"Mahindra & Mahindra Financial Services Limited Q4 FY19 Earnings Conference Call"

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**MODERATOR:** **MR. BUNNY BABJEE – JM FINANCIAL INSTITUTIONAL EQUITIES LIMITED**

**Moderator:** Ladies and gentlemen, Good day and welcome to the Mahindra Finance Q4 FY19 Earnings Conference Call hosted by JM Financial Institutional Equities Limited.

I now hand the conference over to Ms. Bunny Babjee from JM Financial. Thank you and over to you madam.

**Bunny Babjee:** Good evening everybody and welcome to Mahindra & Mahindra Financial Services earnings call to discuss the 4th quarter FY19 results. To discuss the results, we have on the call Mr. Ramesh Iyer – Vice-Chairman & Managing Director, Mr. Ravi – Executive Director & CFO, Mr. Dinesh Prajapati – Senior Vice-President, Treasury & Corporate Affairs, and Mr. Vishal Agarwal – Deputy General Manager, Treasury & Investor Relations. May I request Mr. Iyer to take us through the financial highlights post which we can open the floor for Q&A session. Over to you sir.

**Ramesh Iyer:** Good evening everyone. My sincere apologies that the call had to be postponed from its original scheduled time because as you all know we were advised not to go through the call until the results are posted in the stock exchanges and it had taken some time for us to be able to upload that and that's the cause of this delay, so our sincere apologies. I am sure all of you must have had the opportunity to look at the results which have been uploaded and I would therefore not spend time on the numbers but I would rather spend a little more time on what caused this to happen and therefore what do we look at going forward.

Clearly, from our earlier conversations, you will recall that we had put out a direction which is focusing on the growth opportunity that was possible in the rural market given a lower competitive landscape as well as our own strategy of deeper penetration and multi-product relationship and therefore we had said that growth was something that we were comfortable and confident to achieve and you would have seen that in that same direction we have been able to maintain our growth rate. Similarly on the recovery front, our confidence was from the sentiments of the market given the cash flows that we saw in different geographies improve on the back of good crop as well as support price as well as local infra story that was unfolding which helped customer cash flow and which helped our customers to be able to earn better and therefore repay their installments on time. That again has resulted into substantial reduction of our gross NPA and our overall collection efficiency, and therefore the two together, the growth coupled with a good quality correction has resulted into improving bottom line leading to improve in our return on net worth. Clearly, that's the way the story has gone about and it's also the subsidiaries have substantially contributed to this growth. Apart from Mahindra Finance itself, Rural Housing has been able to register growth as well as bring correction to their asset quality which is leading into their maintaining an aggressive growth on their bottom line.

Our insurance broking distribution business likewise has been able to synergize well with other businesses of the sector and group and has benefited from the volumes that they have underwritten through that and given the regulatory environment which had kind of put in pressure on the changed approach to this business, we have come out well and they have also registered a decent growth in their bottom line. Put all of this together, I think we are on track with the commitments that we had made in terms of asset growth, disbursements as well as profits and control of the gross NPA.

Where do we go from here is a question needs to be answered, I think the year that we are in, our approach is while we still believe that rural has phenomenal headroom for growth given continuing strategy of our penetration and multi relationship in the auto, tractor, pre-owned vehicle, commercial vehicle space, but we would like to take a position this year of looking at it more on as the events unfold from quarter to quarter. For example, if we were to wait till May 23rd for the election results to be known, which will help us take a posturing on how do we want to shape up ourself for the ongoing future quarters.

Now, for the product line that we are in, they are not aspirational products. They are need-based products and therefore historically we have seen while these events do sometime postpone certain actions of consumers but they do come back to buying patterns as soon as the event settles down. Therefore, whichever way the results are on May 23rd, we may have to wait for a month or so to see how the consumers settle down and therefore we would like to take that cautious approach and not take a very aggressive stand while the rural opportunity as I said continues to offer sufficient headroom.

Similar would be with monsoons. We are getting different inputs from different agencies on how the monsoons are likely to be. Even if we were to take a position of the monsoons are likely to be average plus, it is always good to kind of see how the monsoon is widespread, whether it is on time, whether important states get them, all of these do matter for sure and the outcome of that will also be seen in the 3rd quarter after the monsoons and therefore we would wait and see how that event unfolds itself. But even if we were to take these 2 events and all of us are aware that what we went through as a liquidity crisis about 2 quarters back, while it may not be all out and over, but for a company like ours, we have not had to go through a major pressure or suffering from ability to raise funds at an affordable price. Therefore, we think that even if the liquidity position continues to remain a little tight, we do believe that the interest rates would remain elevated and not come down aggressively. We think that for a company like ours, given the nature of business we are in, given the promoter background that we have and a longstanding experience of this industry, raising funds from the market through multi-product approach will not be a challenge while we continue to factor the interest rates to remain around the same levels that we are currently experiencing and we are not willing to look at a downward trend already.

Put all this together, I think our approach in terms of growth as well as asset quality, our focus would continue to be maintaining the asset quality levels that we are in today. If we were to look at our NPAs from a past provisioning approach of 150-day basis etc., maybe we are at our historic best. Even on a 90-day basis, we have shown substantial correction to our gross NPA, and with continuing focus on asset quality, we would like to bet on further reduction as we go along and it will be from a quarter-to-quarter basis. We have made substantial correction this year. One would not be able to see the same degree of correction going forward but the trend will always be stable to further improvement. We don't see deterioration to this, but again, you know our business. Normally, the first and second quarters are not the best of quarters. While we have brought in stability to this through the new Ind-AS approach of ECL, but it still will have the pressure of the first and second quarter economic activity of the rural market and then aggressive correction would happen in the next 2 quarters of the year.

There would always be this one burning question in your mind on while every front there has been a substantial improvement, whereas the coverage ratio seems to reflect a lower coverage, but under the ECL method, that is exactly what is expected to happen, that when you take on the basis of historic experience of what exactly is your credit loss and that has factored in, then you would always expect that when you have low level of NPA, the coverage you would expect it to be that, but more technically in our case, maybe Rajesh or somebody would explain to you, when we say that we have moved certain assets which are fully provided for into the bad debts position, not having it left in the coverage position, would have also caused a little drop in the coverage as otherwise more or less the coverage ratio would have remained at where it was the previous time.

So, overall, my approach from where we are today would be while we have achieved great numbers, we have done extremely well on our growth, we have done extremely well on our asset quality correction, we have retained our margin, we have become a multi-product growth company and we have improved on our returns, all of that has happened, I think our approach for the year would be to maintain this degree of quality, this degree of return as well as maintain the growth but we would definitely watch the events on the ground more closely and take appropriate actions as may be required. We have demonstrated in number of times that it is a very flexible model which has capability to kind of swing in which direction that the expectation of the management is and we will also look at state-by-state approach more closely and more cautiously and then accordingly craft for ourselves are going forward and you will see it on a quarter-to-quarter basis. Our commentary would reflect our understanding of the market and we will definitely do factoring it, and if there is an opportunity, we will take a position of growth more aggressive than we talk today, and if the market conditions so desire and guide us to go cautious, we would also let you know on how we are reflecting that in our performance on a quarter-to-quarter basis.

I thought these are our larger input of this and we now open it up for questions unless Ravi, Rajesh, or anybody wants to add anything particular or maybe there will be a question and then we can add it on that basis.

**V. Ravi:** Just only add to whatever Ramesh has said, this whatever profit we have made is an all-time record. It so happens that it gives us a great satisfaction and gratification that it has happened in our silver jubilee year. It is 25 years since we have commenced business and this has happened at the right time and the quarter profit is almost 600 crores. Two years before, the whole year profit was 400 crores. Now, one quarter profit at this time is 600 crores. What we can show, what we are ourselves happy is that the model is very very resilient, in spite of the turbulence, the economy, in particular rural economy, the distress, but I think we are able to withstand, not only withstand but outperform. That is something which I just wanted to add.

**Moderator:** We will now begin with the question & answer session. The first question is from the line of Kunal Shah from Edelweiss. Please go ahead.

**Kunal Shah:** Congratulations on great set of numbers. The only other area which I wanted to highlight was with respect to disbursements which have been more or less flat year on year. When we look at it overall, we saw like 25% disbursement growth and 20% AUM growth and this is the first quarter of say a flattish year-on-year growth. Just I wanted your outlook on this. You highlighted it is dependent on election outcome and monsoon but broadly would we be still comfortable given the underlying demand which is there in the numbers which are reported by most of the OEMs?

**Ramesh Iyer:** It is important to understand that in this quarter, we cautiously went slow on our SME disbursement because of the given market condition and as you know we are representing the SME at the auto, agri and this kind of segment and some of them are also small NBFCs which we had helped funding to a smaller extent. So, we took a cautious call on going slow on that disbursement, and otherwise on a vehicle-to-vehicle basis, we have had a growth around 11% to 12%. SME is the segment where over last year to this year, there has been a degrowth in this quarter which has resulted in the quarter remaining flat. Therefore, to take your question further down, definitely yes, the OEMs are skeptical about their own growth rates but I think that doesn't really bother us much because even if they grow 6% to 7%, with our multi-product approach and in the commercial vehicle segment, we still have a smaller base and third is the pre-owned vehicles. I think on the vehicle segment side, we still believe that we will outperform the OEMs. If they grow at 6% to 7%, I think we would still have a 10% to 12% kind of a growth, and therefore, this quarter what reflects as a flattish approach is if the SME segment is not taken, then the vehicle growth has been 11% to 12%.

**Kunal Shah:** But maybe overall even excluding the SME, the way things have unfolded in the last 3-4 months, would you slightly be skeptical as compared to what you were say 1 or 2 quarters back with respect to maybe vehicle finance growth as well?

**Ramesh Iyer:** No, as I am telling you, if the OEMs are 6% to 7% growth story, given our approach towards pre-owned vehicle as one of our segments and non-Mahindra tractor which is still a low base, therefore a growing segment, and commercial vehicle a low base, a growing segment, I am not too worried to put out a 10% to 12% growth if OEMs are at 6% to 7%. Yes, if OEMs are going to reflect a negative growth, then we would be 5% to 7% growth. I think you have to read it with what the OEMs speak about and I am kind of coming out of 2 or 3 major OEM conferences and I can tell you that they are not talking of negative. They definitely are talking of a range bound growth between 6% to 10% kind of a thing. So, we are confident that if we have to maintain and I am overemphasizing that while we may talk for the year one number, but we would rather look at quarter to quarter. So, the first quarter growth could be 8%, 10%, or 12%. If that happens, I am reasonably sure, 3rd and 4th quarters would take us to a different number.

**Kunal Shah:** Secondly, in terms of you highlighted that the coverage is lower because of maybe the write-offs as well, but what would be the overall quantum of write-offs in this particular quarter and if you can highlight slippages as well and some trends in terms of collection efficiency.

**Rajesh Vasudevan:** In this quarter, it is 197 crores, around 200 crores of gross NPA write-off amount. In a year, 1,182 is the total number.

**Kunal Shah:** Slippages would be what and collection efficiency if you can give some trend?

**Ramesh Iyer:** Broad collection efficiency for the year has been upward of 96%, for the quarter 100%, and for the month of March was about 107 odd percent and just as one data point, physical customer base, number of customers in NPA is actually lower than last March.

**Kunal Shah:** Yes, that's very much visible. Lastly, in terms of the expenses, even this quarter, we have seen sequential uptick, so again to do with this maybe the silver jubilee year?

**Ramesh Iyer:** Silver jubilee year could be one. Thank you for highlighting, all employees are hearing this, but more importantly, look at the activity level. This is a variable model at the end of the day. We are not on a fixed cost to say that we can do double the performance at the same price. When the collections are from 22,000 crores to 27,000 crores a year, obviously the number of people and the number of visits, leading to therefore the variable cost keeps moving up. That is one thing that we have to be cautious about. Two, not all branches are still fully productive during the year whatever branches that we open, by the time they start contributing, they just bring some cost without bringing in revenue already. So, I think it is clearly an outcome of a growth story with maybe a very small percentage towards silver jubilee that I can tell you.

**Kunal Shah:** Okay, so not much of ex gratia and advertisement?

**Ramesh Iyer:** No, we have collection incentives, we have got business incentives, and we have got profit incentives at employee and branch level, and when all those numbers are an uptick, it will automatically be higher than the previous year. What one has to look at it is that from a 2.9% if we go to 3%, if that 0.1 can double the profit, I would rather spend more 0.1s.

**Moderator:** The next question is from the line of Nidhesh Jain from Investec. Please go ahead.

**Nidhesh Jain:** Sir, hypothetically if we again see an environment which we have seen from FY14 to FY17 time period, do you see the gross NPA again inching up to those levels or we believe that we have invested in a franchise and we have learned from some of the things that we have seen in last 4-5 years? That situation will not recur?

**Ramesh Iyer:** Clearly, let me tell you that between 14 and 17 have we learned some new art in this business to control recovery, I am little doubtful that there are many more things to learn because when the environment is not good, there is little that a company can do. If the infrastructure spent is not there, monsoon is bad, if there is political instability in some states, there is very little that Mahindra Finance can get up and do. And therefore, even when we were not doing so well at that time, I was very, very emphatic when I said that it is not caused by chasing asset growth or it is not caused by changing any of our policies of over-lending or high LTVs and things like that. It is caused by environment. So, what has got this corrected? Even at that time, I had made this statement. These are definite NPAs but they are not write-offs for us. As market conditions improve, the same customer will pay back. And you have seen that return of money which is causing us to register a better growth story.

Now, to take your understanding forward, if things become as bad as it was in 15, 16, etc., I think the NPA will move up. There is no point in my telling you NPA will remain where it is, but will it move up that aggressively and that high? The reason is no because the base level of the NPA itself has now come down substantially. So, the organisation model that we created where there are verticals created by product and there are separate verticals for bucket-wise recovery, has substantially improved the overall quality and therefore the base numbers are now at their lowest and therefore while the growth rate may be higher, but they would not touch the same high scaled levels. So, my first NPA I would project if the market conditions are as bad as it was; no monsoon, absolutely no support price, absolutely no political stability in many states, no infrastructure story, let us take all negatives; I still think that from a 5.8% we will go to an 8% kind of a level. We are not talking of 12 or 13 that we touched once because the base has been substantially corrected and the new business that we have done in the last 15 months have reflected phenomenal asset quality correction and high collection efficiency.

**Nidhesh Jain:** Secondly, in terms of ROA improvement from here onwards – for this full year, we have reported around 2.6% ROA – what lever do you see playing out over next 2-3 years in a normalized scenario?

**Ramesh Iyer:** I have always said, when we were 1%, how will we get to 3%? We have moved to 2.6%. I think we still have some headroom in putting our heads together to bring down the cost of operation. Will it come down by 15 basis points or 20 basis points? The possibility seems to be yes. During the year, will we see some correction to our borrowing cost and therefore will that improve a 10-15 basis points in marginal improvement? Possibly the answer is yes. And the third is, I still believe there is a scope if market conditions remain average plus, there is a scope to bring down the NPA even further from where it is today. And that could add to another maybe 20 odd basis points. If the three things happen, I think we will cross the 3% mark which we were pushing for. And if that was to happen and if the business was to still at 10% to 12% growth, I think we would show further improvement from 15. Will we go to 16 or a 17? Directionally, the answer is yes.

**Nidhesh Jain:** Lastly, in rural housing finance, the correction in NPA is not as strong as we have seen in our standalone business. What is the reason for it? Is it a geographically specific issue?

**Ramesh Iyer:** The CEO of the business is here, but the way I have understood that is we have a correction across the country multi product whereas his problem itself was only Maharashtra largely and his correction in Maharashtra is as much as our correction in Maharashtra is. Whereas for us, since the correction is across the country, you will see a more steeper correction. Since he didn't have a problem all across and he is not in every state and therefore the correction that he has got is in Maharashtra but he would continue to register correction in the same direction that you see already. And therefore, the confidence that they will also settle down at a much lower NPA number if again subject to all conditions that you initially started with don't pan out to be true.

**Nidhesh Jain:** Lastly, what would be the overlap of customers between these 2 entities – rural housing finance and standalone business?

**Ramesh Iyer:** Zero.

**Moderator:** The next question is from the line of Mahrukh Adajania from IDFC. Please go ahead.

**Mahrukh Adajania:** I just had a few questions, again on the credit cost. What drew such strong recoveries in March and in the full 4th quarter because there are mixed feedback from the rural sector and your recoveries were indeed strong whereas the credit cost is negative.

**Ramesh Iyer:** Please go back to the commentary that I have been relaying quarter-by-quarter, and I have said repeatedly that what you generally hear for rural versus what we tell you for earn-and-pay customers have always been a little different story. We have seen our assets being deployed decently well and I have said for the first time historically we have seen how even the infra projects by municipalities have become more important as compared to just the central. So, at every state level, there has been activity which has deployed the asset better and therefore the customer earnings have been good on one front.

The crops have been good, the support price has been good, and even the release of payment has been definitely average plus. Normally, the money which should have come in November or December, definitely came only in January or February. Therefore, you saw a multiplied effect of improvement in the 4th quarter. Otherwise, some of this would have happened maybe in the 3rd quarter, but nevertheless, that is the crop cash flow or the farm cash flow support which has come in big time. And we have said this all through the year to see that how our asset quality improvement would happen and we exactly are ending up at where we think we would have ended up. We said we would be around 6.5 or so. We are better than that, but that was the direction that we always maintained on a quarter-to-quarter basis. And even as we speak today, our belief is that all these earn-and-pay vehicles which are very need-based applications still do not suffer big time from any of the other events that normally people talk relationship to growth. So, you do see the growth is little stagnated but whereas the recovery is not because the money is still there but the people are not deploying it to add assets but they definitely do not want to continue liability.

**Mahrukh Adajania:** And just one question on disbursals which was asked by Kunal as well, but there has been a decline in disbursements all across segments in the 4th quarter, compared to year on year.

**Ramesh Iyer:** Last March was very big March. If you recall, I think after BS-IV or whatever happened, there was huge volume that got transacted in the last year. Definitely, the overall volume during the year has remained muted. There is no doubt about it. Last year 4th quarter for OEMs was also a big quarter. But nevertheless, we still have a 12% growth in vehicle disbursement whereas SME is a negative for us and therefore this quarter disbursement is negative, but as otherwise in the vehicle segment, we do have a 12% growth and I think we may re-clarify to you after we check our numbers. I don't think in every segment we have a decline.

**Dinesh Prajapati:** We have a flat type of growth in the car segment. Other than that, as we have said that on a lower base, CV growth was quite strong and used vehicle growth was between 28% and 29%. CV was around 26% growth, auto was around 5% growth, and tractor was around 6% growth for the quarter.

**Ramesh Iyer:** So, except for car segment where Maruti being 50% and Maruti was little more flattish and last year their numbers were much, much higher and therefore you would have seen some flattish thing there but our de-growth happens due to SMEs going slow but not vehicle business.

**Mahrukh Adajania:** From where would you see your provisioning covers again?

**Ramesh Iyer:** I thought under the ECL model, the provisioning cover need not be high. The ECL model reflects the true picture of how the book is going to behave. Again, if we were to add back the bad debts provision which has been removed from the coverage, we are at 30% cover level.

**Dinesh Prajapati:** If I see Stage-1, Stage-2, and stage 3 put together, it is still 46% coverage.

**Mahrukh Adajania:** Right. I was just referring to stage 3 but okay.

**Dinesh Prajapati:** Yes, because it is now overall.

**Moderator:** The next question is from the line of Subranshu Mishra from BOB Capital Markets. Please go ahead.

**Subranshu Mishra:** My first question is with regards to the restructuring that happened 2 years back. Just want to understand the quantum of OPEX reduction because of that what has been the impact?

**Ramesh Iyer:** It was a productivity improvement and not cost reduction program. It was clearly identified as a need for branch managers and the field executives to be able to handle the volume by efficiency of the product because earlier the branch manager used to handle all the products and the market conditions were differing from each other when the recovery has to be undertaken from commercial vehicle to tractor to UV to pre-owned vehicle. And the volumes were aggressively growing. So, it was very clearly felt to create vertical from head office up to the branch level who will have specialised understanding of lending and specialized capability of recovery of those products. And then, clearly we got rid of 2 layers which otherwise were interfering with the overlapping need and therefore the benefit has come in our productivity both in terms of growth in disbursement as well as come in efficiency of recovery.

**Subranshu Mishra:** And you also alluded to higher collections in this particular fiscal year. Has there been any reduction in LGDs as such across products and if yes how do we look at the LGDs going forward?

**Rajesh Vasudevan:** There is no reduction is LGD rate, we reset the LGD last March. It was around 27.45 and now it is around 27.93, so hardly some 40 basis points it has gone up.

**Subranshu Mishra:** Just one data-keeping question. You also alluded to on-lending. How many NBFCs you on-lend to and what it the yield on that on-lending book?

**Ramesh Iyer:** Yield was I think about 13% to 15% kind of a range and I am not sure of the exact number but must be about 25 to 30 NBFCs in different states or cities but now that business is stopped for the last almost 6 to 8 months. So, it is actually a book rundown and there is no new disbursement.

**Subranshu Mishra:** How do we look at it going forward in this particular fiscal?

**Ramesh Iyer:** Not in the near future because until the liquidity crisis, until the regulatory framework is more authentic about all this, we may not want to be supporting that venture.

**Moderator:** The next question is from the line of Abhishek Modi from Asit C Mehta & Company. Please go ahead.

**Abhishek Modi:** Just a few questions. 1) The negative provisions, so there were big reversals?

**Ramesh Iyer:** Yes.

**Abhishek Modi:** You have recovered from some of your accounts, NPAs?

**Ramesh Iyer:** Yes, which is what I said. If you look at our NPA as a number of customer, it has gone down below last March. In the last March, I think 1,37,000 account which has come down to some 89,000 account or so.

**Abhishek Modi:** Agreed sir. Just want to know the recovery and slippage figures if it is possible for Q4. Another question is regarding your subsidiaries. NHB has sold the 9% stake. That will be in April or March because I think you have bought back after 10 years of NHB stake of 9.68?

**Ramesh Iyer:** April

**Abhishek Modi:** One more thing. Rural sector I just couldn't get you. Is it good growth or you are waiting for exact monsoon after Q3? What was that exactly?

**Ramesh Iyer:** Clearly, rural sentiments or the headroom to grow is very high. I think opportunity to grow is very high, but they are also driven by certain events out there. Now, 23rd May, the election results will come. We can see how the government formation is and that will kind of slow down to some extent until the government is formed and action starts again. By the time of the second quarter, the monsoon direction will be known and the results of monsoon whether average, good, or very good, whichever direction it goes, the benefit of it would start coming from the 3rd quarter. So, normally if you see, rural businesses - first 2 quarters always are subdued quarters both from disbursement and recovery. They pick up in the 3rd and the 4th quarters. So, these 2 events are significant to see how they unfold for us to really forecast the 3rd and 4th quarters.

**Abhishek Modi:** The numbers?

**Dinesh Prajapati:** We will get back to you with the numbers.

**Moderator:** The next question is from the line of Umang Shah from HSBC. Please go ahead.

**Umang Shah:** Clearly, our multi-product strategy appears to be working and if we look at the share of M&M assets in our AUM mix, it is now at probably multi-year low at about 43 odd percent. Is there any particular threshold given that as and when we keep on growing in terms of our balance sheet size and if the parent doesn't kind of keep up pace? I mean, the proportion can keep on going down. Is that a fair assessment?

**Ramesh Iyer:** I don't want to speak for them but we have a growth story of what I said 10% to 12%, maybe this year 25% we have registered. We will do everything that helps us maintain that growth. In that process if we get more share from M&M and that helps us to grow, so be it. If it helps us from the other products, so be it. In this round of growth, commercial vehicle, construction equipment, pre-owned vehicle, non-Maruti segment, non-Mahindra tractors, all of this has contributed to growth and therefore it appears that the other side is little lower. We measure ourselves to ensure that in the Mahindra auto products, our market shares don't go below 40%, and in the tractor, we don't go below 40%. Currently we are at 32% to 33% kind of a situation but we will want to drive it towards the 40% but it all depends on OEM volumes. If for some reason Mahindra aggressively starts growing at 25%, you will see this number once again grow from 43% to 51%. So, there is no threshold in terms of we will not go below this, we will not go above this. We measure ourselves in terms of market share we will not go beyond 40 for what they do but I must kind of confirm and confirm very emphatically that we are not driven by M&M for their support requirement to do anything. It is purely Mahindra Finance call on where to open a branch, what products to do, what products to launch, what will be our product design, all of that. Therefore, our growth will depend on overall OEM volume and our market share in respective volumes.

**Umang Shah:** Just one more thing on SME and pre-owned. Clearly, these 2 segments have become meaningful at about almost 20 odd percent of our AUMs. Again, within products, do we have a threshold or it will again be driven by growth in those individual segments?

**Ramesh Iyer:** Just one correction. It is not SME, I guess you are talking about commercial vehicles (CV).

**Umang Shah:** I said pre-owned and SME both put together.

**Ramesh Iyer:** Alright, but I prefer you look at them independently. Why are you clubbing them just for my clarification?

**Umang Shah:** No, I was just trying to work as vehicle loans and used vehicle and SME, between new and used predominantly.

**Ramesh Iyer:** No, I think SME won't register a very aggressive growth as I just explained. One segment of the SME business that we were in, we have taken a cautious view in terms of how much we want to grow there. So, SME possibly may continue to remain in this range of 9% to 10% or 11% kind of a thing to the total book whereas pre-owned vehicle definitely has the opportunity of going from the current 9% maybe even up to 12% to 15% over a period of time.

**Moderator:** The next question is from Nischint Chawathe from Kotak Securities. Please go ahead.

**Nischint Chawathe:** Just one question from my side and this was actually on the CV disbursements. It looks like this quarter was very strong on CV disbursements I guess despite the fact that the industry was very weak. How should we really think about this? I mean, a) What has led to such high growth? b) Where does this go from here?

**Ramesh Iyer:** Clearly, CV low for the industry comes from no addition of capacity by the fleet operator and therefore you will see people who are aggressively on fleet operator financing are the ones who have not really registered big time growth whereas in this round, we are definitely seeing 2 vehicle, 3 vehicle, and beyond Metro market user which are local market consumption, especially on the tipper side where people are deploying it for the local project. That and in our case, commercial vehicle that line item includes even small construction equipment like the JCB machine which again has become a very localized purchase item as compared to large contractor purchases. So, from a commercial vehicle construction equipment shift in industry, it has kind of moved. Definitely it has slowed down for fleet operator and large contractor purchases versus the small vehicle user and one equipment buyer kind of a segment is still buoyant because they are using it pretty locally. Where do we go from here? I think our base is still pretty low and we have a 5% to 6% representation in the market share at the industry level. We think that we have a scope to gain another 2% and therefore this will continue to remain a little growth story for us versus the overall industry behavior may not reflect that.

**Nischint Chawathe:** Who are your largest OEM partners?

**Ramesh Iyer:** All of them. Mahindra of course, then JCB. In JCB, we have reached a market share now of about 6% to 7% already. And Tata is another very strong partner of ours. It is also interesting to understand that Tata is a very strong West and North market and even to some extent East market and we don't see too much of competition in that market whereas if you go southward, Leyland is strong player but lot of NBFCs financing there and therefore we are kind of exposed to little less competition, I won't say no competition, but it is clearly Eicher, Tata, JCB, and Mahindra of course.

**Nischint Chawathe:** Do you finance GST as well? Is that considered as the price when you are calculating LTV?

**Ramesh Iyer:** Yes, it is considered as a price but we know for a fact that if it is fleet operator, he gets the credit back and therefore fortunately we are not in that segment for us to worry about. Otherwise, it does sometime end up into excess funding because he gets the input credit immediately. Since we are not in a fleet operator segment, these individuals don't get the credit back, so it is a price for them.

**Moderator:** The next question is from Bhaskar Basu from Jefferies.

**Bhaskar Basu:** Just one question on the demand side on the rural segment. What exactly is driving the slowdown and secondly, in a scenario where OEM kind of continues to be weak and monsoon is normal, at what point do you think that asset quality could deteriorate or asset quality should remain stable in that scenario?

**Ramesh Iyer:** Asset quality will remain stable for all internal corrections, controls, process, and people that we have taken. If external conditions substantially deteriorate either due to weak infrastructure or poor monsoon, that's very little that Mahindra Finance can influence and that's the art we have learned over a period how to partner this customer and come out of the difficult time as market conditions change, and we have reflected this at least, if not more, 4 cycles, in 4 different periods of time. Even in this around, what we went through in 15-16 and 16-17 is something that is now reflected as the correction happening because we partnered them during that time correctly. So, the advantage that we have as a company is our local presence, our very strong understanding of what happens at the local level, and posturing ourselves to take benefit of it. The first step that we would take if any of these events were to unfold locally, we may cut down on our business and not build book and struggle with the grown book if the market conditions so reflect that they may stay longer with the difficult situation, but what we have already lent, there is very little that we can do but not live the difficult life.

So, please be clear that if the monsoon is extremely poor, let us say it is declared drought in major states, then we have to live that difficult life for one season. We have very little to do, but what will happen this time around though is we were already at a 6% to 7% NPA then, and then these conditions happened, therefore, we went up to 10% to 11% kind of a situation or may be more. Having brought it down to a 5% plus level and the conditions today don't reflect that this is going to increase further and if we settle somewhere around 5% and if all conditions were to go wrong, the 5% may look like 7% or 8% but definitely not a 12% or 13%.

**Bhaskar Basu:** My question was like for example in the 4th quarter, you saw a deceleration in growth but collections were held up

**Ramesh Iyer:** Let me clarify that the growth decline is in the SME segment. The vehicle segment has registered a 11% to 12% growth.

**Bhaskar Basu:** Yes, but still a deceleration versus what you were growing at and so if OEM growth continues to be weak next year and assuming that the monsoon is fine, do you see asset quality holding up?

**Ramesh Iyer:** I would rather say growth will also be higher and asset quality will also hold up if monsoon is good.

**Bhaskar Basu:** So what is really driving the slowdown of late? Is it like more temporary election-related purchase deferrals or anything else fundamentally which is impacting as per you?

**Ramesh Iyer:** I think there is more than one thing which is driving it. It is not monsoon for sure. Definitely I think election and the government spend and the ability of release of payment to contractors during this period is what is causing first the slowdown. The second is, with the vehicle discounts being so high, the exchange programs have gone substantially slow which is another 10% to 12% or 15% of the market because people don't want to sell their old vehicle at such a low price. They would rather use it for longer before they decide to buy a new vehicle.

**Bhaskar Basu:** Okay. Just on the first point which you mentioned. In reality, actually you have seen good collection. Why then slow, if payments are coming through as you have seen in the 4th quarter?

**Ramesh Iyer:** For us, the collections are good because the vehicles are not all deployed only at the government level. Our vehicles are local transport vehicles, they are goods carriers at the local level, they are trader application vehicles and that cash flow has held up. The support price has been so good that the farm cash flows have been very good. I am not financing the main contractor. I am financing 2 layers below. They may also be running overdues but they are still getting payment every month from their billed overdues and they are able to repay the installment to an extent. So, this is not an outcome of a fleet operator situation. I mean, if somebody is deploying large equipment in the government project, definitely they have not got all their money in March. It may shift to April, maybe even to further later which is why you see the buying has reduced. So, please understand that use of the existing vehicle cash flow versus wanting to invest in new vehicle are two different cash flows. So, if I don't get new contracts, I am not going to get mobilization advance, I am not adding more equipment but my existing equipments are deployed and I do get some cash flow for me to be able to repay.

**Moderator:** The next question is from the line of Akash Nainani from Macquarie. Please go ahead.

**Akash Nainani:** I just have one question. Are we looking for any inorganic acquisition?

**Ramesh Iyer:** Tell me the name, we will work actively.

**Akash Nainani:** There was a news article which mentioned that Mr. Mahindra.…

**Ramesh Iyer:** I know, but fortunately they didn't quote any one of our names. Otherwise, we would not be in this call explaining to you. People just pick up from wherever. I don't know what this news is all about.

**Moderator:** Due to time constraints, we will be able to take one last question. The last question is from the line of Pranav Tendulkar from Rare Enterprises. Please go ahead.

**Pranav Tendulkar:** In all the product categories that you are competing, are you seeing that you are gaining market share against many other NBFCs which are liquidity constrained ?

**Ramesh Iyer:** Not necessarily NBFCs, I think we are also gaining market share possibly from the local banks who are a little slow. At some places maybe even nationalized banks are a little slow. So, I won't say from all NBFCs but we have definitely gained market share but not a very substantial increase in market share. It is 1% or 2% kind of a thing. So, nobody would have lost some 5% or something like that, but clearly maybe 1% someone has lost somewhere, banks have lost somewhere, and also it is little important to understand that overall volumes of OEMs coming down could have caused a little reduction in volume to some whereas we have retained our absolute volume which is also reflecting a little increase in market share.

**Pranav Tendulkar:** Which are the new products that you visualize can have a good market size and good skill set that you possess over the next 3 to 4 years? Any new product roll out?

**Ramesh Iyer:** My personal opinion having interacted with now many OEMs very recently, they are all rewriting their rural strategy, all of them. And it may not be a new product but I think a new vigor that these OEMs are going to bring to the rural market because the pressure is extremely high, both in terms of product competition and enquiry at urban level, and therefore even the growth story that they are talking of 6%, 8%, or 10%, if it is kind of broken down between urban and rural, possibly their rural growth is 15% and urban is a minus, and that's causing it to come to 8% or 9%. For us, the volumes of all the OEMs which are relooking at the entire rural strategy is going to help us really maintain our growth.

**Pranav Tendulkar:** So, the growth number that you alluded actually includes this shift from urban to rural?

**Ramesh Iyer:** It is not a shift. It is just that they are focused in rural, we are still already there. And all of them are already there. It is not as though they are not there. It is just that they are adding people, they are creating a new vertical, they are willing to come with us, go more deeper, their dealerships are being revamped to kind of open more outlets. All of this is what each one is trying to do.

**Dinesh Prajapati:** Before we close the Q&A, the question which was raised by Asit C Mehta & Co. from Abhishek, we will come back to you with the explanation subsequently about the slippages of the NPA for the period and how much is recovered during that period.

**Moderator:** I now hand the conference over to Ms. Bunny Babjee from JM Financial for closing comments.

**Bunny Babjee:** On behalf of JM Financial, I would like to thank Mr. Ramesh Iyer and the senior management team of Mahindra & Mahindra Finance and all participants for joining us in the call today.

**Moderator:** On behalf of JM Financial, that concludes the conference. Thank you for joining us. Ladies and gentlemen, you may now disconnect your lines.