"Mahindra Finance Q2FY13 Earnings Conference Call"

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Moderator Ladies and gentlemen, good day, and welcome to the Q2FY13 Earnings Conference Call of Mahindra Finance hosted by JM Financial Institutional Securities Private Limited. As a reminder for the duration of this conference, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call please signal an operator by pressing '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Karan Uberoi from JM Financials. Thank you and over to you Sir.

Karan Uberoi: Thank you, welcome everybody to Mahindra & Mahindra Finance Services Earnings Call to discuss the second quarter numbers. To discuss the results we have on the call Mr. Ramesh Iyer, who is the Managing Director, Mr. Ravi, who is the CFO, Mr. Dinesh Prajapati who is the Senior General Manager, Treasury and Corporate Affairs, and Mr. Rakesh **Bhadani .55** who is the Manager, Treasury. May I request the management team to take us through the financial highlights subsequent to which we can open the floor for Q&A session, over to you Sir.

Dinesh Prajapati: This is Dinesh Prajapat**i** here, thanks for giving us this opportunity to interact with you and good afternoon to all of you. I will start with the performance of the company. Mr. Iyer – our MD and Mr. V Ravi – CFO, will join us in 5 to 10 minutes, specifically, you know, be able to take your Q&A.

I will start with our performance, we have been able to have a run rate of 50% growth rate in the PAT for the first half of this financial year on a consolidated basis, similarly on the top line income front 49%. As far as the Q2 stand alone result is concerned, our income grew 44% and PAT grew 38%, and we continue to see our disbursement growth rate in the band of 25 to 26% as we have been always interacting with our investors as well as analysts and we continue to believe that the rural and semi-urban market gives the good opportunity to see the similar type of run rate going forward also for the next half of the financial year. As far as the market outlook is concerned, you have seen in the past historically, we have been able to see the second half being much better or buoyant than the first half because of the festival period, because of the post harvest cash flows being better in this marketplace. We as a management are confident enough that the second half should be more or less, at least better than the first half as we have usually been able to see in the past track record. Even though the industry has been slightly on a slower path with the economic down cycle, we have been able to continue to deliver the growth rate of 25 to 26% primarily because of our reach into those markets, because of our good customer data base, and because of our direct marketing initiative, which has helped us to contribute around 10 to 12% of our incremental business coming from this direct marketing source. At the same time, with the help of working relationship with some many dealers across the country, and many more OEMs who have started entering into those geographies have started participating with us, which has helped us to continue to deliver this kind of results in these slowdown times. As far as to be more specific, on the tractor vertical is concerned, we have seen the industry is almost flattish type of thing, and we hope that now that the monsoon has been slightly better off than what it was projected in the earlier round, we hope that the next round of crop should be a bumper crop and it should really boost the sentiment, at the same time give a better recovery for us in the second half of the financial year. Even though the tractor industry has been slow, we have been able to clock a growth rate of around 14% for the first half. Primarily on the back of our direct marketing initiative wherein we are targeting our existing customers to refer customers and through that channel we have been able to enter into non-Mahindra tractor segment, which we have in the previous year's cycle, we have not been tapping those type of customer segment, so this is far as the business, and the performance is concerned. As far as the quality of the book is concerned, we have been able to maintain the quality of our gross NPL levels at 3.9% as we have seen in the first quarter of this financial year, so we are confident that in the quality front we should be able to hold on and probably further improve from the year-on in the next half, as I said, the cash flow in the rural and semi-urban market in the second half is far more better than the first half, as is always been in the past, what we have observed. As far as the charge to P&L is concerned, we have seen there is a one-off incremental charge as an additional provision, which we have done, which we had commented in the first quarter also on account of small ticket loan, that is personal loan and the 2-wheeler loan, so we continue to have a cumulative provision of 12.7 crores on account of that, which is at a very, very initial stage of the contract only providing for it, just as an additional safety net. At the same time, we have one-off transaction on the SME vertical, which is around 15 crores, for which we have already provided 100%, nevertheless, we are confident that this will get resolved in this quarter itself, that is the third quarter, and the dialogue with the entity has been very, very fruitful in the last 10 days and we have already got a commitment that it should addressed in the next few days time. We believe that, that is one of the transactions, which we should try to communicate. At the same time, we believe that given the kind of growth rate, there will be always, you know, on absolute term, the gross NPL will look slightly higher, but as we progress in the financial year, we should see a good recovery on account of the freshly entered contracts, which are in the lower end of the curve, primarily because what we have seen that, that is one of the reasons, why our coverage ratio has come down, is that the older asset, which we are in the bad categories or higher provision coverage category are moving out and the new contracts are not moving into those buckets, and which itself is speaking about our collection efficiency, which itself is speaking about how we are able to maintain the quality of the book, and we are confident that since these contracts, which we have entered, initial stages of the NPL buckets are more cash flow, they are having a regular cash flow paying ability, so there is enough possible opportunities that management will be able to recover a sizable portion of this contracts, which are freshly entered into and reduce the gross NPL further from the current levels going forward. You would have seen a couple of subsidiary companies in the form of Mahindra Insurance Broking Ltd has been able to continue to deliver what they have delivered in the first quarter of this year, and as we had spoken that last year was an aberration, so they have been able to continue to grow at much higher levels over the previous years because previous year was an aberration, so even this quarter we have maintained at PAT of 7 crores, and we believe that our subsidiary company should be able to contribute around 3.5 to 4% to our forward bottom line. Similarly on account of Mahindra Rural Housing Finance, which is another company, which we have been always bullish on, which we believe that, that is the next big thing to happen in the company, has been able to deliver again a 45% growth rate in the first half, and similarly on the PAT front, they have grown at close to 80% for the quarter. So, we are confident, on an overall basis, that we should be able to maintain our run rate going forward also. Now we have with us Mr. Iyer. I would hand the conversation to Mr. Iyer for taking us on the future outlook and specific input he would like to give.

Ravi Iyer: Hi, and morning everyone. Basically, we have been always of the view that the semi urban and rural market is much more buoyant than the urban market is. I think more or less, what we thought, is what we are seeing and that is what is kind of ending up as a result for us as well. Importantly, we continue to grow our assets in our approach through working almost all manufacturers now who want to look at that market, just as a side input, you know, Maruti’s new car launch of Alto, has also talked about it today, that they are looking at the rural market to contribute substantial volumes to them from that product, and they have had already few meetings where the comfort to us, will be very, very important for this product. So we have moved up in our market share with Maruti, we are moving up in our market with Hyundai, with almost all commercial vehicles, both LCV and HCV manufacturers, with our tractors, now with our direct marketing initiative, which we were talking earlier. We have also penetrated into, though a small number, but we have penetrated into financing, non-Mahindra tractors as well, and the second-hand vehicle market is also holding up for us. So, if you really look at our asset growth, our disbursements growth continue to come from multiproduct approach, and we believe that, that is not just helping us grow, it is also helping us retain our margins, because then you are not under any pressure to drop rates to gain market share. You are able to hold on to your lending rates and therefore protect your margins efficiently. Importantly, this was explained again last time, with multi profile of customers, I think the holding of quality also happens. In as far as the overall quality is concerned, the cash flows in rural market has been good. Very interesting statistics we saw is, in this 6-month our collection efficiency has actually improved by 1% over the same period last year, which means that the overall flow of money has been pretty good, and secondly, our LTVs are continuing not to move up. It is still at about 70 odd percent level, and therefore the quality of asset is expected to, in my opinion, only improve from here. I would kind of urge you to look at the NPLs from two angles, one is the gross NPA numbers, and the net numbers, but the gross NPA numbers are actually coming down to an overall asset like, it you look at last September to this September, and one would always want to believe that the second half being extremely a buoyant second half at all times, we have seen in the last fifteen years, one would want to forecast a much improved situation even going from here. So far as the net NPL is concerned, it is the effect of what have you provided for and again it speaks of a high quality there, because if you have really been able to solve some of your high provided assets, either in the form of repositions or recovery or settlement and what you have in place is the assets which have been financed in the last 12 months if some of them come into the NPA which is the normal nature, then I think the ability to solve them going forward is much, much higher, coupled with LTV of only 70%, the NPA being pretty fresh and new and the second half normally being a much, much better half, I think we want to be very, very bullish on what we see as quality of assets going forward from here. We are confident from our side that there could be some drop in borrowing cost going forward and there is no urgency for us to pass it on to the customers and therefore one can see further improvement to margin if the borrowing cost had to come down from here. So, I would very strongly think that overall asset growth can even be as buoyant or even more exciting than what it looks to be. The margins can surely be protected even at this stage from here. It can rather improve if the borrowing cost had to come down. Our initiatives to bring down the overheads, our initiatives to control quality has worked well for us and therefore improvement even in that front with whatever percentage possible, 0.5% to 1% overall possible. I think we want to forecast that maintaining the return on assets at the current level or an improved level from here is definitely a doable proposition. The two subsidiaries of ours, the insurance subsidiary as well as the housing subsidiary continue to perform the way we expected them to. Again, insurance subsidiary is not a comparable figure because last year due to regulatory changes, the profits were pretty low, but just look at absolute basis they have made 14 crores of PAT in the six months. I think that is a good number to look at from the overall perceptive. So far as the rural housing is concerned, they are maintaining their aggressive stand of both asset growth as well as profitability growth. They have also maintained 60-70 % plus growth over the base, small base nevertheless, but at least the trend is very clear that we will be able to double the balance sheet on a year-to-year basis if the trend that is visible, so they will also add to growth of this company decently well. So overall if you ask me I want to continue to forecast that the semi-urban and rural market even in the first six months, which is climatically not a very favorable period has done much, much better. Monsoon even though delayed are fortunately turned out to be average in most of the locations. Most of the manufactures have announced either product or dealership network to support their growth from the semi-urban and rural market. Our own increased network in this geography and increased employee strength in this geography, coupled with our direct marketing initiate of reaching out to customers which are large in number, is going to be the direction through which we want to forecast our growth and as I mentioned all products that we working with today with multi profile of customers will be a very focused approach towards ensuring quality control and our legal internal vertical that we created to follow up and collect for disposal losses or delayed collection, I mean high bucket NPAs etc have produced phenomenal results, which is what one would see, the reason for the coverage coming down, because high-provided assets go out, and in its place when the first bucket assets come in, one would see a coverage to be a little low, but I would think rather than looking at the coverage being a little low, one has to start looking at it as a fresh NPA coming in, which are easily solvable and therefore the quality can be maintained at a much, much higher level. I would think summarily these are the directions, there is no pressure on the liquidity front as far as we are concerned, the banking support is good, our ability to borrow from the retail markets have been good, our deposit programs have been well accepted, and our ability to issue bonds etc has also worked well for us to be able to raise money. Insurance company support has been pretty good. No ALM mismatch as happened. No fundamental change to any our past has been done, we continue to aggressively provide. One would also see from our past maturity of securitized portfolio, how we get a right pack, which also is another direction to look at, how the quality of assets have been performing. The resale prices of the assets are held on, so therefore repossession is a good answer to liquidating difficult assets in case of you repossess them. So, I think summarily, things are going in our favor, and it seems to work well for us, and almost everybody we are associated with, seems to be enjoying this relationship for them to associate even more stronger to get us more business. So, I would want to kind of stop there to say that on an overall basis we continue to be very positive in our going forward from here. Thank you.

Moderator Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. Our first question is from Ashish Sharma of Enam Asset Management. Please go ahead.

Ashish Sharma: Just wanted to get a sense on the strong growth sequentially in the auto utiliary segment, which is M&M vehicles, what sub segments actually help to grow strongly in Q2 Sir.

Ramesh Iyer: See if you look at M&M themselves, are doing extremely well in the Bolero and the pickups and all those vehicles. Their volumes have gone up. In fact, they have been short supply products. And that has helped us get additional market share and I must also add here quickly that, you know, some of the banks otherwise, who are may be little more stronger in the past, we also see them go a little slow on the retail front, so I would think that is also an additional opportunity for us to even grow further. But otherwise largely contributed from pickup and Boleros and those set of vehicles.

Ashish Sharma: We talked about tractor growth, tractor growth for Q2 is around sort of 17% year-on-year, and 3% sequentially, but if you just analyze the sort of amount of tractors financed, it is closer to 900 to 1000 crores sort of run rate for the last 3 quarters. Do you expect that this sort of run rate is easily maintained, I mean, irrespective of how the tractor industry actually is doing.

Ramesh Iyer: Again, if you recall what I added, we have started doing even non-Mahindra tractors. So, even though the industry may not grow as much as we think we are growing, but adding more products to this is what has helped us grow better. That is one, second is what we have also seen in the number drop of tractor, I think the farm use tractors have come down and not the contract use tractors. Therefore typically, what can happen is somebody like us who are participating in the contract use tractors, may not lose market share, while the overall number may look to have come down.

Ashish Sharma: Now after the strong first half, and usually our second half is better than the first half, are we looking to up the guidance from 25 to 30%?

Ramesh Iyer: Honestly speaking, we always keep saying that to maintain this 25 to 30% growth is not very difficult. I think at this stage I want to leave it that. I mean, if we can get an opportunity we may not miss that one as we kind of move along. Today, our people strength, our reach, our processes are good enough to even get 5 to 10% more growth so we do not have to add any new productivity strength for gaining more market share, but if there was an opportunity possible and if we see that in some product or some pocket, we may not miss that, but I may not want to restate a guidance at this stage to say that we want to further grow over this more aggressively.

Ashish Sharma: Okay, and just one last question. The recent transaction in the Mahindra Insurance Broker, the capital gains from that is around 64 crores, is it expected to come in the second half of FY13?

Ramesh Iyer: Our expectation is as much as yours. This quarter we must put efforts for the money to come in.

Dinesh Prajapati We are in the final stages of entering into an agreement. The moment agreement is done, we will get them. It should come in this quarter. Reserve Bank permission, all those permissions, whatever the statutory permissions, the money is committed. It has to come. Whether it will come in the next 15 days or 45 days, depending on the various governments areas, it is only administrative thing. We have to take an administrative clearance from Reserve Bank. We have to take an administrative clearance from the other wing of Reserve Bank, so it is more of administrative clearances so we only hope that we want to expedite it. We will be very happy to get the money even today afternoon. Let us see.

Ashish Sharma: And this last question. Again this one on the capital raising. We have already asked for approval on the AGM for capital rising. We expect to close it in Q3 or will it be …

Ramesh Iyer: The approach is towards that, that is why we had the board meeting, we have announced the AGM on 6th November. We want to be ready from our side, everything going well.

We would like to raise, because it is a growth capital. Raise it at the most appropriate time and at the right price.

Ashish Sharma: This 925 crores would be next enough two to three years sort of growth.

Ramesh Iyer: Yes, yes, 2 years at least.

Moderator Thank you very much, our next question is from Ritesh Nambiar of UTI Mutual Fund. Please go ahead.

Ritesh Nambiar: Just wanted some clarity on the construction equipment segment . How is the onset of pool performing? Because there is some stress seen in your peer's portfolio.

Ramesh Iyer: Let me kind of explain to you, whenever you are, let us say, the number one player in the segment, and you have a very high market share, right, those are the ones who normally get severely impacted when the market conditions change. When you are just, you know, one of the players doing a small, small percentage of the overall assets, one is your very choosy about it, secondly, you are very selective in terms of the geography you want to work with, and three, you don't have to protect market share by doing things, which are difficult to handle. So we are very particular on our LTV. We are very particular on our rates, we are particular on the period for which we give, and we are very selective about whom are we trying to support. Fortunately for us, that being the condition, we are not able to yet see a pressure on our collection efficiency, but it may be wrong for me to say that all my customers are paying on or before the due date. It may not be. There are some delays because ultimately the contractor collections are delayed possibly from the Government Treasury etc, so it may delay, but we are not overly concerned to say, is it going to impact our asset quality, may not. Because we are a small player.

Ritesh Nambiar: Sir, majority of the addition, which has happened in this quarter is from which segment.

Ramesh Iyer: No, no. I think car would be one, which would have shown some decent growth for us. It may not be from construction equipment, the majority of the growth.

Diensh Prajapati: UV is the highest growth for us, because Mahindra themselves are growing at 20% odd percent there.

Dinesh Prajapati: Followed by car.

Ramesh Iyer: And then followed by car.

Dinesh Prajapati: Followed by tractor, followed by pre-owned vehicle, and followed by CE.

Ramesh Iyer: Actually, if you look at the priority, we continue to remain a dominant player for UV, tractor, car, and then construction equipment, commercial vehicle, and second hand vehicle are the last two products, which has been introduced 18 months back, and we are kind of going at a very, very normal rate and not at a very aggressive pace.

Ritesh Nambiar: Could you touch base upon your JV, Mahindra Finance LLC.

Ramesh Iyer: JV at the US.

Ritesh Nambiar: Yes.

Dinesh Prajapati: Okay, we have already built about, I think about more than a year now, April 4, we started the company, 2011. Now in October 2012, it is roughly about 18 months, 18 months is over, but we already built a portfolio of Dollars 210 million there. On day one it is was a profitable company amidst all the problems in US, this is one of the very few probably finance companies making money. So far, this year, we have made to close to about $300,000.

Moderator Thank you very much. Our next question is from Subramanium PS of Sundaram Mutual Fund. Please go ahead.

Subramanium PS: My query was, again the asset quality, if you could just throw some color on any pockets of stress that you are seeing with this. While you have explained that, you know, the new incremental gross NPA is on the more near term bucket, where the credit cost will not be high, if we just look at the numbers, the provisioning to assets have actually moved up from something like 100 bps to 160 bps. So, if you could just, whatever little NPAs have happened, if you could tell us how is it that these have been formed in which pockets.

Ramesh Iyer: One is, we continue to be aggressive in terms of our provisioning for personal loans and 2-wheeler portfolio is concerned, which we even explained in the first quarter. Okay, so any asset may not have become an NPA, but if you want to take up precautionary provision, we are going ahead and doing that. But if you really look at it as otherwise, the assets are grown between last September to this September, if you look at the asset base growth is about Rs 6000 crores. Okay the gross NPA would have grown by about 150 to 160 crores or so. So as a percentage of the new NPAs coming to the asset, is just about 2% or so. So it is actually lower than the company average. So, on an absolute value basis, it may look to be that we are making a provision little more, because the number of contracts have gone up, new contracts come in, and all kinds of stuff, but the good news for us as I explained is, high provided assets have gone out, and the new provisions have come in, that is the new class of assets, which have been financed last 12 months, some of them have come into NPA, as a percentage to the asset of those assets, there is no kind of an alarming signal at all whatsoever. Clearly, one would see a correction of that in the second half because they have just moved into NPA, may be not be paying one installment, two installments, which were due fourth, fifth installment whatever. Once you start collecting that, one would see the same correction that you have witnessed in the past. So I don't think we are looking at it all from a point of view of this thing slipping so very badly, is there a particular geography or any particular asset. I don't think we are getting any signal for that type so far. Fortunately our LTVs have held up at 70% level or below 70% level. So, that is another good news for you know, when somebody defaults, if you think we need to take back the asset, I think the asset has the capability to protect the principal asset.

Moderator Thank you very much, our next question is from Rajat Budhiraja of Banyan Capital. Please go ahead.

Rajat Budhiraja: First of all congrats for the good set of numbers, and my question is a follow up of the previous question, basically I need to understand the NPAs are coming, specially the new NPAs, which are the pockets these are coming in, if you can just give us some figure or an idea.

Ramesh Iyer: That is what I said, I don't we are seeing it from any particular geography, or any particular asset class. You will always find NPA in tractors during the first half, will go up because the money for tractors will start flowing in only from now on. So, that has been our historic 15 years. We have not seen any new trend over what we have seen last 15 years.

Rajat Budhiraja: Because what I feel that your product mix is changing, to the car, so I just want to understand like what are you planning in the next year, or the next to next two years, where exactly this product mix will go.

Ramesh Iyer: Again, I want to be clear, the product mix change does not mean that we are doing anything less for tractor or anything less for UV, or anything else. It is just that more products are getting added to our portfolio, typically if you look at the market share, that we have for tractors or market share that we have in the Mahindra products like UV etc, based still the same as what it used to be, 30 to 32% of their sales. In far as Maruti car is concerned, it started exactly this way, we were at 2% or 3% market share, it has now matured to a 10% market share level, 9 to 10% level. Now with the new Alto launched by Maruti, they are expecting this car to sell more in the rural market, may be our market share will improve from 10 to may be 12% level. But please understand, it is not that the overall percentage is going to tilt more towards car and we are going to move away from tractor or something, as a percentage, it may look to be that way. But on a market share basis, tractor will continue to be about 30% of what they sell, which would be roughly about 15 to 18% of our balance sheet portfolio.

Rajat Budhiraja: So, basically you are not targeting intentionally specially for the cars.

Ramesh Iyer: I don’t know, intention or otherwise, it is a good opportunity with our 650 branches, with our 2 million customer spread in 1,70,000 villages, our approach has changed to say, we will finance any product that the customer is planning to buy. Earlier we could grow only if the dealer sold certain product, because we were on a restrictive product range. Today, with our direct marketing initiative, like I said in the beginning we are able to now do some competing tractors as well about 800 to 1000 tractors per month of non Mahindra brands. So that’s is an opportunity which has opened up for us to be able to go to a customer and support him to buy what he plans to buy rather than go to a dealer and support the dealer to sell what he can sell.

Rajat Budhiraja Just want to understand related to the breakup of your AUMs, so where exactly this farm-related equipment apart from tractors would go in different breakup that you would actually go ahead.

Dinesh Prajapati We are into auto space only.

Ramesh Iyer What farm equipment is in your mind?

Rajat Budhiraja I was talking not for tractor, but if you are financing the dealer or anything else?

Ramesh Iyer That would not come as a part of tractor portfolio because if the same customer is buying the implement, but on a specific basis we don’t reach out to finance of farm implements separately if the tractor is not being bought. We finance the tractor attachment products only.

Rajat Budhiraja Just going forward, the areas you were saying the growth is coming from different segment, so in terms of yield on advances or I would say spread to NIMs, what would be the sustainable margin going forward, because we have seem some regulation related to product mix, so going forward what are you thinking, what are your plans to take it to?

Ramesh Iyer I think if you look at our mix now, it is a very appropriate mix of all products and it has got certain NIMs at this level. Are we seeing this NIMs to dip because the product mix change? I don’t think we are forecasting that. If the borrowing cost comes down, one would see an improvement to the tiffany, I am not saying that we have already saying that it is going to down by so much, but if at all, but I think more importantly I would suggest to look at if there is product, which is a little lower NIM, it has to contribute or offset by a better transaction cost and a lower NPA provisioning, so at the return on assets level, I don’t think we want to forecast any dip at all.

Moderator Our next question is from Venkatesh Sanjeevi from ICICI Prudential Asset Management. Please go ahead.

Venkatesh Sanjeevi I just had this question on the particular food provision you have made on SME account. Could you just us what is this SME lending which you do?

Dinesh Prajapati As I was saying, we just started last year or so and there were some lending to the Mahindra Group of Eco Systems and as you know the economic cycle is slightly slower, so there is some delays on account of that, which we are pretty much confident of recovery in this half.

Ramesh Iyer It is a conscious provisioning, it is not that it has already became an NPA or whatever, but since the supply side has been a little slow, we did not want to not make a provision, but I think as we speak itself, this money would have come or will come, so we are very clear, it is just a conscious provision that we have made. To be very honest with you, this is also to put a little pressure internally to the team handling it to say just because it is Mahindra Eco System, we shouldn't be taking it easy.

Venkatesh Sanjeevi So how large is this SME book?

Ramesh Iyer If you look at a 25,000 crores balance sheet, SME will be some 200 or 300 crores or something like that.

Venkatesh Sanjeevi Most of this will be the Mahindra Eco System?

Ramesh Iyer Most of it or almost all of it. Out of 300 crores, maybe 30 crores is to outsider.

Venkatesh Sanjeevi This is classified under your others category, is it?

Dinesh Prajapati Yes.

Venkatesh Sanjeevi What else is there in the others category?

Dinesh Prajapati Others will have personal loan and some extent two-wheeler loan.

Ramesh Iyer Again 2-wheeler and personal loans are more or less to Mahindra Finance existing customers who are taking either a 2-wheeler or a personal loan, but there again if you recall we have an aggressive provisioning norm, at the end of 60 days we provide even if they are one or two installments delay.

Venkatesh Sanjeevi What are the future plans for SME book and I know the small book right now, but what is your?

Ramesh Iyer Personally if you ask me, it is not going to be a game change in our book at all. It has a capability to go maybe up to 1000 crores, because when we are very restrictive to auto industry and within on road to start with only Mahindra, I think we will met our feet for two years with M&M to understand what are the challenges, what are the cycle, what are the legal possibilities, all kinds of things before we even launch it as a product to outside.

Venkatesh Sanjeevi Other question on LTV on CD book, let's say one year or maybe one and half year basis, our LTV is increasing or what is the trend on this in particular to your CV and CE book?

Ramesh Iyer In CV and CE, I think the LTV would remain constant, in the sense, if you don't finance their purchase of trailers or tankers or whatever, normally it should be on the chassis will be about 85 to 90% kind of a situation, because we don't really participate to finance them in an overall project. If you take the overall project, this will not go beyond 50 to 60% on the total project.

Venkatesh Sanjeevi On the chassis what 85 to 90%?

Ramesh Iyer But this is for HCV, LCV there is no chassis body kind of a thing.

Venkatesh Sanjeevi Has this remained constant over the last 1 year? Because we got some feedback on this.

Ramesh Iyer We are on an 18-month player in this, so we launched it only with low LTV. Let me explain, the LTV game is, if you have to protect the market share and if you are a very high market share player, if your insignificant 2% or 3% market share, you can be as strict as you want, you will still get your numbers, but if you are a 40% market share and you want to maintain it more players coming in, offering different products, then I think you get into this high LTV scenario.

Venkatesh Sanjeevi Roughly, what would be your market share in the rural car segment?

Ramesh Iyer In Maruti, we have about 10% market share and largely done only in the rural segment. In Hyundai again we are the number 1 financial, but Hyundai numbers itself is very low, we do about 1800 cars and I guess about 1500 will be in that segment. So if you ask as a overall car sales and our percentage, I am not too sure that I have it with me, but Maruti being the largest we have about 9 to 10% market share.

Venkatesh Sanjeevi Is it 9 to 10% of their overall share?

Ramesh Iyer Yes, in the represented market, it will be double of this may be about 18%.

Moderator Thank you very much. Our next question is from Prashant Shah from Vantage Securities. Please go ahead.

Prashant Shah Coming to your PCR, wouldn't it have been better for you to maintain it about 70% because the very economy's performing, there might be some stress is going ahead in the rural market, we are slipping over from the urban and semi urban markets?

Ramesh Iyer 60 or 70 will depend on how long the asset has remained in your book as NPA. The same asset if it continues with us for next 6 months or 10 months, you will see the coverage automatically will go up to 75 or 80. I would want you to think that if the coverage is 60 to 65, then it has just entered the zone of NPA, then opportunities stays the reposes recover and rectify the situation rather than help go to higher coverage. So definitely we will attempt our best next 6 months to recover, but if we can't, then when we start making higher provision on the same asset, the coverage will move up to that levels.

Prashant Shah I was thinking in terms of maybe you could put some counter cyclical provisions like RBI's mandated Basel-III?

Ramesh Iyer We started doing personal loan or two wheeler where we think that even repossession is a remote opportunity or it is not a cost efficient opportunity. We think we want to make a higher provision which is what we did in the first quarter, so we will go asset class wise and maybe we will take up even geography wise if you see after the festival season and harvest season, if we see some geography not behaving well, then we will start bringing in those factors like one of the years in the past, but otherwise this 6 months, which is normally the good second half of the rural, our best attempt will be to recover if not to repossess, even if that doesn't happen, then obviously it will go into the next bucket of provision which will improve the coverage ratio.

Prashant Shah In the beginning of the call, it was mentioned that you had one of charging on account of this small ticket, personal and two-wheeler loans of 12.7 crores, you had that in the last quarter also, were you just talking about the last quarter or there was a similar provision this quarter also?

Ramesh Iyer We were talking about the first half quarter.

Dinesh Prajapati This is cumulative provision.

Ramesh Iyer Yes, cumulative not additional.

Prashant Shah In addition to that you had another 15 crores on SME.

Ramesh Iyer Yes, that's one transaction which we said.

Prashant Shah You mentioned that there will be some write-back on account of your securitizations, so what would be the securitization for the quarter in the securitizations income and what would be the extent of the write back during the quarter.

Dinesh Prajapati During the quarter, we have not done any fresh transaction. There is a pool which was matured in this quarter, so there is a write-back of 8 crores in this quarter.

Prashant Shah So, its addition to what it was in the last quarter?

Dinesh Prajapati Yes.

Prashant Shah Coming to your branch expansion plans, what will be the extent of your run rate for the next half end for the future periods and you mentioned that you will be focusing more into the rural and semi urban areas, am I correct?

Ramesh Iyer That is where we already work.

Prashant Shah What would be the extent of your run rate? How many branches you are expected to open in the balance of this period and maybe in the future?

Ramesh Iyer Normally we don’t drive it by any target of how much we want to have, we look at our customer cluster and then start opening branch, but typically one can feel that overall in a year, it is 10% over the previous year, so I think we may add another 15 to 20 branch to close it at around 650 to 655 branches.

Moderator Our next question is from Shweta Mane from Arihant Capital Market. Please go ahead.

Shweta Mane Just wanted to understand do you have any targeted product mix in place or would it be on similar lines the way we are seeing it today?

Ramesh Iyer I think it will be similar way and this is targeted. In the sense that we will be a dominant player for Mahindra UV tractors, Maruti cars, we have now become the Number 1 for Hyundai cars. In as far as commercial maker, LTV construction is concerned, I think we will be a small player, because the large volumes get sold in urban centres, so it is the opportunity in the rural space will not allow us to become Number 1 or Number 2 there and about 10% of our portfolio, we want to focus on second hand vehicle segment.

Shweta Mane You spoke about tractors and construction equipment segment slowing down and still our disbursements picking up, with similar kind of a growth, we have seen first CV segment to slow down in industry and as well as for your peers, so how has been your performance over there and also the asset quality particularly on the CV segment.

Ramesh Iyer That’s what I explained. We neither have a concentrated product line or a concentrated market for us to be under pressure of growth. We have a wide spread market and we are insignificant player in terms of market share, it is about 2 to 3%. So we don’t need to reach out and do something substantially different to grow in that segment. If you really look at the CV segment slowing down, it is some fleet operator segment that normally by very large fleet and that is not our customer segment at all. Our CV includes also LCV and this is a growing segment at 35% currently. That's why we are growing. If we were to be a very large fleet operator, then we will be narrating the same story as many others to say commercial vehicle is slowing down. Our CV includes even LCV, which is growing and our CV is less than 5 truck buyers one truck two truck buyer and there we are not seeing this kind of an impact for us to really overdo something to maintain market share.

Shweta Mane Can we have the LTV segment wise?

Dinesh Prajapati In auto it is 71, in commercial vehicle it is around 84, in car it is again 70, in tractor it is around 65, and in preowned vehicle it is again close to 60.

Ramesh Iyer I just want to add here, this is one of the reasons why we are able to curtail and control our NPA.

Shweta Mane If you could throw color on the margin outlook in the light of anticipated rate softening or the new securitization guidelines little bit in favor of NBFC now and you also mentioned in your opening remark, the borrowing cost coming down and lastly change in loan makes which pressurized your yields for past couple of quarters, so in light of these few factors, how do you see your margins shaping up going ahead?

Ramesh Iyer At this stage, I can only tell you that if borrowing cost comes down we are not in a hurry to pass it on to customers. Whatever you are forecasting is it is likely to come down, it is something that we can retain over a period of time. In as far as the pressure due to product mix is concerned, while at the NIMs level, one did see some dip even in the past, but it is more than offset by lowering of transaction cost and lowering of NPA in those same segments, which is why the ROA is going up.

Shweta Mane If you could give the average number of vehicles repossessed this particular quarter?

Ramesh Iyer I think on an average repossess if not more about 1000 or 1200 vehicle per month, but we are able to sell almost 50 to 60% of that volume.

Moderator Our next question is from Shrinivas Rao of Deutsche Bank. Please go ahead.

Shrinivas Rao The question was on your collection efficiency where they comment that it is kind of improving, it would be helpful if we can get some more colour on exactly how this you expect the trend over the next 6 months?

Ramesh Iyer I would think, as I thought I said it already. The second half is normally a much better half from the cash flow perspective because of the festival activity, because of the harvest coming in and then projects restart after the monsoon. Normally one sees in the second half, the collection efficiencies are much different from the first half, so I was just trying to give an explanation to say if we are 1% better than first half of last year, added to that if things were to pan out the way we forecast for the second half, while we would see even much better improvements. The gap would normally be about 2 to 3% higher in the second half over the first half, if supposing the first half was 95% it normally goes up to even to 98% and during good months of January and February one would even see crossing 100% collection where the overdue starts coming down actually.

Shrinivas Rao Seasonally, of course you always see an improvement in the second half, statistically to this year given that the feedback is festival has been a bit more muted than one would expect?

Ramesh Iyer Let me explain to you. This muted festival is an urban phenomena, not a rural phenomena. I have a feedback of the last couple of days of showroom crowd for vehicles and it is overwhelming crowd. And then you look at Maruti's buoyancy on Alto, they are saying that more than 60 to 70% of it is targeted in that segment.

Moderator Thank you very much. Our next question is from Mahrukh Adajania of Standard Chartered. Please go ahead.

Mahrukh Adajania Lot of discussions has already happened on NPL, can you just give us a flavour of segment wise NPL, I know you said that there is no concentration geography wise or class wise, but yet so because have risen quarter-on-quarter, so which would be the key segments contributing?

Ramesh Iyer Let me just clarify, quarter-on-quarter would always be there because March will be the lowest and therefore if we look at the first quarter, it would be higher, because the correction will happen only in the second half for the same reason that I am explaining that if the cash flows in the rural come only from October onwards, while we would see by close of March the NPAs are at its lowest and the same factor will happen even this year and it has been the last 15-year phenomena. In as far as the overall segment wise is concerned, while it is not ready with us, but I think it will be tractor which will have the highest for the same reason, it will not normally be able to pay during the monsoon and they start paying no sooner the crop pattern starts happening, the first of that one would see is November when the cash crop money comes in and then the second half of it will be January and February when the harvest comes in and there the geographical mix would be South will behave better after January because of the Pongal harvest, etc., North would behave better immediately after November after the soya prices are announced and UP would behave better sometime from March when the sugarcane prices comes in.

Mahrukh Adajania What would be the size of your SME book?

Ramesh Iyer I think 300 crores is the total book, mainly to Mahindra Equal systems, Mahindra suppliers and their dealers whatever. We are not a major SME player outside the Mahindra ring.

Mahrukh Adajania And so this 15 crores which you provided for that is not part of NPL, right?

Ramesh Iyer No it is not an NPL account per se, but we have provided for 15 crores on that, but we have in our presentation we have added it to the NPL for this purpose, since we have made a provision. Technically it is not NPL account, but just we have taken a view of little supply constraint that they had, etc., but as we are talking itself maybe this money will come.

Moderator Thank you very much. Our next question is from Nilanjan Karfa of Brics Securities. Please go ahead.

Nilanjan Karfa The operating expense side, has it remained broadly stable between 32 to 36%, but if you look at the on an average asset basis, I think you are gaining some kind of an operational efficiency, could you throw why is it happening and how do you expect it to trend going forward?

Ramesh Iyer I think one has to look at it like this. When you are a single product company from the same branch, you don't grow asset and then your cost therefore remains let us for this purpose 3%, but from the same branch without addition of too much of manpower, if you are able to get benefit of volumes in that market, then your cost starts slightly climbing down. The second is, when you depend on a dealer community for your sales, your pay them certain sales commission for referring to you. We have started a direct vertical called direct marketing vertical where about 10% of the business is generated by us, where there is no acquisition cost at all, that's another factor why it keeps coming down. Third is other than people cost in our branches, everything else is kind of, for any volume it is a fixed cost, for example a rent of a place. If you pay Rs. 5000 rent and you do 1000 vehicle and you start doing 2000 vehicle the cost starts coming down. So infrastructure cost is not a variable for us, people is a variable cost and customer acquisition is a variable cost and therefore if this two variable cost either are better utilized by higher volume or paid less for increasing volume, then your overhead starts climbing down, but if you ask me today we may be at one of our most efficient levels, the chance to improve it could be 20 business points here or there.

Nilanjan Karfa If you can throw some colour based on your older branches, which have been in existence for 4 or 5 years, how has this trended and at what level, I am sure it would have peaked out at some level?

Ramesh Iyer A branch when it becomes more than 3 year or 4 years, and if they don't grow bigger, then the cost will be constant. If they grow bigger, then they go to new premises from where on overhead starts increasing. That is why I am saying we are at our best in terms of whether old or new branch. We are not able to forecast beyond 3% when it falls down substantially, I don't want to make a comment right now. Because you don't get the benefit of scale on an All India basis even if you grow at 40%, you will get the benefit only branch wise, which is why I used the term called fixed cost is fixed for a volume, if the variable cost are only people and acquisition cost, and people are related to number of customer that you acquire in that market every month.

Nilanjan Karfa Just wanted to get a flavour, in terms of the project announcements by the local or state government and the cash flow that come out of it, I understand, last couple of quarters it was pretty difficult, how do you see this panning out and how is currently and how do you see spanning out in the view that there might be national actions at least 18 months down the line.

Ramesh Iyer It was the central projects which were a little slow not state projects. Like state projects whether it is Bihar, whether it is Gujarat, whether this Chempi, I think they were all on stream. Yes, there were some delay in cash flows, but projects were not substantially delayed. It was the larger government projects like may be a dam or an irrigation or the power or those kind of projects where there were some slow. So we continue to be bullish on the local level infrastructure projects and we are not financing for very large contractors who borrow 5 to 10 crores from a finance company and all that, we are single truck, single UV those kind of individual finance, their subcontractors are not main contractors.

Nilanjan Karfa Why I wanted to ask that question, we have seen couple of specifically in Maharashtra there is lot of things that have come out on the irrigation side, I am sure this would be pretty similar in terms of finding out scams if it is in other states?

Ramesh Iyer Everywhere it will be there, let us believe it that way.

Nilanjan Karfa Do you think that it has impacted the overall take off in terms of assets and projects?

Ramesh Iyer If you finance the main contractor who takes the contract from government, one could have much larger impact because he is depending on the entire flow from there, but the small contractor they are normally people who attach vehicle, so they do not care where and to whom they attach, they will keep moving from contractor A to contractor B, application A to application B and at any point of time, their outstanding would not be more than 1 month billing because that is the cycle in which they live.

Nilanjan Karfa So it is a 1-month credit cycle?

Ramesh Iyer 1 is an exaggeration, 1 can go up to 2 months.

Nilanjan Karfa And you are not seeing any pressure because of those?

Ramesh Iyer Let me be very honest, if the LTV go beyond 75%, you will start feeling the pressure that whole game is controlling the LTV.

Nilanjan Karfa When we talk of, if LTV go from below 70 to 75, either you are sacrificing growth and retaining LTV or the other way round?

Ramesh Iyer I think if you have an ability to generate sales, you will never sacrifice growth. We have not felt any pressure on other side growth, we still think what we do is a silly small number against the overall opportunity.

Moderator I would now like to hand the floor back to Mr. Karan Uberoi for closing comments.

Karan Uberoi On behalf of JM Financial, I would like to thank Mr. Ramesh Iyer and the entire management team of Mahindra & Mahindra Financial Services and all the participants for joining us on the call today.

Moderator Thank you very much. Ladies and gentlemen, on behalf of JM Financial that concludes this conference call. Thank you for joining us and you may now disconnect your lines.