"Mahindra Finance Limited Q4 FY16 Results Conference Call"

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MANAGEMENT: **MR. RAMESH IYER – MANAGING DIRECTOR, MAHINDRA FINANCE**
MR. V. RAVI – EXECUTIVE DIRECTOR & CFO, MAHINDRA FINANCE
MR. DINESH PRAJAPATI – VICE PRESIDENT (TREASURY), MAHINDRA FINANCE
MR. RAKESH BILDANI – DGM (TREASURY), MAHINDRA FINANCE

MODERATOR: **MR. KARAN SINGH – JM FINANCIAL**

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Mahindra Finance Q4 FY-'16 Results Conference Call hosted by JM Financial. As a reminder, all participant lines will be in listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note this conference is being recorded. I now hand the conference over to Mr. Karan Singh of JM Financial. Thank you and over to you Mr. Singh.

Karan Singh: Thank you. Good Evening, Everybody and Welcome to Mahindra & Mahindra Financial Services Earnings Call to Discuss FY'16 Results. To discuss the results, we have on the call Mr. Ramesh Iyer who is the Managing Director; Mr. Ravi, who is Executive Director and CFO; Mr. Dinesh Prajapati – who is Vice President, Treasury and Mr. Rakesh Bildani who is DGM, Treasury. 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: Good Evening. Just to give you quick highlights; after few quarters of hard work and explanation, I think we have had a decent quarter. As we have been mentioning always in the past, it is an outcome of very focused approach towards recovery and substantially believing in the rural markets capability and competence to service the loans as the market conditions tend to start improving. So we have kind of retained our strategy of going deeper and adding people to be closer to customer and focusing on recovery instead of chasing growth which has been our past statement for a couple of quarters and we have done that. We have maintained market share for growth and therefore one would see a disbursement growth as well. Though we have not tried to gain market share substantially, but nowhere have we lost on market share. Lucky enough that there are also other new products that got introduced to this market which has helped to some extent our disbursement growth and also the SME segment that we started focusing on has added to the growth possibility.

But importantly, what is really exciting for us to look at, at this stage is the efforts of recovery which has helped us to bring back some respect to the overall quality and we have said this in the past that we do not fear an elevated gross NPA number to result into high credit loss because this market always in the past have clearly demonstrated delay not necessarily means write-off and that has come out extremely true from our belief in the past; we have seen substantial improvement to collections; in this quarter we have seen particularly our collection efficiencies have been highest ever possible during this year and much higher even the fourth quarter of last year.

Just one data point from our point of view that we are excited about is the Rs.370 crores of PAT is the highest in the history of Mahindra Finance in any particular quarter -- it is a result of phenomenal improvement to collections, our gross NPAs have climbed down substantially. We do believe there is enough to be done on this and we want to stay very clear on this to say that these are not an outcome of already substantial improvement to the fundamentals of the rural market.

Definitely, monsoon does hold key to where does it take us from then on. The good news is everyone is talking of the monsoon is likely to be average plus, we also hope and pray that it is exactly that. If that had to happen, we believe that this market will turn very-very positive in terms of its sentiment but our preparedness and our focus even going forward will remain, I would think, if we were to use our efforts 60-70% of the time efforts will continue to be towards improving the collection efficiency while we will not lose on market share.

The net interest margins have kind of remained very stable and buoyant for us and again one has to look at it from two or three angles – one is, to what extent are we benefiting out of the borrowing cost if any. There have been some marginal improvement to borrowing cost but we do see during the year we could get better benefits out of that. But more importantly, always when you have elevated NPA, the income reversals do impact your top line. When you have recoveries from them, you get a write-back and that is what we have got, which has improved the net interest margin levels as well.

Also, it is important to note, in this quarter we have already moved to 120-days and we are speaking of these numbers after moving to 120-days, which is again a good thing to happen to us that even though we have moved to 120-days one year in advance, we had not to go through the pressure of NPL, we have registered improvements over that. As our coverage ratio has been maintained at 62%, which was a one year back kind of a situation. So with no sacrifice to any of our strong fundamental belief of how the business needs to be done, whether it is high provision needs to cover them or to ensure that no reschedulement to any contracts to be undertaken, not to increase the LTVs to chase business or to give up on the lending rates to get some better volumes, we have not given up on any of these fundamentals. In spite of all of that we have been able to register a decent performance after couple of quarters. If you recall, I had mentioned this in the third quarter that some of the delays that we see in the markets would come back to us in the fourth quarter especially when the crop is out, but the cash flows have not come in, they are almost always temporary shift from one quarter to another quarter and in some of the markets we have witnessed that happen. The six or seven states that we have always been talking about which builds pressure in our balance sheet are the seven states that we substantially focused on to bring about corrections, the states of Assam, Madhya Pradesh, Maharashtra, Karnataka, Kerala and Tamil Nadu. I think these states have performed well and we have seen correction in these states even higher than the overall corrections that one can see.

A few sentences on going forward: I think we will continue to remain focused on recovery as our prime objective, we will add branches, we will go more deeper into the market, we will be more closer to customer and we will continue to look at the regulatory requirement of moving towards 90-days, though it is 2018 is the requirement, but I think we will keep watching that requirement and we will try and see how do we build strength in our balance sheet. That is the way we will go forward.

We do see Commercial Vehicles segment registering growth and we are not a very significant player, but we do see an opportunity for us to grow there, we do see pre-owned vehicles as another opportunities piece for us, especially given a very large customer base whose contracts mature, who want to sell of their vehicles and therefore that could be a tied up opportunity for us and you would see us participate in that segment aggressively, we do see many-many OEMs getting aggressive towards rural market for their car growth and therefore we believe beyond Maruti we would also get benefit from many other car segments that will open up in this market. The two subsidiaries have also kept pace with growth.

As far as Rural Housing is concerned, they are at (+50%) growth in terms of their own disbursements and profits are concerned, they have also moved to Rs.3,000 crores plus asset base. Insurance again has registered a good growth and have registered 18% growth in terms of their profits are concerned. Both of these subsidiaries together is contributing to more than Rs.100 crores of PAT which is a significant contribution, given the overall Financial Services sector.

So net-net I would think that the performance has been pretty satisfactory as far as we are concerned; it has exactly moved in the direction that we wanted it to move and it has kind of given us what we were looking for in terms of our initiative and I think we have got it right for us to be able to maintain quality of asset going forward to ensure growth going forward with relationship and penetration being our strength of this balance sheet which will continue to be maintained.

To Summarize: I would think it is wrong to assume that many things would have got already fundamentally corrected, we may think it is not yet, but I think directionally things are moving right and if the monsoon turns out positive, then I think we will be in a much more comfortable position to speak about the whole story somewhere from the third quarter of the current year.

I think that is where I would leave it and open it up for questions from everyone.

Moderator: Thank you, sir. Ladies and Gentlemen, we will now begin the Question-and-Answer Session. We have a first question from Mahrukh Adajania from IDFC Securities. Please go ahead.

Mahrukh Adajania: Just had a couple of questions; firstly, what would be the repossessed vehicles during the quarter in terms of value and numbers and how do we compare 3Q ’16 and 4Q ‘15?

Ramesh Iyer: During the full year we repossessed close to about 24,000 vehicles and if you recall three quarters we have been saying we are slow on repossession and we did mention in the third quarter that in contracts which have high provision we will try and repossess. So, I think we would have repossessed in this quarter close to about 10,000 to 12,000 Vehicles. For the whole year, we would have repossessed 24,000 Vehicles and we are left with in stock about 5,000-6,000 Vehicles. In value, it will all vary from different Tractors to trucks to, everything, but one can safely assume 2.5 lakhs kind of a value.

Mahrukh Adajania: The other question was obviously, recoveries were much better than most expectations and while you have been guiding to very good recovery effort, you were kind of better even than your guidance, so what repossession the swing factor or did some conditions change because the draught situation has only worsened since then, expectations are good but on the ground, you yourself mentioned not much turnaround, so how are you able to have such good recoveries where nothing really change on the ground?

Ramesh Iyer: I think it is important to understand and you must begin from where we left in the third quarter and I had said that some states like Madhya Pradesh, etc., where crops were out, but cash flow had not come in. So, it is extremely important to understand delayed cash flow and I had said that even then you would see some of these flow into the fourth quarter, so that is one very clear reason. The other reason is by state, I can kind of go through but to quickly tell you if you look at just Tamil Nadu as an example, after the harvesting January, the paddy crop was good and paddy has got sold for cash flow to come in and Tamil Nadu which was a suffering state for us, has registered betterment in this quarter because of monsoon being good and paddy was out. Likewise, each state has got different reasons for the cash flow and I therefore saying some of these could be a transactional benefit of what has happened during this period and not necessarily a fundamental correction. In Kerala, we reached out to customers for a settlement who had built high overdues and we have negotiated with them for a closure and we have got the benefit of high provision assets either repossess sold or they have settled the contract. So, I think one should look at from different, states a different opportunity of window that opened and we being locally present got the benefit of it. If the monsoon turns out to be positive, that is where I said that things could start changing in the next harvest and beyond.

Mahrukh Adajania: Also, we talk again in 3Q the monsoon is good, once the monsoon is good after the harvest, does it mean that the NPLs start reducing or because of high indebtedness it takes time?

Ramesh Iyer: It is history; historically, if you see our records, we are talking of customers who own large assets like Tractors, etc., so they are not overly indebted to not able to service the loan. But yes, “As soon as the harvest is good, will they pay off the entire money in one month?” The answer is “Surely no”. But I think a good harvest would mean their ability to liquidate the overdues as well as service the loan over a period of time.

Mahrukh Adajania: So basically the outstandings can reduce but NPLs will reduce with a lag?

Ramesh Iyer: Which is what will happen typically, NPLs mean somebody is owing you four installments and they are still servicing the loans, they would not be able to pay you 5-6 installments in one single month and say I am out of it. But they will definitely pay you every month a little more than their normal installment and let us say from October to March if somebody pays you half installment extra every month, then in the six months window they will kind of pay off enough of their past dues.

Moderator: Thank you. The next question is from the line of Sunil Kumar from Birla Sunlife Insurance. Please go ahead.

Sunil Kumar: My question is getting to the recovery. Part of it you have already answered. So four quarters you mentioned there was an issue in some five-six cases which have obviously led to increase in NPAs, etc., now, like you mentioned you are hoping for improvement in those areas because of reductions or because of good monsoon. Now, Q4 reduction comes in NPA, one was the seasonal factor, how much was that because of recovery improving?

Ramesh Iyer: If you look at our collection efficiency in this quarter, it is 107%, and single month of March would have registered even much higher than that. But I again want to reiterate that some of these collections are nothing but shift from third to fourth quarter; there was a delay in collection in the third quarter because of the crop price not being liquidated and that cash flow would have come in, even though overall improvement of collection has been same, but it is also well supported by some of the delays of the third quarter coming into fourth quarter. But definitely, collections were on the higher side in the six or seven states and some of them have acted fast with the elections, etc., one would not want to really be in the cash transaction beyond certain point like crops have been sold in Tamil Nadu, so the money has come in, coal has moved in Assam, so the money has come in, good cash crop in Maharashtra both grapes and oranges, the money has come whereas Marathwada has not shown that kind of improvement. In every state there has been a different action. The good news is we were there in thick of action to be able to get benefit of it.

Sunil Kumar: But the sustainable recovery you expect that after monsoon **(Inaudible) 16:50**?

Ramesh Iyer: If the monsoon turns out to be average plus there is no reason to believe that sentiments would not turn positive.

Moderator: Thank you. The next question is from the line of Gaurav Agarwal from E&R Advisors. Please go ahead.

Gaurav Agarwal: Sir, just wanted to check the write-off number for the full year as well as for Q4? Also, GNPA on 150-days how it has moved over the quarters?

Ramesh Iyer: To your second question, I think 150-days to 120-days would have pushed up the gross NPA by about 50-60 basis points.

Gaurav Agarwal: In terms of quantum?

Ramesh Iyer: I think it is there in the 'Notes to Accounts'; about Rs.50-60 crores is the impact.

Gaurav Agarwal: So that Rs.250 crores, is that a number which has come because of shift from 135-days to 125-days. I wanted to know that at a 150-day basis comparable number from Q4…

Ramesh Iyer: Rs.20-30 crores would have been there because enough would have been recovered also from these contracts.

Gaurav Agarwal: So only Rs.30 crores kind of a number would be lying in this 135-125-days bracket?

Ramesh Iyer: That is right.

Management: To your first question, for the quarter there is Rs.314 crores which includes the termination and preclosure loss; full year is Rs.510 crores.

Gaurav Agarwal: Most of the write-offs repossessing happened in this quarter only, right?

Ramesh Iyer: We have been saying that, we have not resorted to repossession as an answer in the first three quarters and I provided contracts have been repossessed and therefore you will see simultaneous reduction in the provision even though write-offs are one number you will see them reduced in the provision because they would have had all coverage.

Management: In fact, the write-offs and losses have come down from 1.5% to 1.4%.

Gaurav Agarwal: One clarification; till Q3 the GNPA which were lying in this bracket; 150-135-days, so this was Rs.250 crores, it has come down to Rs.30 crores, right?

Management: What we spoke in December that 135-days we were having more or less similar number Rs.250 crores and even after migrating to 120-days, more or less the gross NPA value exposure is more or less similar Rs.250 crores.

Gaurav Agarwal: Rs.250 crores is the 30-day result from 135 to 120?

Management: Basically, of the composition 50% is the 10% bucket.

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

Hiren Dasani: I just wanted a couple of thoughts on your Housing Finance business. One data point, if there has been any capital infusion during the year? Two, what is the strategy going forward – are you also going a little bit into the higher ticket loans or will you continue to focus on the low ticket what you have been doing so?

Ramesh Iyer: I think for both the questions, the answer is yes, there has been capital infusion in Rural Housing about Rs.35-odd crores and NHB has also participated in that infusion, so the shareholders remain at the same level. As far as strategy is concerned, we are looking at about 20-25% of our business coming from semi-urban market and not everything from rural. So therefore there would be a little shift to the ticket size.

Hiren Dasani: In that light, your aspiration for growth for the asset what are the numbers you are looking over two-three years?

Ramesh Iyer: If you look at it, it is a low base. I think we will continue to maintain this 50% kind of growth story. We are not warning to kind of aggressively take this to 70-80 types just because we think we want to do semi-urban because we are a little late entrant, it will take time for us to build those partnerships, we will first start with Mahindra Lifespace low cost housing opportunity, and therefore it may take time to build that kind of a book but I think to maintain 50% kind of growth story is not something that worries us.

Hiren Dasani: What is your thought process on moving from 120 to 90 and if it were to be reported as of March '16, what would be the number?

Ramesh Iyer: We have two years virtually to move to 90 and somehow we believe that most of this book would either run off by then or if they are in NPA, we would have been normally providing for it. So, we may not want to do anything in a hurry but we will for sure review them as we did for 120-days and an appropriate action will be initiated. I think it would mean another 2% increase to the NPA will happen if you were to move 90-days today itself.

Hiren Dasani: Any thoughts on the disbursement to the AUM growth which you are looking at for the next year?

Ramesh Iyer: I think for the same volume if the discounts go off, we would register growth of 10% and anything after that would be the volume growth and then we do look at new OEMs like we are now participating with Renault, (the small car), we are looking at Nissan there (small car launch). So, I think each one of them are pushing into that market harder and therefore some new volumes will come from all these products. If monsoon turns out good, I think Tractor will come back to some kind of good growth story and that could be an added benefit to us and pre-owned vehicles where we have started moving our balance sheet upward will clearly means something to us. So our penetration strategy, deeper pockets, more villages covered, using existing customer as our ambassadors to generate more business from that market and tie up relationship with many more OEMs will remain our strategy for growth.

Moderator: Thank you. The next question is from the line of Shrey Loonker from Reliance Mutual Fund. Please go ahead.

Shrey Loonker: Given the monthly variation in collection efficiency, is there a way you can help us with a monthly average collection efficiency for this year and how does it compare with last year?

Ramesh Iyer: The lowest would have been somewhere around 87-88% types and the highest that we have seen is as we said in March about 110-111%, but for the year it would have been about 94% and last year also was almost the same except that in this year the first three quarters were much lower and the fourth quarter got many of the benefits of those shift.

Shrey Loonker: But in your experience in the past has it ever gone past 94% on a yearly basis?

Ramesh Iyer: If you do not hold me for 0.5%, 1% here or there, the answer is "no"

Shrey Loonker: You did mention that if the discounts go off, 10% growth can come through just because of the value shift. What is it that you are sensing in your discussions with OEMs – are you sensing any bit of willingness from the OEM side in your discussions to reduce the discounts?

Ramesh Iyer: This is purely my personal interactive understanding; the answer is "no." Because the product level competition is still very high. The discounts are not necessarily today an outcome of inventory level, I think discounts today are to some extent an outcome of competition at product level.

Shrey Loonker: The Four Wheeler market of rural, can you just offer your comments as to what is it growing at industry level assuming you retain a market share, the answer is growth rate will be for you as well?

Ramesh Iyer: Let us take Mahindra and Maruti as two representatives who do large numbers in rural. I think the growth rates are not really exciting numbers, they are either flat, some of the products have registered some degrowth and some new launches have triggered growth and therefore it is between 2-3% type, so it is not really something very-very high. So that is why I am saying we have maintained market share and some new product that got introduced, has got us some volume and pre-owned vehicles. That is why the growth is only about 8% types in disbursement.

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

Karthik Chellappa: Just two questions from my side; firstly, on the improvement in the collection efficiency, if we look at three of those states especially Assam, Kerala and TN which are actually going into elections, anecdotally, has there been any help or aid from the cash circulation in the economy because it seems that the cash circulation has actually been higher than normal? Related to that, what is your outlook or feel for the first half which is basically the pre-monsoon season as far as asset quality is concerned, do you think that you can probably keep the collection efficiency momentum going or should we continue to see some kind of volatility in the first half, there is some slippage and then subject to a good monsoon we see some improvement in the second half?

Ramesh Iyer: Let me start from the reverse; the second part is we definitely feel that this business will have volatility and this is not just this year or last two years, last 20-years if you see the first two quarters will always be elevated level of NPA and then it starts climbing down as harvest comes in, festival, wedding and then the second crop comes in January and things start happening. The first half is always very volatile because of extreme climatic conditions, be it summer, be it monsoon, and economic activities level remain muted. So it will be not right for us to say, "No, it will stabilize, it will not." Added to that, the conditions of the market has resulted into higher level of or higher degree of volatility. In as far as the states where improvements and some of the states that you mentioned are concerned, I would just state that there are few activities that we have witnessed which improved cash flows, like Tamil Nadu, after the Pongal, the harvest of paddy was good and they have been sold little faster than they would have normally been sold in the past and therefore the cash flows have come much quicker into this quarter, sometimes one waits for a better price, for a little longer and that could be a trigger of, can we get as much money as we can if we sell now. As far as Assam is concerned, again, to the extent that we have understood the reasons for cash flow, the coal that was already excavated in the last 8-10-months, got transported now with some approvals and therefore the cash flow moved into that market and that got us this money. So far as Kerala is concerned…we have said this in the past, we have triggered a very strong combination of legal and police help as well as our local team working together with a set of customers that we identified and then negotiated with them and some of them pre-closured, some of them surrendered the vehicles, some of them settled the loan. That is what has improved as far as Kerala is concerned. The reasons for this could be any and many but what we did are these two or three things and our local presence through branch network there is, I would think fundamentally, one of the strong reasons that when you see some improvement or opportunity in the market when cash comes in, our ability to reach out to customer with speed and get the benefit of it is what has resulted in better outcome and I think that will remain our strategy and strength.

Karthik Chellappa: One of the Tractor OEMs have actually highlighted that the south is seeing a strong recovery in Tractor growth; they are talking about 20% growth in the south for four straight months now including January. Is that something anecdotally that you see on the ground and does this lend confidence that probably things are improving at the ground level?

Ramesh Iyer: If you look at south, out of four states, Kerala does not buy Tractors, so leave them off, look at Tamil Nadu and Andhra; Tamil Nadu was a degrowing state and Andhra because of the infrastructure story, a lot of contracting segment is buying Tractor and not necessarily only the farm segment. So therefore definitely Andhra, the answer is yes, we have registered growth and we have got the benefit of it, similarly, in Tamil Nadu, at least in our experience after two years plus of Pongal, this is the first time that we saw Tractor growth return to that market. Good monsoon has what has triggered sentiments and people have reached out to buy Tractors and we did see improvement also in Tamil Nadu as far as Tractor is concerned, we still do not see Karnataka registering growth. So from South, Tamil Nadu and Andhra is definitely in the growth path and we have also seen that and have been benefited.

Karthik Chellappa: Just two data points; can I have the number of NPL customers this quarter?

Ramesh Iyer: As of 31st March it is about Rs.1,09,000 including 5,000 repossessed vehicles, but you must know this is on the basis of 120-days and therefore another 10,000-15,000 customers would have got added because of moving it from 150 to 120-days.

Karthik Chellappa: Sir, you have also mentioned in your footnote that the impact of the additional provision of moving to the 120-days about 555 million, although you have mentioned that this quarter the amount is insignificant, can you share the exact amount this quarter?

Ramesh Iyer: Insignificant would mean Rs.5-10 crores or maybe lower than that I think, because what would have happened is when we have already provided and if we have recovered enough from these cases, then the provision required to make would have been very-very insignificant. So you can virtually treat it as nil, if you so desire.

Moderator: Thank you. The next question is from the line of Deepak Agarwal from Axis Mutual Fund. Please go ahead.

Deepak Agarwal: I was speaking to some large private bank and what they are saying is because of the recent schemes by Government of India wherein the large part of the subsidies are getting credited to the bank accounts plus the crop insurance schemes, many of the rural customers have become far more bankable for these banks. So, in a way does this create issues for our growth if banks are looking at it in a far bigger way now?

Ramesh Iyer: Answer is yes, but we are not in those products which the banks are looking at from these customers, they are all crop loan and fertilizer loan, those kind of small loan customers, they are virtually personal loan type customers who otherwise took loan from money lenders or someone else. Because of these transactions now they become bankable for 20,000, 50,000, they are not tractor loan customers or buying customers, bringing 2-2.5 lakhs as margin money. I do not think yet this is the new competition arising because they have become bankable for small loans.

Moderator: Thank you. The next question is from the line of Jagdish Balu from IFMR Capital. Please go ahead.

Jagdish Balu: Just one question on your securitization policy. So what percentage is off balance sheet and how much do you do through DA and how much is through PTC?

Management: Presently, we are having around 6% of our portfolio off balance sheet and almost 80% is through securitization route. So direct assignment route, post the new guidelines have been reduced. Presently, most of our deals we are doing through securitization route.

Moderator: Thank you. The next question is from the line of Sarvesh Gupta from Trivantage Capital. Please go ahead.

Sarvesh Gupta: Sir, I wanted to understand the movement in revenue and finance cost. So for this quarter your revenues have gone up by 15% while finance cost has been flat. So can you explain that? B) What is the percentage of floating loans in your portfolio if any?

Management: Mainly that is revenue growth to a large extent in the last quarter has come out because the disbursement growth is not so much because we explained that is in high single digit, it is due to income reversal. What is happening is in the fourth quarter because we have collected large NPA, the income which was not recognized on those contracts have been recognized now. It is not out of price disbursement the revenue growth, so there is no corresponding borrowing, hence interest costs have not gone up and income has gone up. Second, interest cost also slightly come down in a very marginal way for the incremental loan. So these are the two reasons why interest has not gone up as much as the revenue.

Sarvesh Gupta: Sir, what is the percentage of floating loans in your portfolio from the asset side?

Management: Virtually hardly any.

Sarvesh Gupta: So sir, going forward can we expect a major movement in NIIs because your cost of borrowing is expected to keep on falling as the repo rates fall?

Ramesh Iyer: I think major maybe very **(Inaudible) 37:22** but yes, definitely to the extent the borrowing cost comes down, we can confirm that we may not necessarily have to pass it to the customer immediately.

Sarvesh Gupta: So given the competition, do you think that there is very less possibility of passing on these benefits to the customer?

Ramesh Iyer: I must tell you very clearly, that less growth of asset or any kind of margin pressure are not out of competition, the less growth of asset is an outcome of low volume in that market and the margins as you look at it is an outcome of product mix change and in the past due to income reversals. So I do not think in the last one year or maybe even 18-months we have to ever resort to a big drop in lending rates to get some business.

Moderator: Thank you. The next question is from the line of Jinay Gala from Florintree. Please go ahead.

Jinay Gala: Sir, can I know the amount of income reversal in Q4?

Management: Rs.83 crores writeback because of the NPA recovery

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

Adarsh: Sir, wanted to check that, just take a more like 2-3-year view in terms of growth, what do you see because when you go back to the previous time before these two monsoon disappointments we have grown fairly fast but I think at that time, the size, penetration would have been a lot lower. So I am just trying to get a sense of what do you think would be a realistic expectation?

Ramesh Iyer: Let us look at two things; one is currently rural has been degrowing from an OEM perspective, even if they reach a normal level, they go up from degrowth, they have not yet registering growth but at least they come to a zero level, which is if Tractor is degrowing at 8-10%, they become normal, if cars are degrowing at some percentage, they become normal and if the discounts which are currently anywhere between 8-12% depending on different products. Just these two things happen, if we maintain our market share, I think we can register a growth of anywhere between 10-12-13% types without doing anything. Then comes what are the new products that get launched in that market, is it Nissan, is it Renault, is it Toyota, are they penetrating that market and is there a volume coming in, I think we would be an early beneficiary of that. Then the third aspect of how quickly do we get into pre-owned vehicle growth story and how quickly we get into Commercial Vehicles/ Small Construction Equipment. If just these three or four things, we do, I think 15-16% type growth and I am not forecasting that our Commercial Vehicles Construction Equipment can be a big market share for us, we are a very late entrant and rural may not be a large market for these products. So about 3-5% market share, if we focus, we can reach that 15-17% kind of a growth story. Then comes volume increase because the market conditions improving and if there are price increases happening when the market conditions improve, which is the time we will possibly go back to our old type growth of 20-25%. So please, sequentially only look at three steps that first, the degrowth stops and they at least become flat, the discounts stops, we get into new products and pre-owned vehicles and then the benefit of increased or improved volumes and discounts vanishing. So if you look at these three or four steps to get back to the 20-25% growth, it is possible even when the size is large because then we are talking of a large pool of products and the deeper penetration also by OEMs.

Adarsh: Just going to 2010 again, would you say how much would have your penetration of financing the rural segment change since then because I am just trying to understand whether can your market share there increase or now it will be more stagnant there?

Ramesh Iyer: If you are going to stay put where you are it would not increase because the volumes itself would not justify increased market share. But if that is the strength of our penetration that is we go more deeper, we are today in 2,60,000 villages only and we have an internalized strategy for adding another 100,000 villages in the next 18-months plus. So, in those 100,000 villages I am not there, I will at least get one vehicle, two vehicles to finance if not more even if everybody is there. That is how we will have to grow. The second is our existing 4 million customers who will mature over a period of next two or three years when they try to sell their vehicles, they will buy a new vehicle and we will also get financing of the vehicle that they sell which is the story of the pre-owned vehicles comes into play in a big way. So existing customer has a base and using them for generating more business as well as generating business for them itself is one story. Deeper penetration into more villages is the other growth story. In existing villages of our taking the current OEM who have not reached those villages is the third story.

Adarsh: We have a pretty strong growth in OPEX and we are more closer to like 2.9% on OPEX. How do you see that number – will we remain here and because of growth can this number go down or?

Ramesh Iyer: Go down, has a little less chance because the common expenses are only zonal and head office expenses, most of it otherwise at regional branch level is a variable to volume and therefore we have always said anywhere from 2.8-2.9 to 3.15, 3.2 types will be the range with which we will be.

Adarsh: You are probably operating at the lower end of that band now?

Ramesh Iyer: Should think so, maybe another 10 basis points here or there but it is not significant to speak about.

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

Rahul Ranade: I was looking at the employee cost, quarter-over-quarter seems to have increased. Is that more a function of collection incentives being paid?

Ramesh Iyer: It could be plus some employees we have added; I think about 300-odd employees would have come somewhere in December to sustain this.

Management: The new bonus act has been amended where we have added about Rs.11 crores, this is the one-time this quarter, that is one thing which was not there, this will not be repeated because we will have to restructure our complete compensation, etc., so that work has to go on, but nevertheless there is a stay in the court for this payment, but we have provided a matter of abundant caution, no P&L, but then payment will be subject to court vacating the stay.

Moderator: Thank you. The next question is from the line of Manish Ostwal from Nirmal Bang Securities. Please go ahead.

Manish Ostwal: In last call we commented that the semi-urban and rural markets is yet to recover. Any kind of significant improvement in the market? You hinted some signals for that. So, like reduction in OEM discount or other things, from that quarter to this quarter, what are the improvement in those signals, could you throw some light on that?

Ramesh Iyer: As I just said, I do not think we have seen any significant improvement in the discounts vanishing from the market and it is not necessarily because inventory levels are high, no, it is also because the product competition levels are high. So therefore, the discounts do continue to be there in this market, they have not yet vanished.

Manish Ostwal: This provision increase because of NPA hedging you said that time even the asset quality stabilize at this level, then the provision to P&L will increase on the hedging of the portfolio. So how do you see that thing to pan out in the next couple of quarters?

Ramesh Iyer: As we just said, normally, first and second quarters are low economic activity quarters, monsoon will settle, but it is historic, nothing to do just with this quarter, so you would see some elevation that will happen, but if the monsoon turns out to be positive and if the harvest therefore turns out good, one would also see corrections happening from third and fourth quarters types.

Manish Ostwal: This MSME space opportunity, what size we are looking in terms of building a loan book in the next couple of years?

Ramesh Iyer: I think we have said in a 5-year kind of a space, we would like to get to a book size of about Rs.10,000-12,000 crores. But we would not very aggressive in that of going and lending SME to an unknown segment or an industry. We have chosen Auto, Farm, Engineering as the three segments where we have the players like Mahindra, Tata, Maruti, with whom we have relationships, are participating and therefore, we will try and understand and control the cash flows through the OEMs in some form with whom we have a sales relationship.

Moderator: Thank you. The next question is from the line of Pankaj Agarwal from Ambit Capital. Please go ahead.

Pankaj Agarwal: Sir, if I look at your disbursement numbers, it seems like there is a sharp drop between third quarter to fourth quarter if I am reading the numbers right. The reason I am saying that if I look at the third quarter numbers, the YoY growth was closer to around 18-19%, but if I am looking at the fourth quarter it is looking like there is a degrowth in disbursements.

Ramesh Iyer: That is because last year's fourth quarter numbers were also good but third quarter was a very active festive season and every OEM was under pressure in the first two quarters to really program themselves to sell as much more as they can. So if you look at OEM numbers like Maruti, etc., everybody was on a good double-digit growth story.

Pankaj Agarwal: So you are saying third quarter was kind of one-off?

Ramesh Iyer: Look at the fourth quarter, all the OEMs have also started talking of flat or minimal growth of 2, 3%.

Management: Plus, this time fourth quarter, that decent band, everything came and budget did not have any fireworks, in fact, budget down by 5% extra tax they have brought in. So this time the fourth quarter normally supposedly that budget will be there but unfortunately this time budget is made.

Pankaj Agarwal: My second question was around you are talking about monsoon but do you think the increased government spend will also play a role in rural?

Ramesh Iyer: It should, in the budget they have talked about roads to rural, they have talked about irrigation projects, etc., definitely these all will have roles to play and I think we are also seeing at the state government levels actions in some of the states where there are projects already commenced, today, every little action will lead to some positivity.

Pankaj Agarwal: It has to be a combination of both, right?

Ramesh Iyer: Yes, of course.

Pankaj Agarwal: In terms of your funding cost, blended cost of funds and incremental cost of funds at this point of time?

Management: Presently, our weighted average cost of fund is around 9.5%.

Pankaj Agarwal: Incrementally, at what rate you are?

Management: Different products will have different funding cost, but by and large if you see bond market will be in the band of 8.5-8.7 and bank market is based on base rate, so effectively most of the bank base rate is in the band of 9.3 to 9.5. So that is where the blended mix you will have to derive.

Pankaj Agarwal: Addressing for the rate cycle, how the pricing will be having in different products, is there increased competition or pricing is still good?

Ramesh Iyer: At least at this stage where dealers and OEMs are offering enough, there is no pressure on the pricing at least last about 1-1.5-years, there has been no demand for price to come down. Yes, there could be programs that would be run supported by OEM to bring down price but demanded by the OEMs non-participative price reduction is not there.

Moderator: Thank you. The next question is from the line of Amit Premchandani from UTI Mutual Fund. Please go ahead.

Amit Premchandani: In terms of repossession related activity, can you guide us it will continue next year or we may see a pause now and if it is going to continue can we expect further reduction in NPL because of higher repossession?

Ramesh Iyer: If you look at our NPL, there is a movement of cash being paid in 65% of our current NPL account. Our effort will always be to make sure that these accounts keep paying and come out of it. But as we see that suppose the movement stops and we have adequately recovered from these accounts and the losses likely are much lower, that is one level of activity where therefore we would try and repossess. The other would be we have seen at least in settlement of about 25% of the cases which were 12 months plus in terms of provisions and those would be definitely repossession or negotiated settlement terminations, etc., So, I think repossession as an activity even in the last 12-months we never stopped. Yes, we choose to go slow in some markets, we choose to go slow in some products depending on the circumstances of the customer and their pay ability and otherwise. Otherwise, if you see the whole year, we have repossessed something like 24,000 vehicles and almost 50% of it would have been repossessed in the last quarter, after we have sufficiently either recovered or provided and therefore gone in for negotiation and settlement. It has to be a very strategic approach and it cannot be a policy-driven approach to say repossess all above 3-months, all above 4-months.

Amit Premchandani: So sir in this year it was backended. In the next year will it be backended or will the same pace continue that we have seen in the March quarter?

Ramesh Iyer: I think we will kind of wait and see how the monsoon pan out and how the actions on the ground level for infrastructure pans out. If these two becomes positive, I think repossession will become aggressive from our side on high defaulting customers because if they earn and do not pay we do not want to give them more of that. But if one of the two is hit in some markets, we will go slow in this market and try and recover as much as possible. So, I think I am reclarifying that repossession will be a good support for recovery but that will not be policy-driven but it will be strategically-driven.

Moderator: Thank you. Ladies and Gentlemen, due to time constraints that was the last question. I would now like to hand the floor back to Mr. Karan Singh of JM Financial. Over to you, sir.

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.

Moderator: Thank you, sir. Ladies and Gentlemen, on behalf of JM Financial that concludes this conference. Thank you for joining us. You may now disconnect your lines.