"Mahindra & Mahindra Financial Services Limited 2QFY14 Analysts Conference Call"

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MANAGEMENT: **RAMESH IYER – MANAGING DIRECTOR**
V. RAVI – CHIEF FINANCIAL OFFICER
DINESH PRAJAPATI – VICE PRESIDENT-TREASURY & CORPORATE AFFAIRS
RAKESH BILDANI – SENIOR MANAGER-TREASURY

MODERATOR: **PANKAJ AGARWAL – RESEARCH ANALYST, AMBIT CAPITAL**

Moderator: Ladies and gentlemen, good day and welcome to the Mahindra & Mahindra Financial Services Limited 2QFY14 Post-results Analyst Conference Call hosted by Ambit Capital. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing '*' followed by '0' on your Touchtone telephone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Pankaj Agarwal from Ambit Capital. Thank you and over to you, sir.

Pankaj Agarwal: Good evening everyone. This is Pankaj Agarwal from Ambit Capital. I welcome you all to the second quarter earnings conference call of Mahindra & Mahindra Financial Services. The officials who are representing from Mahindra & Mahindra Finance on this call are Managing Director – Mr. Ramesh Iyer; Chief Financial Officer – Mr. S. Ravi; Senior GM-Treasury & Corporate Affairs – Mr. Dinesh Prajapati; and Manager-Treasury – Mr. Rakesh Bildani. Thank you gentlemen for joining this call and over to you.

Management: Thank you. Good evening. I will take you through the summary of what we thought this quarter was and where do we go from here and anything particular to the number and things like that can be answered possibly through a Q&A and I assuming that all of you have the results already with you and therefore I am not really going to deal with each of the number. So to just begin with I think it is very, very important to keep in mind the backdrop of what is happening overall in the marketplace. One, clearly all of us knows that the auto industry is kind of slowing down and it is going not as expected. Two, the liquidity market in this quarter particularly had its own volatility both in terms of money availability as well as the interest rates the way they were volatile.

I think climatically it was monsoon throughout the country while it is good news that it is a good monsoon but the benefit of it will only follow in the future quarters and therefore one should understand the number of working days available during these 90 days of this quarter is not the full 90 days. We would have lost not less than 20 to 25 days due to such climatic impact across different geographies. And also some states are particularly going through difficult times politically and therefore what is the economic activity slowdown are the three or four pressure points that one has witnessed during this quarter. And as again that there are enough I would think weightage plus points for an organisation like us. One, even though the market for liquidity has been under pressure but for us to raise money from the banking system or from our fixed deposit programme or from issuing on some bonds or whatever are those instruments that we use to raise money, we have not had the pressure of not being able to raise funds. So we have been able to comfortably raise liquidity. But yes, whatever is the market rates have been the pressure for all of us and therefore one had to be cautious in even deciding should one be in that much business by raising money at this price.

Two, with the kind of pressure of volumes that we talked off in the auto sector I think to some extent they have been either offset or balanced out by tractor sales being better. Also, the second-hand vehicle demand as far as we are concerned was favourable. But yes, when you look at the second quarter of last year versus the second quarter of this year, the commercial vehicle market has completely been out of sight, not doing well at all and we have been very conscious the last six months of not wanting to do commercial vehicle in a big way and to that extent there would be clear pressure in terms of the disbursement numbers are concerned. But it is a more conscious decision to decide how much does one want to really grow in a volatile scenario like this. We have actually put our house in order, in the sense, developing a deeper channel to be ready for the third and the fourth quarter.

We have put adequate people in place, created lot of internal teams and systems in place to be able to handle recovery much, much better than one would thought one can handle and therefore our focus has been more on process correction, operational controls ensuring transactional cost controls and ensuring quality improvement. That is a focus we have kept in this quarter and therefore we are not overly concerned if the disbursements have been little slow in its growth but we are very, very happy to mention that if you look at our quality of assets, we have not deteriorated at all over the first quarter of this year. In fact we have shown improvement over the first quarter.

We have also taken some very bold conscious decisions of ability to repossess vehicles safely and sell them off even if it means that we have to book little loss on those transactions rather than leaving the vehicle or the collateral with the defaulters' hand. So some such actions have also been initiated by us and therefore I would think the second half for a company like us is always been a phenomenally good second half all through in the history and with a good monsoon that we talked off we do expect that the crop yields will be good, the support will be good. Just as one indicator would be in Madhya Pradesh, the soybean price has been announced and the price is an extremely good price. But yes, the crop was a little destroyed due to the monsoon and therefore dual pricing has been announced on the quality of the crop. But it is still, in terms of yield and price, it is a phenomenal price. The festival that just went – the Dussehra festival, was the excitement as high as it was last year? I would personally think the answer is, no. But then if you look at the last six months and look at what was October, I think October was very different from the last six months.

So I think clearly there are trends of volumes picking up due to the festival. One is expecting the balance of the month going into Diwali will be a big month and will be followed by a good cash flow arising out of yields. And then comes the southern harvest time which is January and one would expect the southern market to improve. As we mentioned, in the first quarter, I think the southern market continues to be not doing as well as it was in the first quarter. It is only doing as much as it was doing in the first quarter but it is not a problem at this stage because in the south yet it is not the season. The south would start getting rains only from now especially Tamil Nadu and therefore January is the real season for them and the dealers across southern India do express that there are expectations of positive trends; the sentiments are positive.

I think we are not overly worried about a little low volume in this quarter. I think we will make it up as we go along as the expectations of volumes are much, much higher and as always in the past we have now working with almost every manufacturer and every new product that gets launched and therefore that is an emerging opportunity. Our cash flows in terms of collections, we are very happy and comfortable and as we close this quarter we are at the same level that we were in the first quarter and one can only see a further improvement going from here. We are increasing our channel growth to get the benefit of whatever can be in the next two quarters and therefore we are not going to slow down on people recruitment and on channel development. As far as the ability to raise funds is concerned, we do not have an issue in hand. We can answer any specific question on that as we go along. Yes, after some controls have happened on the rupee volatility, I think interest has also settled down. It is not scary as one thought as we were in the quarter that we just ended.

So, in summary, I would think that it was a very satisfying quarter so far as we have concerned from all aspects of the top-line growth and the asset growth on the quality of asset maintenance and as far as the profit and margins are concerned. Very importantly if you recall we had said in July that we pushed up the rate which would have come in to play from August-September and one can see possibly a little improvement in our NIMs which has happened as we close the quarter which has come purely on the strength of our ability to pass on the rates to the customer. So even on the NIMs front we feel very comfortable. We can possibly go into details of each of this and even at the backdrop of many negatives around I think we still feel very buoyant and positive about the rural market. We are not seeing signals of substantial slowdown or a crackdown in that market and as the monsoons, as we are talking, as a festivals, as we are talking, the sentiments continue to be very positive and therefore we would want to capitalise on this emerging situation from the rural market.

So thank you so much. That is from me as far as the initial input is concerned and may be we can get into specifics of anything that you may want to understand. Our whole team is here. Thank you so much.

Moderator: Thank you. Ladies and gentlemen we will now begin with the question and answer session. We have the first question from the line of Nikhil Rungta from Standard Chartered Securities. Please go ahead.

Nikhil Rungta: Just one question, the repossessed assets which we talk about, is it in line with 1Q or it has increased or decreased?

Management: In terms of absolute volume, it has come down. That is because we have disposed of a decent number of vehicles during this quarter. So, in absolute numbers, repossessed vehicles have come down. But also it is important to note that there is no point in storing vehicles because then the resale price keeps dropping and therefore we have taken some bold decisions to also repossess from defaulting customer. In the normal good market conditions we would have allowed more time to the customer.

Nikhil Rungta: And like the number of repositions which happened during the quarter, was there a higher amount of sale from that also, this is from the outstanding stock of repossessed stock?

Management: I think it would be a mix of the two. I mean it is not in first-in first-out method. It is whatever the demand of the vehicle is; see we have different formats of disposal auctions, customer coming back and settling, dealers buying some of the products and then capitalising it. So we have various formats and therefore all vehicles are offered in the yard and whoever picks up whatever.

Nikhil Rungta: So in terms of outstanding stock or reposed stock has also come down QoQ and the number of repossessed stock has also come down in terms of incremental quarter-on-quarter?

Management: When you say outstanding means what?

Nikhil Rungta: That outstanding at the end of quarter the stock of repossessed stock assets which we have.

Management: Yes, that has come down. That is what I am saying. That has come down. But you add one more thing along with it I mean the….

Nikhil Rungta: Yeah, the incremental repossession which we do, that one has that also come down or that is in line with this?

Management: That is in line with the first quarter. See normally we repossess about 1,500 to 2,000 vehicles and then sell almost the same number which is why you will find most of that at the stock levels are the same. And in a specific quarter like this where the demand is a little more, like for example, the tractor market was doing well and so if there is a demand for second-hand tractors. But at the same time we should keep in mind that stock in certain markets like Andhra would go a little slow when the market condition itself is not too conducive. We may not want to push too much to be sold in that market at the same time repossessions will also be cautious.

Moderator: Thank you. The next question is from the line of Prakhar Agarwal from Edelweiss Securities. Please go ahead.

Kunal Sangoi: Kunal over here from Edelweiss. Firstly, if I look at the calculated yields that seem to have actually gone up by say almost more than 60 basis points, so apart from whatever is the increase in the lending rates which we would have done across most of the product segments, is there any other element included in that comes up for securitisation income or something?

Management: No, securitization, we did not do any securitisation transaction but yield may not be purely by a rate increase, it could also be some product mix, still like little more of refinances done then the overall yield may look better. So it is not purely by a lending rate increase to that extent. As I explained, a lending rate increase has increased the yields by about 30 basis points or so. The others could be out of some product mix exchange all that but definitely no securitisation income or anything specifically which has been booked in this quarter.

Kunal Sangoi: And secondly, if I look at it in terms of the repayment, so actually what is the disbursements during the quarter and just calculated in terms of what could be repayment run rate that is actually lower than what we had seen historically over the last 6-7 seven quarters? So is that the trend particularly or what is there to read into it?

Management: I thought in my introduction I said see this quarter we would have worked only out of the 90 days, we would have lost at least 20 days purely because of the climatic situation and not able to really reach out to customers for collection and things like that. And some specific locations like Andhra would have reflected a little lower collection. But it is not abnormally lower than ever in the past, may be 1% or 2% lower than in the past.

Kunal Sangoi: Yes, almost like 2% to 3%. So sir whether may be if then it should get reflected in terms of say the higher delinquencies or say deferrals?

Management: It would not be delinquency because even if the current demand does not get collected on time it will be shown as a little less collection. It is not out of six installments outstanding that the customer is not paying. Even some new loans that we would have undertaken one month back and then the first installment is due, please understand that we are still operating on physical collection model. 100% is not on a PDC platform. Otherwise this answer would not hold good. When 60-70% collection is still physical in nature and then your ability to reach out due to some temporary conditions of the markets delays it one would see. But one may see this improved immediately in the first week of October or second week of October as we are able to reach out more offers because otherwise the gross NPA should have jumped. Let us say that if all these collections are not coming from NPA accounts and therefore delinquencies have to go up, right? Then that will reflect there.

Kunal Sangoi: Yes, so would it come with a lag of a quarter or a two that is what my question was actually say for it is like the lower repayment is getting reflected?

Management: I want to tell you that this little less collection has nothing to do with quality of customer. That is the point I am making.

Kunal Sangoi: So maybe the trend of say much better numbers in terms of the second half sir, recoveries and collections being on a better side as we go into 3Q and 4Q?

Management: See 1% or 2% lower collection is a very small fraction of the overall.

Kunal Sangoi: And sir, lastly in terms of for the overall provisioning cost of say Rs1,026 crores. So if we look at it in terms of a gross NPL there is hardly an increase, hardly like a Rs70 crores increase which is there plus not a significant growth in the AUM wherein we would have to maintain the standard asset provisioning. So then what is the balance increase higher provisioning on account of?

Management: So basically when contracts mature and go up to 100% and all that right? You can see it has reflected in lower coverage. So what has typically happened is, let us say, some contracts were in the second bucket of 50% provision, okay. They move to the next bucket let us say of 100% provision or repossess and sell vehicle and book a termination loss. So within the same NPA which has already in book you make a higher provision or close the contract by termination, whatever is the difference as a loss?

Kunal Sangoi: So would that may be on the termination, whatever we would have booked is it relatively on a higher side in this quarter or nothing to…?

Management: No, it would be wrong I mean see ultimately one has to look at the total provision made including termination loss. So therefore if you look at our P&L, the first quarter if it was Rs125 crores, in this quarter also, its almost the same number which means it has only changed category within. We have decided to reprocess sell close contracts if necessary.

Kunal Sangoi: But sir, in the first quarter we had seen like almost Rs400 crores increase in GNPLs as well?

Management: Yes, so that is not there now?

Kunal Sangoi: Yes, that is what. So OK.

Management: That means we have been able to hold the quality of the asset and within what is NPA we are trying to take corrective action of either settling the contract or providing little more if required.

Kunal Sangoi: So it is more of a seasoning which is there or sort of a market-wise provisioning?

Management: Yes, clearly.

Moderator: Thank you. The next question is from the line of Ashish Sharma from Enam Asset Management. Please go ahead.

Ashish Sharma: Just on this disbursement growth for 2Q at 5%, I think you mentioned about so was it a sort of a technical call from the company side that we want to slow down the growth, I mean just some colour on that sir?

Management: I think it is mix of three things. One, of course we have to be very open about it right up front that the overall market has been a little slow. So we do not want to be seen over aggressive in a market which is going a little slow. So if you look at we kind of almost moved out of heavy commercial vehicle and therefore if in the second quarter of last year if we had ex 1,000 crores or ex Rs100 crores as second hand I mean as commercial vehicle disbursement against that if we have done nothing then to that extent we do not have alternate replacement so very easily in value terms. And third is it is a very, very clear conscious call with this kind of money market situation, with this kind of high cost fund, there is no point in borrowing at this rate and then lending and imagining that the rates can be fully passed off. So we have also been cautious. And fourth is certain geographies by political like part of Tamil Nadu, part of U.P., part of Andhra have not been very favourable and therefore we have been very conscious not to be lending in those markets.

Ashish Sharma: Sir, but have you sort of vacated certain segments I mean?

Management: No, vacating segment is only heavy commercial vehicles because in any case we are not a significant player. Otherwise we have neither vacated our market nor a segment. It is just a temporary either slowdown or a wait and watch in some of the markets.

Ashish Sharma: So overall if you see the first half, the disbursements have grown at around 17%, and so this is an achievable run rate or do you see a little pressure on that number?

Management: It is my personal opinion that if the festivals turn out to be good, this number is definitely doable or may be better.

Ashish Sharma: And second question will be on the margin side, you said that 2Q we have seen some benefit and I think we will see further benefit in 3Q and overall with liquidity condition sort of normalising, what sort of outlook on margins we can have?

Management: I do not want to put a number to it but I think that if you see a 25 basis point increase which has come from the lending price increase, whatever benefit we can get of the borrowing cost decrease from hereon will be a retained margin.

Ashish Sharma: And you know sort of having in….

Management: One question per individual was announced.

Ashish Sharma: Just lastly you are sort of carrying an excess liquidity I mean on the balance sheet or you sort of a managing it?

Management: No, we have been always having working capital limits from the banking system and so that is our fall back liquidity management plan and we continue to have that as one of the important liquidity management tool and we have a very small percentage of our liquidity management by way of investment in fixed deposit or Government security if there is an opportunity. That is the only two ways.

Moderator: Thank you. The next question is from the line of Vikesh Gandhi from Bank of America. Please go ahead.

Vikesh Gandhi: Just few questions. One is just wanted to get your perspective on securitization. I mean typically securitisation is it picks up in the second quarter towards September and more towards March and I guess we have not done anything much of this quarter, so what is the outlook on that? Anyway it is a small percentage but…?

Management: Yes. See as far as securitisation or assignment through transaction is concerned we have been always saying that we do around 10-12% of our annual business opportunity you know to believe we should be able to continue to have the similar run rate in this year also. Why because whatever asset we are selling is primarily brought by the banks who are in need of the PSL type of asset category. I have enough PSL asset class which is in demand by the banks. So there is a negotiation, there is a dialogue going on with the interested buyer in the banking segment. In the first quarter or close to the second quarter there was a dilemma with the banking system on account of the…

Vikesh Gandhi: RBI action?

Management: RBI as well as on the account of the taxation impact of the new guideline which says that the income will be distributed as that tax will be deducted at source by the trustee and it will be given as a tax-free income in the hands of the receiver. That impact of it was discussed. So primarily I think because of the PSL need, the banking sector always will be behind this asset. So you will see a lot of transactions happening in the third and fourth quarter as we have seen in the previous year.

Vikesh Gandhi: And sir, I was obviously listening to your outlook on demand as well as disbursements but just wanted to get your perspective on a little bit more deeper in to how you are seeing the rural side of the business especially across products leaving aside the CVs which is I guess obviously has its own issues keeping the urban side aside?

Management: Yes, so clearly we do see of various products even in rural car is little more aggressive than anything else because it is just about penetrating. So most of the models are getting launched there, Maruti is re-launched some of its product, Hyundai has gone in a big way, Toyota has launched some small cars and more dealers. So I think all the manufacturers are expanding more dealership points across the country and therefore are trying to get some numbers out of that market. So far as the UV segment is concerned they are holding on yes, of course, they are coming from a back of a very aggressive growth in the past but products like if you have to speak about some Mahindra products like a Bolero or a pickup is continuing to do extremely well are kind of running out of stock kind of a situation. Tractors have done well but tractors do have that seasonality like if you look at April was the highest growth then May was a little less, June was further little less, July further, and let the season end then once again it will now start picking up from October onwards. Go to October-November, December will be low, January is the harvest south will start picking up.

So if you are kind of looking at overall I would think different geographies have different numbers but on an overall rural basis I would think that it is not as aggressive as one would have said one year back what it was. But clearly most of the manufacturers are talking of growth coming only from rural while it does not have the capacity to offset their urban drop which is why the overall industry is still flat or going low but rural continues to register growth.

Vikesh Gandhi: So would it be fair to assume that the overall disbursement growth was 5% but your rural disbursement growth would have been much higher?

Management: No, I think our work is all rural only. It is just that this quarter did not do as well as I explained to you because of normally the second quarter is never a great quarter for rural anytime because of the monsoons, no economic activity and so no big way products gets bought except that from the fourth week of September onwards, the buying actually starts and then it spills over to October-November which are two big festival months. And you would see the same situation also happening this year.

Vikesh Gandhi: And just one more last quick update now. I believe you have obviously slowed down your CV book growth but if you can throw some light in terms of what kind of stress, are you seeing on the existing book whether in terms of if you can share the NPL on particularly on the CV itself?

Management: I think whatever contract had to move into the NPL would have by now moved in CV because we are not into big business for the last at least 6-8, 10 months. So anything would have moved because all these would have been therefore business done 12 months back, 18 months back. So we are not seeing a new pressure on that but if in CV if you ask me the real pressure for us at least will be the ones which are in NPL, we have to take a call on which are the ones we want to repossess and sell and which are the ones we may want to wait and see how it behaves. So we will not have new NPAs problems but disposal losses out of repossession and sale will happen which is also a part of this quarter story.

Moderator: Thank you. The next question is from the line of Parag Jariwala from Macquarie Securities. Please go ahead.

Parag Jariwala: Sir, you said last quarter also that the NPAs are changing mainly the new NPAs are coming in that is why the provision coverage ratio is declining and so it is not that worrying but because the provision coverage ratio has steadily declined from close to 75% to now 55% and your credit cost as a percentage of AUM has remained either higher or in line with the past trend. So what is your comment on this I mean?

Management: No, why do you say higher?

Parag Jariwala: Your credit cost if I see is as a percentage of AUM for the first half it is around 1.8% annualised it was around 1.6% in first half of FY13 and 1.4% in first half of FY12, so despite keeping credit cost at a higher level our provision coverage ratio has steadily come off. So are we going for more write-offs or something like that or even if the NPL are changing the buckets from say 100 days to 180 to 200 but that is a sign of worrying, right? So ideally you should provide higher for such kind of delinquencies?

Management: No, either we should provide higher or repossess and sell and book the loss, right? So they have chosen the second one. That is why credit loss. See let us remain here. Let us say that we do not repossess and sell and we allow this to mature to higher bucket or provisioning, provisioning will looked at it has gone to 60%. And then when you repossess and sell you, will not have a disposal loss because you have already provided for. The other way around to look at it is that, no, we do not want to wait for another 12 months. Today, we think the industry is not doing well let us repossess and sell and book the loss. So I would think what we are doing is much more healthier because otherwise who knows about 12 months later, the asset may not even fetch the price that it fetches today even though you may carry a higher provision it may not even the resale may not be even good enough to cover that provision at least for commercial vehicles the way the market is. So therefore you do not see a higher provisioning happening but disposal losses are higher because within the bucket of even 10% and 20%, we are repossessing and booking the loss if we sell.

Parag Jariwala: So, can you just give me the rough figure? What could be such a loss in these 6 months and as compared to some earlier years?

Management: If you look at the two quarters our provision including disposal losses have remained the same 125-125, if you see both the quarter. So in my opinion it really does not matter as to what is the figure even if you are to take Rs30 crores as the loss. It is just changing bucket. Instead of provision, it goes to loss.

Moderator: Thank you. The next question is from the line of Vishal Goyal from UBS Securities. Please go ahead.

Vishal Goyal: Just trying to get a sense on your various products especially your NPL trend. I understand that most of it is coming from CVs but can you just help us with the details of other products?

Management: I mean it will be a very general remark I do not think we have product-by-product exact number here that may be some future date when you meet our team they can but let me correct you we are not saying that almost all NPAs from only CV. We do not have that large portfolio to tell you that all NPAs are from CV alone. In this business historically every product will have an NPA, the pressure on CV is higher than anything else.

Vishal Goyal: So you are repossessing only CVs, correct?

Management: No, please we cannot repossess every month 1,000 CV; we do not have that kind of portfolio. We repossess tractors. Suppose we have today 5,000 vehicles in stock suppose, we have 500 of them tractors, we will have 200 three wheelers, we will have some 500 to 700 cars, we will have some tractors we will have all kinds of products. It is not just CV we cannot have thousands of CVs in our stock. It is in terms of the pressure on product, it starts with CV which is in the higher pressure zone. And the lowest pressure is on these second-hand vehicles because it is a new business relatively and it is a valuation business so therefore if you kind of price the second-hand vehicle appropriately well the defaults will be the lowest. So far as tractor is concerned it will always have the highest NPA in off season and it will only correct itself in the season. So if you look at in the first half, the tractor NPAs would have been higher. It will now start getting corrected as the harvest starts coming out.

Vishal Goyal: So basically you won’t be selling the tractors, correct? Repossessing and selling?

Management: Please understand repossession and selling is an independent action over the market condition. It is if the customer is defaulting even when he is operating the tractor and repaying or we have done an appraisal judgmental error we need to repossess or in a market that the market conditions do not support asset to be left back we will take the decision to repossess. Like we do what in a month we are doing if you take the last 12 months’ period we would have done roughly about 80,000 to 90,000 tractors. What we have repossessed and what we have in stock is 400 tractors. So we should not generalise the remark either way. So all actions of repossession, all actions of disposal will be applicable to every product that we are in. It is independent of any product independent of any geography. By time and by sequence of events of the market place they will be at a different pressure point at different times. In October-November the need to repossess tractor will be the lowest because people who would have enough cash flow and they would like to pay rather than allow to surrender.

Vishal Goyal: And sir, from here you think things will like for example delinquency have peaking out from your point of view or you think they will still how to go ahead?

Management: What is our history? If you look at last 15 years you will always see first quarter and second quarter the NPLs really peak and then they start correcting itself.

Moderator: Thank you. The next question is from the line of Kashyap Jhaveri from Emkay Global. Please go ahead.

Kashyap Jhaveri: I just needed one clarification, this 4.6% growth which is being talked about is growth in value of asset finance and not exactly disbursement, right?

Management: Yes.

Kashyap Jhaveri: So would the disbursement reflect the same percentage growth or would it be higher or lower?

Management: May be 1% more – 20% over this.

Kashyap Jhaveri: About let us say 4.6% could be but let us say 5.5%?

Management: Yes.

Kashyap Jhaveri: Okay. My second question is in one of the subsidiaries, the Rural Housing Finance subsidiary, if I look at our total customer contracts they have declined about 11% on a YoY basis for the first half versus the first half last year? If I look at disbursement it is almost up by about 50%. So is there a material change in the LTV over there?

Management: Yes, it is a product mix change. Actually earlier they were doing kind of a group lending equivalent which is Rs50,000, Rs60,000 those kinds of things. We have added a new geography where the demand for money is about Rs1,00,000 or Rs1,25,000. So it is not for the same geography, same product that the LTV has gone up. New geographies got added and new products have got launched.

Kashyap Jhaveri: Sir, when we say new product what does that…?

Management: From a group lending of Rs50,000 see what we were doing earlier individual suppose were given Rs125,000. In certain markets, there was the collateral was getting difficult to create on individual. So therefore a group was formed of let us say 5 customers but instead of giving Rs1 lakh to each we were giving about Rs50,000, okay? And two of them, three of them would have had a clear title which will be collateralised of guarantor and therefore the average lending ticket size of Rs50,000 to Rs60,000. Now when we open new markets like Rajasthan or MP where this kind of group lending is not happening but the land size of what they hold out of the current house that they hold is large enough and if room creation itself is costing about Rs1 lakh and Rs125,000. So therefore this new segment of customer has come, so as against five customers for Rs2.5 lakhs, it has become two customers for Rs2.5 lakhs. So therefore by number terms it has come down and value terms it has gone up.

Management: And it is our conscious effort to increase the ticket size?

Management: Yeah, otherwise cost inefficiency will come like…

Kashyap Jhaveri: And you know the book size now is about Rs170 crores. And about a year back or two we had highlighted that we are looking at something like a billion dollar book by FY15 in this business?

Management: That we changed it in to rupee terms as Rs4,000.

Kashyap Jhaveri: Yes, but this is FY15 target, right?

Management: Yes, that is right.

Kashyap Jhaveri: So, we are almost looking at sort of quadrupling the book size over the next about 1.5 years?

Management: See every year it has been doubling. Now we will rethink exactly Rs4,000 or Rs3,800 or whatever is anybody will get. But we will be on or around that number.

Moderator: Thank you. The next question is from the line of Shantanu Chakrabarti from ICICI Securities. Please go ahead.

Shantanu Chakrabarti: I would start with one housekeeping question. You were speaking earlier about assets financed and disbursement, so if you could give some sense of what was the LTV on the incremental asset financing? And the second housekeeping question is on what would be the securitisation income for the quarter?

Management: LTV is about 72% that is not substantially changed. It was 71. It has become 72% it is a product mix change rather than LTV increase in the same product, and marginal increase overall and as far as securitisation is zero. We have not done any transaction.

Shantanu Chakrabarti: No, the income in the quarter that is?

Management: The securitisation income last year second quarter was Rs55 crores line item. This year it is Rs67 crores.

Shantanu Chakrabarti: And the other question I had was so apart from the CV business could you give some sense on where is the stress maximum in terms of segments?

Management: No other product has a stress as much as CV from the market condition but seasonality stress clearly will be tractor because they will only correct itself from October.

Moderator: Thank you. The next question is from the line of Umang Shah from CIMB. Please go ahead.

Umang Shah: I just have two quick questions. One is on the used vehicles segment, how has been your experience as to are the prices dropping, they have been stable or they are rising? Just if you could just throw some colour on that?

Management: So far as vehicles which get repossessed and sold we clearly see there is some drop in price. But so far as financing of second hand is concerned it is left to us to assess it correctly and finance it.

Umang Shah: But are you seeing at least trend-wise that from the demand perspective that is it substantially strong or has it tapered off for or some sense…?

Management: I think UV tractors and certain segments of cars are very, very strong because the supply side is weak. There is enough use up there. But we are not at all there in a big way second commercial vehicle but I am told that second-hand commercial vehicle demand and price both are weak because of the industry. LCV is I would think between flat and little low.

Umang Shah: Okay, that is really helpful. And just second question on margins. You have already mentioned as to what has lead to improvement in margins now just looking at margins over next two quarters from two perspective—one, that we have festive season around the corner at the same time on 29 we have the RBI policy and more or less consensus is expectation of a 25-50 basis points kind of a rate increase. How do you see your ability to pass on any further increase in rates? It is number one. Secondly, if not in that condition is the current price hike sufficient enough to absorb that cost or probably we would see some pressure on margins?

Management: If it is a 25 basis point increase I think the current increase is good enough. If it is a 50 basis point increase, we will be unmatched for about 15 basis point. As far as passing on to the customer is concerned at least my belief is we cannot pass it on to customer on our own and therefore there are enough initiatives to pressurise the manufacturer and dealer to participate. And some of them have agreed, and some of them are already giving**.**

Umang Shah: And just an addition to that as you have mentioned that the dealers or the manufacturers may participate in the recent RBI guidelines on subvention and now I know that it is not yet applicable to NBFCs but does that really impact us in any sense or in any particular product category?

Management: See for us it is simple. We give them a commission which we will not give. We will not take it as sub-venture. There is honestly speaking when we say that the dealer will participate, we pay them what you call resourcing fees. Those fees we will not pay. It will be a cost reduction for us instead of a margin so you will see a dip in the margin but you will see a dip in the cost also.

Umang Shah: So, basically the cost and the margin are more or less offsetting, is that what you are trying to say?

Management: No, not always. I am just saying. Supposing somebody agrees to give me Rs2,000 okay and I am giving in Rs3,000 as resourcing fees, I will give Rs1,000 resourcing fees.

Umang Shah: And also on the manufacturer's subvention front nothing really much impacts as right? From whatever has come in now in the recent RBI guidelines?

Management: No. It is not for us anyways.

Umang Shah: Understand but if at all it has to be made applicable for NBFC is even then it would not?

Management: We are not there into 0% game and all that. In automobile that was anyway not prevailing so much.

Umang Shah: No, I am not talking about the 0%.

Management: It was movable consumer durables and all that.

Umang Shah: Yeah, the subvention thing which had come in?

Management: Yes, see at the end of the day somebody has to pay for it either it is a financier who absorbs and pays for it, customer pays for it or dealer or a manufacturer pays for it. Till such time if it is from the manufacturers the rule does not allow us to take it from them. Then we incur so much of advertisement cost all that kind of cost these subventions will happen instead of interest subvention. Eventually the enabler cannot incur the loss on behalf of the beneficiary.

Moderator: Thank you. The next question is from the line of Vibha Batra from ICRA. Please go ahead.

Vibha Batra: Sir, just wanted to check with you this REPO stock, is it a part of NPAs or it is over and above that?

Management: No, it is a part.

Management: Part of NPA.

Vibha Batra: Okay, so it is a subset. And what percentage of your CV is HCV?

Management: What percentage of total CV is HCV? See totally our CV-LCV portfolio together itself is 7% to 8%. And this should be about 30% of that roughly. May be little later if you speak to Rakesh or Dinesh or somebody they can give you the specific number but my understanding is it will be around that.

Vibha Batra: And what will be the distribution of pre-owned vehicles?

Management: Pre-owned vehicle is about 8% of the total portfolio.

Vibha Batra: What is pre-owned, is it tractors or…?

Management: Yeah, it is other than any commercial vehicles. It will be cars, tractors, and UVs.

Vibha Batra: So between cars, tractors what would be the distribution?

Management: Roughly around 35% is UV and car will be another 30%, tractor is around 20%.

Management: Between three products equally distributed.

Management: So more or less it is distributed in this concentrated manner.

Management: Yes.

Vibha Batra: And broadly the lending yields on this pre-owned will be what percentage?

Management: Anywhere upward of 22-23%.

Vibha Batra: And broad tenor and ticket sizes?

Management: Average book should be to 18 months, it is normally less than two-year loans most of them. There will be some 30 months and still thinking 18-20 months will be the average and the ticket size will be 300,000—250,000 to 300,000 maximum.

Vibha Batra: And this is pre-owned, will be sale purchase transactions or top-ups?

Management: No, sale purchase. The same customer top-up, we are not in a big way into that at all.

Vibha Batra: And another question I think a lot of analysts have already asked I am just trying to ask it one more time that the REPO stock that you have the losses on REPO stock has gone up. So if you were to compare it say with 4Q of 2013 versus 2Q of 2014 say what would be your losses on REPO stock?

Management: Since you are asking same question you want the same answer or different answer?

Vibha Batra: See I want the quantitative answer.

Management: I think last year I think we had a better retail price and if you ask me this quarter the prices have dipped over the second quarter of last year. But it is kind of more or less same like the first quarter of this year. And it is little unreasonable to average it out as a total pool because the product mix could be very different but on an overall basis I would still think any product you take the resale of the reprocessed vehicle would have been little lower in terms of realisation price in this quarter over the second quarter of last year.

Vibha Batra: So if last year say a loss on REPO say about 25% now if it is 35% or higher?

Management: Not that much I mean see about 1% to 2% dip we have seen which means about Rs3,000 to Rs5,000 we have lost per vehicle more.

Vibha Batra: I am not aware on your NPA recognition policy, it is on how many days?

Management: It is 150 days. What I suggest you can have a discussion separately with us for detailed operating information in the interest of time for everyone.

Moderator: Thank you. The next question is from the line of Desson Kirsty from Standard Life. Please go ahead.

Desson Kirsty: Yeah, I just wanted to understand more on the first half ROA and RONW numbers given that before an improvement in yield why there is deterioration on a half-and-half basis in the Return On Assets and the Return On Networth?

Management: See there is a reason what we can say is that there is a capital raising which has taken place in the second half of the last year and so it is not exactly comparable because there is a capital expansion which was taken place but I am not fully blaming only on that. In addition to that there was some low-cost funding which took place last year due to securitisation and that we expected to happen during the second half of this year. So I would request you to wait for the next half, I think there could be a better comparison and a correct comparison can take place at the year end and so that because there is some anomalies which is there between this during the intervening period but nevertheless as far as the margin is concerned there is a drop of almost about 80 basis points in the margin drop primarily arising out of product mix change as well as there is an interest cost element whereas in the second quarter of this year the interest cost has gone up. So from operating side I would say that there is a temporary situation, there is a margin drop of about 80-85 basis points which has happened which we hope that we will be in a position to recoup in the next two quarters but also we are hopeful of raising some low cost money but there is an overall reason of there is a capital denominator going up is also one more thing which we have to keep in mind but let us wait and watch for the second half.

Moderator: Thank you. The next question is from the line of Subramaniam PS from Sundaram Mutual Fund. Please go ahead.

Subramaniam P S: Just one data-keeping question. What would be the outstanding loans, borrowings?

Management: It is about almost Rs24,000 crores.

Management: Rs22,400 crores.

Moderator: Thank you. Ladies and gentlemen due to time constraints we will take the last question from the line of Amit Ganatra from Religare Invesco Asset Management. Please go ahead.

Amit Ganatra: Just one clarification. Since you have mentioned that you have done more repossessing basically this quarter so if you see the overall trends of NPA in case of our company the first three quarters basically there is slippage and fourth quarter there is a very large negative number as a result of which the overall full-year number is much stronger. So, one of the factors there is also that a lot of repossession and sale basically happens in the fourth quarter. Now if repossession basically has already happened more this quarter and so does that mean that on an ongoing basis, fourth quarter might not see such a large dip as compared to the previous trends?

Management: Yeah, I mean I think that is a good trend. If we can uniform it all four quarters.

Amit Ganatra: No, that is a good trend, I am not saying that whether it is good or bad but just for a thought process perspective, so does that mean that that is the natural implication of whatever we are doing?

Management: No, but if you would really look at last year or even the year before the last quarters you must also know that we already have very high provided assets in the book and therefore when you repossess and send you get so much benefit. Now if you see our coverage which automatically means that we do not have that high provided NPAs. So even if things were to go only to last quarter you would still not see those kind of impacts happening because you do not have cumulative large NPAs.

Amit Ganatra: So coverage ratio basically was very high previously so as a result of which fourth quarter was anyways seeing a very large jump to put it other way now since provided itself is low as compared to past even if this was not done then also you would not have seen such large data?

Management: Maximum what would reverse is as much, we have provided which is in the first and second.

Moderator: Thank you. Ladies and gentlemen that was the last question. I would now like to hand the floor back to Mr. Pankaj Agarwal for closing comments. Please go ahead, sir.

Pankaj Agarwal: On behalf of Ambit Capital I would like to thank management team of M&M Finance for giving us an opportunity to host this call. I also would like to thank all the participants for joining this call. Thank you and have a good day.

Moderator: Thank you, gentlemen of the management and Mr. Agarwal. Ladies and gentlemen on behalf of Ambit Capital that concludes this conference call. Thank you for joining us and you may now disconnect your lines.