



“Mahindra Finance Q4 FY2017 Earnings Conference
Call”

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Moderator: Ladies and gentlemen good day and welcome to the Mahindra Finance Q4 FY2017 earnings conference call hosted by IDFC 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 the questions after the presentation concludes. Should you need assistance during the conference call please signal for 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 Mahrukh Adajania from IDFC Securities. Thank you and over to you Madam!

Mahrukh Adajania: Hello everyone. We are happy to host the Q4 earnings call of M&M Financial Services. We thank management for the opportunity. We welcome the management team of MMFS and all the participants. From the management team we have with us today Mr. Ramesh Iyer – Vice Chairman and MD, Mr. V. Ravi – ED and CFO, Mr. Dinesh Prajapati –SVP, Mr. Vishal Agarwal – Senior Manager. I hand over the floor to Ramesh Sir now for his opening remarks and his comments on the results. Thank you and over to you Sir!

Ramesh Iyer: Good afternoon. Thank you everyone for joining this call. Fundamentally, let me tell you that we feel a little happier from what we have seen in this quarter, as our overall performance, while it might have missed the profit expectations, but we will kind of explain to you some of the inputs which have gone into the profits but more importantly on the fundamental side I think one very important thing to understand is we came out of a very very difficult quarter after the demonetisation and we had November – December really not in control of what it should be and the flow of that in rural took even longer than anywhere else it would have taken and therefore one should expect that the November – December impact continued till January at the rural market.

It is also from a very important event of excellent deal, good crop but unfortunately the cash flows could not be achieved in the month of November - December and in January the government mandis did start buying the crop and the flow started happening. February was a better inflow and March of course was a much better inflow.

We therefore very strongly believe that the sentiments have turned positive in rural after the initial impact of the demonetisation. It is also important to look at by state, certain events and happenings which along with a better farm cash flow helps improve the overall cash flow and if some of you recall in the past we have been talking about certain states like Maharashtra, MP, UP, Rajasthan, Karnataka, Tamil Nadu, which have been going through difficult times in the last 18 months and we did see improvements in some of the states over a period of time but as we close March most of these states have registered a good recovery from our perspective barring Karnataka, which continues to have continuing pressure but most of the states seem to be addressing the issues and at the state levels we have seen improvements at certain infrastructure cash flows and the farm cash flow together is one outcome the reason why we believe that the recovery are much better.

Just to give you some quick understanding of numbers, I think in this quarter, we have had an overall collection efficiency, which was superior to the fourth quarter of last year by 2% but just March-March it was much higher than even the last March number. That is one.

Two, we have been resisting repossessions for quite sometime in view of the market conditions and we were uncomfortable repossessing vehicles because we felt that resale price or the immediate demand even for such repossessed vehicles could be low but as we reach the fourth quarter, we did realize that the demand is returning to some element of normalcy back and we did resort to repossession, but focusing on NPA accounts so that we can correct even the fundamentals going forward and we were happy to announce that most of the repossessions that got done during this period were all almost around the repossessed assets and even as of today as we speak we have about 12000 vehicles which were in-stock to be disposed of in the following quarters but they are all from NPA accounts.

So if you look at our gross and net NPA improvement I think it is an outcome of two or three things, one definitely a much better collection that has happened during this period. I think second, is the flow forward of the last 12 to 15 months business has been much lower and therefore at the first bucket of NPA is much much lower and third, the repossession of these vehicles from the NPA bucket which helps us either recover or settle or dispose-off these vehicles, so if these 12000 vehicles and its value was to be adjusted to our gross NPA number from a 9% gross that we have reported it actually comes down to something like a 8.1 and the net that we have reported of 3.6 comes down to 3.2.

I think that is the base number from which we have beginning the New Year. That gives us lot of confidence as we speak to say that at least the fundamental pressure on the NPA in some form has been addressed and it is an outcome of these sentiments and cash flows at the market level. Same is true when it comes to business. I think in this quarter we have registered close to 20%-22% growth whereas on an overall basis the growth would be about 18%-19%. So I think the growth does seem to be coming back to some normalcy and the shape and the growth comes from also many, many cars that are entering these markets and we get benefit of the market share in most of this LMV segments and tractor has been done fairly well during this period and we have kind of gained a small market share but overall volumes have helped improve that.

The auto sector vehicles that is our auto vehicles have also done well where we have gained market share in the personal segment which has helped us maintain certain growth but our focus continues to remain in financing of pre-owned vehicle whether it is tractor, whether it is UV or whether it is cars, I think that is the other segment, which is registering growth for us and therefore the overall AUM growth has been maintained.

I think as we speak forward looking in terms of what else that can be done or what else we propose to do going forward, I think the focus is very clear that gain growth from hereon and ensure that without a much cost incurred, I think we have adequately resourced in terms of people, in terms of branch, in terms of reach and relationship, I think for the same cost that is currently in the book, we can actually improve our growth or productivity and we do expect that

to going to a 25% growth, we were not really need to add further cost. I think that is the time the cost efficiencies actually is going to kick in with the productivity going up and also I think if you look at our provisions for this quarter which looks little higher, it has two elements to it, one of course, last year in the first quarter we had taken certain credit for 100% provided item by valuing the underlying collateral. Our experience of the year, though we lost about six seven months not aiding to act will demonetisation kicking in November but just one January-March quarter had reflected a recovery from those contracts, at least about 10%-12% contracts have been resolved.

We believe that that is the trend that we need to take it forward to that extent we have left the credit in the book, which is about 80 Crores but we have reversed the balance so the PAT number that you see in this quarter has an impact arising out of the credits taken in some previous quarter, which have been reversed. So fundamentally we have made that correction as well. I think the focus will remain to focus on these kind of past provisions and we have separate verticals focusing on them and they will kick in to say what are the efficiencies there.

I think the other aspect one may want to look at is that in the third quarter, we had a credit from dispensation benefit of RBI and that has been fully addressed in this quarter. So if you look at this quarter has the correction from the first quarter credit it has a correction from the Q3 demonetisation credit and it has an impact of high NPA assets, which has been repossessed and sold and therefore the disposal losses. If one was to look at these three as not necessarily a repetitive event of going forward, I think one may want to look at the NPA provision numbers from a very different pedestal to where it is today and which is where it becomes important to understand that with the gross NPA at after the repossessed vehicle considered if it is at 8.1 or so and the net asset 3.2 with 62% cover and the forward flow substantially arrested, because if you look at the forward flow it has substantially arrested, I think one more data which may be interest you is, the total number of account which are in NPL as of March 31, is about 1,38,000 contracts are in NPA of which about 40,000 contracts have registered moment in this contract, even though they are in NPA they are not been fully paid for therefore they continue to remain in NPA.

So if we were to consider this 40-odd thousand contract the efforts are on and the cash flow comes in and they come out of NPA, then we are talking off a new low number in terms of the overall NPA is concerned. So I think it gives us confidence as we speak to you when we say, what do we see going forward, I think we clearly see that the sentiments remain positive. Of course one expects that this year monsoon does end up at least average plus if not substantially a good monsoon and we do not expect any new shocks in the system during this year. If those two considered, I think almost all OEMs are talking off wanting to grow in rural market we should get the benefit, pre-owned vehicle should register some benefit and the collection efficiencies if maintained on the basis of the sentiment that we see I think we once more believe that we can start improving on our result as we go along.

If you look at our ROA is currently at just 1% as we speak and that is the result of the high provision in the book but if we were to normalize it for extra provisions those have been made and if they are not repetitive in nature and if the net NPA remains at the level that we are, I think

there is a clear efficiency of at least 1% plus which can come in through NPA controls and with revenue growth as the volume increases and with rationalization of cost with the increased volumes we can save another 1% coming from the over a period of time.

I think these two are going to be our focus as we go along and if that is done well I think to get back to a return of 15% -16% is what we think we are going to focus on for the year in hand with us. But net-net I would think if you look at this 12 months and one must always consider this 12 months performance is an outcome of ten months effort because November-December virtually was a washout from a rural perspective, so the outcome is the 12-month effort and we do not expect many of these activities negatively, which impacted our balance sheet during this year or any of repetitive nature in the next year. So this was to be normalized for these two, our confidence and belief is that we seem to be kind of turning the corner and getting towards a more positive future than what we were explaining the last at least 18 months.

The subsidiaries have done well. The rural housing has maintained a growth of 30%. The book is about 5000 Crores. They had a PBT of 125 Crores and a PAT of about 82-83 Crores. The MIBL, that is our insurance broking had a PAT of about 53-odd Crores profit and I think they also have registered a 17% growth and their premium collections have been high and their penetration has been good. So I think even the subsidiaries are, I think adequately contributing to the growth of this company and if they are also confident maintaining this, along with our growth that we are forecasting from the market perspective, I think we seem to be turning the corner from where we are to where we want to move.

I think with these initial comments, I think I will open it up for the Q&A and then we kind of answer them as it comes along. Thank you so much.

Moderator:

Thank you very much. We will now begin the question and answer session. We have the first question from the line of Jayashree Ram from Karvy Stock Broking. Please go ahead.

Jayashree Ram:

Good evening Sir. Thank you very much for taking my questions. My first question is based on I have read the previous concalls, where we were talking about you wanting to concentrate more on the pre-owned vehicles. So can you tell me what would be the interest rate for such vehicles and what would be the LTV for that?

Ramesh Iyer:

Let me first explain to you the LTV concept. We would normally use let us say a Mahindra First Choice Wheels or we will use a True Value kind of an outlet which are more institutional outlet or the business will come from C-to-C which is our existing customer wanting to sell his vehicle to someone else in the same vicinity or area and typically these vehicles are valued on the basis of, of course the age of the vehicle, number of years as well as the application of the product. So if you look at Mahindra First Choice have developed a blue book equivalent, which values this vehicle. We will look at that value as a backup value and we will consider about 60%-70% value of that vehicle for considering a refinancing. If it is from a customer to customer, I think fairly we know a judgment on that vehicle of how it has been used and what and what not, we assess the vehicle value and we go up to 50%-55% or may be 60%. The period of loan, which is another

important feature here is that we look at the overall life of this vehicle, suppose it is seven years or six years and if it has already lived a life of four years we will not give a loan for more than two years.

So if it is a five-year life vehicle, if three years it is already lived then they get a loan of about 18 months to two years. The rate range typically are anywhere between 17% and 18% going up to 21%-22% depending upon different model but the lowest, lowest would ever be about 16%-17% which will be a mid-size car or a very personal segment being bought by certain professionals at local level but most of the other vehicles like Bolero or a Pickup or a tractor or these kind of vehicles or a small car like Alto etc., will always small in the range anywhere between 19% to 20%-21%.

Jayashree Ram: So how do you see the demand picking up in this segment and do you think that you will get a good traction in terms of financing for this segment?

Ramesh Iyer: One of course we are not very significant players for us to totally worry about what is the total transaction size or whatever. The advantage that we have is that we are not over concentrated on any product or any geography and our drive is to see whether it can be about 12% to 15% of our book as we go along and that is clearly visible and possible when we say with multiple range of vehicle. If we were to only focus on let us say few states and few products I think that will be hugely challenging but I think we have opened our own operations wherever we have our branches, we have a team operating from there to be able to do this business and therefore to reach a 12%-15% of a book size through pre-owned vehicle seems to be possible but at the market place I must tell you that the demand for pre-owned vehicle has not shown a substantial growth, while they kind of remained in a range bound for a simple reason that these vehicles many time are also cash bought etc., so even the supply side is little weak because if someone wants to sell a vehicle, is not selling it so easily because he may not want to accept the cheque and therefore there are some delays that is visible, but that is slowly changing with all the new digital interventions etc., and I think people are slowly accepting the fact that they may have to sell products in cheque basis rather than cash, so it is more a supply side issue rather than a demand side issue.

Jayashree Ram: Sir, regarding your NPA contracts, you said about, roughly, 1.38 lakhs are NPA contracts. Among those, what is the percentage between Mahindra and non-Mahindra vehicles, among that?

Ramesh Iyer: I will give you a guess number but Dinesh or someone will exactly check and may be let you know. My guess should be they will be pretty equal 50-50 types. It will not be very lopsided towards all Mahindra or absolutely no Mahindra. Because the book is 45% Mahindra, 55% non-Mahindra and our NPAs are not product NPAs, our NPAs are geography NPAs. And therefore, I am not expecting that the range will be too different where Mahindra is only 10% and 90% is others or the reverse but if your question is to address an answer, we have done no favour to Mahindra by doing any wrong financing and therefore I want to assure you that do not have the fear whether is this all wrong appraisal, wrong lending and therefore are this NPA very high for Mahindra versus non-Mahindra. I want to clarify to you, it is not so.

- Jayashree Ram:** And you said there is geography NPA. So can you give me some breakup on that aspect?
- Ramesh Iyer:** As I said, if you look at we have been always talking about six or seven states in the past Maharashtra, MP, UP, Karnataka, Tamil Nadu these are the five or six states, West Bengal, we have been talking about it almost all time in the past. We do tend to now except Karnataka and to some extent I would think Tamil Nadu because of whatever reasons that we know politically or otherwise, most of the other states have registered substantial improvement over where they were to where they are.
- Jayashree Ram:** So if you look at 1.38 lakhs of NPAs, and most of which constitute Karnataka and Tamil Nadu regions, is that right?
- Ramesh Iyer:** No it is not right. It has contributed from all states but these two states will have higher number but also we must give chance to others to ask questions, please.
- Jayashree Ram:** Sir, actually I am looking at this Company the first time. So I would like to talk to you offline also. So who is the right person to contact?
- Ramesh Iyer:** Dinesh Prajapati is the right person.
- Jayashree Ram:** I will do that. Thank you very much.
- Moderator:** Thank you. We take the next question from Nilesh Parekh from Edelweiss Securities. Please go ahead.
- Kunal Shah:** Sir just wanted to get the sense in terms of this RBI dispensation, which we have used of Rs.670-odd Crores last quarter. So how has been the performance out there, how much have we recovered and how much has actually slipped into NPL during the quarter?
- Ramesh Iyer:** I think the credit that we took were 150-odd Crores and against 670 Crores two-third is already recovered out of that but just to give you little more sense on numbers, this was constituting some 32000 contract of which 22000 contracts have been fully resolved, 4000 contracts have partly resolved but they continue to remain in NPA and another 4000 contracts where there were no movements. So technically out of 32000 about 4000 contracts which is 12% remains to be kind of resolved fully.
- Kunal Shah:** Okay otherwise 24000 are completely resolved?
- Ramesh Iyer:** That is right.
- Kunal Shah:** Okay and in terms of the absolute number like one third of this would have split into NPL?
- Ramesh Iyer:** Yes.

- Kunal Shah:** And this quarter there has been no - in terms of the NPL transitioning, there has been no momentum around it?
- Ramesh Iyer:** I did not get your question, meaning what?
- Kunal Shah:** No, no, say, NPL transitioning towards 90 days, so?
- Ramesh Iyer:** No, no. Transitioning effect is not here.
- Kunal Shah:** It is not yet over there?
- Ramesh Iyer:** No.
- Kunal Shah:** Okay and then in terms of overall housing loan what is the home loan book?
- Ramesh Iyer:** About 5000 Crores, about 4800 Crores, so close to 5000 Crores.
- Kunal Shah:** And I want to get a sense in terms of this entire BS-IV vehicles, okay, so there is?
- Ramesh Iyer:** I think can we take that offline because that is very technical and it will take very long time.
- Kunal Shah:** Just want to get the sense, whether we have participated during this sale and maybe the pricing of the vehicles at the time of repossession, has that got impacted overall?
- Ramesh Iyer:** No, impact on repossession is too premature to make any comment but our participation was not there because I think the dealers with the OEMs did whatever they were to do I think most of the OEMs have confirmed to them that they will pick up the loss if they cannot sell this vehicle etc. so we will get participation rights only when they start retailing this vehicles or if they have already retailed the vehicle and the retailing has been done on the basis of the new price if it is a discounted price.
- Kunal Shah:** Okay so that would happen in Q1 ideally?
- Ramesh Iyer:** What would happen in Q1?
- Kunal Shah:** So, once the retailing happens, if we get a chance to participate?
- Ramesh Iyer:** Yes, I mean if they have not done we will get it if they have already done it would have gone in March itself.
- Kunal Shah:** No, Sir, overall, when you look at the disbursements, in fact that traction has been pretty good, but there has been some kind of a discounting which has been going on all through March. So I think maybe in terms of - when you look at it in terms of the number of vehicles, which would have got financed, I think the traction should have been much better in Q4?

- Ramesh Iyer:** But in our case since it is a mix of many products like Maruti and everyone else I think the overall discounting benefits may be 8% - 10% kind of a situation so if we have grown disbursements by 23%, I think volume will also be just about the same will not be substantially higher because the, in a commercial kind of a vehicle, which had a 20%-25% kind of a discount. Because in BS-III impact on car was closed to zero there was no impact per se in a big way.
- Kunal Shah:** Thank you Sir.
- Moderator:** Thank you. We take the next question from the line of Manish Ostwal from Nirmal Bang Securities. Please go ahead.
- Manish Ostwal:** My question on this lower cost of fund benefit reflective on margins, why it is not reflecting the entire FY2017 numbers?
- Ramesh Iyer:** The benefit has just about come and the disbursements have also happened now. Possibly you will see some of this going forward plus we do not get the benefit in 100% of our book only to the extent either fresh borrowing or to the extent of replaced borrowing. So if there is a half a percent benefit effectively we may get 20 basis point benefit types. But in any case they will come to us only in the following few months I mean if it has just about happened.
- Manish Ostwal:** And secondly Sir, you have talked about two levers to ROA; one is NPA control and second is cost control. So, especially on the cost control side, you said 1% improvement could be possible. So what are the levers to that extent, digitalization or recovery thing?
- Ramesh Iyer:** Let me kind of first correct you. 1% improvement in the NPA side and not on the cost side because NPA has two elements one is going forward we may not have to provide as high as we are doing. Two, we can get benefit of what we have already provided when we recover so therefore NPA reduction would be much higher. The second I said is the productivity improvement of revenue generation out of the same cost and then the cost reduction by itself may possibly be 25 basis point or so because there are not so many heads for us in terms of cost is concerned it is people cost and therefore their related variable cost like travelling, conveyance and all those kinds of stuff.
- Manish Ostwal:** And last, one data point; of this total provisioning during this quarter, what is the one-off aggregate number of provision, because there is some confusion I have. So, could you repeat that thing? That is all.
- Ramesh Iyer:** I think it is about 115 Crores or something like that, which is towards the benefit that was taken in the first quarter of last year when 100% provided assets we took a credit for the underlying collateral over a period of time we have reviewed our experience and we have already left back about 80 Crores still remaining to the adjusted which we believe will come through recovery or settlement and to that extent therefore what was additional about 115 Crores or so, has been fully written off.

- Manish Ostwal:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Viral Shah from Credit Suisse. Please go ahead.
- Sunil Tirumalai:** Good evening Sir. Sunil Tirumalai from Credit Suisse. We just got the presentations. So you have given this new information now on slide 38 on count of NPA and repossessed stock. Can you please explain what is the percentage of live cases under NPA in that?
- Ramesh Iyer:** No, live cases means the number of contracts that we have and the NPA contract as a percentage to that so we have I think it is about 19-odd Lakh live cases and 138000 NPA cases so if you were to look at it that way.
- Sunil Tirumalai:** So the average loan per NPA account is smaller than the average loan per account on the overall portfolio?
- Ramesh Iyer:** Yes on the value base.
- Sunil Tirumalai:** And the growth of 23%, the disbursement value of asset financed growth that you have seen about 23% for the quarter and that's a number that's been accelerating. So, you would agree that we have not seen a rapid improvement in asset quality? So what is giving the confidence on continuing with the strong growth?
- Ramesh Iyer:** If you look at the overall asset quality you may not get that view but if you look at the number of new account becoming NPA that has substantially come down so which is an outcome of forward flow of NPA has definitely getting arrested but the once who are already in NPA are not able to earn enough to be able to pay at a time four or five installments to come out of it and therefore you must also look at and I have said in my initial comments that out of 1,38,000 contract there are about 40-odd thousand contract where even in this quarter the recovery has happened but they have not paid enough to come out of NPA.
- Sunil Tirumalai:** And Sir, lastly just a suggestion if -- I mean, the amount of disclosure is really good, but we get really little time to go through it before the call. I think we're actually okay if the call is happening the following day the after the Board meeting and that's a fairly well established practice. Just a suggestion Sir, I mean, so that we will have meaningful time to go through the disclosures.
- Ramesh Iyer:** Sure we will also give you some offline time if required more clarification.
- Sunil Tirumalai:** Thank you.
- Moderator:** The next question is from the line of Ankit Ladhani from UBS Securities. Please go ahead.
- Ishank:** This is Ishank from UBS. Just on asset quality, so we have discussed that new account that is coming into NPA has declined in this quarter. But can we share some numbers on what is the trend this quarter in Q4, versus historical numbers, or in Q3, this after adjusting for accounts

which benefited from RBI dispensation in Q3 and that were classified into NPA in this quarter, so can you share the numbers?

Ramesh Iyer: So Dinesh will possibly reach out or you can reach out him but two numbers that I can remember I will share with you. As I told you dispensation numbers were 32000 contracts of which 24 has been fully resolved and 4000 has been partially resolved and 4000 therefore remains to be yet resolved. So that is one number. The other is out of 138000 contract about 40000-odd contracts were also in NPA as of March 2016. So effectively one can say about 80000-odd contracts are new NPAs of this year, which could be from a previous business, or it could be from a current year's business. And from a current year's business the number that flown into NPA is substantially lower and which is why I made that comment that forward flow is not as high as it used to be in the past, but to your other question of, between last year's March ending versus or December ending versus March ending what was number etc. I think we do not have it ready per se but I think if you have Dinesh's number, you reach out him he will definitely give you the one additional input that you are looking for.

Ishank: And our target ROEs of 15%, 16% for FY2018 and target gross NPL reduction of 1%, now, next year we will also move to 90 days, right? So when we are saying this 1% NPL reduction, have we factored in the provisioning required or let us say incremental NPL that will come from?

Ramesh Iyer: No. As of today, we are not talking of 90 days so as it moves we will speak about it more clearly but you must understand this 1% reduction that I am talking off is from two ends. One, that we may not be required to provide NPA as high as we were required to provide in the past with conditions changing and two, when conditions change whatever that we have provided for also has an ability to be recovered. So if you get half-a-percent benefit from what is provided for and half-a-percent less to be what is required to be provided that is what adds to the additional one percent.

Ishank: And just two last question on housing finance business. So, far we have seen good growth of almost 50% in last two years. Is there any medium-term guidance that you want to share on that? And is there any capital raising plan in the - infusion plan in the housing plan subsidiary?

Ramesh Iyer: No, infusing plan is, of course it is a growing business and therefore capital need is going to be contingent. We just did a right issue where both the investors, both Mahindra Finance and NHB have participated in their appropriate share and so therefore they will be supported with capital required. As far as the mid term plan is concerned, I think the rural business in itself has an ability to keep maintaining this growth of 30% to 50% because I do not think we are yet anywhere near capitalizing on the potential available there. But in the next two years you will also see the book composition changing, to about 15%-20% of the book will come from the affordable housing and this semi-rural housing portfolio, so that is going to be a new beginning and therefore if it has to be compared to its base it will be with no, I think currently may be 8%-10% of the book or so, so therefore the growth to maintain a 30%-50% whether it is 30% or 40% or 50% over a period but I think next two years that kind of a growth from a potential point of

view we do not see it as a challenge. And therefore to that extent the capital required will be provided for.

- Ishank:** Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Aadesh Mehta from Ambit Capital. Please go ahead.
- Adesh Mehta:** Thank you. So, Sir, with this announcement of farm loan waivers, are we seeing recoveries in our tractor NPAs getting delayed?
- Ramesh Iyer:** We have seen this kind of announcement even in the past. I think it is important to understand the segment of customers who gets benefited by this. So they are not farmers who buy asset because someone who is buying a tractor or someone who is buying a equipment is investing something like 25% and on the tractor price of Rs.4 to Rs.6 lakhs he is investing one and a half lakh – two lakh of rupees, so he is not the one who is looking for waiver. These are kind of a crop loan, seed loan, personal loan, labour loan kind of a farmer type segment whose loan ranges anywhere 20000-30000 kind of a situation. And they must be already an NPA customer at the bank, they are not regular paying customer who gets the loan waiver benefit so these are customers who have just taken a loan and not been able to repay let us say last two or three years or whatever, so they get waiver. Yes, why not if such a waiver announcement comes, some people will come and ask a question can we also get some interest concession, is it also applicable to us but they are not a major movement towards do not repay NBFCs and we want a waiver type, they are not a that segment of customer.
- Adesh Mehta:** But then we should expect the haircuts to get bigger, right, on this kind of NPAs?
- Ramesh Iyer:** Exactly meaning what?
- Adesh Mehta:** The concessions, which we are giving to the borrowers, should, that be?
- Ramesh Iyer:** I will jump with joy if many, many NPA customer comes and says give me concession I want to close your loan. Because giving concession is cheaper than incurring a cost of recovery so please understand NPA customers in life have to always chased, collected, repossessed, disposed off and written off, it is normal customer who will come and say I paid you regularly give me some concession, it will never be an NPA customer.
- Adesh Mehta:** And last question, Sir. What percentage of our book would be through tie-ups with OLA and Uber?
- Ramesh Iyer:** Very, very small. It is more I think a desire to grow big with them and of course it is a potential to possibly grow big with them but please do not get carried away by large numbers that OLA, Uber etc., are saying they will do 5 lakh taxi next two year and all, currently it is a very small number in the overall book. It is a 1000 vehicle kind of overall and we have done some 7-8

thousand vehicles or so but they are also not that aggressively growing at this stage, they also have enough problems to fix.

Adesh Mehta: And this would be mostly in which geographies; it would be in South India, North, West?

Ramesh Iyer: I think it is South to some extent and North to some extent which is Delhi and around and of course Maharashtra. Maharashtra means more Mumbai, Pune, Bengaluru, Chennai, Delhi are the five-six states and Kolkata.

Adesh Mehta: Thanks a lot Sir. That is it from my side. Wish you all the best.

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

Karthik Chellappa: Thank you for the opportunity Sir. My first question is on our capital position. If I look at our Tier 1, which is at about 13.2%, it is probably the lowest in the last 12 quarters. Now, given that we are now comfortable accelerating our growth, even assuming a 14%, 15% ROE for next year, we'll probably end up consuming capital. So how are we thinking about capital raising at some point of time in future?

Ramesh Iyer: I think we will more actively discuss this subject two quarters from today and if things go the way we think we want to go I think the third, fourth quarter should see us also in action.

Karthik Chellappa: Sir, as far as the additional provision on account of reversal of the realizable value is concerned, the amount in the disclosure is about Rs.106.91 Crores. Now although we have chosen to term this as additional provision, this is in effect some kind of acknowledgment that that realizable value will not be recognized, right - will not be realized?

Ramesh Iyer: So let me reword this by content you are perfectly right. I think what we mean is when we took this dispensation of this credit benefit, our belief was in a one-year time we should be able to show substantial progress to this account. Given that we know where the customer is, we know there is an asset or we use a legal mechanism. Unfortunately after taking this credit up to January we could not really press many action because initially the monsoons and then demonetisation so whatever 10%-12% that we have solved during July to March is an effective outcome of efforts put in the last quarter and largely the last two months of the last quarter. Now this is the actual fact. But the result being what it is we did not want to continue with this provision because that is what we originally estimated in our mind as to what is the time required. I have reasonably sure in my mind that while we have taken this reversal in this quarter but the effort will continue around these contracts for gaining whatever that we can and in my comment when I say that we are looking at one percent benefit to come from the NPA accounts going forward, half-a-percent will come from past provisions a portion of which will include also these kind of contracts.

Karthik Chellappa: So, in effect, can we say that the estimated realizable value credit that we have taken, for cases which has not been solved is effectively zero on April 1, 2017?

- Ramesh Iyer:** So there is some 80 Crores which is still pending if you read the note I think it is spelt out there that about 80 Crores is still pending, our own belief is that this will come from recovery from market and we may not have to possibly make additional reversals on this front.
- Karthik Chellappa:** Okay so that 83.36 Crores represents that credit which has not yet been realized but we are confident of realizing it?
- Ramesh Iyer:** Yes, because there are some 20000 contracts around that and we have estimated a very small value or a small percentage of it even if it is getting solved this amount can be recovered.
- Karthik Chellappa:** Perfect and in terms of our NPL customer account count, which is let me say about 138000 which was 109 in the Q4 of last year the net increase is about 30000 how many of these customers would have been from our disbursements this year versus say previous years?
- Ramesh Iyer:** I think some 3000 or something would be that. So this is if you are asking me about last 12 months disbursements what would be the number I think it should be about 3000-4000 numbers. So let me give you a quick breakup of this 138, 40,000-odd is from March 2016.
- Karthik Chellappa:** Sorry, 40000 is from March 2016?
- Ramesh Iyer:** They were out of this 138000 account 40000 of them were in NPA also in March 2016 so they continue to remain in this. It is 98000 or so is what gets added during this year from various accounts whether this year or previous year's businesses. While somebody checking it up but my understanding is, not more than 3000-4000 contracts will be from the last 12 months business.
- Karthik Chellappa:** So, effectively 3% of that customer count is from the last 12-month business, 97%?
- Ramesh Iyer:** Not 3%, 3000 accounts we have done 567000 contracts in one year. So it is half a percent or so, which is why I am saying the forward flow is not that high.
- Karthik Chellappa:** And in terms of your own AUM growth, sir, how are you thinking about it? We have grown at about 23%- odd this quarter, about let's say 14%, 15% for the full year. Do you see this accelerating for FY 2018, assuming a normal monsoon?
- Ramesh Iyer:** So you are asking of 15 will accelerate or 23 will accelerate which one are you?
- Karthik Chellappa:** 15%.
- Ramesh Iyer:** I would think that 15 should accelerate may not be immediate quarter because I think they are all just coming out of the struggle of BS-III, BS-IV and all kinds of stuff. I think we will once again see growth returning to the overall market may be from somewhere end of second quarter witnessing how the monsoon is but in the car segment we are hopeful that it will grow at may be 10%-12% or little more because Maruti is extremely bullish about their volumes and their number, unfortunately we do not get full benefit of Maruti growth because I think their growth in the urban centers are also much higher through their NEXA showrooms, so I think a 10%-12%

growth looks more reasonable as we talk, reaching to 15 mid-year and going back to 20 plus as we cross the bridge, if monsoon is good, festival is good and no shocks come like demonetisation.

Karthik Chellappa: Sir, I just want to confirm one data point, which you mentioned earlier in the call. You said when you break up the NPA between M&M and non-M&M is about 50-50, which more or less mirrors your AUM?

Ramesh Iyer: I said I do not have the number. I said when the book is 45-55, my expectation is also NPA number will be around that but definitely I can confirm that it is not going to be 100% of the asset is Mahindra or 100% is non-Mahindra, but I must confirm to you that we do not extend any special favour or any concession to Mahindra product. We are not pushed or forced to do any Mahindra vehicle at the cost of quality and therefore we do not expect the behavior of product NPA to be different, it, for us it is a geographical NPA.

Karthik Chellappa: Perfect. Thank you very much Sir and wish you all the best.

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

Anita Rangan: Hi good evening. What I wanted to understand was your overall customer profile is very rural and farmer-centric and we always keep talking about monsoons and all. But if I look at your asset class, it is a very diversified and tractors forms a very small proportion, not small, but 17% is not significantly large. So, therefore, why is like a monsoon, a big driver of your NPAs? So therefore what I want to understand is, NPA largely coming from the tractor segment?

Ramesh Iyer: No, please understand that it is not asset based, it is third time in this call I am repeating. Our NPA is not asset based, it is geography based and the fundamental cash flow of these customers who acquire any asset is a farm cash flow not necessarily he should be a tractor owner. And the entire rural cash flow sentiments are farm driven while they are not only farm dependent. And therefore if the monsoon is weak, irrespective of the fact whether you have a car whether you have a LCV whether you have a truck or whether you have a tractor there will be delay in installment that is one. Second is, normally they store their money for the season which is for buying seeds, fertilizer, labour etc., for ploughing and therefore there is a cash diversion which happens between June to August and then once the harvest comes in November, we get the money back so historically we will always have the first two quarters weaker than the next two quarters of the year but no customer including farmer I must tell you is only farm dependent but sentiments are farm dependent, if the crop does not do well if the cash flows from farm get delayed or does not come in, you will find these customers delaying their installment not because they do not earn from the other vehicle they just store money for future.

Anita Rangan: But is it like, say, I am just seeing like 53% of your portfolio is UVs and cars.

Ramesh Iyer: But where are these customers they are all in rural India, we are not financing rural in urban centers we are not financing cars in urban center.

- Anita Rangan:** So even if they are buying like a UV or a car for personal consumption, the income is driven from the farm incomes, is what you are telling?
- Ramesh Iyer:** The payment of installment will come from the farm cash flow because that is one of their stable cash flow. Most of our customers are earn and pay customers so the UV also earns but if the farm does not have enough cash flow the UV money gets used for every other purpose and therefore the installment suffers. So there has to be more than one stream of cash flow to these customers so therefore one of the more stable stream is farm cash flow and when that suffers everything else suffers there.
- Anita Rangan:** And what would your collection efficiency be in this quarter?
- Ramesh Iyer:** 103% this quarter, specific March was some 117%.
- Anita Rangan:** And what is the normal collection efficiency in the next quarter?
- Ramesh Iyer:** I think weakest normally for us in the past historically has been April somewhere between 77 and 85-87 types and the next worst month in a year normally is October in festival season and when the harvest has still not come in, otherwise it hovers between 91 and 93 types.
- Anita Rangan:** Just one last question, I mean, typically your opex was like well under control up to FY2015. What was the reason for opex to like going up significantly in FY2016 and FY2017?
- Ramesh Iyer:** No, opex going up is a productivity drop, like we grow 6% business with the same cost we can grow 20%, no sooner we reach again 20%-25% growth, you will see this looking attractive.
- Anita Rangan:** So is this more because more efforts were deployed on collections and so on?
- Ramesh Iyer:** One is more effort deployed on collections but less outcome of the efforts put in both in collection as well as in business.
- Dinesh Prajapati:** Plus there was a reorganization of structure.
- Ramesh Iyer:** So some people addition would have happened as well.
- Anita Rangan:** Thank you and all the best.
- Moderator:** Thank you. The next question is from the line of Adarsh Parasrampurua from Nomura Securities. Please go ahead.
- Adarsh Parasrampurua:** Just if you can talk a little bit about the states and performance about how have you seen recovery panning out, which is still lagging your expectations a little bit more?

Ramesh Iyer: Except Karnataka and to some extent Tamil Nadu, I think in almost all the states we have seen the recovery and drop of NPA inline with the overall organization number. Is that the answer you are looking for?

Adarsh Parasrampururia: Yes, but anything specific to Karnataka and Tamil Nadu.

Ramesh Iyer: Karnataka again monsoons were weak and mining which is the other economic driver has been very, very low to nothing and as far as Tamil Nadu is concerned, I think while last year monsoon was good sentiments have got weak with this year monsoon not being as good but I think even political instability causing some concern with activity in many of these areas and locations.

Adarsh Parasrampururia: So the second question was again on cost. We agree that on an asset base the cost looks high. But absolute inflation if you can just talk about the absolute inflation seen this year versus last year and even in the last two years, I think the last question was similar, but I think we are not looking at cost to asset, but more the absolute cost inflation that we did see?

Ramesh Iyer: I think if you look at our major cost per se other than people is, let us say the variable cost related to people which is why I keep saying about the growth and the volumes and all that but on an absolute people basis we had two cost we had an overall increment of about 12% and I think volume increase was about 6% cost.

Adarsh Parasrampururia: And, generally, the increments or the variable structures that we may have, is more based on sourcing of volume, which was good this year in terms of disbursement?

Ramesh Iyer: No, people do not turn too much on just disbursement, they have to have an overall parameter of collections, repossession, disposal, disposal losses so there are various parameters for different sets of people, but the percentage of that variability could depend upon someone who is a business head will have a higher percentage for business but he will definitely have a decent percentage for the first 12 months of recovery from the business that he does.

Adarsh Parasrampururia: So, is it safe to say that you had like a 12% employee cost increase, because of the average per employee cost? Will this number be substantially low, because this year you had decent disbursement and this year there were lower NPAs from the existing, this year's disbursement? So next year, this should not grow, is that what you are trying to indicate?

Ramesh Iyer: What should not increase? Number of people?

Adarsh Parasrampururia: No, no, more the 12% per employee cost?

Ramesh Iyer: We are not one of the best paying companies so there will always be a pressure on how do you rationalize their remuneration both, little fixed and little variable portion, so if we give a 10% increment, may be 7% will be fixed, 3% will be variable, but it cannot be that there is no increment kind of a situation but on account of substantial addition to people increase, may not happen and the same cost may produce better result in terms of volume and revenue.

- Adarsh Parasrampuria:** Thank you.
- Moderator:** Thank you. Due to time constraints we will be able to take the last two questions. The next question is from the line of Amit Premchandani from UTI Mutual Fund. Please go ahead.
- Amit Premchandani:** Good evening Sir. Sir, of the 4000-odd contracts that you mentioned.
- Ramesh Iyer:** Sorry I missed you. What you said?
- Amit Premchandani:** Of the 4,000-odd contracts that you mentioned of the 5 lakh-odd contracts, which were generated this year, which are delinquent, what would be the corresponding number, say, for FY2016 and FY2015?
- Ramesh Iyer:** We will have to check, but I think 2015 would have been almost similar or a little more but 2016 would have been double of this number or may be a little more also.
- Amit Premchandani:** And Sir this 7.2?
- Ramesh Iyer:** But we will check. These are just indicative, I do not have it ready with me, but Dinesh or Vishal or someone will let you know. The way I have understood your question is in 2015, 2016 and 2017 what was the NPA number out of the new business done during the year?
- Amit Premchandani:** The percentage of live cases under NPA is 7.2%. What exactly does it mean?
- Ramesh Iyer:** We have about 19 lakhs live cases and we have 138000 NPA cases. So it is a reflection of that.
- Amit Premchandani:** This 7.2%, the base is 19 lakh?
- Ramesh Iyer:** See it is our gross NPA by value is about 9% and by volume it is about 7%. That is the way one has to look at it.
- Amit Premchandani:** Thank you, Sir.
- Moderator:** Thank you very much. Due to time constraints that was the last question, ladies and gentlemen. I would now like to hand the conference back to Ms. Mahrukh Adajania from IDFC Securities for closing comments.
- Mahrukh Adajania:** We thank the management for giving us the opportunity to host the earnings call and we thank all the participants. Thank you.
- Ramesh Iyer:** Thank you.
- Moderator:** Thank you very much. On behalf of IDFC Securities that concludes this conference. Thanks for joining us. You may now disconnect your lines.