“Mahindra & Mahindra Financial Services Limited Q2 FY-16 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Mahindra Finance Q2 FY16 Results Conference Call hosted by JM Financial Institutional Securities Limited. 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 '*' then '0' on your Touchtone phone. Please note that this conference is being recorded.

I would now like to hand the conference over to Mr. Karan Singh. Thank you and over to you, sir.

Karan Singh: Good everybody and welcome to Mahindra & Mahindra Financial Services 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.V. Ravi who is the Executive Director and CFO; Mr. Dinesh Prajapati who is VP – Treasury and Corporate Affairs and Mr. Rakesh Bildani who is DGM – Treasury. May I request Mr. 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: See I think the results would have already reached everyone so I think instead of me spending too much time on line-by-line numbers I would rather take you through what has caused this in this quarter and what do we look at going from here. So to kind of remind everyone we have been saying this for last few quarters that we yet to see any major fundamental shift in terms offeeling very happy about growth returning to normalcy. Having said that is it all across the country, is it for every little geography that we are operating in I think our answers continues to be, no. You look at India from a different perspective by state-by-state we still think there are some good four or five states, which are registering positive trends and growth going forward. And there are some states thathave issues which they continue to be. And if they have to quickly put some names to these Rajasthan is one good buoyant state from all possibility even from Monsoon they have had a decent Monsoon. So even going forward we expect Rajasthan will do well. We clearly see Andhra and Telangana to be two prominent economically developing and activities going on as states. We do see definitely Bihar is doing okay. We see parts of UP doing okay. So if you look at some states of this type Madhya Pradesh again large state but a part of MP doing well.

But there are states which have yet to kind of register any improvement and they would be Southern States like Karnataka or Tamil Nadu. Maharashtra unfortunately has had very weak monsoon so they yet to catch up. So I think India is now getting very clear in terms of which states one should need to focus on a short term basis from ensuring that you have adequate resource projected there and then get benefit of whatever good changes are there.

As we said always in the past that we continue to focus on collection as our theme and while we are ensuring that we do not lose market share on our business front but we do not want to be seen as someone who is able to create demand for vehicles or tractors we continuing wanting to pay and enabler role. So therefore, we are not chasing business, at this stage but whatever little growth that we have got is coming from the states that I mentioned of the ones which are registering growth.

So from the business point of view I think there is yet things to happen but as we speak this is the festival season on and there are mixed reactions that we are hearing from the market while the footfall at the dealerships have improved but I think the conversions are yet to be seen in terms of big number to be registered during festival season. But clearly festival season demand is for superior to what we would have seen in the last four or five months.

In terms of collections are concerned while in this quarter we have been able to curtail substantially on our NPA growth but they are still remain on the high zone because our existing customers who are completely on an earn and pay segment do not turn enough to be able to pay for the past. They do service the current loan instalments and we are sure going forward they will service these loans but are they earning enough to be able to clear their past dues; I think that is not yet visible. I think that is one of the reasons you would see that the NPA levels still remains high. But we have taken a view that in spite of this knowing the customer and their capability and the potential going forward we have taken a view to accelerate our provision and we have gone to the next level of provisioning. So we are moving close to wanting to reach the 120-day norm if possible during the year instead of waiting till March 17 to reach that kind of a situation.

And we always have believed that while NPA is something that is calling for a provision on the P&L side but they are not necessarily ending up as a credit loss to us. Therefore, we have taken this view that we are willing to accelerate our provisioning and take it forward on that basis.

If you look at it from a collection perspective, I think we have seen in upward of 50% to 60% of our NPA accounts there are movements and that they are not completely stuck and dead. They are continuing to register movement of instalment, which is a good sign from our point of view.

We have continued to be harsh on our lending norms that we are not increasing our loan to asset value we continue to remain in the zone of 70% to 75% as far as LTVs are concerned. As far as our period of loans is concerned, we still are within three, three-and-a-years as our loan period. We are not going to five-year loans and six-year loans. So we are continuing to pressurize ourselves with these kind of tighter norms even if it means that we need to give up a little business in this hour.

We have built relationship with every OEMs who want to reach the market in the rural segment and we do see benefit of that that we are getting through all these OEMs wanting to reach that market. We have continued to strategize go deeper by opening more branches and we have added branches even in this quarter and currently we are close to 1,200 plus branches across the country.

We have added some 800 to 1000 people in the system who are already been trained and put on this treat for to start with collection as their first learning on the job and then eventually they will be ready for any future business opportunities that will come our way.

We have strengthened our direct marketing initiative because that is something we believe is going to be the next big event for us to look at how do we self-generate large business and currently about 15% to 18% of our business do come from our own self generation and that is one big initiative or a big strategy tool that we are willing to offer to various OEMs which is attracting them to come closer and work with us.

So from a business point of view there is all readiness to capitalize on the emerging opportunity as and when they open up and from a collection perspective while currently we do not see major corrections coming our way but what we are ensuring ourselves that the deterioration is under control and we do not see them fall steeper like in the first quarter what we saw over the last quarter of last year is not something that we want to project going forward will happen And that is the reason we are able to take this bold decision of wanting to accelerate our provision going forward.

If we were to look at , going forward if things were to start correcting and what are the signals we will look for to kind of get a feel that the corrections are happening I think the first signal we will look for is reducing inventory at the dealerships. That is the first signal we look for. I think the second signal we look for is the increase footfall, which gets converted to buying. That is the second thing that we will look for. The third we will want to look for is what are the various projects that get announced at different state levels and therefore how the operators or the contractors get engaged themselves with more activity in that market.

Currently as we explained even in the past that the cash flow continue to remains stressful. I think there are delays in recovery of payment by the contractor from the government agencies or municipalities and the overall workload has also come down for them. And that is very visible in their ability to repay instalments.

Vehicles are available to we are seeing customers are available to be met. We continue to take the view that we do not need to reschedule this contract even though the customers are wanting more time but we will live this life of the customers delay being a part of this whole business model and as market conditions improves we are reasonably confident that we can come out of this situations pretty easily.

We do believe that by this accelerated provision the internal processes get more tightened; the alertness and awareness within the organizations spreads much faster and the focus of the organization continue to remain around recovery and therefore people get aligned to this new norm and then we can start seeing the improvement like if you see even in this quarter if you were not to take that additional Rs. 61 crores of provision which we have brought in in view of accelerated provision I think our profits would have been in line with what was last year second quarter.

But that is not something, which is guiding us to take a decision of whether to provide or not to provide. I think when we know the reality of the regulatory norm is that you need to move to this norm over a period of time then I think it is good to be ready and prudent about it align the organization to it make the processes all around work around that and therefore once you start practicing it you get the benefit of it as we go along.

So that remains our view in as far as NP and collections are concerned and as far as business is concerned. As I mentioned all the OEMs are around us willing to talk to us we are jointly reaching out to that market with the OEMs by doing various programs on the ground level and we feel reasonably confident that once the markets open up that the volume of business will come our way. Margins are not under pressure at this stage while you may see the NIMs coming down a little for us that is on account of some income reversal that happens on the NPA account and also due to product mix change. The tractor business has been going down which is a high yield product as against which it is getting replaced with CAR as the volume which is a low yield product.

So therefore, when one looks at the NIMs level you will see some compression on margin but that is not the pressure on margin it is only a product mix compression that you are seeing. But if you were to look at product-by-product what is the yield we do not see a big difference between what it was one year back to what it is today.

I think the good news around all of this is that the borrowing cost has started declining and we depending on bank for 40% to 45% of our borrowing with the base rate coming down we would be one of the beneficiary as we start borrowing from these sources. We also get benefit of our AAA rating when we kind of reach out to bonds etcetera. So overall on the borrowing front we feel comfortable that our rates are likely to come down and therefore as and when the disbursements picks up we start borrowing more from the system we will see the benefit of the borrowing cost coming down. And if we retain our lending rates, I think one only will see a better margins going forward. But I think the fundamental success is around the overall volume in vehicles and tractors and all of that going up. Once that starts going up the three steps as I said we look for is the inventory reduction discounts discontinuing and therefore the volumes coming back to the market and then we will look for the four signal which could be the price increase from OEM.

I think if these three or four things sequentially happen in the next two to three quarters’ time or may be four quarters’ time I think growth is definitely possible to happen. We are ready for embarking on that journey in as far as our readiness to growth is concerned. However, we will not push growth for the sake of growth we will wait for market signals and then participate in that growth and ensure that we get that stable growth that we are looking for.

I think that is the basic summary from our side and definitely this quarter from our point of view we believe is been given what the market conditions with poor monsoons and with lower economic activities one would have expected the pressure on our numbers would have been much, much steeper than what it is. But having very forcefully participated on a better recovery program at the ground level and some of the time invested in the first quarter the results of which would have also flown in to this quarter. I think net-net we feel extremely satisfied of what has happened for us in this quarter.

So I think that is the way I would like to summarize for ourselves and we open it up to you for any questions and then we are available to answer them. Thank you.

Moderator: Thank you. We will now begin the question and answer session.

The first question is from the line of Anitha RanganfromHSBC Asset Management. Please go ahead.

Anitha Rangan: Sir, wanted to understand with the increase in NPA is it more of a Q2 phenomena where you generally see like NPA rising and then we expect to see NPA declining? Sir, versus last year at the end of last year your gross level of NPA was like close to 6%. So how do you see that at the end of this year now like end of FY16?

Ramesh Iyer: So when you say Q2 phenomena are you comparing it with Q1 or you are comparing what is that question?

Anitha Rangan: General seasonality I am trying to see. Is it a seasonal phenomena and what kind of NPA do you see at the end of the year what is your expectation?

Ramesh Iyer: Okay so two things. One is definitely yes, Q1, Q2 normally is our growth phenomena in terms of NPA because of the climatic conditions and lower economic activities even if things were normal. Added to that if you were to look at what has been the activities around there has been substantial decline to activity level and I think the overall monsoon sentiments have been weak adds to the problem temporarily to be more steeper than in the past. So for as going forward is concerned if you were not to change the NPA norm to let us say 120 days or 135 days or whatever that number is then that is a different gross number to look at versus the gross number increasing because of changing provision norms that we have made. So suppose we were go to 120 days then I think the NPA levels may be 1% gross lower than what it is or whatever but it cannot reach the last March level because last March was on the basis of 5 months plus and not 4 months plus.

But if you were to normalize both either you normalize that two 5 months or normalize this two 5 months whichever way you do then I think yes, that two quarters from here on if it is going to be better than the first two quarters that we have gone through one can definitely see improvement but given as I explained in my initial talk given that there are no major change that is visible from an activity level even as we speak. And it is important to understand that even though monsoons are over the effect of poor monsoon will come in harvest. So sentimentally, you will have the impact when the monsoons are weak but cash flow wise the impact comes later.

So the November harvest the geography that will go through November harvest which is mainly MP, Maharashtra, Gujarat and UP of this four; three states do not have a great monsoon report. So there is likely to be pressure arising out of harvest from this market. But the good news from the same market at least from MP, UP etcetera is that the water levels are good now because of the delayed monsoon the January crop is expected to be good. So it is important to read it from two quarters together rather than reading it in to one quarter. But our own understanding is there are no great positive signals yet as we speak for us to believe that many good things of the past would have already returned by March.

Anitha Rangan: So this 9% plus gross NPA reported number is now at 120 or is it 130 or how?

Ramesh Iyer: 135 days; four months 15 days.

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

Karthik Chellappa: Sir, my question is even if we were to exclude this Rs. 300 crores, which is an accelerated NPL recognition the growth both on year-on-year and Q-on-Q seems to be pretty high. Now although the macro backdrop is still weak is there any sectoral increase in your NPL incidents whether product wise or geography wise?

Ramesh Iyer: Yes, when you said my first question I am expecting more questions to follow. So do you want to ask all of that, may be there is a common answer or the questions based on my answers?

Karthik Chellappa: Okay great. The second question I had was as far as our accelerated recognition is concerned on a Rs. 300 crores we have recognized about Rs. 60 crores as our NPA provision given that usually we charge on 10% on the substandard can I assume that the balance 10% is interest reversal on that particular portfolio.

Ramesh Iyer: It is the split is about roughly 24:40.

Management: One-third is the income reversal; two-thirds are provisions roughly.

Karthik Chellappa: And sir, lastly my question is can I have the number of customers who are NPA for this quarter?

Ramesh Iyer: It is about 120,000 or 125,000 customers will be in NPA. Out of a base of close to 1.8 million customers.

Karthik Chellappa: So our accretion on a quarter-on-quarter basis in terms of number of customers falling in to NPA really has not slowed down basically

Ramesh Iyer: Why do you say that because as ofMarch we were something like85,000 to 90,000 must be and in the first quarter end we went to something like 115 to 117 or so. And then it is added so about 10,000 or 15,000 customers because we accelerated our provision 12,000 additional contracts are coming. So if you remove that 12,000 then quarter-on-quarter the number increase is not high. And let me answer your first question since you started from there. So it is not by product alone I think it is important to know the NPA by geography because that is what guides the real situation on the ground and if you kind of go back to what I said right at the beginning there are a few states which have done well in terms of Rajasthan; in terms of Gujarat; in terms of Andhra Pradesh etcetera the increase in NPA in these market should be in fact much, much lower.

But then you look markets like parts of MP and you look at markets like Tamil Nadu or Karnataka etcetera you will find the NPA numbers are much higher as compared to the other geographies which are doing well. And once you accept that these are the geographies which do not do well then it is a little neutral than by product. But yes, within that the consumption product like people carriers will definitely have fewer problems as compared to commercial products like a tractor being used for contract application or an LCV used for that purpose or a small goods carrier etcetera. So I think the three breakups are application of the product is important; geography from where it emerges is important and in that direction I think there are few geographies where the NPAs high in that geography on certain products the NPAs are high.

Karthik Chellappa: Sir, specifically has the tractor NPA deteriorated quarter-on-quarter?

Ramesh Iyer: Quarter-on-quarter it may not have but year-on-year definitely, yes.

Karthik Chellappa: And sir, lastly on our funding cost you had indicated in your opening remarks that you expect the funding cost to come down but given that our mix over a period is shifting away from banks in favor of NCVs and CPs does it mean that whatever savings in the overall interest rate environment will get neutralized by our change in funding mix?

Ramesh Iyer: No, but my understanding is even now we have 40% to 45% from banks so clearly you will have the benefit of the base rate anyway from banks. But when we move towards bonds, the bond rates are much lower than even bank rate. So we will get even benefit of that as well.

Moderator: Thank you. The next question is from the line of Sameer Bhise from Macquarie. Please go ahead.

Sameer Bhise: Just wanted to get a sense onwhat is the minimumlevel of provision coverage that we would want to maintain long term to medium term given that we are going to 120 by March and probably even lower by next year?

Ramesh Iyer: Okay first is thank you for pressurizing us to go to 120 by March. We are only attempting, we are at 135, so please donot concludethat surelyby March we are at 120. It is a genuine attempt we will try to move there. But in as far as provision cover is concerned, I think we do not have a fixed number to say we should have x percentage coverage. What we are continuing to practice is that once the NPA crosses its first bucket we continue to make 50% provision, which is a much higher accelerated provision. Once it becomes 24 months we will 100% provide for it, right?

Sameer Bhise: 24 months you said?

Ramesh Iyer: Yes, we will 100% provide for it, that is been our historic practice and we have not changed the practice just because we accelerate our norm, right? But so far as NPAs are concerned when they are in the first bucket let us imagine that we have nothing in the second and third bucket, right which is 12 months and 24 months, suppose they all become nil everything is in the first bucket the coverage will be pretty low at something like 25%, 30% maybe. Only when you have higher bucket NPA continuing and we make higher provisions on them then the coverage goes up. So currently, we have something like 52%, 53% cover or whatever, and you look at it because there are also accounts, which are in 12 months plus provision, there are also on 24 months provision. The idea of higher coverage is as the asset ages, the ability of the asset to protect the principal starts coming down and therefore you need to keep making higher and higher provisions.

Now when they are in the first bucket, where 25% is funded by the customer himself, 75% funded by us right, the ability of the asset to protect the principal, it is our conscious decision today not to repossess, because the market conditions are not favorable you know to pressurize a customer by repossessing, what are we going to do taking the asset back? So it is not an intentional default by the customer, it is a cash flow delay which is causing him not to pay. If you look at our NPA account we will have customers who have paid 6 months, 10 months, 12 months, 14 months, they have paid instalments also.

Even today some of them who have built up 4 months, 5 months overdue are continuing to service the contract but not able to pay for the past. So it is a conscious decision of not to repossess the vehicle and therefore we do not mind even if we have a little less coverage. One quick data point would be if you have 50 odd percent coverage we have to only assume, we have to only assess and see, is the value of the asset large enough to protect the balance principal still not covered under provision. If the answer is yes, we are more than adequately available collateral then we decide whether we should partner the customer and work with him in this difficult time or if we find somebody is an intentional defaulter, take back their asset and book the loss if necessary.

Sameer Bhise: And secondly, I think we have started smaller loans in terms of vendor financing and bill discounting. Just wanted to check how is it classified in the AUM mix?

Management: It is clubbed under refinance and other segment.

Moderator: Thank you. The next question is from the line of Gaurav Agarwal from E&R Advisors. Please go ahead.

Gaurav Agarwal: Sir, just wanted to understand the economic impact of this change in NPA recognition practice. So on the accounting side it will definitely put pressure on P&L but I wanted to get the historical perspective on in terms of write offs and loss on repossessed vehicles. So what has been your experience across the cycle as a percentage of total assets, this loss has been at how much, what is the percentage of that loss?

Ramesh Iyer: See in the worst of situation I think our credit losses have not crossed 3% and best of times we have been around 1%, 1.2% also. We expect that in the current scenario if we were to repossess all vehicles and tell right with 50% already covered etcetera, I think we do not see it crossing 3% but by timing this is not the right time to do, so we are working with the customer as their partner and continuing to go through this difficult time.

Gaurav Agarwal: And sir, you mentioned that there has been some changes in the to accommodate with these NPA recognition policies, so has there been any changes in the process or the product featured in terms of the tenure of the loan or the LTV anything which you can speak of to accommodate these NPA commission practices?

Ramesh Iyer: Let us look at it from two points of view. Whether we internally call even one day as an NPA or one year as an NPA, as a less respect from a customer point of view. Customer will only look at NPA or non-NPA from his ability to pay or not, okay?So from the approach from a customer point of view, the changes that we have brought in is open more branches at a more deeper at village level, and be more closer to customers so that even part instalments are being received from the customer, which is why I keep saying that if you look at more than 50%, 60% of our NPA account, there will be a collection movement, even though he cannot pay large amounts to come out of NPA. Okay, so that is one approach. The second approach is where we see the overall ground activity is extremely weak from an economic perspective we have slowed down on our business so that you do not create further problems going forward if you donot have a visibility of when will it get alright.

Gaurav Agarwal: But sir what I was trying to ask is?

Ramesh Iyer: No, no I understand. What process change, we are already at an LTV of 70%, 75%, you reduce it by another 10%, he will borrow from somebody and bring the money, right. So therefore there is no LTV change that is possible, we cannot reduce the period then the EMI bloats so much that he cannot pay nor can you increase the period so much that the principal outstanding is extremely high. I think these are business models where both entity to the business will have to take the pressure when a situation like this comes. The customer is also going through the pressure of his ability to earn and pay being weaker and the lender also is going through the pressure of living the life of the customer until things change. It is not always necessary that we should correct a process just because a situation has changed little differently, the two changes as I said we have brought about is how do we handle recovery from here on and how do we handle our business from here on. Whereas on the other policies and processes of lending and recovery we are already very tight.

Gaurav Agarwal: Sir, on the yield side would it be possible to share risk-adjusted yields product wise?

Ramesh Iyer: I can broadly tell you, it may not be exactly product-by-product, okay but with a range of like if the lowest will be car at 13%-odd, okay and the refinance of the second hand vehicle would be in the range of 22%, 24%.

Gaurav Agarwal: Sir, these are risk adjusted or these are the yields that you charge to the customer, I am asking risk adjusted so after accounting for credit losses?

Ramesh Iyer: No, so therefore this is the yield that we charge to the customer. This factors a 3% write off that we have assumed.

Gaurav Agarwal: So what I was asking is 3% is on the tractor side, or in cars also thesimilar percentage?

Ramesh Iyer: I think we generally take 3% as an overall, whereas in our experience would be in refinance it will be not more than 1% to 1.5% because we assess the vehicle to financeand in tractor it could swing, as an NPA it could be higher, but credit losses will never exceed this.

Gaurav Agarwal: Okay, so I think CV and NCV will be the major products where you will have more than 3%?

Ramesh Iyer: Yes but we donot have a major portfolio of CVC we will be having about Rs. 1,500 crores or Rs. 2,000 crores in heavy commercial on a book of Rs. 40,000 crores.

Gaurav Agarwal: And LCV sir, how much LCV would be?

Ramesh Iyer: LCV again if you were to club Pickup and Tata ACE type of vehicle as well as the sub-3 tonner, then they will also be in the same range, but by a number of cases they will be larger because the value is much smaller there.

Gaurav Agarwal: And lastly sir, somebody mentioned that of two-third of the incremental provision is coming under provision, it is not interest reversal and one-third is interest reversal?

Ramesh Iyer: That is right, see out of Rs. 61 crores, which we have made it is about Rs. 24 crores I think is income reversal and about Rs. 37 crores, Rs. 38 crores will be in the provision.

Gaurav Agarwal: And sir this Rs.37 crores will be clubbed under provisions line items?

Ramesh Iyer: Yes.

Gaurav Agarwal: Okay and sir what was the total interest reversal amount for the quarter including the Rs. 24 crores additional interest?

Ramesh Iyer: Rs. 70 crores or something, which includes that Rs. 24 crores.

Moderator: Thank you. The next question is from the line of Aadesh Mehta from Ambit Capital. Please go ahead.

Aadesh Mehta: Sir, what we notices that banks have been growing their car loan book faster than you?

Ramesh Iyer: Correct.

Aadesh Mehta: So is it because of lower growth in our target segment or banks are gaining market share in the rural segment?

Ramesh Iyer: I think neither of that. The car loan from bank is very high in the urban center. And urban centers have been registering growth through new product launches and they are the direct beneficiary of that.

Aadesh Mehta: Okay, so we arenot seeing much of pricing pressure in the rural areas?

Ramesh Iyer: No, I started with that. See please understand our less growth is not out of losing market share. We are still maintaining market share for all our products and in fact, we have got some new products like Reno or a Ford, which has entered that market. So overall volumes in that market currently is low.

Moderator: Thank you. The next question is from the line of Rakesh Mookimfrom Barclays. Please go ahead.

Rakesh Mookim: Sir, I just wanted to understand from a perspective of disbursements going forward, is there a cost differential between disbursing more through the own channel vis-à-vis an earlier channel of probably doing it through outsourced or third party agents?

Ramesh Iyer: No, so let me clarify. We have always done through only own channel. The difference between the direct marketing when I explained is instead of depending on the dealer for business, we bring business to dealership. So the difference of direct marketing is not using somebody from outside and now we are going to do ourselves. It is the dealer generates business, I want to buy a car, I go to a dealership, the enquiry gets diverted to a finance company. So that is one model which is what all of us are in. We saying that as a finance company with large customer base in rural India in the geography that we are in, we are now reaching out to our existing customers who is referring to us new customers in the village, that business we bring to dealership. So that is self-generated business.

Rakesh Mookim: And sir, in terms of the costs is this new model lower cost than the earlier dealer based model?

Ramesh Iyer: Yes it will be. I mean there will not be a big payout that needs to be made to dealers for the reference of business. That will be one differential cost. To some extent that will be offset which will be eaten away by our traveling cost, or our advertising or marketing cost. So there will still be some difference, but not something very, very different.

Rakesh Mookim: Sir, what are the average dealer payouts that happened currently?

Ramesh Iyer: Anywhere lowest I think is 0.75%, 1% going max to about 1.75% to 2% on amount finance. On average you can take about1.4% that is it.

Rakesh Mookim: Sir, the second question I just wanted to check if you could give some color regarding the collection costs and how that has moved over the last one year or so?

Ramesh Iyer: See if you look at our total overheads to assets, which is around 3% or so, 70% will be towards collection. And I think they are not very different historically. Sometimes you have more visits to make and in this round we have curtailed more visit by opening more deeper branches. So I think it will not be substantially different because we are looking at a company level, macro level but if you go to branch-to-branch level, the scope for increase or decrease as a variability in this overheads are very minimal.

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

Umang Shah: Sir, I just wanted to understand that at this point in time is there any thought process that we might remain at 135 days of NPL recognition or might move it to maybe 125, 120 any particular number in mind or the management plans to take it as it comes?

Ramesh Iyer: See the rules provide for up to March '17 we have time to move 120. Our sincere attempt will be and which has always been our approach that keep accelerating as much as one can. Having gone to 135 at least one reality is out. We will kind of move towards the next reality from here on.

Umang Shah: So sir, just in case if you can help us with what could be the outstanding NPLs in 135 to 120 bucket, and let us say or rather give a kind of an indication so let us say if we were to move on to 120 by March 16, what kind of provisioning impact one can expect?

Ramesh Iyer: Honestly ready number may not be there but my guess would be maybe another (+1%) one should expect because some correction will also happen. I mean it is not that this is going to remain constant and only new things will get added. So and normally at least the fourth quarter is expected to be a much better quarter than any other quarter. So if really things go well in terms of ability of money coming to the market, then what we put in as new provisions will to some extent be offset by what we can correct. So one should expect another 1% but I think it is important to understand whether we call NPA by 30 days or 90 days or 120 days, is the ability of credit loss weakening because of these shifts, and are we going to lose much, much more through credit loss, I think our answer has always been, no.

Moderator: Thank you.The next question is from the line of Sanchalak Basu from CRISIL. Please go ahead.

Sanchalak Basu: My question is more on the asset side of things. Firstly, how do you see the mix of assets going forward? You have already mentioned the proportion of tractors has come down slightly from around 18% to 15%. Cars I think is increasing slightly so where do you see the asset mix going say to March 16 and what kind of book size are you looking at; at the end of the financial year?

Ramesh Iyer: See one is the timeframe that you are talking of the next six months, I think this mix would not change substantially. I do not see is tractors suddenly going to become so buoyant from tomorrow that we get back our old numbers and will it become 18%, I think that is not visible at all. So I think we will hold on to these mix maybe marginal 1% here and there type situation, okay?

Sanchalak Basu: Right, and in terms of asset growth till the end of the year?

Ramesh Iyer: As far as asset growth is concerned, as I told you, the volumes have yet to return to the market so it will be unreasonable for me to say we expect x-percentage growth on the asset to happen. I can confirm to you that we are not losing market share for sure; I can confirm to you that the new product that gets launched in that market by any new OEM we will get a fair market share out of that to whatever extent that volume can add to us. But as otherwise you know we are not sure how is the existing product like Maruti or anybody else is going to behave in the next six months. I think it will be a fair question to answer after the festival season is over. So let us hold on to this till maybe mid-November and then we will get a fair view of how the harvest is faring and how the festival season has ended.

Moderator: The next question is from the line of Manish Shukla from Deutsche Bank. Please go ahead.

Manish Shukla: Just going back to your point on credit loss now this time around the cycle has been much longer, deeper and the recovery has been significantly slower. Would that not imply that the credit losses ought to be a tad higher this time around than what we have experienced in the last cycle?

Ramesh Iyer: Yes. So the answer quickly to that is yes, if we were to repossess all the vehicle during this cycle, which is why we have taken a conscious decision that we will rather recover money as much as that we can rather than repossess and sell. So we expect that if we continue to maintain monthly collection from this customer even though they do not pay for the past. And therefore if you were to repossess in this difficult cycle maybe after six months or eight months I think we would have recovered more money from the customer and therefore the net loss will still remain there. See, it is always at a point like suppose today the market is extremely bad and we have to repossess all vehicle today and sell, your point is absolutely right, credit loss will go up which is where the prudent judgment of the management on from which geography, which product on what application, will you decide to repossess or otherwise. And three-wheeler type of a product we are even today repossessing and selling and we do see that the losses are little higher but when it comes to tractor or a UV or a car, or anything else, we are able to see that the customer is working on it and he is able to pay some money back but not the whole money back. So I think we will not have a steep credit loss increase if this pattern of ability to recover on a monthly basis is maintained and once the correction happens then it kicks off better.

Manish Shukla: My second question is in your interactions with OEM, do you get a sense that their enthusiasm towards semi-urban and rural markets is waning now compared to what it was a year back given that most of analysts and economists expect that the semi urban rural will be slower to recover than the main urban areas?

Ramesh Iyer: Look at it from an OEM perspective. Urban is so over crowded even though it is exciting and it is being driven by more new product launches rather than existing product selling more. I mean including you and me if we were to change our car at least I am not going to buy the same model again. I am going to buy the next one a new one, right? So therefore for the OEM however they may not like rural they have little choice but not to go and open dealership in rural. And thereforeyou talk to any OEM everyone it started with Maruti but you talk to anyone today everybody has got a separate rural team focusing on rural and working with the dealerships and tying up with companies like us to take them more deeper. So I donot think they are looking at rural being slow today, they are looking at rural as a necessity going forward and 60% of India's population cannot be ignored if you want to survive in India and grow in India. So they are focusing future rather than worrying in current.

Manish Shukla: My last question in your initial remarks you said you will look for three or four parameters to get a sense of growth. Is it fair to assume that in all those three or four parameters nothing much has changed in the last 6 months?

Ramesh Iyer: That is my comment.

Moderator: Thank you. The next question is from the line of Rakesh Mookimfrom Barclays. Please go ahead.

Rakesh Mookim: Sir, I just had one follow up question on your view on the CV cycle?

Ramesh Iyer: You will be charged extra.

Rakesh Mookim: So I just wanted to get your sense on the CV market, so we have seen some improvement in the headline CV sales, what is your sense in terms of the approach to the segment and if you could just comment on that part?

Ramesh Iyer: This comment is purely my comment and you will not use it to check with other NBFCs who are in CV business big time. Okay donot pressurize them with my answers. My understanding having spent lot of time in that market is currently it is the fleet operators who are buying trucks and they are trying to take advantage of the discounts that is being made available because they know 3 months, 6 months down the line, maybe the discounts will vanish.

Two, anyway most of the fleet operators do come up for fleet change over a period of time and they say why not take advantage of it. I at least think it is not driven by any major load factor that is visible as otherwise freight rates would have gone up. So the load is not driving the demand, I think it is the replacement which is driving the demand and possibility to get discounts now which could vanish is possibly driving the demand. It is not necessary that this is the only thing which is driving the demand like you look at states like Andhra I think project utilization is driving some demand. Like if you look at some state like Bihar or parts of UP, I think project utilization like roads or whatever activity is on, is driving some demand. But by and large from a goods perspective or from a container perspective, tippers are still not registered big time growth which means the projects are not big time announced. JCB which is a small excavator which used to be big demand 2000 vehicle a month kind of a thing is not yet showing signs of major improvement. So therefore there is some preparedness for future, which is visible while the current load factor do not drive it for big demand.

Rakesh Mookim: So and therefor our outlook on theCV portfolio doesnot change in terms of growth?

Ramesh Iyer: See for us, we will not be able to kind of participate in big fleet operator purchases because they are very urbanish and they are very bank loan based because they look for very low fine rate and very large quantum or a very large exposure.

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

Kunal Shah: Sir,in terms of see the number of contracts under NPLs which you highlighted to be somewhere around 125,000, 130,000 last quarter if I recollect you mentioned somewhere around say slightly below 100,000 and being 98,000?

Ramesh Iyer: That is if you donot add the repossessed vehicle, which we had about (+7000) vehicles. So now when I am talking I am talking of both including repossessed vehicle.

Kunal Shah: Sir, how would be the like-to-like number?

Ramesh Iyer: So like-to-like I think in the first quarter end 107,000 was first quarter whereas it is 128,000 to 129,000 now, which is what I said.

Kunal Shah: So there would be almost like say 20,000 to 21,000?

Ramesh Iyer: 20,000 contracts but this includes 12,000 to 13,000 contracts because of accelerated provision, which is why I said in this quarter the jump in number is not very high, it is more or less in line with what we had earlier.

Kunal Shah: And sir, in terms of our concentration across the states if we have to look at it so say some of the states, which are doing relatively well and some of the states, which are in the problem area so where do we see our concentration being higher? So is it like we are say more concentrated on Rajasthan, Andhra, Bihar, UP or our exposure is relatively higher?

Ramesh Iyer: No, so I think you will have to break it up, right? Opening balance sheetyou have a very less chance to correct because you already have that exposure from the past. But if you look at the new exposure or growth which is what I explained that our growth has also come from these states which are doing well.

Kunal Shah: Okay so incrementally may be that would be more towards the states which are much more buoyant?

Ramesh Iyer: Yes, from a growth rate but the other states the volumes are not close to zero.

Kunal Shah: Yes no but overall when we look at it in terms of the outstanding AUM exposure?

Ramesh Iyer: So when we are growing the book only at 7% to 8% kind of a situation, it means that this not doing states are de-growing. And therefore the AUM growth is coming from the other four or five states which are doing otherwise okay.

Kunal Shah: And sir in terms of say so now we have seen the small finance bank license being allotted to someone like your financiers or **(Inaudible)47.50**which are say they are on the vehicle side as well, so how do you see the overall landscape emerging in terms of say the competition from small finance banks or say from the other NBFCs so are we seeing a risk more on the?

Ramesh Iyer: So let us look at AU finance since you mentioned the name, they are already NBFC doing the same business. They will now do it under the bank format.

Kunal Shah: But maybe in terms of a scale upor say overall how do you see the competitive landscape so obviously small finance banks are emerging, NBFCs are also getting?

Ramesh Iyer: See if the base number is not going to change, only denominator is going to change with more and more player. Then yes, all of us will lose market share for the same volume. But I do not think it is expected, it is not because more bank license are issued to do the same volume. I think it is expected that everyone will expand the market and so market is not going to remain constant like this for next 5 years. Yes, it has been delayed from an expansion perspective but 6 months down the line, 10 months down the line let us say growth rate doesnot come, but even de-growth stops. There will be another 10%, 15% volume available like tractor is de-grown at 15%, 20% suppose and if that de-growth stops of the industry, the industry will be 20% more than today. So I think one should look at as why is more player required, what are they going to participate and contribute in, and how the market is going to expand. And in the expanded market, is there a role for everybody or is somebody going to lose out.

Kunal Shah: Do you mean to suggest maybe there would be a further expansion of the market, which these guys would create rather than say fighting amongst the existing players?

Ramesh Iyer: I am not sure what they want to do but one thing I know for sure when we came into this market we want to claim credit for expanding the market and taking OEMs to deeper geography and even today as we speak when so many OEMs are talking to us, it is not for what they are already selling. Like a Ford or a Toyota or a Hyundai or a Renault or a Nissan, let us take this five names they are not there big time in rural market. The very fact they are talking to Mahindra Finance is they want us to take them to the deeper rural geography and make them sell the product, which we can finance, which is the market expansion. Which is why I am not there in Mumbai or Delhi or Calcutta or Pune because there is no value addition from our side. We cannot expand the market by what we do.

Kunal Shah: Sir but all these manufacturers who are there, do you see so most of the customers whom we lend to they are mostly for say income generating purpose rather than the consumption. So what these manufacturers you just talked about apart from say Tata, Maruti okay who are our major say resources, but apart from that do you think like the income generating vehicles are being picked up for these manufacturers as well as in the semi-urban?

Ramesh Iyer: Why do you say it is not so? I think every car that is sold in rural during festival season and wedding season and tourism, it is only used as taxi even if it is registered personal. So they are all income generating assets.

Kunal Shah: No, but someone like say Nissan?

Ramesh Iyer: I think I am not too sure we are in the right format of debating with each other in this conference.

Kunal Shah: Okay no issues.

Ramesh Iyer: Yes no because otherwise we are depriving somebody else of more questions. Yes please. So you can definitely we can have one-to-one. And I can take you through on the model little more carefully.

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

Karan Singh: 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. Thank you and goodbye.

Moderator: Ladies and gentlemen, on behalf of JM Financial Institutional Securities Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.