“Mahindra Finance Q1 Financial Year 2017
Results Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Mahindra Finance Q1 FY2017 results conference call, hosted by JM Financial. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance, during the conference call please signal an operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Karan Singh from JM Financial. Thank you and over to you Sir!

Karan Singh: Thank you. Good morning everybody and welcome to Mahindra & Mahindra Financial Services earnings call to discuss the first quarter results. To discuss the results, we have on the call, Mr. Ramesh Iyer, who is the Managing Director, Mr. Ravi, who is the Executive Director and CFO, nd Mr. Dinesh Prajapati, who is Vice President, Treasury. May I request Mr. Iyer to take us through the financial highlights subsequent to which we can open the floor for Q&A session. Over to you Sir!

Ramesh Iyer: Morning everyone and thanks for joining the call. I am sure everyone has these questions while I try and answer them as we speak. Let me begin by saying, from our side we think the results were average plus and the reason why we are saying is as follows: One, I think we moved to 120 days in the last quarter and we stay with 120 days and we knew it for sure even when we move to 120-day in the last quarter that this pressure will mount on us in the first quarter because normally for the segment and the geography we work in, are not a very active quarter from an economic activity perspective and therefore even always in the past we have seen steep increase from the fourth qyuarter to the first quarter types, but when we go further down in 120-day type situation, the pressure was to mount even higher because many, many customers of ours are the ones who earn to repay and we have been saying this that monthly installments by force over a period have set to either bimonthly or a quarterly type of repayment.

So if we were to simply look at someone who has kind of paid one installment in the fourth quarter and have also paid installment in the first quarter, but in this two quarters in say five or six installments of fallen due, having not paid enough, they then reflected into a NPA. So one of the data points that I may want to continue to share, which we have said in the past as well is that, in many of these NPA accounts there is a clear movement of recovery from customers, while they are not paying enough to be able to come out of the NPLs. So, I think we want you to for sure appreciate that these are pressures which continue from the market in terms of customer's ability to earn to repay, while they are earning just enough to be able to service the loan, but not earning enough to kind of pay for their overdues that has been built and that is one of the reason why you see these kind of bunched movement upwards.

In as far as business is concerned, there are not big time demand that we have seen still coming from rural India, but within all of this there is one clear silver line which is that tractors have picked up and they have moved to double-digit growth numbers and we will for surely be the beneficiary of this and if you were to just spilt the first quarter -as April, May separate to that of June, we have seen substantial improvement even in June by itself while April and May were the pressure months for us. Clearly, we do see benefit of this in terms of business volumes at least from tractors already flowing into the July month.

Our growth largely in the first quarter especially the disbursement growth largely have come from commercial vehicle, small construction equipment as well as SME segment growth and they are low yielding product and that is the reason you see a little depression to the NIMs, but since they are new contracts, one would not see the benefit of it in the form of they reflecting in low NPA. We are confident that these products as we go along will reflect low NPA and low cost of operations and therefore we do not see a big pressure even though the NIMs are lower in these products. We don't see ROA dipping in these products as we go along, but we do know that our growth has to come from also other products beyond this and as I said we are already seeing signs of tractor picking up and the monsoon being good and generally widespread across the country, our own expectation is beyond festival season, that is as the monsoon comes to an end sometimes in September, one would start seeing reflection of corrections happening from October onwards.

We also believe that some of the NPL of 120 days that would have got built in the first quarter are many times a reflection of almost the NPA getting provided for even the next two quarters, we do not expect that many, many more contracts to move in the same direction as we go along as we start seeing cash flow improvements happening from may be at the end of second quarter etc. We will continue to remain and continue to provide at this high level and we do not want to kind of not look at provisioning. We had a choice to kind of look at whether or not, but we have chosen to go along, but one change that you would have seen in what we have done during this quarter is, while we have not changed our provisioning norms we still do 120-day, we still do 50% on 12 months, 100% on 24 months etc., but on the underlying assets which are 24 months and old where we have 100% provisions already we have taken on the benefit of the available collateral value, but we have discounted that values substantially and we have only looked at 40% or so or45% of the value realizable of those underlying assets and that what we have relied on is our own experience of our ability to repossess from this segment, our ability to sell and transact in this segment and also have looked at various pricing formats like the e-auction platform etc., and then use a huge discounting to that price before we have considered any underlying credit and we also very strongly think that this time around the monsoons being widespread across the country, one would see the benefit of it flow not just from few geography, but possibly from across the country.

We have seen improvements in some these markets not just out of this monsoon, but also out of some infra activity that is already there and repetitive states exactly from the past are Andhra and Telangana. We have seen some improvements for us in Tamil Nadu, we are not seeing deterioration any further. Karnataka is stabilizing, but still not in the zone of improvement. Clearly, business volumes have come to was from UP, but one caution from UP is there are delays in payments by the government to the contracting segment and that is causing a little delay in as far as repayment, but clearly seen visible business volumes happening out there. I think in this round Maharashtra and Madhya Pradesh would be two very, very positive sentimentally very positive changing states, as we would see because after two years of continuous drought these geographies have received good monsoon.

So overall I would think from our point of view while it has been a very pressurizing quarter from a market point of view from outside what we see in the market place in terms of the rural geography is concerned, but not many things have surprised us. It has gone the way we thought it would go, we thought this would be the deduction. We knew for sure when we got into 120 days, it is going to built a high pressure on us. Again to repeat ourselves we have not rescheduled any of the contracts while these are 40% to 50% or upward of these contracts have registered repayment, but we have not rescheduled them. We may have to wait for a quarter or two more to start seeing cash flows flowing from each of this segment. I think our disbursements have grown at 8%. The discounts of the product still continue. Volumes are yet not picking up and therefore the growth of 8% that we have got as I said is some due to commercial vehicle and SME segment growth, but also due to many other auto [OEMs] entering these markets.

We have got into actively financing non-Mahindra tractors. We are into pre-owned vehicles with UV, tractors while we are not significant player yet in commercial vehicle pre-owned, but we are a significant player when it comes to car, UV and tractors, but in rural market. We have resourced ourselves adequately in terms of people, in terms of penetration, in terms of investment in technology and we continue to believe that we are future ready, while it is going slow even now, but are own belief is that after this monsoon and the sentiments turn positive and with directionally what we see from an infrastructure perspective in road sector etc., opening up which is reflected in commercial vehicle, construction equipment segment etc., we very strongly think that we are all set to kind of embark on that growth story, but may be we need to wait for a quarter or two before we can say everything is God set. Our two subsidiaries have continued to perform well. The housing subsidiary has similar problems that Mahindra Finance has from this geography while on low base and a high demand for product as that they have continued to register a 19% growth and as far as our insurance distribution is concerned they are maintaining growth of about 11% or so. So both subsidiaries have also maintained growth and collectively, I think we are now 4 million plus customers that we have worked with and we do see benefit of that.

Our direct marketing initiative has worked well. About 25% of our business do come from direct marketing initiative and one last thing would be we have talked about it that we are relooking at our own structure internally and we have announced the new structure and today the organization is activity based structure is what we have created which means right from head office up to the large branch level each of the product line has got direct vertical structure, which is focusing on the product, which we believe will enhance relationship, will improve better understanding and the product designing to suite the customer requirements would get better attention for us to be able to get the volume benefit and which actually helps us to tie up with many, many OEMs, who are reaching out to that market. More interestingly a similar vertical has got created for recovery and to some extent and I am not saying this has an excuse for the reason, but when this new structure gets announced they do take sometime for it to settle down, but we did not want to delay it any further and we wanted to do it before the market can open a big time. So we kind of dialogued, communicated, took input etc., over the last six to eight months and got it announced during the kind of first quarter that you may see and the entire recovery structure is now bucketed into a team handling this 0, 1, 2 buckets, someone handling the 3 and 4 buckets, a team handling the five plus bucket and then you have legal sale like an ARD which handles 10 plus and 8 plus etc., and I think these verticals will in big time help us reach out to these customers and negotiate, dialogue, settle, repossess, etc., etc.

We continue not to repossess aggressively. I think we have dialogued with customer and take a conscious decision on whether or not the resale prices are holding up while the discounts on the new products continues and therefore we do not yet see big time movement on the price upward but the demand for the product seems to be picking up.

I think that the new structure in place, with branches in place, with people already in place and the market conditions showing trends of improvement and monsoon having registered a decent widespread across the country and relationship built with every OEM, our confidence is that are we reaching almost the end of the difficult times, not too soon, but very clear visibility of this is there and we do believe this festival season will be the first time where we would possibly think things are behind us. I think that is what I will put it us the overall summery of where we are. So, I am done with and maybe we should open it up for a Q&A.

Moderator: Thank you. The first question is from the line of Mahrukh Adajania from IDFC Bank. Please go ahead.

Mahrukh Adajania: Sir, just wanted to check if you were to recast to your accounts on 90 DPD then what would have been your NPLs and interest reversal this quarter would you have a broad idea?

Ramesh Iyer: Why do you want to scare us? I do not know it is my guess why we are checking, it would be higher by another 2% at least is my guess, may be it could be 13% or whatever.

Dinesh Prajapati: Mahrukh, we will get back to you with the numbers.

Ramesh Iyer: Before the call ends we will kind of repeat the number, but that is my guess anyway.

Mahrukh Adajania: Sir, Just wanted to check that with this monsoon being good, so currently the NPLs are around 43 billion, so with the monsoon being good how much recovery can we expect? What level do you see at the end of second quarter where there will be some marginal recovery and then at the end of third quarter where there will be a bigger recovery?

Ramesh Iyer: So, let me first clarify, I do not think we must over bet that on the end of second quarter lot of corrections would happen because by the time monsoon is declared over it is going to be almost August end or September early, and therefore there will be no outcome from monsoon effect if any. Will the sentiments remain positive? Will there be lower deterioration to asset quality? May be answer is yes, but we do not want to over bet to say okay if this is going to happen by end of next quarter? Are there going to be a big correction or whatever, but what we have seen you may want to go back in history and see which is whenever it climbs; you just take last year as an example. I think up to third quarter we were almost close to the same 11% types, which came down to 8% as we ended the fourth quarter so that could be the first level of drop that one can see having even moved to 120 days before it can go back to it is original 5% to 6% types maintaining 120.

Mahrukh Adajania: Sir, in Madhya Pradesh and Maharashtra you said would see good revival from monsoons so how much would that be contributing to our NPAs and loans?

Ramesh Iyer: Exact state again we will take out the detail, but why did I say Maharashtra and Madhya Pradesh, I think these two are also having a large tractor portfolio and we have seen them go through the struggle for the last two years, while the customers have tried to service these loans, but they have not been able to pay enough to come out of it and I would think that these two states surely will see improvement to tractor portfolio and UV portfolio because UV again is very agri dependent UV moving the agri product like sugarcane etc., and therefore I said that these two markets would show improvement, as far as states are concerned about 25% of the NPL comes from these states and even if they show 60% improvement let us for hypothetical reason look at it so we can see an overall 15% improvement to the NPA can simply happen from these two states.

Mahrukh Adajania: Over the third and fourth quarters?

Ramesh Iyer: Yes.

Mahrukh Adajania: Sir just one last question how much of the NPLs were partly paid would you have any such?

Ramesh Iyer: I think about 55% or so in the last fourth quarter we have about 60% plus and I think 50% to 55% of the contract would register movement in this quarter and if you look at two quarters between fourth and first quarter if you take, I think it will be close to that 55% to 60% types.

Mahrukh Adajania: Thank you so much.

Moderator: Thank you. The next question is from the line of Sunil Shah from Edelweiss. Please go ahead.

Kunal Shah: Sir, firstly in terms of why particularly from this quarter have we started estimating the value, realizable value of the assets? Was it more to do in terms of the transitioning and a related question to it is even though we are taking the haircut, if suppose if we are not able to recover the amount which we have estimated when do be see the reversals of this benefit again falling?

Ramesh Iyer: So let us look at it see whenever we start this question will still be why this quarter? Whether we are done it this quarter or we will do it in the next quarter? This question will still remain. Why this quarter? So therefore it is important to look at why did we look this bucket rather than when did we start? So these bucket are ones where we have already made 100% provision, where there is no further provision is required to be done and therefore any amount that we can recover from this bucket is something that is available as a benefit and we have looked at our experience of that past as to how as this bucket behaviors have been and that is one decision to therefore look at what do we what to do. Second is as the market opens up, let's see in 100% provided cases 30% to 40% of them are tractors. This is the time we should do it actually because when there is a need for use of these tractor, I think we would like to start repossession in this bucket and when we try and do repossession in this bucket, the chances that either we get the vehicle would be in transact, or the customer wants to sit for settlement and close it, which is how we have kind of taken this call and therefore there is a scientific approach to reaching that 40% to 45% as the value possible because if we think that out of 100 vehicles only 50 vehicles are available to be repossessed then that leads to that or if you think that the vehicles are available, but you can get only 60% to 70% value and then you adjust it for availability and the value then you would reach that number so therefore the way we have arrived at this 40% to 45% is on that basis. The timings is on the basis that it is right time now to start some settlement and repossession and our experience of the past is that is doable in this bucket and therefore without changing the norms of provision we said it is better to take the benefit of what is available. That is how this decision has been arrived at. Now your last question of supposing we are not able to recover this money, when will start seeing reversal etc., we are going to apply the same effort and logic in 12 plus also where we are made 50% provision. If you finally look at 12 plus and 100% provided overall as one bucket even though we would have taken some credit in the 100% the recovery from the 50% bucket would be so high that it would have an ability to absorb all of this.

Kunal Shah: Finally, whatever is the value based on the seasoning of the vehicle we had taken 40%, 45% of that, so may be like 55%, 60% kind of haircut on the realizable value?

Ramesh Iyer: Yes.

Kunal Shah: Other thing is in terms of the collection efficiency?

Ramesh Iyer: Just one clarification on that is this would be not more than 20%, 25% of the original value.

Kunal Shah: Okay, so this will not be, 20%, 25%.

Ramesh Iyer: We have not taken new vehicle price and we have applied at all that, we have simply looked at, our experience is, we can get 65%, 70%, we said knock it off so much percentage and take only 40%, 45%, which eventually means not more than 20%, 25% of the vehicle price.

Kunal Shah: In that sense the overall value for which we would have taken this would be somewhere around?

Ramesh Iyer: Three times it is going up roughly, suppose if you have taken.

Dinesh Prajapati: Rs.900 to Rs.1000 Crores.

Kunal Shah: Rs.900 to Rs.1000, so out of Rs.4400 odd Crores of NPL we are saying like Rs.1000 Crores would be more than 24 months, it is almost like?

Ramesh Iyer: That is why the coverage ratio is also upward of 50%, 55%.

V. Ravi: It is there in the analyst presentation how much is more than 100% is there.

Ramesh Iyer: Any case after all of this we still carry Rs.700 Crores of excess provision over the RBI requirement.

Kunal Shah: Okay and the other thing is in terms of collection efficiency, so how that has been in this particular quarter, which was somewhere around 107% odd in Q4 so where are we during this particular quarter, we saw that in March?

Ramesh Iyer: Now fact that you have now tracked us for as long as we run the company please do not compare us sequentially.

Kunal Shah: No, I think it would be lower obviously because last time…

Ramesh Iyer: It will be about 85% or so, 80% to 85%, 87%.

Kunal Shah: 87%, so I think last time also the lowest collection efficiency was somewhere around 87?

Ramesh Iyer: It will always be, first quarter believe in me April, May is a disaster month from the market perspective because customers is not there, extreme heat, activities are at its lowest, all kinds of things happen in this quarter, so typically this problem will always be there, this time around with June, the monsoons already setting in, even if somebody wanted to pay, they said they would rather wait for another quarter because they want to use up that money for sowing and seeds and fertilizer, which is a happy reason why they are holding the money, past years they were holding the money because the monsoon had not even started, so they said we do not want to spend the money and that got us a little worried that we said that in our call, but this time the news is they are saying we got the money, but we would not use it for this purpose, which in my opinion is a very, very positive thing to hear and which is why this confidence.

Kunal Shah: Lastly in terms of securitization, so how much was it, this time the income is slightly lower at just Rs.6 odd Crores, if you can just explain us to what is the reason and finally maybe as a proportion of this securitized portfolio, how should we expect the revenue recurring from this?

Dinesh Prajapati: Kunal, we had last year write back up around Rs.29 Crores in the securitization income because it was, all old deals, which we would have executed say three to four years back where we used to upfront the provision, whenever those deals used to mature there will be write backs, so there was a write back of around Rs.29 Crores in the last year, on a run rate basis if you see the securitization portfolio we have around Rs.1200 Crores outstanding securitization value and of which there is a seasonal to some extent pattern because the tractor portfolio which is part of the securitization deal, so in the first quarter usually the earning from this kind of deals will be run rate of around Rs.12 Crores to Rs.15 Crores, in the second quarter, the run rate should be in the band of Rs.35 Crores to Rs.40 Crores and the third quarter again the run rate can be in the band of Rs.12 Crores to Rs.15 Crores and the last quarter it can be somewhere around Rs.70 Crores, Rs.75 Crores.

Kunal Shah: So broadly maybe Rs.120 Crores, Rs.125 Crores and last time we reported securitization income of Rs.200, so in Q1 you are saying Rs.29 Crores was the reversal?

Dinesh Prajapati: That is first quarter, second quarter that is around Rs.37 Crores, which is a write back.

Kunal Shah: Through the fiscal out of this Rs.200 Crores, how much would have been there in total?

Dinesh Prajapati: Rs.67 Crores.

Kunal Shah: Rs.67, so it was there largely in first half itself, 29 and 37.

Dinesh Prajapati: Yes.

Kunal Shah: So this 67 and it has not flown through in this quarter?

Dinesh Prajapati: All our earlier deal, which used to have upfront provision, is now matured already.

Kunal Shah: It is already matured, so this year we may not be expecting any this kind of benefit all through the fiscal?

Dinesh Prajapati: Yes.

Kunal Shah: Okay, thanks a lot.

Moderator: Thank you. We take the next question from the line of Roshan Chutke from ICICI Prudential. Please go ahead.

Roshan Chutke: Thank you for taking my question. How much is the interest income reversal during this quarter Sir?

Ramesh Iyer: Rs.130 Crores.

Roshan Chutke: It is a bit high, given the net increase in GNPA, which is about Rs.1200 Crores, so Rs.130 Crores upon Rs.1200 Crores annualize it you were talking of yields of about 30% approximately am I reading it right?

Ramesh Iyer: Since we are not reading with you, I do not know whether we should say right or wrong.

Roshan Chutke: Rs.130 Crores upon Rs.1200 Crores of increase in net GNPA right?

Ramesh Iyer: By data it must be right, but what is the question?

Roshan Chutke: My point is, it appears very high, 30% yields appear very high?

Ramesh Iyer: Okay, let our analyst team workout and let us know whether it is otherwise.

Dinesh Prajapati: You are right. There are two points, which you need to know, one is that the portfolio, there will be some portfolio, which you would have record and some portfolio additional incremental, so you are seeing only one side of the incremental plus minus whereas in absolute term in the system there could be a recovery from the earlier or the older bucket and there is going to be a fresh slippage, accordingly slightly higher. Second reason could be the tractor portfolios, when they get into this kind of NPL there will be a larger percentage, which will go into the income reversal piece because there can a ballooned EMI, which can lead to this kind of slippages at one stroke because of the early recognition of 120.

Roshan Chutke: Okay Sir and can you just take me through the GNPA waterfall what actually slipped this quarter, what was the upgrades, cash recoveries and what has been the written off?

Dinesh Prajapati: That I will take you at a later end.

Ramesh Iyer: But I can tell you the repossessions during the quarter were not very high. We have held on to our selective repossession approach and almost I think what number of vehicles that we had at the end of fourth quarter in terms of repossessed vehicles is what we had at the end of first quarter as well, so I am not too sure, there will not be very high losses arising out of that. Anyway Dinesh will take you through in terms of details.

Roshan Chutke: In terms of bank loan for the percentage of overall liabilities it has been brought down from 45% levels to now 40%, where are we headed here, I presume it is our costliest source of funds, would you want to cut it dramatically?

V. Ravi: Basically you do not, this percentage is about transition percentage because the whole thing is that our disbursement growth has not yet picked up, so when we start growing, the real percentage will emerge, yes the direction will be bank borrowings will come down, market borrowings will go up, but the percentage now you see is a bit distorted because there is not much of a disbursement growth, but directionally yes, we will take advantage of the market borrowing because when we go and borrow in the market 1.5% we are cheaper, so it is always that way, but nevertheless we cannot avoid banks altogether, but you will see it, when we start growing, you will see that they will marginally go up and other market borrowings will further go up, but as of now I think there is not so much you have to read into it.

Roshan Chutke: Just last questions from me, can you help us to understand how the new structure will help build relationships with OEMs and the second question is can you speak a little bit about your SME business as in who is your customer, customer profile, loan ticket size, LTV, backed by what?

Ramesh Iyer: As far as structure is concerned at the head office level, we have product heads, whether it is auto, tractor, car, pre-owned vehicle, etc., and each of those heads will therefore build relationship with the OEMs for those respective products, like for example someone who is head of let us say car would talk to all the car company and then he will build that relationship. His structure going down up to the branch is going to handle all the dealers at the local level of all the products and he will build relationship with the dealer as well as with the local area office of the

OEMs. The policies of that business whether it is terms, conditions, whatever would be negotiated, agreed upon at HO level and will be announced for execution, so the policy method and mechanism that we had in the past is not changing. The empowerment, which was there at the local for a decision, is not changing, it is except that it is so very clearly identified in terms of who deals with whom and on what activity.

Roshan Chutke: On the SME side?

Ramesh Iyer: As far as SME is concerned, our philosophy continues to be to agri, auto, engineering as the three broad vertical in which we are participating. Let us look at the auto piece, which is we work with again through the relationships of the OEM, we work with the suppliers for these OEM and as we see many of these suppliers are common suppliers to Mahindra and Maruti maybe Bajaj and TATA, maybe Honda and Volkswagen, so we have identified many of them and we do help them in terms of their capex, in terms their working capital requirement, more so in terms of working capital requirement, we also have a fair view of their supply chain billing and controls of their cash flow through OEM since we do not have a control through their bank account and therefore when we do bill discounting, we do get the bills accepted by the OEM and then the payments get released through those method where we have either an account in which it is controlled or the amounts are deducted and paid to us, so that is the SME. On the agri front again through our own association with our tractor division and through them with a farming community out there, currently we have kind of picked up two or three elements, mainly let us say the milk and milk supply kind of an industry we have worked with some seven, eight converters and that is the industry where we are working with. Engineering again is the one, which is largely associated with either auto or tractor or a truck industry. We have not really gone out and lend any big time to any unknown, and our lending is also restricted. We do not want to be seen as equivalent to that of a bank who lends Rs.100 Crores to a customer as institutional loan or 7 year tenure types, no, we are not the ones who are trying to replace bank by saying, we will provide them all the working capital requirements no, we are one of the providers of these loan and I think our typical loan period has been about 5 years or 6 years type where we are also continued to able to do maintain our ALM matches and our own as I said working capital is not unsecured kind of given to anyone and everyone, it is linked through the OEMs with whom we are associated.

Roshan Chutke: And what is the ticket size?

Ramesh Iyer: As I said it is about Rs.5 Crores, Rs.3 Crores, and Rs.2 Crores. It is not gone beyond Rs.7 Crores, Rs.8 Crores; I have not seen proposals of Rs.15 Crores, Rs.20 Crores types.

Roshan Chutke: Thank you so much, that is all from my side.

Moderator: Thank you. We will take the next question from the line of Hardik Chedda from Lark Consultancy. Please go ahead.

Hardik Chedda: Sir the way you said you are expecting a pickup based on a good festive season and good monsoon, I just want to know that by the end of the year where do you see the gross NPA level at least, but could you guide somewhere around by Q4 where you see the gross NPA levels?

Ramesh Iyer: I would think that if we do not move to 90 days, if we move to 90 days I do not want to say there will be an improvement because our accounts will remain three months due, two months due because tractors are not really, really, monthly, monthly items, so therefore if we move to 90, I do not think we want to forecast where it will fall to, but in as far as if all market conditions go positive as we think it will beyond October, November, I think there can be a correction to these levels by maybe 1% or 2%, but it will take, do not forget that what is, built is not going to get corrected in six months time. When we say things will change we very clearly are forecasting, it would not deteriorate from here first before they can start correcting, because just in six months to expect somebody will pay regular installment plus another six installments, which is overdue is not something that we want to forecast, but for sure, we will start seeing corrections once the market condition starts improving, cash flows will start getting back into its place, the real benefit of it one can see only beyond November if the support price or a normal price gets announced and cash flow starts coming in. I just want to remind you all that last year the third quarter even through the crop was out, price was announced, physical cash flow came in only in the fourth quarter and we said it in as many words and if something of similar nature had to happen this time, let us say if soya price gets announced, but the real cash flow comes in only in January, then it is possible that all efforts of third quarter, the benefit of it can flow into the fourth quarter.

Hardik Chedda: Supposing if you do not move to 90 days then at least so just to get a sense, if you are not moving to 90 days then where will be the gross NPA levels to understand?

Ramesh Iyer: Where we ended fourth quarter, we were at about 8% without asset growth happening, let us say if asset grows at 15% and corrections happen, I think if 8 become 7 the possibility is yes, will remain 8 at 8 if the market does not show disbursement growth, but collection improvements happen.

Hardik Chedda: Thanks a lot. I am done.

Moderator: Thank you. Next question is from the line of Sunil Tirumalai from Credit Suisse. Please go ahead.

Sunil Tirumalai: Thank you very much for giving me the opportunity. I have a couple of questions, one on the provisioning change that you made and related to the NPA recognition, so is there any timeline that you can give us in terms of how you plan to move to 90 days, will it happen this year or next year and if the provisioning change, policy change that you just mentioned explained is linked to the transition, can we expect a similar change sometime next year as well and some guidance on that will be helpful? I have one more question for follow up?

Ramesh Iyer: When will we move to 90 days, I think our intentions have always been to try and move one year before it is actually due for movement like we moved to 120 almost in the fourth quarter types so that we are ready before March 2017, so we were ready in March 2016. Will that be our approach for 90 days? I think the answer is clearly yes, but market will have to support that, if we start seeing improvement in the market place, cash flow supporting it surely we will try our best to move towards that. I think we just want to draw your attention, we have not conclusive about it, we have Rs.700 Crores of excess provision that we carrying in the book. We will review it to see if such high level of provisioning required to be continued when we start moving to 90 because these were introduced at a time when the NPAs were at 180 day types, so once we moved to 90 days where we start taking market actions much faster than 180 days we will want to review our own norms to see is that the way we want to hold for too long, so that is one area that we may want to review for sure. Will we move to a little more approachable, repossession mechanism and sit with customer and settle when it moves to 90 days? My answer is yes. At 150, 180 when we repossess vehicle, I think we either settle with customer or dispose a vehicle. At 90 day we may negotiate with the same customer for a settlement and allow the vehicle be taken back for use, so these are strategic approach changes which will happen as we start moving towards 90 days and clearly in tractor business, we always keep saying this it is unreasonable to expect that a tractor guy can pay monthly. He will pay you once in two months, once in three months, he sometimes pay more than what is due for that particular quarter, etc., and therefore we will remain under that little pressure zone when it comes to product of that type, but that does not scare us because our credit losses do not mount just because the NPA numbers swing in one way or the other way. I must tell you that even if our gross NPA comes to 3%, our credit losses will be 2%; I must tell you that even if our gross NPA is 8%, our credit losses will be 2%; I think therefore the number that we work on is not to lose more than 2% on an asset.

Sunil Tirumalai: That is helpful and I have a question on the housing subsidiary. The Annual report showed that the NPAs over there are reasonably high and this is no longer a small part of the business, it is approaching 10% and at this growth rate should start becoming fairly large in terms of the total business size contribution. Can you talk a bit more in terms of what is the strategy there? You are growing fairly fast in a business, which typically should not see this kind of loss rates or NPA levels, but you seem to be having a fairly high NPA number over there and what is the strategy on that? Are you are not worried about it or do you think that is the nature of the customer, any thoughts on this will be helpful? Thank you?

Ramesh Iyer: It is important to understand that the current book of housing, it is not really, really big house construction and therefore please do not compare it to the housing industry norms. They are not that. They are not in the same geography where the other players of housing finance is. This is real village level; small house expansion, room addition loans and they have the same cash flow pressure that our tractor or a UV customer in the village is having. They are not exposed to another different cash flow that their problems can be very different and that is one of the reasons strategically, we are seeing 20%, 25% of the book will move away from these kind of financing to semi-urban low cost housing items, which then can be definitely compared with the other housing venture and that will see a quality change in the overall book. The good news even in that business is the customers are available to be met for discussed, the land is collateralized with our interest endorsed but for such small loans it is not that we are going to take back the land, sell and get our money, only when we realize that the family is not interested in continuing to service the loan and they themselves are wanting to sell off that is the time only we will be really transacting on the collateral as otherwise the collateral is a large security to built adequate pressure on the customer for repayment and you would have seen this in the past, even in the housing business they also had a similar pattern of third, fourth quarter correction because that is the time the cash flow improvement happens. So given the book, the way it is, it will continue to grow and it will have the same pressure, but the rates are expected to also protect higher level of NPL while the delinquencies, final credit losses will be low, but the day we get into the semi-urban low cost housing portfolio once the book builds up to 25% of the overall portfolio, I think they will then become measurable very different from the way they are being measured today.

Sunil Tirumalai: That is helpful. Thank you very much.

Moderator: Thank you. Next question is from the line of Ashwin Balasubramanium from HSBC Asset Management. Please go ahead.

Ashwin B: I just wanted to know if you look first at the delinquencies across the year in which you have originated would there be a significant difference in terms of the performance of those which originated let us say in the last two years, FY2015, FY2016 versus let us say FY2014 or prior to that or it would be uniformly similar?

Ramesh Iyer: I do not think it is going to be very different, because the norms of lending have not been changed, but except that the NPA from 150 has moved to 120 and therefore even the current book, even though it is lend only this year, some of them would have become NPA, if you go to re-cost them on 150-day basis, I think the number of account which become NPA out of the money lend during the year, I do not think we have seen it as very different from the past. And you must factor into that, the change in cash flow pressure and therefore if you simply compare it to a period when these kinds of market pressures were not there obviously they will look different.

Ashwin B: My second question is I mean if I compare last March to June versus this March to June, the deterioration in this March to June seems higher, but as you have explained part of it is due to the 120 DPD movement?

Ramesh Iyer: adjust for 120, it is lower than what it has moved from last March to last June.

Ashwin B: That is what I wanted to get. Thank you.

Moderator: Thank you. Next question is from the line of Ankit Sancheti from Kotak Mahindra. Please go ahead.

Ankit Sancheti: Sir, just couple of questions. This tractor uptick that we are seeing is coming from which segment? Is it agriculture segment, or it is more the other segment, infrastructure?

Ramesh Iyer: I think tractor is bought mostly by agricultural segment then used for haulage at least immediate after monsoon I am saying. The contract segment buying of contractor normally you will see the second season you will see it in October, November, January season. The farm purchase, I mean the farmers buying tractor would be during this year. Why? You must not forget that even though it is bought for this purpose they will deploy it into the hiring segment and 30%, 40% of the cash flow will continue to come from non-farm.

Ankit Sancheti: Just on the vehicle two years and old just trying to reconcile this, these are possessed by the company or they are still with the customers?

Ramesh Iyer: They are with the customers. If it was with the company we would have anyway sold and realized that value. It is just that we have booked at the moment of these accounts if somebody is paying, somebody is asking time we have able to spot the vehicle, legally we move toward settlement with the customer, the ability to repossess all those kinds of factors and which is why the discounting, if it is with the company then no discounting required, we would simply assess what is the best value and put that.

Ankit Sancheti: Sir, just last thing on this tractor thing, the uptick, Sir, you mentioned that the current customer is not even paying his installments, because he seems stressed and at the same time we are seeing new customers coming in there is a growth. I know the base is very low, so there is growth which should not be read too much into it, but how do you reconcile these two things that new customers are coming in the market than existing ones are not even willing to pay their installments?

Ramesh Iyer: So that is fortunate or unfortunate part of this business is, 90% of them are paying and 10% not paying is what we all discuss all the time. We take in 50000 customers we would assume that at least 90% of them will be even in best of time 95% of them paid and 5% did not. These are purely by time, but over a period of contract will they all pay, I think that is what we keep saying, 2% is what we will lose and 98% is what people will pay.

Ankit Sancheti: Thank you.

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

Hiren Dasani: Thank you. Sir, one question on your employee cost; if I look at annualized employee cost per annum, it seems to be showing some 18% year-on-year growth. Is that the right number?

V. Ravi: It is correct. Daily on the back of volume growth about 8%, you are right.

Hiren Dasani: Your yearly revisions happen typically in this quarter?

Ramesh Iyer: Already done.

Ravi: 18% is for volume and rate value. Rate variance is about 12% and volume variance is 8%.

Hiren Dasani: So year-on-year employee cost the line is up 29% on a per employee basis, it is 18%?

Ramesh Iyer: There is one item…

Ravi: There in the 29% it is because of certain one time cost etc., will be there, probably there will share one time cost, so performance pay is a one time cost, so certain one time costs will be there, plus last year there was to some extent it was understated because last time the ex-gratia was not there. So instead of 29% the real percentage is about 20% - 18%, 8% due to volume and 12% is the increase.

Ramesh Iyer: Indirectly what he is expressing is what is there in this quarter not all of that are repetitive in nature. So 18% per se would be some form of repetitiveness because of volume and the impact will be all through the year.

Hiren Dasani: You would also make some bonus provisions, etc., which effective payouts will happen towards the end of the year?

V Ravi: That will not hurt because we would like to make a bonus provision, because there should be profit. So then we will make a bonus provision. So that will not hurt. Whatever is the first percentage of the profit is given to them as a bonus. So that will not really affect us.

Hiren Dasani: Just one suggestion, may be and you can take it up whether you want to disclose, but two things if you can disclose on a quarterly basis, one is the movement of the gross NPAs, slippages, recoveries, etc., and the other is the collection efficiencies, if you can put out in the presentation. All of us know that there is a seasonality but if we know that year-on-year collection efficiencies are not deteriorating, that would be really comfort thing.

Ramesh Iyer: I think we will try and see how to bring it out. We would try to not put many things, which can then the competition look at it differently, while we take this input and we will see what of this is right and how do we want to bring it out for sure?

Hiren Dasani: Some asset quality data on a quarterly basis for the rural housing, if you can? I am saying some asset quality data on the rural housing business also on a quarterly basis?

V. Ravi: Certainly. Wage increase will be there. We will think about it and tell you.

Moderator: Thank you. We take the next question is from the like Amit Ganatra from Invesco Asset Management. Please go ahead.

Amit Ganatra: You spoke about the new structure of recovery in place, just wanted to understand, how is it different from the earlier structure? What were doing earlier?

Ramesh Iyer: Earlier we had a band structure where people were answerable for all the products and the recovery was being also handled by recovery team with the business team responsible for the recovery even up to NPA levels. Now what we have done the business team is answerable for all businesses done for the first 12 months of recovery, which means he hands over the contract to a recovery team, after he has ensured that the customer has repaid normally and then it becomes a regular follow up, handling, etc. Now this is for the new business. As far as the opening balance of the contract is concerned, from January onwards it is considered as new business. That is with the business team, but anything prior to January or December 31 let us say closing account, all this is hand over to the recovery team whose only job is to follow up and collect and wherever necessary, to recommend for reposition.

Amit Ganatra: So now basically this new structure basically helps in overdue NPA kind of accounts.

Ramesh Iyer: It is bucketed. Now the teams are being made by bucket and therefore the whole idea is to build a wall around each bucket so that they do not spillover to the next.

Amit Ganatra: So this is something new, which we are not doing earlier?

Ramesh Iyer: Earlier typically people followed up. I was allotted 250 contracts; it could have had six months overdue, three months overdue, one month overdue everything.

Amit Ganatra: Thanks.

Moderator: Thank you. We will take the next question from the line of Roshan Chutke from ICICI Prudential. Please go ahead.

Roshan Chutke: Sir on a 24-month overdue,, currently whatever is slipping into the 24 months plus overdue bucket, are we providing 100% on that?

Ramesh Iyer: That is right, 100% on that.

Roshan Chutke: What is the outstanding amount in the 24-month overdue currently?

Ramesh Iyer: Outstanding from customer or you are asking much spillover?

Roshan Chutke: Let us say outstanding amount, what is the outstanding in the 24-month plus bucket?

Dinesh Prajapati: That is what we said, around 900 to 1000 Crores of which we have done a valuation.

Roshan Chutke: Correct, 900 to 1000 Crores of amount and about 400 Crores is the collateral value that you have picked up?

Ramesh Iyer: Of that we have taken 190 Crores, of that we have taken 45 Crores.

V Ravi: Collateral value you divide it by 45%, you will get the full collateral, say roughly two times, say about 400 Crores.

Roshan Chutke: Whatever has flowed from the last in this quarter is over and above this 1000 Crores? Is it a fair understanding?

V Ravi: Everything is cumulative. Basically in NPL provision everything is cumulative.

Roshan Chutke: That is right, so what you have said you have provided 100% on the ones that flowed this quarter into the 24-month plus bucket?

V Ravi: First let me say and then you further ask me if there is any clarification. Every time, from the inception of the company, we have been providing if an asset crosses two years, it will be provided 100%. It is not only in this quarter or it is not only in every quarter, if suppose last quarter there are 10 assets have come, they have been provided 100%, if sort of one quarter before the same story. So totally, up to today, roughly about 800 to 900 Crores of assets are still lying in the 24-bucket yet to be dealt with later with the trust by taking reposition, disposing it all, etc., it is pending settlement. Of this what we have decided that after valuation, we build sufficient cushion even if we take 190 Crores.

Roshan Chutke: Thank you so much.

Moderator: Thank you. Ladies and gentlemen that was the last question.

Dinesh Prajapati: Before we end, two areas which were pending to give feedback, so on one question of 90-day DPD, roughly around 15% would have been the gross NPA as we move to 90-day today, and income reversal roughly around 300 Crores would have come out of that, if we had moved to 90 days today. As per June and as per the NPA movement, fresh slippages during the quarter around 1600 Crores was the fresh slippages and there was a recovery of 387 Crores.

Karan Singh: On behalf of JM Financial, I would like to thank Mr. Ramesh Iyer and the senior management team of Mahindra & Mahindra Financial Services and all the participants for joining us on the call today. Thank you and good-bye.

Ramesh Iyer: Thank you.

Moderator: Thank you. On behalf of JM Financial that concludes this conference. Thank you for joining us. You may now disconnect your lines.