"Mahindra & Mahindra Financial Services Limited Q1 FY2022 Earnings Conference Call"

July 27, 2021

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MODERATOR: LADIES AND GENTLEMEN, GOOD DAY, AND WELCOME TO THE MAHINDRA FINANCE EARNINGS CALL HOSTED BY ICICI SECURITIES LIMITED. AS A REMINDER, ALL PARTICIPANT LINES WILL BE IN THE LISTEN ONLY MODE AND THERE WILL BE AN OPPORTUNITY FOR YOU TO ASK QUESTIONS AFTER THE PRESENTATION CONCLUDES. SHOULD YOU NEED ASSISTANCE DURING THE CALL, PLEASE SIGNAL AN OPERATOR BY PRESSING "*" THEN "0" ON YOUR TOUCHTONE PHONE. PLEASE NOTE THAT THIS CONFERENCE IS BEING RECORDED. I NOW HAND THE CONFERENCE OVER TO MR. KUNAL SHAH FROM ICICI SECURITIES LIMITED. THANK YOU AND OVER TO YOU SIR!

Kunal Shah: Thank you Mallika and good morning everyone present on the call. This is Kunal Shah from ICICI Securities. We have with us today, Mr. Ramesh Iyer - Vice Chairman & Managing Director; Mr. Amit Raje – Whole-time Director and Chief Operating Officer Digital Finance-Digital Business Unit; Mr. Vivek Karve - Chief Financial Officer of the company and Group Financial Services Sector; Mr. Rajnish Agarwal - Executive VP-Operations; Mr. Dinesh Prajapati, Head -Accounts, Treasury & Corporate Affairs and Mr. Rajesh Vasudevan - Senior VP, Accounts along with other senior management team members on the call for Mahindra & Mahindra Financial Services to discuss their Q1 FY2022 earnings. Over to you Sir!

Ramesh Iyer: Welcome everyone to the call and good morning to all. Let me kind of first begin with what is happening in rural India, what is happening in the market that we serve, then I will deal with why, what has happened and why it has happened that way, and then of course the third section on where we see this going.

So clearly rural India went through one of its worst times ever in terms of the COVID hit situation and out of the 90 days that was available for operations between April and June it was hardly around 20 days where there could be any activity and even those 20 days were kind of hit by part time operations and not full day available to operate. Things have changed; I think things have gone to definitely moving towards more positivity, sentiments are returning to some normalcy and when I say some normalcy both at the branch level as well as at the consumer level. The quarter gone by we saw there was scare in people's mind, people did not know what next because I think there were cases heard on and around them, there were people whose families were impacted, in our own cases we saw around 3000 odd people who were impacted with COVID and we lost lives of at least 60, 70 people in the process across the country, and therefore there was all round fear in people's mind, and the sentiments were very, very low. The dealerships were not opened; the mundies were shut, the banks operated for limited hours and absolutely no movement on the street, so all of this is what got rural to be in a very confused state of affair. Amidst all of this I think the harvest was good, the crop price was also decent and good, but they could not sell all their crop in May as mundies were shut, they started selling it in June, some part cash flows did come in, and some part cash flows will come in July.

If you look at the entire rural prosperityhinges around people movement and goods movement and of course the infrastructure to commence and happen. In none of this front we saw any activity out there, and that is one cause of real pressure that had to be gone through. As things change from then to now, as I said dealerships have opened, mundies are opened, banks are operating, our branches are opened, people are vaccinated at least for one dose most of them, people have come back to work, sentiments are returning to normalcy, people are able to travel and meet customers, customers are able to come to branch, the footfall at the dealerships have gone up, the supply side is getting fixed, inventory levels are good and decent, the OEMs are very, very bullish about how the market is likely to turnaround during this period, and we also hear and see lot of talks about infrastructure opening up in most of the states because that is one area from where you would see labor absorption happening and therefore things are now all set to get into some positivity from here on.

In my earlier call, we had also predicted that it will be post-September that is the festival season onset is where we would see a turnaround story with the government push on infrastructure and monsoon supporting the market, we believed that the three years from then on should be a good period and we continue to hold our view. Yes, did we see such a steep pressure that we would go through in this quarter in that rural market, I think we definitely saw it when we had this call sometime in April we had definitely this standing that the pressure points are mounting, but we had not anticipated that there would be a complete washout and June would take at least 15, 20 days to bounce back and that is one pressure that we had to go through for a fact. We have always taken this approach of partnering the customer in these difficult times and not taking any knee-jerk reaction to situations and scenarios, and we continue to stay with that approach of ours. We have not resorted to major repossession and even if we wanted to possibly it would not have been very easily possible to do so in this circumstances, but nevertheless our approach was not to be getting into major repossession and build pressure unnecessarily on that front. We were not able to reach out to customer, meet them, talk to them, and only telephonic conversations were possible during those periods, and therefore we were trying and understanding what they are going through and were trying to reconcile to the scenario of them.

If you look at restructuring which was offered, which was announced by the regulators and when we reached out to our customers, some of the thoughts that we heard from them were as follows. Many of them said that they would not want to commit themselves to a long-term restructuring and incur a very high interest burden because they believe that they would bounce back in a very shorter cycle and they would have preferred a moratorium like scenario which was offered in the first round is what they quoted. Some of them said if we can pay you some money please allow us sometime and we would continue to keep making some payments but do not want to resort into restructuring. So eventually the restructuring was taken by only some of those fleet operators who believed that they may need about six months to bounce back, some of the taxi aggregators, the school bus operations, these are the people who then took to some restructuring because they need definitely a six months time to bounce back otherwise many of them believe that in a month or two there would be a return to some normalcy and their earnings would return to normal.

I think the other sentiment that we saw in the rural market that impacted us is, many of the customer did have money, but were not able to come to pay or we were not able to go and collect. That was one that we clearly witnessed out there and in cash collections I think you would see this for sure. I think the other area that we saw pressure coming from is, customers had the money but with uncertain future, they did not want to discharge the liability but rather store the money for any future eventuality. And this has what really caused the pressure for us in the quarter. So, if you look at many of the accounts which have moved into NPA category in this quarter, they are all standard accounts as of March 31, 2021 and we have put out some statistics there and we saw many of them have paid even some installments during this three months and there are large number of accounts who have actually paid more than 50% of their loan already, so we do not see both of this bunch of accounts as someone to worry about as a credit issue but they are purely an issue temporarily caused by the liquidity pressure faced by the customers in view of either their low earnings during this period or if they had the liquidity, not wanting to pay during this period. So we therefore believe that why they have to be categorized as NPA as required under regulatory norms and classically Reserve Bank even put out to say that this can be classified as normal account and not an NPA account, but the Ind-AS accounting possibly does not allow that kind of approach to be categorized something as stage III if they have not paid if necessary and therefore we stuck to remain keeping them at stage III and making provisions against them. So I would like to very categorically emphasize here that as payments starts to come in and we are seeing collection efficiency and I will deal with it in a minute. We believe as market condition starts to improve and these consumers are able to get back to normalcy in operation and when I say normalcy in operation we do not expect them that they will get back to more than 100% like before but even if they were to get back to 60%, 70% kind of a situation to start with and over a period of time to get to full normalcy we would see lot of these accounts would move back to normal because they are all customers with good intention to earn and pay.

As far as collection efficiencies are concerned I would just draw reference to the moratorium period. Between April and August when we had moratorium and as we all know we had a very large number of accounts which went into moratorium. Post moratorium between September to March we saw very good collections from that market as the vehicles were put to use, tractors were put to use and we saw recovery happening in a very normal manner. We did believe that the year, if the pandemic two had not hit, we would have seen substantial reversal even from that position and would have possibly gone to the 2019 kind of a scenario was the forecast with which we were working, but unfortunately the second wave hit it very, very hard. As we move along we saw April, May, June. April we had 10, 12 days of working, but the lockdowns had started to happen in states like Maharashtra, some kind of a curfew type situations were announced, people movement were restricted and all of that started happening. So we did see April collections somewhere around 70% odd, May was a washout from an overall activity perspective, it was a total lockdown situation and the collection efficiencies were around 60%, but come June I think the collection efficiency has substantially improved even though first 10 days of June was a drag post whatever happened since, things started to improve and if we were to consider including the restructured contracts the collection efficiency went high as 105%, but if that was to be knocked off we were upward of 90% by pure collections, which was a direct reflection of the customer intention to come and pay our ability to go and collect, customer using bank transfer, all kinds of formats were used and clearly the collection efficiency is started to improve. So going there I very strongly believe and that is our conviction as a team and we talk to people across the country is between July to March you would see substantial reversal to whatever has been built during this period, at least the contracts which have been built into NPA between April and June will reflect a reversal situation as we move to the next nine months and as we all know that the second half of rural is always a good second half and with expected normal monsoon I think we should be beneficiary of the changing cash flows of that market, changing face of that market. We are also seeing very clearly the demand picking up, footfall at the dealerships continue to be high, OEMs are confirming supply availability and supply chain problem getting fixed and the infrastructure as I said likely to open up post monsoon, will also see demand for tractor further going up with very clearly infra tractor picking up.

I would just like to deal for a minute with the tractor business. There have been questions about if the industry is growing why is Mahindra Finance not growing in the tractor business? The tractor business is split into two parts, agri based tractor and haulage tractors. We started originally when we started tractor business with agri tractor financing to derisk because monsoon erratic situation was building overdue in that segment whenever monsoon fails and therefore we got into commercial tractor financing which was a good derisking approach that we took because at the end of the day commercial tractor has a quarterly payment possibility versus the agri tractor which is season-to-season. Unfortunately for the last couple of years we have seen the mining activity going slow or rather stopped in many states, coal excavation was not happening and the sand bridging was not happening, all of this pushed the commercial tractor to a little standstill, and you would clearly see even for a tractor industry the growth has come from agri tractor sales and they have not really registered good growth on the contracting side and therefore Mahindra Finance was directly impacted by losing volumes from that particular end. We believe agri tractor was very competitive because it was always a nationalized bank product then came lot of private bank to participate in the agri tractor because their requirements for priority sector, etc., etc., maybe and therefore that volumes got distributed and divided amongst many, many players. So that is one very clear reason even though the industry registered growth we could not get the benefit of the growth purely because the commercial tractor segment was improving. So we would definitely believe that as that contracting segment opens up post monsoon the tractor sales growth that we would see arising out of contracting segments we should benefit out of that and you would see a growth pattern back to us.

As far as other volumes are concerned I think its direct correlation to the volume transacted by the dealer and the OEM and there has not been any pressure on the market share as far as other products are concerned. We do think that volumes will come back; we do think the pre-owned vehicle will be a good segment to watch for growth whereas we think that the heavy commercial vehicle could take couple of quarters more before they return back to normal. So we have based our growth on tractors, pre-owned vehicle, Mahindra auto product and the car segment, but within the car segment we are conscious of the fact that the taxi aggregator segment, the tourist segment and school bus operating segment which buys the Omni Van kind of a vehicle may take some more time because that is not an activity which commence to happen and even if they were to begin let us say sometime from October where we hear schools could start, where we hear the tourism will open up etc., etc., but we very strongly do think that those segments that vehicle only after a quarter or two, but collections and recoveries will start improving from that segment.

My last comment would be we work with various segments of the customers across the geography who are providing services to certain fundamental industry and those fundamental industries are farming, contracting, trading, education industry, the tourism, and all of this, which collectively means we are participating in this people movement kind of an industry and which is where our segment of customers participate and while rural generally believe to be doing well on the consumption side but if you dive deep and look at these segments I think these segments have gone through tremendous pressure in the last year or two and the last quarter was anything set to them and which is where the pressure was built on us. These segments improving and returning back to normal, yes, of course with a caveat that we do hope and believe that definitely there will be not a third wave which is of such a sharp intensity that we saw the second. We all think and pray that the third wave does not come in and even if it had to it is not as severe, but we are conscious that we have to be kind of prepared with some of that type but we still think there is lot of positivity around in the market and what we have built as an NPA during this particular quarter is something which we very strongly think are reversible NPAs and they are not credit cost NPAs or a credit based NPAs. So we would see a reversal of that happen and our whole approach is to first come back to the last March level as we progress on from here and therefore get the benefit of reversal that we can over this period before we can even talk of further improvements going over there.

So far as the margins are concerned, I do not think we were still under any pressure of our lending rate pressures and our borrowing cost is one of the best and given that our net interest margins are being held up. You would have seen a dent in our net interest margins but they come from because of the reversals of income that has happened because of the provisions that we make or the NPAs that we have as well as we carry a high level of chest for any future eventuality to be met and therefore the yields around that are under pressure obviously and those to add up to a little dip to our net interest margin, but as otherwise on an overall book basis I would think that there would be a marginal dip to our yield of about maybe 15, 20 basis points but that would have also been caused by some kind of a product mix change but not otherwise. So clearly we can hold on to our NIMs and our borrowing cost as I said is one of the best and there is no pressure on the lending rate side. We do believe the volumes will come back to normal and you will see a growth pattern back to us. We are not overly convinced that in this quarter if we had, had a growth of 40% over first quarter of last year we are non-comparable per se, but post September we would see absolute disbursement growth and that should lead to the growth story and the AUM growth coming back and as I said correction of NPA from where it is with a better collection efficiency over the next nine months should help us get our quality as well addressed pretty well. So overall I would think that while we have gone through one of its worst time in the 27 years we have run this business this was one of our worst quarters, but I would still think that what has been built in this quarter over March is purely temporary in nature and that would come back and if I have to draw any reference point, there are two reference points or three reference points I can join, one is the meltdown time the NPA adds on but those days I think NPA was 150 days and therefore it had not reached a 15% level but on a 150 days basis we did see it go up to maybe 8%, 9% types, but it slipped off come back very, very fast in two, three quarters. The demonetization time I think it went up to 14%, 15% type numbers and then started reversing as the market conditions settle down. Even if we were to take the third reference point of the moratorium time, if the moratorium was not to be available I think we would have reached this kind of a level of NPA even in that period but then very clearly between October and March as market conditions improved we saw substantial collection and reversal happens and we are very confident that at least from this 15% level to come back to an 8% type level should not be very difficult if market conditions open up and the reversal should begin to happen.

I think with those kind of remarks and on the liability side we are pretty comfortable we have sufficient funds to meet any eventuality, on our capital adequacy we are doing extremely well we do not have a pressure on the capital adequacy, our relationship with the OEMs, with dealers are pretty good and we have had several dealer meets and we have several OEM meets and everyone is confirming to us about the return of growth for them and therefore a return of growth for us jointly with them. Our employees are being taken care, we have done various employee based initiative to not just retain that but also for their wellbeing and good health and as we said we continue to focus on our cost control measures and there are some fundamental costs which have been well addressed and there are some variable cost which will possibly come back on the return of the volumes and transactions begin to improve and we would add another 50 odd branch during this period last year we did add about 120, 130 branch but they will be functional during this year but we will also made another 50 odd branch during the year based on the forecast of the growth that we are looking at. So I would stop there and then I think we have covered most of it what I wanted to say, I just wanted to leave this final thought with you that rural is a market which whenever an impact comes or disruption comes they are the first to hit very severely whether it is a monsoon failure, whether it is an economic downturn, whether it is these kind of a pandemic situation the downturn there is very fast but we have always seen their pickup and uptick is also extremely fast because all these customers that we work with are acquiring assets which are the basic livelihood products and therefore they do come back to street again and start putting it back to use for any earning for themselves. So I think with that thought I will stop here and possibly now we open it up for Q&A. Thank you. Thank you very much.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Arav Sangai from VT Capital. Please go ahead.

Arav Sangai: I had few questions. My first question would be a data keeping question, if you could tell me the exact quantum of interest reversal that we had to face through, even just to get through what would our NIMs would have been if we would not have such a large slippage?

Vivek Karve: We had about 200 odd Crores of interest reversal during the quarter.

Arav Sangai: My second question is again on the provisioning front. So since we had a large slippage I just wanted to understand what kind of ECL do we project because I remember we used to have a 35%, 40% kind of PCR that we used to maintain pre-COVID and now because of our overlay provisions we are maintaining our 55%, 56% kind of PCR so like what is the thought process on making a 50% kind of PCR on the additional slippages that we have encountered this quarter?

Ramesh Iyer: No so if you kind of look at I outlined few segments which are causing the pressure for us and it is a very serious management decision to say that it is nothing wrong if we were to carry a higher provision for those segments and if they were to return to normalcy we would get the benefit. So far as the basic formula based ECL is concerned I think we are still in the vicinity of 35%, 40% **(audio cut) 25:07** we have not increased the loss coming from any repossession disposal at all, so therefore we do not think that the fundamental formula is changed, it is just that the management overlay on the basis of those segments where we very clearly see what is the pressure that we go through from the street and therefore why not remain little more prudent on that front is the only approach we have taken and as things normalize I think we will come back to our 35%, 40% kind of a number. Vivek you want to add, if I have missed.

Vivek Karve: Yes, you are right sir. Just to be specific our LGDs are in the mid 30s and the overlays have been made on a very prudent basis looking at the stress in some of the identified segments and are also keeping an eye on a possible third wave but we believe that as the normalcy would return as was alluded to by Mr. Iyer there is a very good chance that a significant part of this overlay also may get reversed as the situation improves and the stage III gross assets start depleting.

Arav Sangai: Sir just one last question I had, so I remember when the RBI came out with restructuring guidelines like you came on TV and guided for a 10% kind of restructuring which you might expect so I just want to understand since the overhang of COVID 3.0 is still present do we expect that in coming quarters since the businesses that we deal with we are still not out of the woods completely we might expect a higher restructuring in coming quarters and not like and a NPA reduction coupled with a higher restructuring?

Ramesh Iyer: So as I said even in my earlier address we have to go by the customer needs and not by our needs so the customer still believe that they do not need so much of restructuring and want to incur this additional interest burden, etc., etc., and in July we are already seeing activities back to normal and if the third wave was to come and hit and we all hope that they are not as severe but there could be a temporary blip but I do not see that we will need to do a very large restructuring like in the first quarter we did about 50000, as close to 60000 accounts. In the second quarter will there be a very large number I do not see that because the eligible customers are something like 5, 6 lakh customer, but I do not think we will do that kind of a number at all it will be another 30000, 40000 account if at all coming from the heavy commercial segment if they are going to take little longer or the contracting segment and those kind of stuff but other than that I do not see that this number is going to be abnormally large.

Arav Sangai: Understood Sir. That is it from my side and all the best for the coming quarters. Thank you.

Moderator: Thank you. The next question is from the line of Marukh Adajania from Elara Capital. Please go ahead. The line for the current participant is disconnected. The next question is from the line of Karthik Chellappa from Buena Vista Fund Management. Please go ahead. The line for the current participant is disconnected. We will move onto the next question, which is from the line of Dhaval Gala from Aditya Birla Sun Life. Please go ahead.

Dhaval Gala: Couple of questions, one just to understand, I do understand a reasonably good presentation, you have tried to explain a few cycles, just if you could explain this with the light of restructuring also, I know we did not do much in the last year but in the current quarter or current year we have done so if at all there is any pending restructuring number one and if I have to add the restructuring pool or stress pool looking at stage II, isnt it too high versus any of the past cycles and any special steps which do you think will require to recover or get back to say the improvements we have seen in the last two examples we have given of GST and demonetization when can that be achieved in terms of number of quarters or number of years?

Ramesh Iyer: I do not think we have a very large number pending for restructuring and as I said maybe another 30000 account maximum may come in for restructuring but if the market conditions continue to be what we see now as an improvement trend may not be required to do beyond that for sure. So far as what steps are we to do to be able to recover all this amount which we believe, again just to repeat these are all earn and pay segment and as they earn they would definitely repay but we have to be available to collect the money, either going to them or having the branches where they could come and pay. So one of the basic requirement is the branches should be up open and running so that they can come and pay and our people should be available to be able to reach this markets and go and collect. One thing that we are done even in the earlier rounds when NPA went up was to create state specific champions with the cross functional team and with a very clear direction of different bucket collections and focusing on business so that there is no divergent of energy to different activity and we have already done that, we have created a state level team for every state we have created a team with a very senior person responsible for the state with the team available to that particular individual to be driving the particular state. The states have also been allocated to the product heads at HO level like a CEO and each of the product heads is handling couple of states who will focus only on their respective states from a collection perspective and NPA reversal perspective because finally we should all understand that it is not what are the alternate ways by which a customer wants to pay, we can create digital means, we can create branch opening, we can create partnerships for collection all that is possible and we have done it, but fundamentally the customer has to earn from the vehicle or tractor that he is using so that he is in a position to repay. So that is what we are now seeing very clearly that there is activity returning back to normal and once that happens then this kind of a structure that we have created will help us collect much better from those markets.

Dhaval Gala: Sir just to get a clarification if the improvement in the collection efficiency would get more reflected in stage II assets going forward first or it would be basically even the stage III assets we will see, so if at all is how would you look at it, that today from an outside world people will look at the quantum of gross NPA plus the elevated stage II assets which includes some bit of restructuring also and the collection efficiencies are impacted, so if you could give us some confidence that in July how has the trend been and if at all there is any improvement in stage II assets in terms of quantums, it used to run between 13%, 14% in the last year third, fourth quarter reported numbers, has they come back to that levels directionally at least, means to that magnitude or it is just smaller improvement right now?

Ramesh Iyer: No, so as I said June itself saw a very high collection efficiency and we are seeing July a similar trend which means that normally one would expect after June will the July slip off etc., but what we are seeing is very clear movement in July as a collection as well. So our confidence is that these collections will affect both stage II and stage III. Just we will go a little more perspective on the stage II, while we have about 400000 accounts in stage II we have seen part payment in more than 85000 account received during the third quarter itself while they could not move from that stage and similarly another 234000 account we saw movement in that account, so we very strongly think that at least out of this 4 lakh more than 3 lakh accounts have shown movement of repayment and those will definitely roll back to an extent and some of them possibly may stay but would not built and go forward. Similarly on the stage III as I explained there was sufficient movement in account, so if these two are seen together I think very strongly that there would be reversal happening in both the things but one thing we should note is when stage III reversals it could come to stage II may not go to stage I or 0, so to that extent there will be some built up in stage II happening but even from stage II some things will roll back so please read it in a totality to say that when the overall cash flow of the market improves you would see reversal of provision happening from stage III, you will see forward flow getting arrested and that is the reason we believe the gross NPA numbers will start climbing down and we very clearly see roll back from stage II happening and our stage I which normally used to be between 0 and 1 I think used to be some 13% possibly we will go back to those numbers in the next couple of quarters. Will all this happen in this quarter the clear answer is no, they may not happen in one quarter. But will we start seeing trends of reversal and definitely we will arrest way forward, I think I am very confident to say that the way forward will be arrested, the trends of reversal would be seen and then the next two quarters would definitely give us the opportunity to reverse it much better.

Dhaval Gala: The other question is maybe because of the pandemic and the current one off type of impact, but today our net NPL numbers is pretty high, is there a possibility that RBI or rating agencies put any pressure, clampdown on this type of numbers?

Ramesh Iyer: My personal opinion this is not based on any discussion with anybody so this is my personal opinion I think the normal reactions are never on the basis of one quarter. They know that for what reason has the gross NPA gone up and in spite of that we have made 53% cover so they know that directionally we are maintaining a higher coverage ratio and they would want us to understand in one or two **(audio cut) 36:25** because they are adequately capitalized and we are carrying sufficient liquidity so what will a rating agency look for and RBI look for that we should not be on a default side, if those two ends are well taken care then I think they will have patience to see for one or two quarters before they can react and I think in those two quarters we would reflect directionally how things are changing and therefore the risk of any kind of reactions I think we would definitely avert at this stage but we have not had the discussion for me to make this comment but my being in the industry for so long and understanding the situation I think it is never on one quarter reaction basis.

Dhaval Gala: Just a last piece of question if I am allowed. Your expectations on outcome for AUM growth maybe in the coming quarters and possible revenue basically margin progression?

Ramesh Iyer: So far our margin improvement is concerned I think our best margin are lending **(audio cut) 37:30** kind of one of the lowest, so I do not think we are seeing a margin expansion from here arising either out of lending rate improvement or borrowing cost coming down, we do not forecast borrowing cost to come down from here at all. And we are holding I think four, five months equivalent requirement of fund so that pressure of holding that money will always be there on so I think we are okay on the margin front where we are. So far as the growth is concerned I think AUM growth will also take a quarter or two because we would start disbursing and improvement in disbursement will happen only from now on and as we reach March you would see AUM growth beginning to happen but to expect in this quarter will there be an AUM growth may not be there because we just do 3000, 4000 Crores of disbursement is what I think we have done in the first quarter and enough accounts do mature during this period. So I think give us maybe a quarter or two more at least we will watch for how the disbursement growth happens and I am very, very bullish to believe that post September the demand for vehicle, tractors, pre-owned vehicle will definitely be high and we would benefit from that and once that disbursements pickup I think by March end we should register AUM growth.

Moderator: Thank you. The next question is from the line of Mahrukh Adajania from Elara Capital. Please go ahead.

Mahrukh Adajania: Sir just a couple of questions that you have given a table on what percentage of NPAs and what percentage of stage II are in the recoverable market in terms of either a part payment or less than 50% of outstanding so what will be the mode of resolution or upgrades to these accounts. Are you confident that they pay back or there will be a one-time settlement or there will be recovery, repossession, is it just an upgrade on payback because things have opened up?

Ramesh Iyer: Yes, this is purely collection what we have reflected there as solvable or solvable through collection.

Mahrukh Adajania: What is the write-off number for the quarter?

Vivek Karve: All put together that is bad debt plus repossession losses put together is close to about 300 Crores.

Mahrukh Adajania: The other thing is that net NPA is at 4% given now by the end of the year not necessarily in the first three quarters but by the end of the year we should have net NPAs at 4%?

Ramesh Iyer: That will be our endeavor and we hope that the gross NPA comes down to make it net 4% and we do not have to make additional provisions.

Mahrukh Adajania: But any target for gross NPAs by the end of the year?

Ramesh Iyer: I think given where we are and as I said corrections would take two, three quarter for all of this to reverse clearly, at least our first target would be to reach definitely a March level so that we do not have a provision burden for the year if we reach last March level.

Vivek Karve: What we meant was the gross NPA and given the provision coverage we will naturally reach the net NPA, read it as that.

Mahrukh Adajania: Thank you.

Moderator: Thank you. The next question is from the line of Manan Tijoriwala from ICICI Prudential Asset Management Company. Please go ahead.

Manan Tijoriwala: I have a couple of questions, we are constraint in disbursement so this is primarily due to stricter underwriting norms or are we guiding growth post H1 of this year, so are we seeing tail winds being also involved in collections. And linked to this, how was your on ground collection team shaped up in the past **(inaudible) 42:26** is there an increase in employee count in the collections team, and what was the count pre COVID?

Ramesh Iyer: It is not that we have tightened and there is no volume available and everybody is diverted to collection, no such steep actions taken. But clearly overall volume of the market was low last one, one and a half year if you see Mahindra's have not been able to sufficiently supply vehicle there has been a constraint, Maruti volumes were low from availability perspective so tractor was one number which was growing and I right at the beginning explained about tractor in the agri was growing and not in the contracting segments and even in the pre-owned vehicles its low repossessions by all the banks and finance company the supply side on the repossessed vehicles were also very, very low leading to low second hand vehicle financing. So definitely some norms would have been done during this period to ensure to adjust to the current scenario but largely the volume shrinkage is caused by low volumes transacted by the industry overall. So it is not that everyone is diverted to collections and things like that, we have sufficient people on the collection front, we have sufficient people handling the business team collection so there is no dearth there, we have added people you asked a question how many people have we added I think we did add a 1000 odd people during last year to augment the collection efforts but again I want to repeat myself the lack of collection or increase in an NPA will not ever be out of lack of efforts from the team side or lack of alternate methods provided to customer to repay, etc., etc. The fundamental pressure on recovery comes from customers inability to earn sufficiently during the month to be able to discharge their liability and therefore we are not short of branches, short of people or short of methods and there are lot of in-house training program by senior team which happens to the field executives, there are lot of MIS mechanisms by which the team is guided, there are lot of communication that happens with the team and there are supervisory methods by which review takes place. So I do not think there is anything lacking on the front of people's capability, number of people available, deeper penetration through our branch network as well as technology support and partnership approaches, we are just waiting and the market conditions improve we would see benefit of all this flow towards us.

Manan Tijoriwala: I do assume the vaccination level on the collection team will be similar to what you have given on your employees, so 70% have taken one dose and 10% have taken both doses?

Ramesh Iyer: **(audio cut) 45:07** people including the collection team, etc., that statistics is being talked about.

Manan Tijoriwala: Could you provide any insight in the geographical performance of the portfolio, so where you have been having some better asset qaulity or even highlight somewhere you have asset quality being much lower average?

Ramesh Iyer: I do not have it ready with me but from my review understanding I can tell you there will be few geographies like Bihar where mining was impacted therefore you would see the tractor portfolio put in the contracting segment will have some pressure, you would see in UP a similar pressure on those kind of front, you will see in Karnataka in that kind of a front, maybe in Guwahati that is in West Bengal and Assam you would see from the taxi operation front so I think different product different geography will have a different phenomena to look at but by and large in this round of COVID impact with no exception every state and for every product has gone through the same pressure.

Moderator: Thank you. The next question is from the line of Anand Bhavnani from White Oak Capital. Please go ahead.

Anand Bhavnani: Sir just to understand the slippages that we are seeing and the elevation in stage II that we are seeing in your reckoning is this what is happening across all the players in the industry or is it higher for us due to any specific reasons if you can give us some sense?

Ramesh Iyer: I may not be able to fully comment on is everybody going through this but one thing I can surely tell you as a Chairman of FIDC what we hear from every player when we meet as an NBFC body is everyone has got a pressure, is the degree of the pressure same may not be so because if we are in certain segments of vehicles which others may not be like for example in our car segment we do have very clearly taxi aggregators, tourist vehicle and the school bus operating Omni vans which may not be a product for many of the other players so therefore in that segment they may not have a problem. There are people who are in tractor business but if they have larger agri tractor they will have less problem compared to us as a tractor problem because we do have lot of contracting segment tractor and by nature we are a very large player in that segment so therefore our pressure point could be high. The reverse could be true when it comes to heavy commercial vehicle while we do have problems on the heavy commercial vehicle but the volume that we do on heavy commercial vehicle could be much lower than the other players in the market and therefore the problem size could be represented differently so is everyone having a problem I think my answer would be a clear yes, is everyone having the same degree of problem my answer would be no different players will have different levels of problem for different product lines and if everyone done the same level of restructuring I think my answer will also be no for that if we have done 2% somebody might have done 5% somebody would have done 9%, 10% also but that is an individual call a company makes based on their profile of customer and the product line that they are in.

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

Amit Nanavati: Just wanted to check if you can give some color on, so you have given colors where this close to 80% of our stage II customers are at least part paid if you can give further split between someone who is paying more than 50% of dues and someone who is paying even less than 50% of dues would be helpful and secondly the incremental ticket size of the NPA formulation it seems to be relatively lower versus our stock NPA ticket size, so if you can just highlight which segment is coming from?

Ramesh Iyer: Sorry I did not understand the second question but let me give you the answer the first then I will take your second question. So far as the movement on the stage II is concerned I have just yield out some numbers which I had said earlier very clearly around 84000 contracts from people who are in stage II even in March have registered movement and another 234000 people from a 3 lakh account which moved into stage II this quarter have moved so they would not have paid 50% of their installment due during this quarter other way they would not be in stage II but they would have paid 50% of their contract value what is due to them let us say they have taken a 1 lakh loan at least 10000 of them about 80000 of them I am seeing are someone who have already paid more than 50% of their account and things like that so I think when we say 50% we are talking of about 8000, 10000 people who would have actually paid 50% of their loan already, but as far as part payment movement is concerned if three installments were due they would have paid one installment during the quarter and the reason why they are in stage II is that their two installments are outstanding so therefore they would not have paid 50% of the installment due of the quarter.

Amit Nanavati: Yes. So we really wanted to check out someone who moved in stage II say in the month of May or April because we would not have collected or they would have not paid, but at least in the month of June what percentage of this **(inaudible) 51:12** are actually paying at least their June dues or at least more than 50% of their June dues?

Ramesh Iyer: No so I do not have it by month but I can tell you that 310000 accounts actually have moved to stage II in the month of April, May, June and out of that 234000 accounts have made payment during this quarter.

Moderator: Thank you. The next question is from the line of Rikin Shah from Credit Suisse. Please go ahead.

Rikin Shah: Sir firstly on the asset quality side both on the absolute as well as relative basis the deterioration has been higher than the peers what I am specifically looking to understand is a) what is our typical loan approval rates, b) what is the proportion of new to credit customers for us and c) I heard that we have setup bucket wise collection teams but before that did we not have soft bucket and hard bucket collection team because the stage II loans have also doubled from the steady state normal levels so that is the first one and second one I just wanted to understand when you say that 80% to 90% of contracts could see reversal those will be from the stage III and II kind of movement basis not on the P&L credit cost because even during the de-mon we never had the net write-backs in the provision terms we always had some kind of credit cost in the subsequent quarters as well?

Ramesh Iyer: I am not sure of the last part that you are saying because at least from this accounts if they reverse back you will get a credit back but obviously there will be some new accounts coming in and there will be some additional provisions if at all required to be made will be made, but as far as the buckets are concerned we always had for the last five, six years we created this bucket approach of soft bucket, hard bucket and MPC bucket. My clarification was someone asked a question about how is the focus on collection and what are we doing do we have sufficient team, etc., etc., and answer to that was we already have a bucket wise team and then we have sufficient people in that team who have been trained for handling those situation better. I think you started off with something called what is your accrual or something I did not understand that question. Please Dinesh, Vishal anybody if you have understand that.

Dinesh Prajapati: Yes, it is the loan approval rate that he wanted to understand.

Ramesh Iyer: Okay, basically I am trying to find out the AUM degrowth is that your question leading to?

Rikin Shah: No so actually I am trying to understand say for example 100 borrowers are coming to you for a loan what is the typical rejection rate that we have and how much do we approve?

Ramesh Iyer: On boarding is how much?

Rikin Shah: Yes.

Ramesh Iyer: There are two types of on-boarding one is before we take them even into our system and call it as an inquiry there is a rejection that takes place and that percentage is very, very high but once they have moved into our system after the initial scanning is done by the field executive and the local team then the rejection is by a systemic approach of various parameter and there the approval rate could be upward of 80%, 85% because there the scanned customers who have met most of the criteria but maybe rejected because they are asking for a low rate or they are not willing to give a guarantor or they are suddenly asking for a higher LTV those kind of things, but by a profile of a customer's credit acceptability that rate will be very high rejection before they move into our system for approval.

Moderator: Thank you. The next question is from the line of Vivek Ramakrishnan from DSP Mutual Fund. Please go ahead.

Vivek Ramakrishnan: I have two questions the first one is on the broader rural economy. We have heard that there is a lot of state government's pending which is happening in the rural economy and for example for tippers and such construction equipment demand has actually been very robust, and the contractors are getting paid so wanted to know your view about that as well as rural incomes per se because there has been a lot of migration away from cities and so there is one chunk of income which they used to get which has been lost and whether that is affecting the rural economy and the second question is regarding the collection efficiency I think you mentioned some number for July I am wondering whether I missed it so please do let us know our collection efficiency for July?

Ramesh Iyer: Let me clarify it to you I did not put the number for July I just said that the July collection efficiency continue to be as robust as what we saw in June and we did not put out a number, but you will see a very robust number and when I am comparing it to June. So far as the rural economy is concerned yes we also have a similar view that not all states but we are seeing signs of local spend happening at different state level and going to absorb lot of construction equipment tippers and if you recall my comment that I made earlier in a couple of months you would also start seeing demand for contracting tractors which are used for haulage application **(audio cut) 56:30** to pickup in the same direction and we do definitely see **(audio cut) 56:36**. So far as the labor movement is concerned yes you are right lot of people who otherwise use to be engaged in various mid town cities, semi urban markets, etc., and having some parallel income and remit them to rural has kind of slowdown for sure and that is one of the reasons why the consumption also declined but I think those are very temporary phases I do not believe a large population will continue to remain only in **(audio cut) 57:03** open up in different cities they can come back to the cities for their earnings. So temporarily is there a pressure the answer is clear yes but will it be a permanent dent or a shift in the fundamentals of rural economy my answer is no.

Vivek Ramakrishnan: Thank you Sir and good luck.

Moderator: Thank you. The next question is from the line of Anitha from HSBC Asset Management Company. Please go ahead.

Anitha: My question here is that on the collection efficiency front you have reported June to be almost like 90% collection efficiency and if I compare the numbers with previous year similar numbers they are much better so in that sense I am just trying to understand as to why was the need to create such high provisions and such high provisioning cost in one quarter because if you are seeing the visibility that similar to last year things are going to get better what was really the driver to actually create such high provision cost after like taking significant write-offs and provisioning even last year you have done similar much higher numbers.

Ramesh Iyer: One is last year's first quarter comparison to this year's first quarter from an efficient perspective could be slightly misleading because last year first quarter was with moratorium so therefore the demand itself was low and therefore the collection **(audio cut) 58:38** whereas this year there was no moratorium or anything so it is from an absolute demand perspective. So far as why the provision is required and we have put out very clearly certain segments where we continue to see pressure. You know, this is anybody's guess it did not make sufficient provision and if our gross NPA was this high somebody would have said oh why are you making sufficient provision and you are carrying such a high net NPA when we make a higher provision obviously yes this question also comes to us was there a need to do. We as a management have taken a very conscious call and we said that if there are some segments which are going through pressure there is nothing wrong prudently make, of course this is a provision and it is not a write-off for us to gone out of our hands therefore then if it shows a loss for a quarter because we have made such high provision it is fair and fine with us but it will get reversed as I have been explaining all through that when things get to normalcy. Yes if we have taken a write-off of this value then you are right if things are going normal why do you want to take a write-off, these are just provisions made and under the Ind-AS accounting there is judgement to be exercised and to look at how the market conditions are and make the provision and get the benefit of reversal if it was to happen. So I think you must leave it at that to say it is a cautious call by the management prudently making this provision and we are confident that in the next three quarters you will see benefit of this.

Anitha: Thank you.

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

Nischint Chawathe: How far do you think are we from pre-COVID level as far as our collections are concerned from the non Stage III levels?

Ramesh Iyer: See if I take June as a singular month and compare it to pre-COVID June I think we were almost there because normally in June we get 95%, 96% collection sometimes slightly more maybe but I would think that June was a very good representation and without putting out a number I can tell you July almost represents that so I would think that the pre-COVID collection efficiency at least is seen in this month and we saw it also post moratorium like last March if I am not wrong we had 107% or some number 107% or 109% efficiency and that was as good as pre-COVID number. So the fun of this market is when it dips as I told you it dips sharply but even though they bounces back it bounces back with speed so therefore to compare it to pre-COVID certain months are like pre-COVID and certain months are disastrously low like for example if I have to take May collection efficiency that was never been our situation of collecting so low ever and the market was that bad so I think Nischint it is a very difficult balance to say okay is all 12 months come back like before pre-COVID my answer is still no maybe we are another three, four quarters away there is no third wave I think from the third quarter we will start seeing generally we are like pre-COVID times, but if we take a specific month there are certain months like pre-COVID certain months worse than ever.

Nischint Chawathe: Any conversations on interest rates going down on the asset side?

Ramesh Iyer: My view is that it will not go down from here but maybe Vivek and Dinesh are better judge for that.

Vivek Karve: Yes, Nischint if your question was more on the lending rates I think that I thought you asked on the asset side.

Ramesh Iyer: Oh you said asset side?

Vivek Karve: Yes.

Ramesh Iyer: Asset side will be linked to the demand of the market there is no competitive pressure for rates go down for sure but if our borrowing cost is good and if we are able to pass on that to the customer and can acquire some better customer and larger customer base I think that will be a very conscious call but from a market perspective there is no pressure to drop the rate.

Nischint Chawathe: Finally if you could comment a little bit on the housing finance business in terms of what is happening out there we saw the quarterly numbers of course but any kind of changes that are happening out there?

Ramesh Iyer: I think their pressure is as much are higher than our pressure because ultimately the asset is not even an earning asset so therefore the customers definitely are on a wait and watch mode, they have the money but they say they want to pay you if it will get little more normalize so I think there the improvement will be seen post monsoon and not before that for sure because they are also approved the harvest and the crop money that they get and I keep telling this we have a large exposure in Maharashtra and clearly Maharashtra is a one which was going through problem and this round they did well and if the monsoon turnout good and the crop turns out good and post October you will see correction in Maharashtra for sure, but from their stored money will they start paying for their liability I hold my views I do not think they will do that in a hurry.

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

Abhishek Murarka: Couple of questions one on tractors you made a differentiation between agri tractors and commercial tractors but in reality how is it possible to differentiate this and what proportion of your tractor portfolio would you say is agri, the second question is actually there has been obviously a change at the Board change at the parent level in terms of new management have you been discussing anything from a business strategy perspective to make the current business less cyclical and can you share any new plans with respect to Mahindra Finance going forward?

Ramesh Iyer: So one very clear differentiation between agri and commercial tractor is commercial tractors are registered whereas agri tractor are not necessarily to be registered not required to be registered also so that is very fundamental level difference that one can see. Second is the repayment structure for a non-agri tractor would normally be quarterly payment whereas an agri tractor would be half yearly payment linked to the crop patterns, and third of course the differentiation is very well understood by the team which is operating at the local level and they will therefore very clearly know through the interaction and appraisal methods that which are the tractor and which are non-agri tractor so they are not very difficult to be understood. The only challenge will be there are some tractors which are used for agri and then also is diverted for commercial purposes in off season and those gets recorded separately and in our internal MIS we have a very clear differentiation between the three of them, and I do not have the number very readily with me I do not know if Rajnish knows the number but pure agri in our case could be around 25% or 30% of our portfolios my guess but Rajnish do you have the number?

Rajnish Agarwal: Yes, not exactly but you are right it is agri is 30 and majorly it is haulage and haulage plus agri together.

Ramesh Iyer: Now as far as coming to corporate is concerned Anish is the Group CEO and then he is also Chairman of Mahindra Finance so first of all there is lot of synergy and understanding of the groups expectation and what the group thinks about it, etc., etc., and we had any plans of new business model, new fundamental change, etc., you must have all read and seen one of the biggest introduction is the digital fin-co. So we have created a separate vertical within Mahindra Finance and we run it like a company internally while it is just a SBU within us is on the digital finance side where we have Mr. Amit Raje who is also in this call he is the COO for the business he is on the Board as well and he has got a team under him which is end to end team provided for technology, for partnership, for HR, for processes, for customer facing, product acquisition, all kinds of stuff and that is one business that we believe will be a good addition and the derisking and the game changer internally to a larger extent and he will use the physical support that is required for that business from Mahindra Finance and if the Mahindra Finance core team will take the digital support that we require from that business so in a way it helps Mahindra Finance core business digitize through that and he gets a physical help from us so in a way it is a phy-gital business. We have also kind of put in a team which is focusing on that data side of it and we are crunching all the last so many years of data that we have of customers, guarantors, OEMs, all kinds of stuff and we are able to come out with very clear directional approach to where to lend what to lend how much to lend and what to lend as well as on how to recover, where to recover, where to reposes and all those kinds of forecasting approaches so that is the other fundamental shift and change that we have seen. My last comment in that direction would also be we are engaged with a he consulting firm which are going deeper into our NPAs and slicing them from various angles and possibilities to really arrive at a root cause of why certain things must be happening and then to get that corrected over a period by certain process change or a policy change. So these are the three I would think approach change that has come in with the interaction with the corporate and at the corporate strategy level at the GSO what we call as group strategy office this one Amit Sinha who has joined in as head of that and he is coming from 20 years in consulting experience from Bain, etc., and he works very closely with us to help us understand our strategy and also help us redesign it wherever and whichever way required to be done. My last comment is we have a group CTO Mohit Kapoor who works with us with 50% of his time devoted to us and he is looking at our technology readiness as well as the gaps that we have and we have engaged Ernst & Young to do the gap study of our technology and adequate investment would go into bringing in the required technology and appropriate technology and change course of the direction. So these are the things.

Vivek Karve: If I may just add the group strategy head is also on our board.

Moderator: Thank you. Due to the time constraint ladies and gentlemen we will be taking last question now which is from the line of Sanket Chheda from Batlivala & Karani. Please go ahead.

Sanket Chheda: My first question was on your guidance on maybe stage II so as a total pool now being 19% in stage II, 15% in stage III we have about one third book which is kind of stressed and on that stage III we have provisions of 54 and we see that now LGD based provisioning is about 35% so if we keep that 35% and extract 20% into stage II in addition to the overlay that we have we have as good as above 30%, 35% provisioning on entire stage II so why you are saying that reversal in a quarter or two that should be certainty that there should not be any incremental provisions unless you feel that this 35% should go up further in terms of **(audio cut) 1:10:27** on growth you said by Q4 we could see some AUM growth so for the next two quarters while we believe that the repayment will pickup I just wanted to get a sense whether we will start reporting positive AUM growth from the next quarter that is our disbursement would at least match our collection which would see some jump in the next two quarters?

Ramesh Iyer: Yes, so far as your NPA is concerned you are right we do not also see any increase to those numbers if at all any we are our endeavor is to see that stage II, stage III together can 10% roll back from a 35 can it come back to a 25 over a period of time and which was our normal base in the past and that is what we are going to drive at for sure and you are right therefore if this case there is there a need for more provision the answer is no. So far as will we start seeing positive growth in the AUM as I said it is too premature to say immediately next quarter there will be a positive but disbursement growth visibility will be clearly there compared to previous year and as we close March I am hopeful that there would be a trend of AUM growth visible. Will it be in the very next quarter I do not think so it will happen with that kind of a speed because it will be the first quarter where we would have some decent disbursement happening but there would be contracts maturing as well, but two, three quarters of disbursement should help us start building the AUM.

Sanket Chheda: On stage III who were guiding from 15% to maybe 8%, 9% level and basically stage II average 12%, 13% so ideally in three quarters can it come down to 20% of current 35% number or it will take FY2023?

Ramesh Iyer: I said 25% is our endeavor it may not be 20% immediately but 25% is our endeavor on stage II and stage III.

Sanket Chheda: Thank you.

Moderator: Thank you. I would now like to hand the conference over to Mr. Kunal Shah from ICICI Securities for closing comments.

Kunal Shah: Thanks to the entire management team of Mahindra & Mahindra Financial Services for giving us such a detailed explanation and all the best for the future quarters and thanks all the participants for participating on the call. Have a good day. Thank you.

Vivek Karve: Thank you Kunal for hosting us, thanks a lot.

Moderator: Thank you. On behalf of ICICI Securities Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.