"Mahindra Finance
Q2 FY2019 Earnings Conference Call"
October 24, 2018

ANALYST: **MR. BUNNY BABJEE – JM FINANCIAL INSTITUTIONAL SECURITIES LIMITED**

MANAGEMENT: **MR. RAMESH IYER - VICE CHAIRMAN AND MANAGING DIRECTOR**
MR. V RAVI - EXECUTIVE - DIRECTOR AND CHIEF FINANCIAL OFFICER
MR. ANUJ MEHRA - MANAGING DIRECTOR - MAHINDRA RURAL HOUSING FINANCE
MR. DINESH PRAJAPATI - SENIOR VICE PRESIDENT, TREASURY AND CORPORATE AFFAIRS
MR. RAJNISH AGARWAL - SENIOR VICE PRESIDENT, OPERATIONS
MR. VISHAL AGARWAL - DEPUTY GENERAL MANAGER, TREASURY AND INVESTOR RELATIONS

Moderator: Ladies and gentlemen, good day, and welcome to the Mahindra Finance 2Q FY2019 Results Conference Call hosted by JM Financial Institutional Securities Limited. As a reminder 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, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Bunny Babjee from JM Financial. Thank you, and over to you, Madam!

Bunny Babjee: Thank you, everybody. Good evening, and welcome to Mahindra & Mahindra Financial Services Earnings Call to discuss the Q2 FY2019 results. To discuss the results, we have on the call, Mr. Ramesh Iyer, Vice Chairman and MD; Mr. Ravi, Executive Director and CFO; Mr. Dinesh Prajapati, Senior Vice President, Treasury and Corporate Affairs; Mr. Vishal Agarwal, Deputy General Manager, Treasury and Investor Relations. May I request Mr. Ramesh Iyer to take us through the financial highlights, post which we can open the floor for Q&A session. Over to you, Sir!

Ramesh Iyer: Good evening, everyone, and thank you for joining the call. The results must have already reached you. What we feel happy and excited about is it's gone exactly the way we thought the market was behaving, even when we spoke to you in the last quarter and couple of quarters before. We did forecast that the rural was turning positive, the sentiment was turning positive, and at the back of expected average-plus monsoon, our belief was that rural would once again contribute to the overall growth.

Clearly, we did see even that time, that there was not too much of competitive pressure for us, and therefore, volumes were not difficult to gain nor was protecting the margin any difficult. But clearly, the growth drivers for us, we did see coming from commercial vehicle, construction equipment, preowned vehicle as segments, in cars of beyond Maruti cars, and of course, gaining a little market share from our own auto products and tractor businesses. So exactly is the way the growth of business has as well happened. And I must, kind of, make it extremely clear here that we continue not to chase growth, and this growth is coming to us as a natural phenomenon of our deep penetrated presence as well as under the new channel that we have built the smart branches at dealerships, which gets us the first right of getting the inquiry before they can be passed on to anybody else, if at all. So therefore, if you look at our overall growth, has come from every segment of business that we are in, but with varying growth rates in each of the business, but every business has contributed positively. And so is true from an every geography perspective, that the growth has come to us also from all the geographies.

I think what is even more, kind of, gratifying for us, is normally the first and the second quarter for rural is not expected to be the best two quarters from climatic perspective, from economic activity perspective. And therefore, we have always seen in the past, there is a pressure on cash flow both from farm and infra cash flow. And that leads to actually an increase in NPA trend as far as rural is concerned in the first two halves, and then it starts climbing down for the third and the fourth half. But what is happened in this first half for us, particularly, is we have, kind of, retained our gross NPA numbers almost to that of March level and even in terms of number of accounts has remained almost around there, whereas in the 6 months' time, we have actually done close to 4 lakh vehicles. So very clearly, we see growth returning in terms of overall disbursement growth, growth returning in terms of AUM growth as well as margin being protected. But more importantly, the provisions are coming off from a difficult time to actually climbing down from where they are and leading to therefore a much higher profitability coming from the provisions not required to be done as high.

I think most of you will recall that we had stated we had gone down to lower than 1% ROA in the past, and we said how will it get back to 3%. We had put a direction towards that where we said that 1% would come from reducing provision and additional 1% would come from not required to make such a high provisions in the future going forward. So therefore, reversal of the past provision and not required to make future provision at the high level are the two contributors mainly to the return of ROA. And you will already see that we are upward of 2%, and we are inching towards the 3%, and we believe in the next two or three quarters, one would be able to reach those levels.

We have raised capital well on time in November, and that helped us to maintain growth. From an overall liquidity perspective, we would like to assure everyone that we have not had a situation of pressure from the liquidity angle. We have not heard from any banker or any mutual fund or any other lender to us who has called us to say that they can’t lend to us. Definitely, there has been an upward movement of the borrowing cost, but the company that we are, we have always maintained appropriate ALM. And therefore, any fresh borrowing is not substantially high in the new kitty and therefore our borrowing cost increase is not exactly in line with the current marginal cost that we pay. We do get benefit of the past borrowing in the kitty. But if the similar situation continues and if all of our past borrowing gets replaced with new borrowing, there would be an upward movement, and therefore, our idea how to protect the margin comes from something we will have to pass on to consumer, but we do not think let us take an example of, let us say, 100 basis points is the increase to our borrowing cost, we do not believe 100 basis points will be passed on to the consumer. Maybe 25 basis points will get passed on to consumer.

The OEMs and dealers may pick up another 30- 40 basis points out of that. Some things we may have to pick up. And in some products, we will be able to fully price it. But very clearly, the volume benefit that we get will help us bring down our overheads and our NPA correction will help us bring down the credit loss. And therefore, we do not see at an ROA level that we want to rewrite the number. We believe we can move towards the 3%, even though at the NIMs level, one may see a little compression, which could happen due to either differential between borrowing and lending or due to product mix change. But clearly, no competition out there, I think the banks are slow as far as we are concerned. We do not see other NBFCs as aggressive around the same market place that we are in. We do not see private banks yet there taking away business volumes from us, and we have therefore become a significant player when it comes to auto, tractor, preowned vehicle, construction equipment, commercial vehicle for all of the OEMs across the country. We have added branches in our penetration strategy. And last time, we had explained about our smart branch concept, which is currently somewhere close to about 300 odd branches between auto and tractor where we cover all these dealer points, and we have that number of smart branches across.

I think put all of this together, with adequate people in the system trained for carrying out these businesses and our new verticals that we had created to focus on individual product as business and focus on collections by bucket have all come handy and helped us to produce the kind of results that you are seeing. And we do definitely believe that the rural market is continuing to remain buoyant as compared to urban market, and therefore, we continue to want to project growth story from here on going forward, even for the next two quarters.

We will keep a very close watch on the emerging liquidity situation. We will keep a very close watch on the borrowing cost, but currently, we borrow from every possible source as far as NBFC is concerned. And therefore, we believe that we do not at this stage want to re-caliber our growth story, and we believe we can achieve.

A few words on our subsidiaries: you must have seen the results also of our Rural Housing. They continued to have a pressure when it comes to the NPA. And it comes largely from one state of Maharashtra. And our expectation is that in the third and the fourth quarter as the crop money starts coming in, you would start seeing correction to even that number. But even considering a high NPA of that business, I think the lending rates sufficiently protect the risk that we underwrite in that business. And therefore, you would see the profitability of that business and the returns are high even at this level, but that is no excuse for an increased NPA. Clearly, we are in control of what is happening in Maharashtra, and we believe that, that would get corrected in the next two quarters.

In as far as insurance business is concerned, they have been under continuous regulatory changes that keep getting announced, but that is a very well synergized business with all our other businesses. And therefore, you would see continuous growth in the business, while it will be at a little muted level in terms of profitability is concerned, but still they have 20% growth in as far as that business is concerned.

Our asset management continues to focus in the rural market. The asset management company continues to focus their retail products to the rural market. And there again, you would see that our strategy of going deeper into the semi-urban, rural market has paid results, and we have built assets out there. And as projected, they are well within our projected range and that business, therefore, we believe in the next two to three years would see large-size operations coming from this market.

Overall, I would think our story is going the way we had penned. We believe in certain directions, and we had built resources and capabilities around that. And we see results coming out of that, and we think the next couple of years for rural market would remain very positive, given the election background, given the government spending in that area, given monsoon being average-plus, the sentiments remain positive, and we therefore leave behind a tone of growth coming from this market, profitability improving and returns coming back to what we had promised that we would be able to achieve.

So with that, if Dinesh or Ravi, anybody on results, anything you want to add or we will take it as a Q&A? With this, I will kind of open it up for questions from your side.

Moderator: Thank you very much. We will now begin with the question and answer session. We have the first question from the line of Mahrukh Adajania from IDFC Securities. Please go ahead.

Mahrukh Adajania: Two questions. One is that already your disbursement growth is very strong in a pre-festival quarter. So does it mean that growth can accelerate even further, given that we will be now running into the festival season in the third quarter? And obviously, you did mention that liquidity is not a challenge, only that it comes at a higher cost. But if such strong growth has to be maintained, would there be enough liquidity? That is my first question. And my second question is that already credit costs have declined, as you had also guided. So is there scope for them to decline much further as in that will the gap between, say, a 4Q and a 2Q credit cost be as significant as in the earlier quarters, given that the accounting method has also changed? Or does it change now?

Ramesh Iyer: No, so as far as growth is concerned, I think the growth rate of 40% et cetera is comparison to the first half of last year. And the first half of last year was not a very big quarter, and therefore, the growth rate looks 40%. So one should not look at 40% in the first half, so therefore will it be another 40%. Last year, you look at the second half the growth was very high. So therefore, even if one gets a 15%, 20% growth over that, that itself will be a very high growth. And as we projected always that we could end the year somewhere at 20%, 22% kind of a growth is what we think is doable. But I must tell you that the competition is not very high, and our penetration is substantially high. And therefore, there could be some gain in market share etc., but it also depends on what is the volume the dealers are able to plug. You look at the festival season. At least the Navratri has not been as exciting as one would have wanted it to be. I think the market conditions have changed to watch it on a month-to-month basis. For us to get 15%, 18%, 20% growth even in the second half is not a challenge is what I would like to comment rather than saying will it be as strong as the first quarter. I think by the number, second quarter number would be higher than first quarter, but by percentage of growth rate, because last year second half was also very high, the growth rate may look a little different compared to the first. As far as availability of funds is concerned, as I told you, our own collections are very, very strong and that itself is a great support. And therefore, we have to only borrow the balance for the purpose of meeting our liability as well as business. So we do not see it as a challenge when it comes to the next six months of business unless something very drastically changes in the market place, and therefore, things get more difficult, then we all will reengage to discuss what it is. But as we look at things today, I would like to confirm that while it is I mean, when I say liquidity is not a challenge, it does not mean that you walk in and just pickup money. I mean, it requires a good brand, it requires a good rating, it requires a good track record, it requires a good promoter. And all of that is what we qualify for, and therefore, we think that getting money for us is a little more easier, but yes, if suppose, we want to grow at 50% over last year's second half, we ourselves will be cautious as to how much do we want to grow. To achieve the planned growth, I do not think liquidity is a problem. To believe that second half will be as buoyant as first half from a growth rate perspective that is not the right comparison. But clearly an 18%, 20%, 22% growth, if one wants to look at, given the market condition and lack of competition and our penetration, my answer is yes. As far as credit cost is concerned, it is nothing to do with the accounting etc., if you measure by number of customers who are delinquent, that has also remained almost at the same March level and normally the second two quarters are the great two quarters from a rural perspective. So 100% I can tell you, it would not deteriorate from where it is. How much more will it improve? Definitely, one would see improvement. I may not want to put a number to it, but clearly you will see improvement in the next two quarters.

Mahrukh Adajania: That is really helpful. Thank you Sir.

Moderator: Thank you. The next question is from the line of Manish from NB Securities. Please go ahead.

Manish Ostwal: Thank you for the opportunity. Very good set of numbers for the quarter. My question on the spike in the other income during the quarter. Can you give me a breakup of what are the factor led to such a spike in the quarter?

Ramesh Iyer: I think, largely dividend from our subsidiary income.

Ravi: Subsidiary income. Rs.20 Crores of dividend from our subsidiaries, 2 subsidiaries, both insurance and housing. That is the major figure. Almost 60% of the Rs.40 Crores of other income is accounted by this dividend figure.

Vishal Agarwal: And whenever there is a surplus, we have got investment in the mutual fund, liquid mutual fund. So to that extent, around Rs.8 Crore is from that investment.

Manish Ostwal: Sure. Second, your comment about the demand outlook of various geographies. I mean, any geography where do you see the growth challenge still in the marketplace in terms of volume growth? And the second is that, is the discounting of the vehicles have come down? And third is, what is the collection efficiency trend across the markets? Can you comment on that?

Ramesh Iyer: So for the first two questions, which OEM are you trying to track through my answer?

Manish Ostwal: Mahindra and Maruti.

Ramesh Iyer: Maharashtra is a little slow compared to other states. We would have expected Maharashtra to be more buoyant. So I would have expected Maharashtra to be more buoyant, but that is a little slow, but as otherwise, states are small but northeast is the most aggressive in growth rate. And UP, Bihar continues to register growth. MP, Gujarat, Rajasthan is average. What else is left? South, I think Telangana, Andhra is buoyant. Karnataka and Tamil Nadu are flat. And Kerala is bouncing back after the floods. So that is the overall number, in terms of growth rates if you want to project. And it is more or less true for many products. So far as collection state-wise you want to know? Is that what you said?

Manish Ostwal: Yes. I mean, any state where you still see the collections are below than the company average or do you see the improvement is still not there?

Ramesh Iyer: If you take absolute number, I think each state will be different from each other. But if you take a range of collection between 93% and 95% or 93% or 96% as an efficiency range, I think every state comes into that, irrelevant, Odisha is a small state, it will be 1% or 2% lower. But they will all bounce back after this monsoon and things settle down. I think for us the real measurement of collection efficiency should be the next two quarters when everything becomes normal. The first two are climatically challenged, the economic activities goes slow. In spite of that, they have achieved it. So it is not really relevant if some state is slower than other state.

Manish Ostwal: And sir, our operating efficiency, especially the cost-to-income ratio now at 35% compared to 42% first half. Obviously, in first half, we have very strong disbursement growth also and that is helping topline growth. But do you see the further improvement to cost-to-income ratio or cost efficiency delivers still significant in the second half or in the next couple of years?

Ramesh Iyer: No. So let me clarify. 35%, 37%, all this will depend on how the income moves. If my lending rate goes up, revenue increases, this will look small and all that. The way to measure an overhead for an NBFC is percentage to asset because that is cumulative. And I have always said, in this business, except regional, zonal and head office, which is kind of a fixed, rest is variable. And clearly, you will see the range of overheads, worst could go to 3.15%, the best could go to 2.7% or whatever. So we do not expect it will come to 2.25% and all that. It will hover around 2.75% to 3% kind of a situation plus, minus 10 basis points here or there.

Manish Ostwal: Last, one small data point, sir. What is the marginal cost of borrowing during the Q2 versus Q1, Sir?

Dinesh Prajapati: So marginal cost of borrowing since July, August there was no liquidity squeeze and continued to remain in the range of 8.4%, 8-point, thereabout, 8.4%. Subsequently, if you think close to the September end, the marginal cost of fund has moved closer to 9%. So I think now incrementally if you see with the current liquidity conditions, it is upward of 9%.

Manish Ostwal: Thank you very much. All the best.

Moderator: Thank you. The next question is from the line of Sudip Dugar from Stewart and Mackertich. Please go ahead.

Sudip Dugar: Thanks for the opportunity. Sir, in Slide 32, we see that both gross NPA and net NPA, they have declined substantially. So Sir, could you throw some light as in the reason behind that drastic fall? Is there reversal of the provisions or due to the accounting policy change? What is the reason behind it? And if you could give in some number where we expect to settle down?

Ramesh Iyer: No, so I think gross NPA as a percentage, the recognition of NPA is as before so nothing to do with accounting policy and all that.

Sudip Dugar: No Sir, we have adopted ECL methodology?

Ramesh Iyer: That is for provision. For gross NPA, it is the same 90-day recognition. So it does not have any effect. It is actual performance of the company by collecting from customer and keeping them below 90 days. And the reason for why it is good is, it was very high, it has come down to a normal level. So I do not know how to answer. When it goes up, you people are upset. When it comes down also, you are upset.

Sudip Dugar: No Sir. My question is, is it sustainable? Or do we expect this to go down further?

Ramesh Iyer: No, so the second half for rural is always better than the first half. But given the current market conditions, we have to wait for what is the release of funds from government. Because MSPs are announced, but cash flows have to come. Right? Likewise, from infrastructure, the activities are on. You have to see how state government releases the money. But clearly, I can tell you one thing. It would not increase from here for sure. Because the second the next two halves are great halves from a rural perspective. Historically, if you look at, there has been good correction from first and second. Therefore, one can always expect that there will a lowering from here, but will it go substantially lower than that, is a difficult comment to make. But definitely, no increase and some decline is visible.

Sudip Dugar: Sir, another question is with respect to your NIMs. When can we see that like, we all know that interest rates are going up? But will we be able to pass it on currently? Or we will be taking on that hit on our NIMs?

Ramesh Iyer: Let us say 100 basis point increases in borrowing cost happens. 25-basis point, we will have to absorb and 75 basis points will get divided between dealers, OEMs and customer. And it could all happen with a lag. You may pass on to customer immediately, OEM and dealer may give a little later. But over a period of time, it will happen. Will it happen for all products, will it happen across the geography, the answer is no. So if 100 basis points happen, one can expect at least 50 basis points protection will come and maybe 50 basis points over a period of time will get absorbed. But the advantage is, your overheads are coming down and your NPAs are coming down. So you have an ability to absorb that margin.

Sudip Dugar: Thank you.

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

Ashish Sharma: Thanks for the opportunity. Congratulations on a good set of numbers. You partly answered on the cost-to-income ratio. So as you mentioned that the improvement in ROA would be largely driven by improvement in credit costs. So we expect the, I mean, operating efficiencies ought to be kicked in. I mean, this 2.9% in terms of overheads to average assets, this would remain closer to this number?

Ramesh Iyer: It is a 10 basis point play between plus and minus, will 2.9% go to 3%, will it come to 2.8%.

Ashish Sharma: So the point is, the big improvement will come with the normalization of credit costs. I mean, in terms of operating efficiency, we are already pretty much there?

Ramesh Iyer: Yes, you can consider it that way. That is right.

Ashish Sharma: Sir, just one on the Slide 24. I mean, just to look into, I mean, to understand this. So I mean, again, in terms of liquidity surplus, I mean, the RBI allows you to go negative 15%, so vis-à-vis that, we are closer to 60% up to one-month bucket. I mean, is that is how to read this?

Dinesh Prajapati: 130%. So we are 130% positive in the first month bucket.

Ashish Sharma: The slide shows Rs.3930 Crore. So I am just seeing it from?

Dinesh Prajapati: That is the absolute value, positive value. So if you see percentage scale, if you see the graph...

Ramesh Iyer: On the right hand side.

Dinesh Prajapati: In the right hand side, it will show. Against that there, if you see there, in the 1-month bucket, the percent is 130%.

Ashish Sharma: Okay, okay.

Dinesh Prajapati: So this Rs.3930 Crore absolute value is 130% positive over the maturity.

Ashish Sharma: Okay, okay, okay. Perfect, Sir. Perfect. So vis-à-vis negative 15%, we are 130% positive?

Ramesh Iyer: Correct.

Dinesh Prajapati: Correct.

Ramesh Iyer: We can give to other companies.

Ashish Sharma: Sir, just on the growth aspect. I mean, you have already given your perspective in terms of which states are already doing well. I mean, we do not expect any states, which as of now are not performing to the levels, like you mentioned already about Maharashtra. I mean, these states will, can sustain this kind of performance going forward, I mean, that would not change our growth outlook?

Ramesh Iyer: No, no, no. That is what I said. See, growth rate in the first half is 40%. That is because the base in the first half last year is low. So if you are looking at an 18%, 20% plus growth in the second half, none of the states is worrying.

Ashish Sharma: Perfect. That will be all. Thank you and all the best for the next quarter.

Moderator: Thank you. The next question is from the line of Piran Engineer from Motilal Oswal. Please go ahead.

Piran Engineer: Congrats on the good numbers. I just have a couple of questions. Firstly, in 2Q, primary car and tractor sales were quite weak due to the GST base and then Kerala floods. And Maruti has not done well, Mahindra tractor sales were down some 15%, 20% in September. But how exactly did we achieve such strong disbursement growth in these segments, 25%, 30% plus.

Rajnish Agarwal: The commercial vehicle industry grew very well in these first two quarters. So we have a lower base in commercial vehicles. So we have grown around 40%, 50% growth is there. In tractors, although the tractor growth, the new tractor growth is a little lower, 10%, 12%, partly we gained some market share, partly we are also into non-Mahindra tractors also. So that is a growth for us. And also we have done tractor refinance business. Overall the tractor portfolio, as a combination of Mahindra, non-Mahindra and old tractors have given us a larger growth. Similarly in cars, non-Maruti, we have grown much more faster than in Maruti. In Maruti, we have gained some market share, but in non-Maruti like Hyundai, Renault, Nissan, our growth rates are much higher because these companies have now started penetrating into rural and semi-urban markets. The growth is from these markets in these segments.

Piran Engineer: But even like in other OEMs did not achieve very strong sales, like this whole quarter has been tepid due to multiple reasons.

Rajnish Agarwal: Rural has grown faster than urban is one reason. We have grown faster in certain OEMs because they have grown, maybe overall growth may be a little lower, but they have grown through us in the rural markets. So Hyundai, Renault, Nissan, Tata, we have done pretty well in those markets along with them in the car segment. So our growth rates are much better, and we opened a lot of branches in the last two, three quarters. So we have got the benefit of additional branches in our penetration. So some amount of growth has come also from increased penetration in those markets.

Piran Engineer: One more question on your funding mix disclosure, the ICDs. What was the number last quarter? And who are the subscribers to the ICDs?

Dinesh Prajapati: So incrementally, large percentage of ICD was serviced through our group companies. So we have raised these ICDs from the parent company, some of our large subsidiary companies.

Piran Engineer: And at what rates, if you could disclose?

Ravi: All related party transactions have to be carried out at arms length. This, whatever in case we have borrowed from a third party, whatever rate we would have given, we will have to give. So to that extent, it is not, there is no difference whether we source from group company or otherwise. We will give them the same rate whatever we would have given to an outsider. What is important is that the strength of the group. What you can see from here is that as compared to a standalone finance company, this is the strength of the group, is solidly behind us. That is what you should, that is the only reading.

Piran Engineer: Okay. And Sir, what are the write-offs this quarter versus 1Q, if you could just disclose that number as an amount in Crores?

Dinesh Prajapati: Yes, we will share it. We will share.

Ravi: You can continue with the next question. We will give you the data point. We will give.

Dinesh Prajapati: This is the absolute value, Rs.141 Crores.

Piran Engineer: Rs.141 Crores this quarter?

Dinesh Prajapati: This quarter.

Piran Engineer: Versus last quarter?

Visahl Agarwal: Last quarter means previous year or previous quarter?

Dinesh Prajapati: Rs.330 Crores. Is it previous year or previous quarter?

Piran Engineer: Previous quarter, 1Q?

Dinesh Prajapati: Rs.69 Crores.

Alpesh Mehta: FII and corporates on a sequential basis have gone up significantly. Is it because of this ICD transaction only?

Dinesh Prajapati: This is because of IFC transaction.

Alpesh Mehta: IFC transaction?

Dinesh Prajapati: IFC participated $100 million through NCD route. 5 years, 5-year bond.

Alpesh Mehta: Okay. So these ICDs are clubbed in which segment?

Dinesh Prajapati: That will come in corporate, FIIs and Corporate.

Alpesh Mehta: So it would be IFC plus ICDs, right?

Dinesh Prajapati: Correct, correct, both together.

Alpesh Mehta: Okay. And normally while I can see that your asset quality performance on a sequential basis has been extremely strong because, seasonality wise, this is one of the best quarters that we would have seen for a long time. So can do you expect this trend to continue for 3Q and 4Q as well now?

Rajnish Agarwal: So normally, as Mr. Iyer said that the third and fourth quarters are relatively better than the first half of the, since much of the correction has already happened or improvement has happened in this first half, there will be a marginal improvement in the second half is also expected. But that will pan out based on the market conditions, which will be there. So it will depend on MSPs actually getting realized at the marketplace, contractor payments being made. So it will definitely not deteriorate from where there it is now. We expect a slight improvement in the second half also.

Alpesh Mehta: Last question. At the ground level, due to all these elections, are you seeing any noise regarding waivers or something at the very local level?

Rajnish Agarwal: No, we are not hearing any waivers right now nor if it does even if there are waivers, that does not impact our profile of customers.

Alpesh Mehta: Thank you and all the best.

Moderator: Thank you. The next question is from Digant Haria from Antique Stock broking. Please go ahead.

Digant Haria: Sir, you mentioned that Maharashtra, you were expecting some improvement, especially in the housing portfolio. Is it on the back of expectation that the sugar arrears will be cleared much better after this ethanol policy? And you know the Brazil event. Is that the main reason? Or do we expect something else?

Ravi: Yes, I request Anuj Mehra who is the Managing Director of Mahindra Housing Finance to answer this.

Anuj Mehra: I think like it is been already discussed, the second half is much stronger in the rural economy by and large. And this is particularly true of Maharashtra because you start getting your harvest money flowing in from somewhere around November and then the fourth quarter is also very strong. So sugar definitely helps. Having said that, sugar for us, that is for Mahindra Rural Housing Finance, we are not very strong in the sugar belt of Maharashtra. We are stronger in the non-sugar areas. In fact, that is one of the reasons why we also faced challenges in the first place. So we are expecting a better cash flow on account of a general uptick in agriculture per se, not necessarily limited to sugar.

Digant Haria: Thank you.

Moderator: Thank you. Next question is from the line of Mayur Parkeria from Wealth Managers. Please go ahead.

Mayur Parkeria: Good evening Sir. Thank you for taking my question. Congratulations on a very good set of numbers. Sir, just two questions. Fixed deposit base we have now around 8%, around Rs.3800 Crores, right? How much of this is retail and how much of this would be wholesale?

V. Ravi: 90% to 95% of the retail. We have roughly about 3.5 lakhs depositors.

Mayur Parkeria: And at the strategic level, do you have any plans to increase this as a percentage on the overall borrowings as we go ahead?

V. Ravi: It was 14%. If we look back at our fund mix about a year before, it was 14% about 2.5 to 2 years before. It has come down because interest rates have come down. Now again, we have the ability because as per the Reserve Bank of India regulation, 1.5x of the networth we can raise. Our network is around 7000 Crores. 9000, so we can take up to Rs.15000 Crores or Rs.14000 Crores, so the huge gap is there and this is sticky money. In Mahindra brand, we have one of the largest distribution among the NBFCs companies. And then Mahindra brand is extremely strong brand, and this is sticky money and unsecured.

Mayur Parkeria: I understand that possibility is there, but are we looking at strategically increasing this?

V. Ravi: Yes, yes. So given the backdrop of the current liquidity situation, definitely we are trying to increase our penetration through the retail participation through both the methods, one is the fixed deposit method as well as the retail NCD route. So both the methods, we are trying to increase the retail participation.

Mayur Parkeria: Sir, you mentioned that maybe some pressure on the NIMs because all the cost increase may not be able to pass at the NIM level though ROA level we may improve, but at the NIM level, there will be some pressure. But is it also possible that the earlier year higher gross NPA would have meant lower income recognition? And if that is reversing, we may see on the existing portfolio, a better income recognition and hence, there may not be as much pressure on the NIM?

V. Ravi: The income reversal is more of an accounting policy, the income reversal in the earlier Indian GAAP, if an asset becomes 90 days past overdue you have to reverse the entire income, which is accrued up to the point of time and take it only when that has become standard asset but in Ind-AS for Stage 3 asset, you have to find out the impairment and only on the impairment, which is roughly 27% in our case, only on the estimated impairment that you do not accrue income. So on the 73% or 74% you will accrue income, only on the 27% or 28% you will not accrue income. When the Stage 3 asset comes to a Stage 2 asset, which is 89 day or less asset, 89 day or less past due, then we will get that income when we have small ticker we will get because on the 27% only will we get the income booked. So then this is a sort of , bring in somekind of stability as compared to Indian GAAP. In Indian GAAP, there will be huge volatility because in one quarter 50000 accounts become NPA, you remove the income. Next quarter, 40000 come back at standard asset, as renewed income. This kind of volatility will be removed in Ind-AS. So that the whole purpose of Ind-AS is that, more or less the impairment cost when the model is fully stabilized and matured, will sort of reflect the ultimate bad debts, credit losses.

Mayur Parkeria: So you do not expect a very positive or a positive impact because of this so much in short?

V. Ravi: That is how the nature of accounting standard reflects the accounts.

Mayur Parkeria: Okay. Sir, last question from my side on the rural housing. Sir, we understand that the overall rainfall may be better, but Maharashtra side is last time probably, 60% of the places were still in the drought situation. The distribution has been quite bad in terms of that. So is that the same reading you are having or is it that in our portfolio, we are going to see increasing number on the Maharasthra side because the general understanding is quite depressed over here in Maharashtra?

Anuj Mehra: You are absolutely right. There are pockets of Maharashtra, which have had very low or poor rainfall, so we have done a plotting of our portfolio in rain deficit areas and so on and so forth. After doing that analysis, yes, there are areas and branches, which will have challenges, which will face challenges but by and large, I think, we will be able to get a much better collection efficiency and the reduction in NPAs in this quarter and going forward. So we are hopeful and quite confident that we should be able to improve things.

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

Nischint Chawathe: Just on the liquidity front and basically, some of the NBFCs they could possibly slow down on business. What are your thoughts around it? I know you obviously will get on with these issues, but are you already seeing something at the ground level? Do you expect to see something from this? And would be a beneficiary? Or maybe be what happened in 2008, maybe if you can just give some color on that.

Dinesh Prajapati: To start with, from 2008, it was a quite temporary scenario and it was a global factor and it was not a sort of a sector issue as such, but it was a holistic issue for the entire country. So from that point of view, it is quite different in the current context. In the current context, it is possibly an exposure to a particular sector issue, which is what the challenge at the marketplace is and the redemption to the mutual fund industry is in turn, leading to the bond market participants not able to participate in the same way what they used to be. So there are two sorts of ways for bond market participants or money market participants, were two participate. One was the short-term route, which was a CP route and the second one was the bond. Now if you see, it started out with the challenge at the CP route but currently, CP is available to good companies and the large corporates, which are having a good pedigree and a good corporate governance and the brands along with it. Whereas on the long end, it is still challenging because of the fund providers themselves are not able to get that longer end money, they in turn, are not able to participate in the long papers, even for good corporate houses. So effectively which means that wholesale money of roughly around 25% to 30% is not available in the current market for the participation, which means that every company will have to go back to the other wholesale provider, which is the banking sector or the insurance companies or the pension fund market. Within that, obviously because of sector cap, there could be limitations for each of these companies. However, as the market conditions are there today, in the sequence, obviously the large corporate houses or good corporate covenant companies with a good brand would definitely get the first priority, and that is what we are already experiencing and observing. But yes, there is a gap of timing. So effectively, if you see the liquidity available from the bond market is as easy as couple of days times you get the money. Whereas when you go to the banking sector, you will get 15 days to one-month time lag of getting the money in your system. So to that extent, that could be a liquidity challenge at the marketplace. And obviously, when the one tap is closed, which is 25% of your source is dried up, the other sources will equally mean costlier because everybody is going to that market. So that is what is the situation.

Nischint Chawathe: At the ground level when I meant I was essentially referring to in terms of your competition sort of going slow on businesses, is that something you are able to see or do you really something like that?

Rajnish Agarwal: Competition as far as public sector banks are concerned, they have gone slower, we have seen in the first half. But as far as NBFCs and private banks are concerned, they are as aggressive as they were in the past. So we at least in the first half so far, we have not seen them move out from the market. Now we do not expect the current players probably will continue to be there. Public sector banks, yes, they will continue to be slow, that is what we are expecting and that is one reason why we have also gained some volumes and market share in the first half, which you will see in the next two quarters also they will continue.

Nischint Chawathe: On the CV business, now your CV disbursements seemed to be strong. So, I mean, how should one think about it? Is this kind of opportunistic or is it something that you again, kind of, are trying to get back into the active CV segment?

Rajnish Agarwal: No, we are cautious and we are not very aggressive. Only the volumes available in the market are very, very less so we are getting the benefit of the available volumes. We have been selective as far as customers are concerned, and we are not being very aggressive at the marketplace. Yet, we are growing substantially because the market is growing.

Dinesh Prajapati: One point we need to mention, because of the current liquidity position, maybe to some extent the competitiveness will go up because some of the CV players will be competing directly with the banks in some of the cases, so to that extent, I think with the cost going up for the NBFCs, that could lead to some slowdown in the CV space for us.

Nischint Chawathe: And finally on the festive demand, what is your broad thought process? I know you did mention that things have, sort of, not very great till now. But do you expect this festive season to be strong or is it something, is the jury already out or how should one think about it?

Ramesh Iyer: Dussehra and Navratri one was expecting it could be much better but clearly, Maharashtra did not participate very actively and therefore one felt it was a little subdued. But if you look at Diwali, normally it is driven by Bihar, UP, and they are doing well. Even in this round, they were okay, then Vishwakarma, which was a month back, Bihar did extremely well. So I think, clearly, it appears that Diwali take-off would be better than what we saw for Navratri. And with this experience of what the dealers have gone through, I am sure they will make buying more attractive with schemes and things like that as well. One of the dampeners, one should understand is not really that demand for a vehicle is not there, the sudden increase in fuel prices, people are saying can we now wait and buy? Typical of our sentiments, the operating cost has currently gone up, can I wait for some more time before I decide to buy.

Nischint Chawathe: Thank you very much and all the best.

Moderator: Thank you. Next question is from Girish Raj from Quest Investments. Please go ahead.

Girish Raj: Thank you. One of agrochemical companies in its call today indicated that cash flow in the rural area is very sluggish, but our commentary in the opening remark was otherwise. So broadly, on a macro perspective, what is our sense on the overall sentiment given that yields on the commodity prices are lower and acreage was also relatively lower? If you can share some thoughts on this?

Ramesh Iyer: I think it is important to understand the agri company whichever said this, their purchasers are all farmers and definitely, their cash flows will improve only post October, which is November, December, etc. Normally, these companies that distributor used to pickup and sell it and the distributors would pay, maybe the distributors have gone sluggish because they may not be able to get enough money from the banking system or whatever. I mean, I am kind of double guessing from the comment that you made. So as far as we are concerned, almost all of our vehicles are daily earning vehicles, and what we see is the earnings on these vehicles are very buoyant because of the economic activity and things like that. And which is why our comments come from our recovery percentages and our NPA reduction leading to therefore also volume. In rural, at least for our financial services, it is very clear, if business is very good and if recovery is not very, very good then one has to start worrying as to how we will recover activity. So if you look at our two years that is 2015-2016, 2016-2017, recovery was also bad even though growth was not adequate and today both are good. I have said many times in the past, both business and recovery is an outcome of underlying cash flow, because somebody has to bring in 25% margin money to buy a vehicle, and when will he buy? Only when he has that cash flow, right? So from our point of view, we do see good cash flow in rural market and that is the first six months which is normally not the great six months of rural. And therefore, we are basing it on that to say the next six months for surely will be same if not better, and if you go by history, the next six months are better than the first six months.

Girish Raj: You are saying that there is no link between rural farmer and vehicle?

Ramesh Iyer: No. Of course there is a link between farmer and the vehicle. But if a farmer is purely farm dependent is different from a farmer who is also commercially dependent.

Girish Raj: Thank you very much.

Moderator: Thank you. Next question is from Abhinav from Deutsche Bank. Please go ahead.

Abhinav: Sir, actually my question was specifically coming back to Maharashtra. This is a comment that we heard from other companies as well, especially OEMs that Maharashtra has been sluggish, and this has been going on for almost a year or so. So are there any specific aspects that you can highlight as to why Maharashtra has been sluggish for more than a year? And what can change, not just from a quarter-on-quarter perspective, but maybe from a year or two year perspective. Is there anything that is changing on the ground?

Ramesh Iyer: Let us look at it as follows, if you look at all housing finance company's experience, they also have problems in Maharashtra, but their problems started after demonetization where the cooperative banks did not participate in the loan giving to the local farmers, and they therefore resorted to using their other earnings for diverting for buying seeds, fertilizers, pesticides etc., which otherwise they would have taken loan from the bank. Now they are not able to come out of what money they have diverted for that purpose resulting into some overdue etc., for our housing company so therefore, they will come out only in the next cycle, which is November, December, January when the crop money starts coming. Now you look at it from a vehicle perspective. I think there are some pockets, which have not done very well from a monsoon point of view, for example, in terms of Aurangabad whatever, right? So that has gone through Marathwada, especially the Marathwada region has gone through difficulty. Likewise in Vidarbha region, you will have Akola, Amravati going through some difficulty. So there are pockets of difficulty, it is just resulting in to this kind of a pressure out there. I think third also is while there are city-based projects that are seen in Maharashtra, we are not able to see as many rural projects in Maharashtra as we see possibly in UP, Bihar, etc., so that could possibly, in my opinion, that could happen maybe before the next election comes in, which means you would see six months from today if Maharashtra coming back to some infra story once again whereas from Nagpur to Goa the roads are getting done. But if you go to UP, Bihar may be even for that matter Rajasthan some locations, you are seeing interior roads are being done, Maharashtra is still not registered that. We do not see new power projects coming up. We do not see irrigation projects commencing. I think these infra story has to commence in Maharashtra, because Maharashtra has two strong cash flows, one farm and another is infra. So farm cash flow, sugarcane crop is out, yields are good, support prices announced, but they will have to see when will the cash flow come, which means November, December you could see Maharashtra farm cash flow improvement.

Abhinav: Okay, understood because Maharashtra can be a big driver of volumes in general because it is a large state with the large population.

Ramesh Iyer: Maharashtra is never a Diwali volume. It is normally Ganapati, Dussehra volume. Ganapati is average and Dussehra is average.

Abhinav: Just secondly, you mentioned quite clearly that obviously, you are not seeing any issues on liquidity and funding but I think the worry is that because there is, other NBFCs, which are much smaller then you, may have a problem, you may gain market share, but what impact can it have on the overall demand sentiment if the availability of finance suddenly is a problem? I mean do you have any thoughts on that?

Ramesh Iyer: Here is my take, aspirational products will definitely get impacted if the money is not available. Need-based product, they will somehow manage to buy because they have to survive through that. So while it may see some overall impact, which is why even today if you see, rural is going better than urban. Somebody asked earlier in one of the questions that Maruti is not doing well for the first time. Their stocks are building up, because Maruti cars are personal use cars not as much commercially. And therefore somebody decides, what is the hurry for me to buy today, what if I buy one month later. And typical of all of us, when we go to buy, we look at the cost of even operation and if it is high we would say, let us wait. Let it come down. We do not take a chance to say okay, today Rs.90 diesel, let me buy, but it will come down in a month's time. We would say, let it come down then I will buy. My personal opinion is that if diesel, petrol prices in the next three months, let us say, come down by Rs.15, Rs.20 for whatever reason, you will suddenly see a spurt in demand for vehicle happening.

Abhinav: Okay. But tractors and CVs, you feel that they will continue to go because they are need-based?

Ramesh Iyer: They are absolutely need-based. Our Pick-up vehicles are doing. Bolero is doing well, Pick-up vehicles are doing well, and LCVs are doing well. Right? They are not impacted by these kinds of fuel prices because every day they put it in the stand, tempo stand. And they say today's prices is Rs.800 for 8 hours, they are not on fixed rate. Whereas Ola and Uber is struggling with the fuel price increase because overall system has to increase the price, individuals cannot increase the price.

Abhinav: This was very helpful. Thank you.

Moderator: Thank you. Next question is from the line of Bunty Chawla from B&K Securities. Please go ahead.

Bunty Chawla: Thank you Sir. Congratulations for the strong set of numbers. One query is that as in Q3, now the election period is starting so it could be that due to the election there would be a slightly restriction on the cash movement as such. So do we expect some, due to this cash movement, any collection efficiency going down? So as expected, we were expecting a decline in gross NPA, could not be as much as our expectations?

Ramesh Iyer: We have not seen this in any past election, but since you are saying it, let me tell you, we have to be administratively perfect when we do cash collection during elections. In the normal time even if I do not have an I-card on my body; I can carry Rs.20000, Rs.50000, Rs.1 lakh cash and say I have collected from the customer. During elections, field executive must carry an identity of which company they belong to. They must have a copy of the receipt, which they issued to the customer that this is the cash I have issued. This is a copy of the receipt as acknowledged by the customer and this is my branch where I am taking this money to be deposited, nobody will take away this money. But if you say no, no, no I will manage, let me collect whatever money and I do not have receipt, I do not have identity, then you have a problem. But what you have to be more careful during election is about repossessions of vehicle because that is where the local political parties, etc., would stop you from doing it or even the police does not support you because they think that brings lot of administrative hassle to them in terms of handling situations. Historically, we have practiced not to repossess during election time, but recovery of cash from the customer is never a challenge, and we normally announce another scheme. We give some discounts to customer and tell them to come and pay in the branch and make it attractive for them to bring rather than we go to collect.

Bunty Chawla: Okay. And one more thing now due to this change in the insurance policy for the new vehicles, there has been a good amount of increase in the cost of ownership. Are we seeing any impact because of this also in the volume per se?

Ramesh Iyer: So far nobody has so specifically said that it is because of insurance because the discounts are so high that anyway insurance first year insurance are being given free by the dealer so they have to only cover the two years of third-party. So three-year third-party is almost equal to one year of comprehensive. So if the dealer is anyway giving one-year as comprehensive free he will tell that please give free for the three years and normally it gets added to the value of the vehicles it is for next two years so some amount finance may go up because of the overall price going up. So please understand in every vehicle that is financed, customer is bringing only 25% of the increase, 75% of the increase is paid by the finance company, repaid by them over three years. Cash purchases will come down because if Rs.40000 vehicle price has gone up then they will say that is not there for us.

Bunty Chawla: Lastly, recently in October month or after the September issue, can you share some data, how much CP was risen at what rates, if it is possible?

Ramesh Iyer: CP?

Bunty Chawla: CP and NCDs or banks are rising to roughly.

Ramesh Iyer: You want in October or you want in September, October?

Bunty Chawla: My view is after this issue has arrived so in some part in September or first week or second week of October, anything like that?

Ramesh Iyer: If you have Dinesh or Vishal's number, maybe you can call them up separately because he is looking up, he may get it then I will tell you but otherwise, you may want to call one of them maybe after half an hour after the call, then they can give you that number. General comment is to get fresh CP or to kind of renew the current CP is not really a difficulty at all.

Bunty Chawla: Thank you very much Sir.

Moderator: Due to time constraints, we will take that as the last question. I would now like to have the conference back to the management for any closing comments.

Ramesh Iyer: I think we do not have any closing remark per se, except that I still want to, for everyone's benefit, to close by saying, while there is so much discussion about liquidity etc., as an NBFC, we have been extremely prudent in terms of having a correct ALM match. We have never breached that nor do we see any mismatch at this stage and therefore, we are very comfortable from our ALM perspective and nor have we had any negatives from the system telling us not to either draw the money that is sanctioned to us or nor have called what they have already sanctioned to us. So from a liquidity perspective, we do believe that the position is comfortable, but it is high effort with a high little increased cost, which we explained will get passed on, on a divided basis a portion of it going to the consumer as well. The market's sentiments are positive, volumes are not as easy to come, but competitive pressure is much, much lower and therefore, we do not believe growth for us is a challenge as we speak. The two quarters have reflected continuous improvement in collection and declining NPA, and we believe the trend would continue in the same direction. Thank you very much. I think with that, we close our comments.

Dinesh Prajapati: Thank you.

Bunny Babjee: Thank you. On behalf of JM Financial, I would like to thank Ramesh Iyer and the senior management of Mahindra & Mahindra Finance and all the participants joining in on the call today.

Ramesh Iyer: Thank you.

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