we have a presence in those products cycle.

Nilanjan Karfa: So essentially what you are saying is, if I look at each individual product line, large portion is actually coming out from the southern states.

Dinesh Prajapati: For certain asset, definitely. Now but if you were to breakup the book of the company is concerned, it is not concentrated in one particular state or one particular geography. One would say if we divide internally our country into five different zones, that is south, west, central, east and the north, so based on that that bandwidth of our balance sheet mix is between 18% to 23%.

Nilanjan Karfa: My reason for asking the question is related to what Mr. Iyer said earlier that during good times people tend to buy more than what they might do currently. The growth that has happened let us say two years back when the situation was not as bad as it is today, just trying to figure out given how the monsoons are looking across all the states, what kind of asset quality issues might crop up? I understand you have a good repossession, you have put in place post 2009, but just a color is what I am trying to figure out?

Dinesh Prajapati: What happens is, as you are right, that supposingly assuming that in those point of time there was excessive buying, assuming that was the logical, but since our LTV has the tenor is very, very important parameter as Mr. Iyer was also speaking in his speech, that we have been always very, very clear that in this business model LTV is very important parameter so as the tenor. So, most of our asset has been in the three year bucket as far as the tenor is concerned. Similarly, LTVs in last two years has impact on the lower end of our business model. In fact, earlier to two year back, if I were to see the LTVs of the company, historically, up to '08, '09, we were having LTVs of a company in the band of 75 to 77%. Last couple of years, our LTVs has remained either 70% or less than 70%. So one would assume that even in those times when the market was going strong, our actual buyers interest or the interest participation by an investor was as high as 30% at the start of the contract and over a period last two years they would have definitely repaid a sizable value. So, their principle participation in the asset is in fact gone up, which helps us to mitigate the risk of any such eventuality by taking back the vehicles because his participation or his capital involved in the asset is higher in today cycle. So that is how we see that. The quality deterioration going forward may not be that big what we have seen in the earlier cycles.

Nilanjan Karfa: One data point please, how many vehicles did we repossess this quarter and versus Q4 last year and Q1 last year?

Dinesh Prajapati: Repossession, on an average we have been repossessing vehicles every month roughly around 700 to 800 vehicles a month, on an average last year we were repossessing something around 500-600 vehicles. Probably on the base basis, it will be more or less in the similar line.

Nilanjan Karfa: If you are saying it was let us say 500-600 and now it is 700-800, is there an early indication of cash flow problem in this market?

Dinesh Prajapati: It is a base effect. Let us assume that last year we were having a base of 7,00,000 plus live vehicles, today, we are having more than 11,00,000 live vehicles, so automatically on a base effect it will definitely go up.

Moderator: Thank you. The next question is from the line of Anand Vasudevan from Franklin Templeton. Please go ahead.

Anand Vasudevan: Just want to revisit that question on the impact of the 8% cap on securitized paper to be feasible for priority sector, what percentage of Tractors loan disbursals in FY12, could have been at rate higher than 8% spread?

Dinesh Prajapati: 15-20%.

Anand Vasudevan: Will you be able to structure origination fees so that the overall NPV of the price to the customers is not compromised?

Dinesh Prajapati: Actually, the tenure also has got a role. If, for instance, someone takes the impact we have a one-year tractor loan where the rate is less than a car rate, I think we are charging something like 14, 15% or something like that. So, the two year is slightly more and three year is slightly higher as it progressively goes up to five years generally we give seven years, and then it will be say 20%. It is not necessary that we have to assign the portfolio of five years. So the limited number of five years which we do which is above 18% which we will not securitize. We will securitize the portfolio up to three years which is by and large in line with whatever RBI's prescribing.

Anand Vasudevan: The other question is on capital raising plans. Currently, your Tier-1 is 14.7. And on a full year basis I think the consumption of capital has been little over 1%. At what point would you need to come to the market?

Dinesh Prajapati: We have a quite good headroom in Tier-2 and we are able to access Tier-2. So far this year we have raised a very limited amount of 25 crores in tier 2. But there are enough enquiries. Any point of time we do not see any difficulty in picking up 10, 12 years tier 2 bonds. What is important is that if Usha Thorat Committee, nothing happens in that, we should be in a position to manage during the next one year with Tier-2 headroom, without any problem. But, if Usha Thorat Committee has implemented, that too in one go even the belief is that even if

Usha Thorat Committee has implemented it will be implemented in phases, they will not jump from the present 7.5% Tier-1 to 12% tier-1 overnight. There is a thinking that it will be done gradually if at all it is implemented also. And if it is implemented and that too implemented in one go, then we can think of Tier-1, otherwise, at this point of time Tier-2 good demand is there for our paper and we are able to access it quite easily at a very reasonable rate. So, on capital adequacy, we do not have any difficulty or any worry. But, always one has to be prepared for any favorable market, other than that there is no particular plan to go and taking the capital as of today.

Moderator: Thank you. The next question is from the line of Subramanian PS from Sundaram Mutual Fund. Please go ahead.

Subramanian PS: A query was on your reported gross NPAs. Has there been a change in the way you recognized gross NPA or are these numbers like-to-like comparison?

Dinesh Prajapati: Like-to-like comparison. But, why did you get that feeling?

Subramanian PS: Because on a sequential basis, there seems to be higher than normal kind of increase in the gross NPA numbers, so was just wondering whether this was a transition that you made to the 90-day….?

Dinesh Prajapati: In personal loan and two-wheeler, we have not even 90, we have done 60-day.

Subramanian PS: And what would that constitute as a percentage of the overall portfolio?

Dinesh Prajapati: This is more of absolute base effect and initially first quarter always goes up, since almost asset base itself has gone up by almost 40%, so to that extent it is a reflection of that. That is the reason why gross percentage basis it is lower.

Subramanian PS: Only the net NPA seems to have slightly gone up?

Dinesh Prajapati: Again, it is more of a technical formula because as Mr. Iyer was speaking, our audit committee has recommended certain ways by which we have an accelerated provisioning norm. It is not based on coverage basis. So, as the asset moves into which bucket we will decide the coverage.

Subramanian PS: Secondly, just wanted to check on another data point, your off-balance sheet AUM, is it 2500 crores?

Dinesh Prajapati: No, off-balance sheet is 1700 crores.

Subramanian PS: And what was this number in Q4?

Dinesh Prajapati: Is there any other question? In the meanwhile, in a second we will give you that.

Subramanian PS: Finally, my last question is on the growth outlook. Last two years we have seen growth for us driven by relatively new verticals, which is Cars and CVs. So, just wanted to understand from you on the Car side, if this Maruti supply thing does not pick up, you talked about alternate supplies to replace that, but do you see acceptability of these products in the rural market and if that does not happen what kind of growth do you think you would see in the Car segment? Also, on the CV segment, wanted to understand what is it that you are seeing on the ground, are people willing to add capacity even in areas where you are operating currently?

Dinesh Prajapati: In short, you are trying to say that in CVs since there is a slowdown how are you going to meet your targets. Basically, what we have understood and what we experience is that the fleet operators are going slow and an individual operator who normally attach to their vehicles to the fleet operators and there is we are able to find enough customers to sustain our growth. And as far as the Maruti cutting down the car sales or production one is that Maruti has clearly said that overall basis whatever maybe the numbers, their rural focus enough they are on public domain, you can just Google it, they are saying that this year they have gone up to 26% of their sales from rural India last year and this year they have in fact, I think in our own report we have mentioned somewhere and they want to take it further up. And so, whatever growth they are aiming, they are aiming from rural market and along with Maruti all other car companies like Hyundai and all are also targeting rural India. So, since we are more operating in rural India and we do not have much share from urban India because of our rate and we are not able to compete with the commercial banks. So, to maintain our growth, Maruti is a matured portfolio for us but the other portfolio, Hyundai, Tata, Toyota, Ford, GM and all other portfolio we are just about beginning. So, I do not see there is any issue as far as overall passenger car growth is concerned for us because on the overall situation Maruti maybe we are in a position to maintain about 10, 15% growth but all other portfolios are relatively new and most of these manufacturers are targeting rural India, assuming that they are able to meet their rural India target we should not have any problem. CV, I have explained, but we are also new in CV, last year only we have done in a major way. Major way means we have started in a major way, we have a negligible market share in CV. So, this year Mahindra is also expected to pick up their production in CV as well as Mahindra Finance base number being so low, on that very high percentages, we do not see much of a challenge even though CV market on the overall it is bit of a slowdown. So, our growth this year, as Mr. Ramesh Iyer in his opening remarks mentioned that since other than Maruti and Mahindra utility vehicles, we are beginning our expansion in all other products. So, our base is very, very small other than these two. So, to post a growth, for instance, secondhand vehicles, secondhand vehicles we have been doing 3,000 vehicles a month. So, if we want to take it to 5,000 or 6,000 vehicles on a market which is I do not know almost to million plus, on an overall basis this is nothing. What we are talking we maybe talking 30, 40% growth on our base but if you put it as a percentage of market share I do not think we are maybe 1, 2% maybe less 3% on a 2 million secondhand vehicles sale, we are talking of 3000 to 5000 a month which is 2000 vehicles additional. 2000X12=24000, say 25000. Where is 25000? Where is 2 million plus? So, everywhere our number looks more. When we say 25, 30% we are targeting growth or so far last four, five years we have been growing at 25, 30%, but if you were to put this as a number on the total market position, even Tractors, Tractors it is going to be 5, 8% growth, it is a flat market, how will you grow? But there are a total number of Tractors sold in India are 610,000 or 615,000 vehicles being sold. So, what we are financing is if you put as a percentage, today, we are financing 8,000 Tractors per month; 8,000x12=96,000, say, 100,000 Tractors a month. Only 15, 16% market share we have. If we want to increase it to another 2, 3%, assuming zero growth in that total 615,000 it is not very difficult. Everywhere instead of seeing it as our growth what is the percentage if we make it as an absolute number and then see whether that is possible or not, and we are able to see it is possible.

Subramanian PS: One final question if I may, could you just give me the breakup of the salaried versus non-salaries in your Car portfolio, what would it be look like approximately?

Dinesh Prajapati: My immediate reaction to it, it will be a little low because I do not have in front of me, we will come back to you. And your question on the AUM, our off balance sheet item as of March was 2081 crores, as of June it is 1766 crores, about 200 crores less.

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

Umang Shah: Two-Wheelers and the Personal Loan portfolio, in absolute amount what would be the amount individually for these two segments?

Dinesh Prajapati: As of June, outstanding was around 60 crores in two-wheelers and personal loan put together.

Umang Shah: And as you mentioned, what would be the amount of this which has fallen into the NPA category or is it that we have just made excess provision?

Dinesh Prajapati: Nothing has fallen into the NPA category. We have just been aggressive. We just took artificial cut off that 60 days and above we will provide, that is all. We in fact one of our best performing portfolio is Two-Wheelers and Personal Loans. We are only saying that when economy slows down it is unsecured loan which will get affected first. Today, we just felt that okay, what is that when economy is not doing well, what type of internal control measures we have to look into. This is one such measure.

Umang Shah: Sir, second question is regarding OPEX, as you have been guiding, we have seen quite good control in terms of OPEX, but going forward do we have any further headroom to cut it or it stabilizes at current level or how do we see it going forward?

Dinesh Prajapati: For a rural type of companies like us normally, for overheads will be between 3 and 4% of the asset. So, when it is very, very efficiently managed, you can work at around 3% and when you are a bit liberal and market is very good and you are able to afford it, it will go up to 4%. So now the market is tightening, so we will also tighten our belt, so that is one reason why it will come down. The second reason is that slowly in our portfolio certain products like Commercial Vehicles, Car, where customers will give post-dated cheques and ECS type of repayment method. You need not really go to their doorstep and everyday remind them, etc. So, these are some of the structural changes which is taking place which will also to some extent reduce the overheads. And because the market condition we will also be aware of the cost consciousness so that will also help us to reduce something. So that is why I said it will always between the three and four. With all these things, we will aim towards three, but we cannot achieve three exactly, but today we are in 3.7, maybe 3.5 or something like that, another 15, 20 basis points is what we hope to….

Umang Shah: And what would be the proportion of cash collections and how would it be better or worse compared to 12 month period back?

Dinesh Prajapati: Cash collections means in terms of correction efficiency you are asking?

Umang Shah: No, I mean, total cash collections would be what proportion?

Dinesh Prajapati: That overall cash collection has come down. As I told you, some of the Commercial Vehicles fellow will give check to you, many car people will give ECS and cheque to you. So, the overall percentage has come down. It used to be very, very high at 90 plus. Now, I think it will be between 60 and 70.

Umang Shah: And just lastly, what would be our overall portfolio LTV and segment wise LTV?

Dinesh Prajapati: Overall LTV is around 70% and again, I will be able to give you incremental book LTV for the quarter. Auto is 70, that is when I say, Auto is UV, then your Commercial Vehicles is around 84%, your car is around close to 68%, then your Tractor is around 70%, Used Vehicles is around 65%.

Umang Shah: One just last thing, you already mentioned that you do not have a particular benchmark, I mean for provision coverage it typically depends on which asset moved into which NPA bucket per se but internally do you have overall provision coverage target beyond which you may not allow it to fall like currently we are at 70%, so do you have any internal target beyond which you feel it should not be falling?

Dinesh Prajapati: No, we do not have that type of a target. Since we are an asset finance company, what we always look at it is that what that asset cover we have is. Suppose, our asset cover is weakening, then we will look at how to cover the asset, but that will be contract-by-contract. Suppose, there are some assets which are abused it does not have any market value, we will, for instance, for contract when the customer has not started even one installment repayment we specifically provide for such contract, if contract where something is pre-closed, and assets are about to be sold so we take a mark down of the assets to be sold. Again and again, our provisions are linked to the asset coverage. And one is that the provision will be determined by Reserve Bank of India in terms of bucket movement if it is in the first year bucket, it will be 10%, between 12 and 24 months it is 50%, beyond 24 months it is 100%. This is on the basis of time. As asset moves into a different time zone it will command more provision. The other one is that what is the quality of the assets? If the asset cover which is there for us the quality is abused, not available, not ratable or if the customer has already surrendered is about to be sold for some reasons, so all those things individually the call is. There it is an individual assessment, nothing to do on a collective basis.

Moderator: Thank you. The next question is from the line of Jyoti Kumar from Spark Capital. Please go ahead.

Ganeshram: This is Ganeshram here. I have a couple of questions. One is, you explained the impact of the 180-day income recognition, moving to 90-day impact of that on NPA. Could you also give me what is the sense of the impact on margins because you will have no approvals for the 60-day period and also you will have no penal interest on the delayed payments. So, could you give us a sense of that please?

Dinesh Prajapati: As far as when I said that the particular item will move from 150 days what we are currently recognizing to 90-day the 200 basis points increase in the gross and I said that 20 basis points roughly around on that basis 10-15% whichever RBI says the percentage that we have to provide for the initial contract getting into, the 10-15% coverage of what we say, 25 or 30 crores it will come will include even the income reversal piece on it. Because effectively on the three-month the income what we would have accrued for that period will get derecognized. So eventually that will knock off from my top-line income also.

Ganeshram: What is typically the penal interest that you charge for each month of delay of non-payment of interest?

Dinesh Prajapati: Based on the actual cash collection. It is not based on accrual. We do not follow.

Ganeshram: Okay, that is one. Second is, though your impact on the RBI PSL is not much, if you could give me a more general sense of how you see this impact for NBFCs in general, because banks continue to tell us even post this report, their appetite towards either securitization or assignment will remain low, because of the onus of KYC requirements on them or tax problems which PTC route currently, it has been facing or the restrictions on credit enhancement, so, challenges such as this, so more though less than 10% for you, but I want to get a sense from you on how you see this trend emerging if you take the next 12 months view?

Dinesh Prajapati: I believe with the new guideline, of course, there will be a challenge for the both bank as well as the industry, because if you see the securitization guideline the initial first guideline which reflected was that you need to have a individual asset season enough for it to be sold in the market, so eventually, as an industry in general, industry will be able to supply less of asset to the market, because overall asset pool available for sell itself will come down on account of individual seasoning of the asset. So, technically, market will find difficult to get this type of asset even from the existing player in the new cycle. Second, I think because of the ambiguity on the taxation part, that is the PTC route, there is still a dialogue going on between the banker and the originator because someone will have to take a call how that particular transaction has to be finally go through, because bankers are trying to take an internal call whether they can still go ahead and take a call, whether there will be a double taxation if at all and whether they will be able to fight at their end versus they are trying to request the originator, can they take a underwriting or call whether such type of double taxation come, whether they are willing to fight along with them for the appellate level. So, today, there is a dialogue on between the parties in the market as far as the PTC route is concerned. So, I think in PTC route, this is the only one area which is holding on for this transaction to go through. As far as the assignment is concerned the credit enhancement piece which is not allowed now is clearly a bottleneck for the transaction to go through. We, as a originator, as well as the buyer, both of us are mutually trying to assess the portfolio and trying to assess how do we price it in the portfolio, how do we overcome this type of credit enhancement if at all eventually whatever loss which this portfolio may have at the end of the tenor, how do we mitigate that loss to the buyer in the pricing. I think as the year comes closer towards the end of the financial year because of the PSL pressure requirement I think that will be clearer by the second half.

Ganeshram: Do you see the need for cash collaterals to go up given the spread cap being put at 8%?

Dinesh Prajapati: I do not think, in fact, it will come down, technically because we, in the news, as requirement every asset will be seasoned for six months before it can be sold. So eventually the portfolio quality of this pool is going to be far superior than the earlier cycle, which means that effectively the cash collateral should come down on a rating agency assessment basis.

Ganeshram: Sure, my last question is on, whoever involved in auto financing tell us that the rate of bounced cheques have gone up in the last month, month and a half. Are you seeing no such trend?

Dinesh Prajapati: As we have been saying that first half usually we have a slightly recovery lower than the second half because our rural and semi-urban market cash flows are far higher in the second half versus the first half. But given the trend what we have seen in the last couple of years we have not seen the relatively worse off situation in the current cycle. In fact, it is only in a more or less similar situation I would say what we have seen in the last year cycle.

Ganeshram: So you are saying that the rate of your return cheques have not increased?

Dinesh Prajapati: Not increased. Otherwise it will reflect in my collection efficiency.

Moderator: Thank you. The next question is from the line of Neha Kothari from Shubhkam Ventures. Please go ahead.

Neha Kothari: Can you give me the outlook on your CV segment, Construction Equipment and what are the growth targets you are planning on the same?

Dinesh Prajapati: As we had a dialogue by Mr. Ravi as well as Mr. Iyer is concerned, that we have a very low base which we are planning to grow. And we started this business vertical aggressively in the last couple of years only. So, our growth target for these Commercial Vehicles space is in the band of 30-40% space given our base is being small, and also that we are not operating all-India basis for the CV vertical. If we see the CV space for us it is distributed into two verticals. One is the Heavy Commercial Vehicles or Medium Commercial Vehicles and Construction

Equipment space and the other one is the LCV space. So, for LCV space which is the Tata Ace, Maxximo and the 407 type of vehicles, there the growth rate is slightly higher, it is in the band of 45-50% versus the HCV and Construction Equipment space it will be in the band of 30-35%.

Neha Kothari: And what is the outlook on the industry growth regarding the CV and Construction Equipment segment?

Dinesh Prajapati: As far as whatever we have been hearing from the market the CV industry expectation growth rate is in the band of 5-6%.

Neha Kothari: Currently, your securitization percentage stands at 10%. Considering the new securitization norms, are we planning to increase this band or it could be in that same range?

Dinesh Prajapati: More or less it will be in the same range. We will try to keep it in the same range. In fact, it may slightly come down also.

Neha Kothari: What is the reason behind that you want to remain in that same range?

Dinesh Prajapati: We have always followed our internal risk management policy and not to overdepend on any such source where the regulatory challenges or regulatory changes often expected to be coming out with a new guideline so we did not want not overdepend on this, one. Second is also because of the new requirement of the guideline which says that it requires to be hold for a minimum six months or nine months or 12 months based on the frequency of the payment, we believe that the overall asset available for securitization itself will come down in the market.

Moderator Thank you. The next question is from the line of Manish Agarwal from MF Global. Please go ahead.

Manish Agarwal: Just if you can give some color on how your 90-days and 120-days overdue book has moved in the last three, four quarters, specifically in various bucket like CV or Tractors and Car?

Dinesh Prajapati: Because this is more a specific question, we do not have the right data point at this point of time, if you can send a mail separately to Rakesh and get this information.

Moderator: Thank you. Ladies and gentlemen, due to time constraints that was the last question. I now hand over the conference to Ms. Chinmaya Garg for the closing comments.

Chinmaya Garg: Thank you, everyone. I thank all the participants and the management for taking out to participate on this call. Thanks a lot.

Ramesh Iyer: Thank you, thanks, everyone. Any specific queries please be in touch with us.

Moderator: Thank you, Chinmaya, thank you, gentlemen. On behalf of IDFC Securities, that concludes this conference. Thank you for joining us. You may now disconnect your lines.