"Mahindra Finance Limited Q2 FY'15 Results Conference call"

October 22, 2014

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Moderator: Ladies and gentlemen, good day and welcome to the Mahindra Finance Q2 FY'15 Results conference call, hosted by JM Financial. As a remainder all participant 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 "*" and then "0" on your touchtone phone. Please note that this conference is been recorded. I now hand the conference over to Mr. Karan Uberoi from JM Financial. Thank you and over to you Sir!

Karan Uberoi: Thank you. Good evening everybody and welcome to Mahindra & Mahindra Financials earnings call to discuss the second quarter results. To discuss the results, we have on the call Mr. Ramesh Iyer who is the Managing Director and member of Group Executive Board, Mr. Ravi, who is the Chief Financial Officer, Mr. Dinesh Prajapati, who is the Vice President, Treasury and Corporate Affairs and Rakesh Bildani, Senior Manager–Treasury. May I request Mr. Ramesh Iyer to take us through the financial highlights subsequent to which we can open the floor for Q&A session. Over to you Sir!

Ramesh Iyer: Good evening to all. The results must have reached you all already and particularly we think that in comparison to what we saw in the first quarter we are pretty satisfied with how things are moving as of now for us but I must kind of give you some very clear headlines in the sense we yet do not see demand for the overall auto tractor space at the ground level. I think the sentiments still continue to be low. The discounts on the vehicle continue to remain to be offered even if you were to look at the festival season demand at least I can speak of what we saw after Dusshera it is too early now to say about how Dhanteras Diwali few days will move but at least what we saw up to Dusshera did not give us an excitement of believe that the market conditions are changing favorable towards demand for products. It is also important to note across the country if you kind of look at right from Jammu Kashmir go state by state there are some events that is happening in each states which is not speaking very favorable. Somewhere it is due to climatic reasons of may be excessive floods and or Visakhapatnam new incident which we just saw or parts of UP went through floods, parts of Bihar went through that, the coal block stopping affecting the movement of even transport and goods. So overall I think if you go every state whether it is northeast go down towards Rajasthan go towards Punjab. Punjab has a new problem of the monsoons are not good but irrigated land but the cost of production is likely to grow. You look at Maharashtra, you look at Madhya Pradesh, because of the delayed monsoon in Maharashtra that even changed the crop pattern. They moved from soya to cotton, which would mean there is going to be some impact on the cash flow so summarily if you look at I do not think one should feel very happy about or the ground level condition substantially changing favorable. Towards more particularly we had made this statement even after the first quarter and I continue to make that statement is we are very, very focused on improving our collections. We are very focused on ensuring quality is maintained. While we do not lose market share on our business volumes but in terms of our priority we would think collection is our first priority over business at this stage. Yes we have had this fortune of getting signed up with various manufacturers and therefore if you look at in this quarter our disbursements while in the first quarter we had an 18% dip. I think in this quarter we registered kind of a flat situation from the second quarter of last year and between first quarter to second quarter we had a growth of about 5% to 7%. This is without sacrificing on any of our policy norms or we are not chased market share or we just added more products where in this market more vehicles have got sold through other manufacturers as well so we got some benefit of those volumes clearly but particularly one thing that we are very, very happy about which has gone as we wanted it to and as we planned and again it is very important to understand second quarter for a rural market is never one of the best quarters because of you have the low economic activity because of monsoons and that is historical we have seen but we have gone much, much deeper as far as our penetration is concerned. We have added additional branches during this quarter and currently we are close to about 1200 branches or so about 1100 branches and those are the approaches which have helped us maintain better recovery. Between first quarter and second quarter we have seen substantial improvement in our collection efficiencies. We have registered an upward 4% to 5% higher even collection efficiencies during this period and one data point that excitement I want to share with you which is as of June 30 we had about 70,000 odd customers in the NPA account and as we speak on September 30 after taking some write off we almost have the same number of customers at the NPL. So there has been no addition to NPA in terms of number while clearly because of bucket change some provisions would have come in. Also important factor is we have tracked people while they have moved into NPL but they have not registered any movement in terms of their ability to pay and we have had some accounts where they have not been able to pay and we have got the vehicles either surrendered repossessed and we have transacted on them and we have taken that little extra provision or the sale loss on account of such vehicles that we have taken in but if you kind of look at our gross NPL numbers have remained constant and gross NPL is again an outcome of how the denominator has come behaved and not asset not growing too well. I think maintaining the gross NPL numbers is an indicator of how the quality has been protected and for us the good news always is the second two quarters are most of the years we have seen these two quarters are better than the first two quarters and if we were able to maintain this kind of an approach at the market place or the pressure out on the customer at the market place like we said in the first quarter end that we do not believe that there is any reason to look for will there be any further deterioration to the quality of assets that is not our focus. Clearly we do not think that there is any likelihood of that happening and our margins are well protected, our overheads have in fact stabilized or come down a little may be and if you kind of look at again from first quarter to second quarter even our profits have registered a handsome growth of about 30% or 35% growth over the first quarter. I personally think and it is completely left to the judgment of every individual to look at it that way when the basic fundamentals are not the same it may not be appropriate to compare to data points of two different types like if you look at what was the market conditions, what were the sentiments, what are the overall scenario last year first and second quarter versus what has the changed scenario in this year first and second quarter. I think the fundamentals are very, very different and therefore if you one looks and given the current circumstances how has the whole portfolio behaved, how was the business pattern behaved, how is the quality of assets behaved, I think I am reasonable to believe that if we were to look at our first quarter and second quarter we have had extremely satisfying second quarter and I think we found some of the answers to the pressure points and that has helped us in going more deeper, adding more people and one last thing would be we are completely prepared to take advantage as and when the market conditions opened. We have added people we have kind of got into relationship with multi manufacturers, we have penetrated deeper and we are direct marketing initiative of getting back to our existing customers to understand if they need more vehicle that side of the story is pretty ready with us. I think if we were to look at all of that and very simply put just if the discounts stop. Currently about 10% to 12% of the vehicle price is going on discount, just if the discounts stop and no volume increase happen we will also register a disbursement growth of 5% to 7% if not more just on the discount stopping and we do expect that if not very soon but in the next two quarters one can even start seeing some improvement to volumes happening and that would be adding to our growth story further but I think in this process of last one year though not very significant I think you have taken enough corrective step to continuously show improvement in asset quality and I think as we reach a stage where growth starts registering again. I think the asset quality would have substantially settled for us to get back to the growth story that we have always been used to in the past. So summarily I would think it is too early to predict as the market conditions changed and how fast it is likely to change and my call would be this year one would have to put more efforts and less can be expected from market. I think it is going to be a year of effort and not an automatic change happening from the market place even if things were to start happening positive from this movement I think for things to get corrected at the ground level it takes about 3 to 6 months. Most of our customers are earn-and-pay customer and therefore unless the economic activity picks up it is difficult for them to cumulatively correct the past. What we have ensured is that they do not deteriorate, they make their monthly payments regularly but what is cumulatively gone up now as on overdue will take three, six months to come of because they do not earn that kind of a money to repay immediately and come off the situation but clearly deterioration is arrested and if you look at the gross numbers have remained where it is and even we always keep saying that our pricing mechanism if we take a 3% as our pricing in the provision and we have not reached that level. So I think we are well within what we want to be we are well within what we project normally to be and we are very satisfied with the activities that has happened and the results that it is produced in this quarter compared to the previous quarter but while it looks a little depressed as compared to the previous year but in every line item one would see an improvement, we have also registered an asset growth cumulatively. We have also had a topline growth overall. No pressure on the margin front. We have not reduced any lending rates. We have not got benefit of any borrowing cost either because the rates have not come up, that could be another hidden item in the agenda six months down the line or three months down the line, if interest rate was to come of then one could see some benefit coming for us and that can get added to the margin. So I think overall customers are there, vehicles are available if one wants to repossess. I think at the state level every state has some pressure to go through. It is time to have patience to be consolidating your possessions, take corrective actions to ensure asset quality but be prepared for emerging future opportunity is the story line that we are driving and I think strategically we intended to do that and we have reached there, so I think that is the summary of it and any particular number point on which you may need a clarification I think as you raise questions I have Dinesh and Rakesh with me and Ravi will join us through call, he is on the way and we can take all those questions on the number particular but I did not want to take the air time by talking about numbers which must have already reached you. Thank you so much for joining the call and I now open it up for any questions that is all of you may have.

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

Karthik Chellappa: Thank you very much for the opportunity sir. I have three quick questions. Firstly, in the first quarter you had observed that you had some NPL slippages due to the election related events affecting collection. So adjusted for that even in this quarter-on-quarter we have seen a rise in gross NPL in absolute term. So can you give us some color on whether the NPLs that happened due to the slippages in collection in first quarter eventually was collected that is my first question and my second question is how are the write off trends for this quarter compared to say last quarter and the similar quarter of last year and my last question is on NBFC regulation which should be out anytime right now, the tone of the RBI seems to be tilting towards the 90-day NPL recognition norm for NBFC. So is that something that the NBFC needs to reconcile themselves to and how will that impact your collection process in the medium term. Thank you very much.

Ramesh Iyer: So let me start with the third one because I am answering for somebody else. The 90-day norm, my personal opinion and it has always been this, that if a regulator has put up something as a draft I think over a period of time that can become a reality and we do believe that this 90-day norm can definitely come through but very important to understand is the 90-day norm which will not be implemented to recognize NPA of your current book immediately. They are going to give you time in the sense of 2016 or so they have talked about it some three years road map etc., to reach 90 day. So one does not have to reconcile what will happen to the current book I think at least our book is a 29-month book or 30-

month book. So by the time the 90-day norm needs to be internalized we would have kind of run of this balance sheet but as we move along one has to take a view that in one year time we have to move towards 120 and then towards 90 as and when we start doing new businesses over a period of time and if this regulation do get announced then we will start preparing ourselves on the new business how do we protect our interest in terms of providing for the new regulatory means. So that the way one will look at it. As far as the absolute gross NPL increase is concerned that you are talking of I think it is important to understand that every month there will be few contracts which would cross certain period of possibility of an NPA in the sense that let us say six months earlier whatever business we have done by nature of the business some of the contract will become an NPL therefore we will add up to that gross number and until it is fully written off it will still remain there, what one has to look at it is how much is provided against it, which is why normally gross NPA is represented as a percentage to asset and not on absolute value basis and there is always an impact when you look at the denominator not growing the percentages may start looking different like suppose the business starts growing at 15% to 20% the same gross will start looking at 5% number which is why I said it is important to understand in terms of if you look at the overall provision previous quarter to this quarter that is 20% dip in the provision requirement and as I was talking about my initial introduction I said that there are instances where we have taken a view on some of the vehicles where customers have not shown movement of payment in the last three, four months we have chosen to take the vehicle and if necessary to kind of make write off for a provision against it higher. Going forward I do not think this is the trend and I said this in the first quarter I was asked a question do you see the trend is now is moving upward every quarter and I said that we do not see this number going up in terms of our provision rates on a quarter-to-quarter basis and I think the next two quarters normally our productive quarters and therefore I can be reasonably sure to say it will not go up from here.

Karthik Chellappa: Just one additional clarification on that in the past you have highlighted that the provisions is clearly based on the ageing of the NPL and it is not a number that you look to manage but this quarter our provision coverage is now about 48% and it is at a six quarter low given that the NPL situation is still fluid and we having this kind of coverage ratio are we risking a rise in provision in the third and fourth quarter in case they slip in to say from substandard to doubtful. Is that a risk that you foresee?

Ramesh Iyer: Let me first give you a data clarification. I do not know from where this 48 is but our number says we are at about 52% cover. So that is something Rakesh or somebody can then explain to you later not on the call but you can take a separate understanding from him, that is one but second is how does this coverage go up or go down is purely when a high provided item gets out and what you have as a first bucket coverage which comes in. So if you have got a 100% item gone off and you get a 10% item coming in the coverage looks to go down and I explained this even last time that if the gross NPA goes from 6 to 7, 7 to 8 or

8 to 9 and the coverage keeps coming down then there is something that one may want to look at or the other way around is if you say that we are not making adequate provision but the bucket change is happening then one has to start looking at. In our case no sooner a contract crosses 12 months **(indiscernible) 18.11**, so if we have a 52% cover it only means that many of the NPL account is in the bucket of 6 to 11 months bucket and therefore the cover is a little low, the chances therefore are to solve them much better, our ability to take back the asset if need be much better and come out of the NPL rather than worry but supposing if they start moving towards a higher bucket of 11 and 12 you will automatically see the provision rate go up.

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

Ashish Sharma: Good evening Sir. This is on the asset quality. You mentioned about the pickup as of now has not been as strong as expected but where do you see in terms of asset quality by year end. How much sort of an improvement you see and second would be on the growth also not from a 15 perspective but may be from a 16 perspective what sort of bounce back we can see in terms of growth and disbursement.

Ramesh Iyer: As far as 16 is concerned at least most of the manufacturer or even if you look at data from CRISIL or SIAM or anybody everybody started talking of a double digit growth coming through in 16 and we are an enabler. So if all of them sell more even if we retain our market share we will also have that kind of a growth coming back to us but more importantly I would like you to recognize this more clearly that even if you were to not consider a big volume change but just the current discounts which are on for the vehicles which are upward of 10%, 12% if they stop that itself is a growth for NBFC the same volume and then for us more particularly we have the third leg which is we have now arrangement with all manufacturers who have now set up dealership across the country and their volumes are just beginning to happen. None of them at least my understanding is going to be able to sell some very large number already against Maruti or Hyundai or anybody but for me I do not care how much they sell for me whatever they sell out of that I can get something. So I am looking at four levels of growth. Level one that the discounts discontinue and we get some benefit. Two, some trickling of volume happens in some segment not across the country at least in some select geography. The three, that clearly volume addition through all this new products that we are talking of when I say new product the new manufacturer and the last is we have focused very strongly on the competence that we have developed for second hand vehicle that is pre-owned vehicle financing and that number slightly is moving up for us. So I would add the four together to say we would remain in the growth trajectory and not on a minus trajectory like first quarter was an 18% minus that has almost becomes flat in this quarter and I would only think that we would have at least maintained now a growth trajectory rather than a negative trajectory and so far a quality of asset is concerned I repeat myself to say normally the second and third quarter are economically a good quarter harvest, festival, wedding, tourism all kind of things happen but the level of these activities this year are expected to be lower than any previous year. We should be very clear about it and therefore please do not consider the correction would be as high as it was seen in the past but clearly deterioration can be arrested if the story is positive and that indication is available.

Moderator: Thank you. The next question is from the line of Nikhil Rungta from Standard Chartered Securities. Please go ahead.

Maruk: This is Maruk. Sir just wanted the amount of write off during the quarter if you could share that and for the previous quarter.

Dinesh Prajapati: During the quarter there is a bad debt written off of 72 Crores versus 54 Crores previous year in the same quarter. Usually what we do replenish and termination preclosure losses for the current quarter is 99 Crores versus previous year for the similar quarter 52 Crores.

Maruk: Losses would be in the NII.

Dinesh Prajapati: No this is available in your P&L, bad debt, write off and provision. Our bad debt provision write off includes all of these items.

Maruk: The other thing I just wanted to check is just on operating expenses would you see the sequential growth you saw this quarter continuing for the next few quarters what kind of sequential growth can be.

Ramesh Iyer: As far as growth I think there must be some marginal increase must have happened.

Dinesh Prajapati: What happens is it is linked to the business growth. What we have been saying there is a dealer commission paid to the sales. So if you see the sequential if the business growth has happened to that extent sequential operating cost is growing up.

Ramesh Iyer: That is the variable cost.

Maruk: The staff cost have gone up 8%.

Ramesh Iyer: That you must understand we had an in source company, which was clubbed in other expenses earlier and we have moved the staff into the parent company. Some moved in the first quarter, some moved in the previous year, some moved in this quarter.

Maruk: Some moved in this quarter.

Ramesh Iyer: Yes it is only now that everybody has already moved there and you would have seen one resolution for merger of our subsidiary.

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

Kunal Shah: In terms of tractors last time you highlighted like the tractors the refinancing vehicle would see an increase and contribute to the growth. So I think growth is coming in from refinance but tractor it seems there is some kind of moderation so how are you looking at this segment?

Ramesh Iyer: As I said both auto and tractor sales all products have not registered any major growth. Tractor as you know 30% to 40% of the cash flow comes from haulage and therefore unless there are contracts announced, projects announced tractor sales will also have an impact in their volumes.

Kunal Shah: But in terms of the collection efficiency or asset quality trend in tractors are we seeing any kind of pain out there?

Ramesh Iyer: Nothing very remarkably negative as compared to any previous year because normally for tractors the first two quarters are never good because of the monsoon, the utilization is hugely under utilization and it is only when the harvest kicks in that the tractor cash flow starts coming in, so the real question has tractor behaved well will get answered as we close this quarter.

Kunal Shah: Secondly, how much has been the securitization of the assignment done during this quarter?

Dinesh Prajapati: We did 319 Crores worth securitization transaction during the quarter.

Kunal Shah: How was the income on securitization during the quarter?

Dinesh Prajapati: Income usually as post the revised guideline now it is based on cash basis. All the securitization transactions so if I were to just line item wise it will be around 56 Crores for all the transaction not for the current transaction alone. We have an outstanding book of around 2000 Crores through securitization.

Kunal Shah: How much was this in the last quarter?

Dinesh Prajapati: Last quarter was around 46 last quarter; not previous year.

Ramesh Iyer: First quarter of this year.

Kunal Shah: Yes.

Ramesh Iyer: 46 Crores.

Moderator: Thank you. The next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: Good evening Sir. Thanks for this opportunity. My first question is that we have earlier given a guidance of NPL target of 5% by FY'15 end now you mentioned in your speech that the correction would not be as fast. So is this 5% guidance still hold?

Ramesh Iyer: If the asset grows it will, as far as the asset quality is concerned we have arrested it clearly and the denominator has to grow for the percentage to change. So if there is an asset growth in the second half which is better than the first half supposing then definitely it is still doable.

Deepak Poddar: 5% target by FY'15.

Ramesh Iyer: I want to be absolutely clear and clear in the sense that the asset quality deterioration as for sure been arrested. How much will it come down will depend on what the asset growth if you were to look at from a percentage perspective.

Deepak Poddar: Okay I understand but what should be the long-term sustainable levels that one should look at may be from a 3 to 4 year perspective because historically we have seen a higher NPL and again coming back to 3% to 4% kind of level?

Ramesh Iyer: See if you were to normalize even these NPA to events of the year, and I am not talking of economic events like things going slow that can happen in the four years cycle once more may be but things like elections, things like natural calamities in many locations and those kind of things if you were to normalize even this 6% would be not more than 5%, 5.25 kind of situation. I always say that in our business you must take a range of 3 to 5, 3 being the best and do not breach the 5.

Deepak Poddar: My second question is on the credit growth outlook like you have mentioned that in FY'16 may be a double digit kind of growth you might be targeting or that is what manufactures are looking at but over a little longer-term period let us say four to five years what kind of credit growth that would be sustainable in your view?

Ramesh Iyer: I do not want to put a number but I will give you three or four things if it happens what it can lead to. Take the three things that I have already said which is discounts discontinuing, new manufacturers pushing in and start increasing their volumes and we focus on preowned vehicle as one important vertical for us. The other two things which will happen is the overall volume in the market has to go up, it cannot remain the way it is today. Even let us say they do not grow at least the negative growth stops. Now they are -8%, 10% kind of situations. If they come to a 0 growth level that is an additional 10% volume available for financing and for last more than about I think not less than about 15 to 18 months there has been no price increase to products like for example if the excise duty once more comes back to where it belongs to originally, straightaway that will be another 5%, 7%, 10% kind of a situation. So I am without expecting too much correction from the market in terms of volumes, in terms of huge price increase forget all of that even the price comes back to its original without discounts, without excise and the volumes get positive not huge growth but at least moves away from the negative zone and more manufacturers who have set up dealerships start selling some volumes and we look at also preowned as one segment for us. I think each of this has an ability to give us a 3%, 4% kind of a growth easily. Next 4, 5 events that can add up to our 10%, 12%, 15% story without price increase, without volume increase from the market in a big way.

Deepak Poddar: I understood basically what I wanted to understand like next two years might be difficult for this growth to come but like historically we have seen a 20% plus kind of a growth on a sustainable basis even higher.

Ramesh Iyer: 20% growth will happen when manufacturer starts registering 15% at least 10% to 15% growth for themselves.

Deepak Poddar: My third question would be on the spread like currently our spread is depressed may be due to higher NPL but when do you expect this to normalize?

Ramesh Iyer: I think if you see between first and second quarter there is no depression and on the absolute gross basis if you were to remove the income reversal part of it there is no pressure on margin. So if I say that we have arrested the quality deterioration my personal clear understanding is that one would start seeing improvement to margin without increasing lending rates without decrease in borrowing cost. Normally my NPA correction with income reversal not being at this stage one can start seeing some improvement there.

Deepak Poddar: But 9% kind of spread is achievable assuming this?

Ramesh Iyer: I think we are not far off from that. I think we are almost close to 9% levels that we are talking.

Deepak Poddar: My last question is on your AUM on your south like about 35% to 40% of AUM is in the south region. So these three events basically the Vizag cyclone in Tamil Nadu verdict and also the Telangana division, so overall what kind of impact do you see over next three to four years?

Ramesh Iyer: I think Vizag while it was been a very harsh event but fortunately it has not put the whole activity out of gear. It is more the airports have got impacted and those kind of things but the connectively is reestablished, transportation is happening and it may delay things but I do not see it dip substantially. So far as Tamil Nadu is concerned I think it is already normalized from an operating perspective. We did not see any major hold back of events due to events that you mentioned of and as far as Telangana is concerned even to my surprise to an extent Telangana is actually registering growth. We are seeing Hyderabad is being hugely focused for infrastructure development and surprisingly we are seeing activity there.

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

Santanu Chakraborty: Thanks for taking my question. Good evening and Happy Diwali to all of you Sir. Just a couple of quick data points that I need and another question. So the two data points that I need what would be the LTV levels for both CV and otherwise of any disbursements you have done in this quarter and what would be the quantum of interest income reversals on fresh slippages that would have happened in this quarter. Apart from that main question that I have is that earlier in the call you spoke about the possibility of a 90-day NPA norm adoption if that does go through I would like to understand why if you think so and if so why you think that there should be any sort of operational response from the company to what is essentially just a disclosure norm and if you are planning any operational response what would be the nature of it?

Ramesh Iyer: So one is let me kind of give you the LTV point. Our overall LTV continues to remain in the range of 70 to 72 kind of a situation and as far as CVC is concerned without LCV and when I say CV we do not consider the total project of if it is a tanker or it is a trailer or that project not added so just on chassis the lending would be about 80% but if you were to look at the whole CV as a project which is the obviously the way it is it would fall down to 60% kind of a situation but you must know that we are not a significant CV player. We only have the current book running through and we hardly have any numbers getting added on a monthly basis. As far as the third question of yours on the response to the new norms, I think as I said the current book will run off because even the draft talks of 90-days after two years and things like that. So if at all our response our response will be clearly to first arithmetically look at what will happen to new businesses if two years later we have to start providing for 90 then closer that date we will start bringing in the 90-day norm or at least the business which have been done six months prior to the implementation date. So that would be one level of response. The other level of response is may be we will try and enhance our recovery processes and repossession processes where necessary on a 90-day but there will continue to be an anomaly in the system like when 90-day for banks has introduced certain products like tractor etc are very seasonal linked. So may be when we start dialoguing with RBI we will get some clarification on those kind of products. Otherwise as customer whose quarterly and half-yearly installment will become an NPA at the end of one quarter installment or two quarter installment. So there would be some dialogue on the operating side with RBI to look at specific product how the behavior should be looked at but from our operating internal perspective I think we will enhance our recovery processes, repossession processes etc., even currently our repossession norms are 90 days delay we repossesses if the customer is fresh and not paid for 90 days. In cases where customer has paid for 12 months and get defaulted over 3 months we understand the reason and we continue to keep him in the default book.

Santanu Chakraborty: Sir the only reason what generally motivates this question is that you are well known in the market as one of the sectors standards on credit policy and collection efficiency. So you would have evolved your system over the years through whatever experience you have gained in the segments, tractor being the case which comes up foremost, even if say RBI puts this in and you see 200 to 250 basis points of GNP rise I do not know what the number is you would have a better sense of that. My entire question is that why should there at all be any operational response to it why not let it be?

Ramesh Iyer: I am not saying there is any operational risk. I thought you asked what will be operational response.

Santanu Chakraborty: Right so that is the question so I am saying why response to it operationally to what is essentially a disclosure norm.

Ramesh Iyer: I think you missed my explanation which I said for tractor when it is a quarterly half-yearly I may want to do anything, nothing will happen from the customer side. That is what I said. So we may have to dialogue with RBI to say why on a customer base where already for banks you have a norm very differently looking you do not want to force it. We said that in as many words but in as far as cars and things like that is concerned I have always said that we have never worried much about our gross NPA we are always worried about our credit losses whether it is 30-day, 90-day, 120-day whatever day it is eventually are we able to transact on the collateral if it needs to and when you transact on the collateral how much do you do so. So whether we have had a 6% NPA or a 3% NPA our write offs have been in the vicinity of 1% to 2%.

Santanu Chakraborty: Absolutely and that is the only thing that matters right.

Ramesh Iyer: And that remains even now but it is just that if the norms changed to 90-day as an operating team we get an advantage to go and pressurize customer to start paying little more but the track will still remain that he can pay only if he earns.

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

Kashyap Jhaveri: Good evening Sir. Two questions from my side. One if I look at our Tier 1 ratio we are at about 15.5% now. The last time we did a dilution was when we were at about 14% odd. So what is the view on capital from hereon?

Ramesh Iyer: The way the growth story is like when we did our QIP in 2012 we said that in two years we should come back. I think that got delayed by a year, so I think instead of 2014 it will be a 2015 kind of mid to end stream.

Kashyap Jhaveri: This is 15.5% given that theoretically if you were to assume that 52% provision coverage ratio was to be 70% as we have been maintaining in past this would have been something like about 14% by now. So in that scenario still you would say about 2015 December should be where you would look at capital raising.

Ramesh Iyer: We have always said that we will have about 1% to 2% higher than the prescribed regulatory norm and on a Tier 2 basis added we will always be upward of 15%. So even in this scenario let us say we moved to a 70% coverage and if it can drops to 14 it is substantially higher than the regulatory requirement in terms of Tier 1 is concerned and collectively we are at about 18% or something in terms of our overall capital adequacy is concerned. I do not think the provision is a threatening pressure to increase capital and two I think it is also important to understand that the provision does not take into account the underlying collateral. So if you were to price the underlying collateral does it have the ability to protect the balance 40% not covered and there we know that the collateral is much more value than what it is. The coverage is an outcome of in which bucket is your NPA. Supposing the NPAs are all in the 12 months plus bucket and if we carry a lower coverage then it is a cause of concern that are we under providing but if you look at RBI norm it only says you need 20% provision to be made if it is 12 plus bucket whereas we are 50% providing. So coverage will always be low when the buckets are low but if the bucket do not change and they start moving upward collection does not happen then our coverage increases but what we have taken a view is whenever the bucket increases happen rather than providing more we rather repossesses and book the loss itself. You take in this round in this quarter we had clear choice to take a 100% provisional limit in the book and we would have looked to be a better covered company but we have taken a view that if somebody has not paid you for 12 months, 14 months what is the point in making higher provisions pickup the asset and book the loss that is better than coverage.

Kashyap Jhaveri: My second question is on the repossession side what have been the repossession loss rates in this quarter and how does it compare Q-on-Q as well as Y-on-Y. So let us say we booked about 99 Crores of repossession loss that as a percentage of outstanding would have been how much actually.

Ramesh Iyer: If you look at first of all we should understand we have total repossessed vehicle take what we repossess and sell almost same number happen. If we repossess 4000 vehicles we also sell about 4000 vehicles but we have a life customer base of 1.7 million customers. So one has to start looking at this number from that perspective. One has to start looking at it that it is 3000 or 4000 vehicles from across 800 plus branches. So from no branch it is more than 3 to 4 vehicle per time but more importantly even if you were to apply this as a percentage to the overall outstanding it will not be more than the 2% kind of a situation that we are talking.

Kashyap Jhaveri: Actually let me rephrase my question. So this 99 Crores the loss that we have taken.

Ramesh Iyer: It has two elements. I think one already sold a book loss. Two we have repossessed kept in stock and we have depreciated it or some bases and it will have some value. It is not all that has been sold already. So therefore when we actually sell we may even make money in some cases if you we have already over provided for it.

Kashyap Jhaveri: I fully agree to that point but let me rephrase my question. My question is that this 99 Crores repossession plus depreciation loss that we have taken against that what would be the total outstanding numbers. So let us say of that outstanding we would have recovered some number.

Ramesh Iyer: Only of those assets.

Kashyap Jhaveri: Only for those 99 Crores.

Dinesh Prajapati: What happens it varies from the asset class to asset class so given the current scenario we would have incurred a higher loss in the commercial vehicle segment and LCV segment. All other asset classes we would have more or less on an average lost on income, which we would have accrued.

Kashyap Jhaveri: The principal would have been more or less recovered.

Dinesh Prajapati: In commercial vehicle definitely we would have lost out close to 10% plus.

Ramesh Iyer: Fundamentally you understand our LTV is 70% and therefore day 1 if I repossess unless I make more than 30% loss I would not lose principle because 70% is only value finance and there has not been a single case where we have not recovered less than 5, 7, 10 installments. So therefore at any point of time principal outstanding on a to-be-repossessed vehicle will not be more than 50-55% of the principal. Now you look at the situation that if they are an NPA we already have provided in the book right and if they cross 12 months we provide 50%. So P&L impact will be virtually zero, it will be a profit.

Kashyap Jhaveri: Let us say as Dinesh highlighted this number would have been something like about 10% for CV.

Ramesh Iyer: CV is the very small volume. Very, very small volume of our portfolio.

Kashyap Jhaveri: But what I am trying to understand is that would this percentage be higher or lower in the previous quarter what I am trying to understand let us say we repossessed a passenger vehicle and outstanding on that was let us say about Rs.100 and we have sold that vehicle for let us say Rs.95 so we took about Rs.5 repossession loss which is there in the provision. Now this quarter again we repossess something like about Rs.100 odd and so did we realize 95 or did we realize 98 or did we realize 92 in this quarter that is what I am trying to understand?

Ramesh Iyer: I do not have ready with me vehicle by vehicle but I can tell you that if you take a one year horizon let us say for same period of October or September 2013 when we closed all vehicles together whatever we had sold we made a loss of something like Rs.13000, 14000 per vehicle. In this quarter when we closed in this half when we closed the loss it has gone up by about Rs.5000 to Rs.6000.

Kashyap Jhaveri: If you look at Q1 and Q2 then?

Ramesh Iyer: It is almost same. It would not have deteriorated gradually except one has to be very careful which is I am talking of a mass of all vehicle there could be some shift within the product must have happened also and it is also quite possible that in this quarter everything is a car and a previous quarter if everything was a four wheeler I mean everything was a three wheeler and LTV vehicle the pickup vehicle the loss could be very different but on overall macro basis Rs.5000 to Rs.6000 deterioration has happened to the value and it is an outcome of very clearly largely discounts and excise duty concession because of which vehicle price have fallen.

Kashyap Jhaveri: If one were to understand only for let us say CV would the repossession loss remain same Q1 and Q2 just ballpark I am not looking for an exact number but anything your guesstimate?

Ramesh Iyer: According to me this year we would have lost more than even what you would have lost in the I do not know about the first quarter but definitely what we would have lost in the third and fourth quarter in this quarter the loss could have been little higher.

Moderator: Thank you. The next question is from the line of Nischint Chawathe from Kotak Securities. Please go ahead.

Nischint Chawathe: What would be the total number of borrowers at this point of time?

Ramesh Iyer: I think 1.7 million roughly exact number Rakesh or somebody can tell you but I think I will not be wrong about 5000 numbers here or there but it is about that.

Nischint Chawathe: If you look at growth and disbursement during the quarter you did mention that you added a couple of products or something to that sort may be can you just explain that a little bit.

Ramesh Iyer: When I said we have added some products would mean we were a very strong Maruti product and incidentally Maruti we have registered a growth because they are sold well but we have also got some benefit from Hyundai, we have got some benefit from Toyota, Ford all of these vehicles where they have set up dealerships already now in rural and their numbers have started happening. Nothing very significant but for us it is definitely an additional number. Let us say 32% to 35% was our car portfolio and upward of 80% used to be Maruti. I think that must have now come down to about 70% being Maruti or 65% being Maruti.

Nischint Chawathe: Again majority of delta for the quarter would be from refinancing.

Ramesh Iyer: Delta would be.

Nischint Chawathe: Between the first and the second quarter.

Ramesh Iyer: Yes should be refinancing and also car. In value terms it is also possible that in the Mahindra products we are now getting some better volumes from let us say Boleros and SUVs, which have started selling especially SUV which have now started going to deeper pockets where the value of the asset is higher. So even though volume may not be too high for us but if it is replacing a pickup which is half the price so value benefit would have come through that.

Nischint Chawathe: Finally may be if you can explain your branch ramp up strategy I believe there is not much of cost involved in this but why do you do it now because the kind of ramp up seems to be fairly large and why not one year back or why not one year from now.

Ramesh Iyer: Easier one year back because if you look at I do not know even in fourth quarter of last year also I explained that if you look at the distance from our branch to customer it has been increasing and we have clearly realized it over a period that if the customer is beyond 30 odd kilometers the interest to come back to pay to the branch is lower and therefore we have to reach him more number of times than ever before, which is a cost in itself and replacing that cost is what is this creation of what we call it as rural branch with almost the same count we are now at a distance of 10 to 15 kilometers from customer and we can very clearly see it in the collection efficiency. Nothing changed in the market between first and second quarter if any election pressures of course not there in the second quarter is one big change but our collection efficiencies have increased by 5%, 6% just in this one quarter. So I think there is merit in going so more closer and that has been our very old model that do not be beyond more than 25 to 30 kilometers at best so that your ability to reach him is faster and his ability to come and pay is much easier. So that is one very simple logic and reason. While these branches do not generate business today if you look at our direct marketing initiative we talk of going to our existing customer and through them generate more volumes in that market who are intending to buy in that market. Many more customers who intend to buy and that format is possible only when you are closer to customer you cannot travel 100 kilometers to generate business. So some of the initiative or objective of these branches is future preparedness and some of the objective was getting current benefit. I think the current benefit we are clearly leveraging and we are surely ready for the future benefit and which is why I say in this ground when the market picks up nobody will have the time to prepare themselves while today it may look to be incurring of a cost but one has to take a futuristic call to say how quickly do you see improvement happening. We think in 3 to 6 months time even if things start changing I think we are all ready to get the benefit of that growth.

Nischint Chawathe: Just coming on the last point that you have mentioned because what you seems to be kind of saying is that you are really expanding your footprint. All that you are doing is you are getting more denser within the same geography that you are focusing on.

Ramesh Iyer: I am not too sure that is not what I said when you say denser meaning you going more closer to the village right. You can cover more villages where you are otherwise not doing business at all.

Nischint Chawathe: That I what I am thinking are you going into different geographies or villages which you did not cover in the past.

Ramesh Iyer: I have not geography left. I am in every state I am almost in every district but I am not there in every village. For me the geography is village. Because in India we are there from Jammu Kashmir to Sikkim to Bhuj to Tirunelveli you take ends of the country and we are there in every district of the country. What we are not there is in every village. We are there only in 2,60,000 village and my clear direction objectively and strategically is to add at least 100,000 village in the next couple of years.

Moderator: Thank you. As there are no further questions I would now like to hand the floor over to Mr. Karan Uberoi for closing comments.

Karan Uberoi: On behalf of JM Financial I would like to thank Mr. Ramesh Iyer and the senior management team of Mahindra & Mahindra Financial Services and all the participants for joining us on the call today and wish you all a very Happy Diwali. Thank you and goodbye.

Ramesh Iyer: Thank you, Happy Diwali to everyone.

Moderator: Thank you. On behalf of JM Financial that concludes this conference. Thank you for joining us and you may now disconnect your lines.