

“Mahindra & Mahindra Financial Services Limited’s
Q2 FY’21 Earnings Conference Call”

October 27, 2020



MANAGEMENT:

MR. RAMESH IYER – VICE CHAIRMAN & MANAGING DIRECTOR

**MR. VIVEK KARVE – CFO OF THE COMPANY AND GROUP
FINANCIAL SERVICES SECTOR**

MR. RAJNISH AGARWAL – EXECUTIVE VICE PRESIDENT, OPERATIONS

**MR. DINESH PRAJAPATI – HEAD - ACCOUNTS, TREASURY AND
CORPORATE AFFAIRS**

MR. RAJESH VASUDEVAN – SENIOR VICE PRESIDENT - ACCOUNTS

MR. SANDEEP MANDREKAR - VICE PRESIDENT - CAR LOANS

**MR. VISHAL AGARWAL - DEPUTY GM - TREASURY & INVESTOR
RELATIONS**

MODERATOR:

MR. ABHISHEK MURARKA – IIFL SECURITIES LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY'21 Earnings Conference Call of Mahindra & Mahindra Financial Services Limited, hosted by IIFL 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 call, 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 Mr. Abhishek Murarka from IIFL Securities Limited. Thank you and over to you, sir.

Abhishek Murarka: Thank you. Good morning, everyone and thanks for joining the call. On the call, we have the entire management team led by Mr. Ramesh Iyer, Vice Chairman and Managing Director; Mr. Vivek Karve, CFO of the Company and Group Financial Services Sector; Mr. Rajnish Agarwal, Executive VP, Operations; Mr. Dinesh Prajapati, Head- Accounts, Treasury and Corporate Affairs; and Mr. Rajesh Vasudevan, Senior VP, Accounts.

We thank the management for providing us the opportunity to host the call. And I now hand it over to Mr. Iyer, who will make his opening comments and then we will open up for "Q&A." Over to you, sir. Thank you so much.

Ramesh Iyer: Good morning, everyone and thank you for joining this call. Let us begin from where we left when we had a call in July where we said that we do see buoyancy in the rural market and the sentiments are turning positive, rural was little better insulated from the COVID situation as compared to the urban market and our branches were opening up and were able to move on the marketplace, meet consumers, consumers were visiting branches, dealerships, etc., and we continue to say so and we continue to maintain that position. Definitely, while we are hearing that the COVID has entered some of the rural market but again to be more clearer they are in the real urban centers of the rural market, not gone as deeper into the villages and things like that and therefore our people are able to go on the street, meet customers, are able to go to dealerships and the thing seems to be much more normal than what we see in the urban centers.

So far as the demand for vehicle is concerned, we believe that the demand is still high. The consumers are visiting dealerships, the foot fall is definitely high and the OEMs have not been able to fulfill the demand because of their own supply constraints and there have been shortages of vehicles. But as we speak now for the festival season, definitely, OEMs have stepped up their supply position and inventories have gone up, the demand is definitely picking up and the retail deliveries are happening and we do believe that the two festivals that is Dussehra, Diwali put together by number should more or less be equal to what we saw in the last festival, that is last October number diwali pre-COVID festival. There could be some volume increase in certain brands but overall my belief is that the numbers would possibly be similar to what we saw then.

The sentiments continue to remain positive and the monsoons are definitely a great add-on to that. We had a good crop gone by where the cash flows did show substantial improvement, the farm cash flows did pick up well. Even the current monsoons are definitely a good sign of a

good future. I think the water levels have gone up and not just it will support this crop, but I think going into the next crop this will be of a great help and support. We do believe that the yields will be high, and our own understanding is the government will also look at a decent support price which should help the overall farm cash flow to be better as we move into the season.

Similarly, we also think the infrastructure is opening up, though not very aggressively, but yes in different states we do see mining opening up, we are able to see some coal auctions happening, road projects commencing to happen and that adds to a good positivity to the rural market. And we definitely have been the beneficiary of these cash flows and that is reflected in our overall collections during this period.

If you recall we had talked about the moratorium being offered to consumers was very high at about 75%-plus and we did see collections coming from those consumers and we are happy to report that 70%-odd of the consumers who had taken moratorium have serviced their loan. But just as a clarification not that all of them have paid all installments between April and August, some of them have paid maybe two installments, three installments, different installments but definitely we have seen movement in those accounts during this period. As we ended the moratorium in August, definitely even in September we saw the collection efficiencies hold up and we have seen collections from many of these customers during this period.

There are certain segments which continue to remain under pressure, and we believe they will take longer to bounce back, and we have talked about it even in our earlier call. And to remind that those segments are the taxi aggregator segment, the school bus segment, the heavy commercial goods carrier trailer, container movers as well as the vehicles which are attached to hotels and tourism centers. These four segments clearly we see are under pressure and possibly will remain so for a couple of months more at least the school bus operation would start to commence only in the next academic year. So far as the aggregators are concerned, we do hear and believe that with airports opening up and some of the offices opening up, etc., these vehicles have started registering some revenue though not at the earlier level. Again, commercial vehicles slow movement in terms of goods carrying is concerned. It could take another two quarters before we can say that they are back to some kind of normalcy. The tourism center vehicles are redeploying their vehicles for alternate use wherever they can and therefore there is a pressure on their revenue. And those are the segments which have not been able to service their loans during this period and probably these are the consumers who may come up for restructuring, when we look at restructuring for these customers. But as of September we have not done any restructuring even as we speak to you today, we have still not commenced any restructuring. We are first engaging with the consumers, understanding their requirement based on their needs is what we will consider restructuring for customers but we do not expect more than about 1,00,000 - 1,50,000 consumers who may ask for restructuring from our overall total base of our 20 lakh customers that we are servicing currently.

We also think that the restructuring that would be asked for by these consumers are not something that they are asking for two years of repayment extension, etc.. Very interestingly

when we went across different states and understand what the customers needs are, some of them are just wanting that they be allowed to service the interest for next three months or so and then they can restart paying the installment. Some of them are saying we can start paying immediately but bring down our size of the installment. Some of them are saying give us another two or three months time and from January is what we will start to repay. And some of them are saying that overall extend our contract by three to six months and bring down the installment all through the period. Some of them are saying just reduce the installment for six months to one year then on go back to the normal EMI size.

Good news arising out of all of this is that there will be no major impact or deterioration to the collateral because the period of the contract is not substantially getting extended while during the tenure of the contract, the installments are getting **restated**. These are our understanding after meeting the customers. As I said, not yet any restructuring done but once we embark on that journey we do not believe more than 1,00,000- 1,50,000 customers would come in for that.

The second half for rural is always good and you have seen our accounts historically. In the first half if we have been able to manage with good recovery in spite of moratorium between April and August, we do think that we can see continuity of collections to remain buoyant because the harvest would come in maybe little delayed especially with this untimely monsoons in Maharashtra which would have impacted some crop but good news Maharashtra is very sugarcane-dependent and sugarcane has not been hugely impacted though, the harvest could get a little delayed and the sugar factory could start a little late. So therefore, the cash flows may shift from October, November to maybe go to January types. But nevertheless, the money would come back and we do think that we will be the beneficiary of the improved cash flows from the rural market in the next six months.

I think in the same breath we also believe that we do not therefore see any spike in the NPAs happening but surely the three or four segments that I talked of bearing the contract that will go in for restructuring, I think some of those contracts will show signs of non-payment and which will lead to some increase in NPA which is why the company continues to have its overlay continuing and will make an aggressive stance of provisioning and always try and keep the net NPA levels to be at around 4% or even below based on how the whole thing pans out, but surely we want to confirm that we do not see a spike of NPA going forward from here.

From a growth perspective, I think we are definitely benefited by being there in the rural market, while the volumes are yet to pick up, but we do not see any loss of market share, we do maintain our market share or even gain in some of the markets, but we are cautious in terms of lending is concerned given Bihar goes for election, so we have gone little slow in that market on how much to do, what to do.

Similarly, on the tractor front, while we see demand for tractors but mainly driven so far by farm tractors and not driven so much by infra, and once that opens up then that volume will pick up as otherwise we are cautious when a contractor wants to buy a tractor, we are kind of taking a little cautious steps around that.

Pre-owned vehicle demand has been good, but supply side again is choked because there are limited repossessions, no exchange program happening, so the supply side is not very aggressive, but I would think that post festival one would start seeing even that to begin to happen.

But putting all of this together, do we see a substantial growth up to March in terms of disbursement? My answer would be no, it will be a cautious growth but definitely we would see quarter-on-quarter improvement though it may not meet or show growth over the previous year numbers, maybe some months may show like October, November because of festival, the numbers may look similar or slight growth but on an overall basis having lost the first six months with low volumes, as we close the year we would possibly definitely see not the growth over previous year but October to March if we were to cut off and see, there could be some flattish approach rather than a degrowth this time. That is as far as the overall disbursement growth. I think given that situation the AUM growth will be range bound between 8%, 10% kind of a situation because not too many contract would also mature while a marginal asset addition does happen. But to get back to a 15%, 20%, 25% kind of a growth story, I think it will all go post-March once we start seeing things to settle down better and starts to improve.

Our focus on cost rationalization continues and we are very-very focused on each line item and I explained about this even last time. While there are benefits because of the variability of the business volumes, etc., due to COVID, but removing that apart like maybe some traveling expense and some kind of a people cost could be because of such variability but even otherwise on very-very basic fundamental line item like the security services, BPO services, advertising expenses, legal expenses, rent for our branches, all of this have been revisited and we do believe that whatever savings that we have got are sustainable. But, yes, today, the cost to the assets would have to come to sub-2% level, but as the market picks up, the volumes begin to happen, etc., and if we start growing at 20%, 25%, maybe this 2% will also go up to 225, 240 basis points which is what I have always said, that from a 3%-odd will first come down to 2.5% before we can really go to a 2% level. But definite savings on the cost front has been a very focused approach of ours.

So far as the margins are concerned, I think the yields are holding up, we do not need to really drop rates and the product mix yields are definitely better with increased tractor numbers and pre-owned vehicle numbers, but we have resorted to storing liquidity and therefore the carrying cost is something which builds pressure on our margin. I think if I am not wrong, Dinesh or somebody can clarify but about 50, 60 basis points pressure would come from holding large liquidity for any eventuality. Fortunately, things have changed for good in sufficient liquidity availability. When we took this decision in April it was very unclear and therefore we did resort to storing. But now as we speak, we do see ability to raise funds from every source at a very-very attractive price and therefore we will now start relooking at how much we need to really have as a buffer liquidity rather than storing large sum, and that could ease out and margins may start to show some improvement arising out of that in the next six months. So that will be in as far as the overall margin is concerned.

As I said, we do believe the collections will hold up and we do believe that the NPAs will not show spike and we could see blunting of NPA and maybe the crop cash flow does come the way we predict, that is the yields would be good and the support price would be good, we can even see improvement to this number from March.

So overall we think that things have gone well for us from every front whether it is from some basic disbursement to ability to raise funds, to be able to maintain margin, to maintain collections and asset quality as well as control cost, I think in every stage of a line item that we looked at what we need to do, seems to have gone well for us. On this parallel side, we are investing adequately in our digital initiative and the data-based approaches and we are giving alternate solutions to consumers for their repayment, not necessary that they need to come to the branch and pay, we have made arrangements for them at different pockets.

On the branch expansion, you would have seen some contraction to our number. It is mainly coming from again rationalizing on our regional offices, not necessarily the branch office which our customers facing. So in every state we had more than two or three regional office. We have consolidated them, and we have created one service kind of an approach and that has released some of the large regional offices which were not required and we have redeployed the people across the country. I want to confirm to you that we have not reduced people in terms of the current situation in the number of count but as I said last time we are not adding people and we are redeploying them more meaningfully internally and therefore you would see some number being flattish and if people who are resigning in this period, are not being replaced, so you would also see some reduction to the number that has happened and people being deployed better and more logically across.

Specifically on various NPA fronts, our actions have been that we have identified NPAs by product, by region, by branch location and by application of product and a specific team of about 2,000 people being earmarked specifically to handle these contracts for the next six months, and we believe that that approach of ours like in the past would substantially bring down the NPA by better recovery from these consumers. As I said they are resorting to settlements instead of repossessions and therefore that would happen.

But what can happen post festival once thing starts to improve, I think consumers who start to earn but are not able to service loans may either surrender or we may repossess vehicles and settle them off. So we would maintain that aggressive stand in as far as provisioning is concerned and liquidating NPAs is concerned and bringing down the overall NPA levels. We are working hard to bring down the NPA at least by another percentage point of gross and take the net NPA levels to sub-4 and we believe that all actions that we take and the support of the market that we see from cash flow, should enable us to reach those levels.

So I would kind of stop there. I think I have covered on all the fronts. Just a few lines on our subsidiary companies, rural housing again, I always believe that is our growth engine, we have started seeing improvement there, even they have started taking some aggressive stand on provisioning and Maharashtra has been one market where they have had higher pressure points

but some improvements in Maharashtra also have already been registered and we think that book will be a correcting book. They are cautious on their lending, they have in fact not lent during this period, they are focusing on corrections and I would believe that as we close March you would see good correction to the overall NPA numbers there and sufficient provisioning would be made to bring down the net, and then only they will commence their disbursement for that business.

As far as insurance broking, again, it is a very synergistically related business to the business volumes of Mahindra Finance and rural housing, etc., and therefore their growth has been very range bound on the basis of what has been the growth of MMFSL, but they remain profitable given that they are only an intermediary and they do not really need capital but they are efficiently operating the business model to remain profitable. Asset management company, again, given what is happening in the marketplace, their growth has been very-very kind of muted and steady, but they have also been able to curtail their cost and bring down their losses, very marginal Rs.2-3 crores kind of a situation, they are not overly putting pressure on us, and as you know we got in a partner and therefore there is no need really to infuse more capital into that market.

So this is all about that is happening out there. We do believe that while things are still not normal, while we think there is a lot of pressure at the marketplace, we do still think that consumers are a little confused over what to do now versus wait for little into future, etc., but when we compare with what we saw between April to June and what we saw between July to September and what we see now, we are seeing a remarkable improvement on quarter-on-quarter basis and we do think that things are looking more positive, sentiments have turned positive. I think confidence of people whether it is employees or consumers have sufficiently gone up for them to be able to take that necessary risk and come out to the market and transact.

So I will stop there and then open it up for questions. Thank you so much once again for joining on this call.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Mahrukh Adajania from Elara Capital. Please go ahead.

Mahrukh Adajania: Hi, I had a question on collection efficiency. So could you quantify the collection efficiency for September? And also quantify the number of borrowers who have not paid a single installment?

Ramesh Iyer: On the exact collection efficiency, Dinesh or Rajesh may want to answer, but I would think it is 82% for September. That is so far as the collection efficiency for September is concerned. As far as the number of accounts which have not been able to pay any EMI who have taken moratorium, I think it is about maybe 2.5 lakh to 2.7 lakh customers out of the 16 lakh customers. As I explained right at the beginning in the commentary, most of them will be in the segment of, taxi aggregator will be about 50,000, 60,000 of them, the school bus operations

should be some number, maybe commercial vehicles, the tourist operators. So, some of them will come up for restructuring I would think out of this bunch of customers.

Mahrukh Adajania: As per RBI requirements, you have given the table on the overdue accounts. So your outstanding balance as on September for the February overdue is around 90 billion. So how does that tie into the collection efficiency?

Rajesh Vasudevan: This 90 billion what you are telling is the exposure as of September, for all cases which had any kind of overdue as of 29th Feb. And next line, are those cases where we have continued a benefit of asset classification. Had all these cases not paid anything, everything would have ideally moved to asset classification change, but here there is a collection, the value for which the asset classification benefit is limited to only Rs.4,000 crores from the Rs.9,000 crores. So there are recoveries in these cases during the moratorium also and hardly anything, a very small number has moved to NPA.

Moderator: Thank you. The next question is from the line of Shanti Patel from SK Investments. Please go ahead.

Shanti Patel: I just wanted to know the overall increase in our loan portfolio in Q2 as compared to last year's Q2? Secondly, how much increase in the two wheelers loans in terms of percentage in Q2 as compared to Q2 of last year and similarly for tractors?

Ramesh Iyer: Tractors sales we can share with you. Two Wheelers, we do not do at all, so we do not have any major portion in two wheelers.

Vishal Agarwal: If you see, the business assets has increased from Rs.66,058 crores to Rs.67,732 crores.

Ramesh Iyer: Vishal will message for your tractor.

Moderator: Thank you. The next question is from the line of Amit Ganatra from HDFC Asset Management. Please go ahead.

Amit Ganatra: How to view this Rs.4,000 crores number that has been disclosed as per the table, now does this become a pot which potentially can either be restructured or can become NPA in the upcoming quarters?

Ramesh Iyer: So this 4,000 crores will have combination of everything, right, some of them as I said in those segments of about a lakh customer if they want out of the 16 lakh customer, if they ask for restructuring, based on their ability to repay, some portion may go to restructuring. Some may actually repay. Why will everything go to NPA? And some of them do not take restructuring but are not able to service the loan, maybe will move into NPA before they get start paying in the fourth quarter. So, this Rs.4,000 crores possibly will have combination of all; it is not any one particular action around Rs.4,000 crores. Rajesh, is that right?

Rajesh Vasudevan: Yes, it will be in different stages also because here we are taking February and you are seeing as of September, seven months. Not necessarily they will pay at the end. So, you might be able to collect also.

Ramesh Iyer: That is what. They will have in all three categories. So the picture will become even more clearer in December because the moratorium has ended and if they do not take restructuring we will know how many of them are paying between October and December. And our belief is at least all those customers who are farm cash flow dependent like tractors and the local pickup vehicle and all that, we would see collections on all of them happening which is why even the moratorium was taken by 16 lakh customers, restructuring is coming down to as low as 1 lakh customers. So you would see a lot of collections happening between this and the next quarter.

Amit Ganatra: When you said that September was 80% collection efficiency, typically what is the normal collection efficiency for you, I mean, average three months?

Ramesh Iyer: See, normally July, August also because of monsoon the collections are not very high. So, maybe another 4%, 5% it would have been better on a very normal condition.

Amit Ganatra: 85%, 86% is your normal collection efficiency otherwise?

Ramesh Iyer: Maybe 87%, 88%.

Amit Ganatra: So that is right now the gap between what a normal year for you would look like and what the current year is tracking for you?

Ramesh Iyer: That is right. It is also the 5% comes from in September normally we would repossess the vehicle, they will come and settle and take back the vehicle, they will settle against it. So we have not resorted to any of those measures. Whatever we have collected on absolute pure collection-to-collection basis I would not see the gap would be too. But if we were to do various other actions to improve the overall collection, we would not be able to do those actions in September.

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

Jiten Doshi: I just want to ask you on what is the competitive landscape looking like? And where do you see your average cost of funds probably in the next year? And how are you looking at the next year panning out? I mean, there is a lot of things which have structurally changed. So if you just give us some sort of a color. This is a COVID year, so I am sure that asking you too much about this year when things are not in your control is not fair. But in a normal steady state environment, how are you looking at things in the next year?

Ramesh Iyer: So as far as competitive landscape is concerned, I think what we see new players like people who are more inclined to heavy commercial vehicle business or loan against property business are currently stuck not doing too much of business around that. So they are possibly looking at

a tractor as one of the options possible and therefore we do see that in the non-Mahindra range of tractor dealerships, we do see more financials crowding up there and you have seen some finance company putting up their numbers, have gone up and all that. Barring that we are not seeing too much from NBFC space in all these places, but I think banks like State Bank, etc., are getting aggressive in the car segment to get some more volumes by giving long-term loans like seven year loan, nine year loan, low rate loan. But the good news is that the banks anyway go to one set of customers that is not necessarily an NBFC space of customers but I must admit that if we were speaking one year back if we see the same aggression from some of the NBFCs in tractor, did we see the same aggression from some of the banks in the car business, I would say, no. Is this permanent? I am not able to predict because once their prime business recommences, then they continue to do this product with anybody just because these businesses especially tractor requires a very unique and special skill sets and willingness to run through the cycle and it is not a normal kind of a car lending business equivalent. But definitely we do see one or two NBFC. No NBFC on an all-India basis, but definitely NBFC on a regional basis in the increase that we are seeing, but no sooner volumes speak up, these competitions also will become little irrelevant because everybody would have sufficient volume. So far as the cost of funds are concerned, our belief is that possibly that it is at its best now. We do not think that one should predict or forecast any further reduction in cost going forward, but at least for next six months we do not see increase either. So I think given that we have resourced money on a little long term basis, lock them well, the current cost would be something will do good for us for at least next six months to one year. After I finish, maybe Dinesh wants to or Vivek wants to add something to this, they can, but I do not think we are predicting a reduction of cost going from here. So far as what do we see let us say one year from today, so up to March will be a different situation, let us talk '21-22, how does it look like. I very strongly think that the government focus to improve the overall infra spend will be very-very high given they will also move into the election year two years from now or three years from now whenever the election is, but they will move into that speed and you will see a lot of government spend going towards rural which will absorb a lot of these assets whether it is pick up, whether it is tractor infra, whether it is tippers, excavation units like backhoe loaders, I think that segment will definitely get buoyant. I have said this before and I will want to repeat which is which if you see 2010 to 2014 when both farm cash flow and the infra cash flow did well, I think the rural growth was phenomenal. And given that the monsoons have been so good, the water levels are so good, even the next harvest will also be extremely good according to me even if the monsoons were to be delayed next year. So the farm cash flow and government spend on infra, the two cash flows, will definitely drive the rural buoyancy and I think that is what we are preparing ourselves too, whether in terms of deeper penetration in terms of partnership. With this new announcement that RBI made about, we can partner with banks and do co-lending, etc., we have already been approached by some very, very large nationalized banks to see how we can partner them, and we do see that as an opportunity. If we can zero down on dealerships and say the two of us together corner all business in rural for some of the major dealerships, can be a new approach, new strategy. So, I think we are very buoyant of how things look between Post-March '21 leading up to '22-23 and which is where our readiness in terms of branch readiness, people readiness, digital investments, technology change, process orientation, training of people, that is where we are focusing on and we know

what we are doing now is sufficient and good to sail through the situation, focus on collection, do not overfocus on business growth but ensure do not lose market share and maintain relationship but then get into the future which starts post-March. That is what I would kind of wrap up.

Moderator: Thank you. The next question is from the line of Aditya Jain from Citigroup. Please go ahead.

Aditya Jain: Could you tell us the size of this stage-2 loans as of September end?

Rajnish Agarwal: 7.7%.

Aditya Jain: There is no standstill or any classification thing to know here?

Dinesh Prajapati: As per Supreme Court what is Rs.335 crores is part of the 7.7%.

Aditya Jain: So there is 50 basis points inflation of this due to the standstill?

Vishal Agarwal: Yes-yes, stage-two and stage-three together, all of that will come to the same number.

Aditya Jain: And the four segments that you talked about which are under stress, in terms of percentage of AUM how large would they be?

Ramesh Iyer: I think should be around 7%, 8% maximum because within the overall commercial vehicles, heavy commercial vehicles will be about 4%, taxi would be 1%, 1.5%, about 80,000-odd cases.

Aditya Jain: The growth guidance of 8-10%, is that for FY'21?

Ramesh Iyer: Yes, we are at 12% I think half year and we do not see the asset that we would lend to and the contract that would mature should more or less nullify itself. So I think that is why I said 8-10%.

Moderator: Thank you. The next question is from the line of Prasheel Shah from Capgrow Capital. Please go ahead.

Prasheel Shah: I had a question regarding your costs. So currently in the first half we are seeing 2% overhead as percentage of assets which is I think one of the lowest that we have seen in the company. I understand that some of this would be because of lack of business and a lot of it may come back in the future when we are looking at growth again, but just wanted to get a sense of what is the sustainability of this low cost scenario and how much of it will come back, how much of it will not come back in the future?

Ramesh Iyer: So as I said right at the beginning in the commentary that some of the costs like traveling, employee incentive, dealer incentive, these are variable to business growth. So, let us say if business was to grow at 15%, 20%, etc., so that extent this variable cost will also go up. What

we have done well to bring down overall cost is to revisit other fixed ones like the branding expenses, legal expenses, BPO expenses, branch rent, all of that and some of the variables also having reclassified in terms of the pricing. So I would think that if the business was to grow at 15%, 20%, 25% type story, the 2% may look like 2.40%, the balance is a decent correction. I am saying if the business was to go back to a growth of 20%, 25%, one would see the overheads going from 2% to 2.4% type level which was 3% earlier which looks 2% now will go back to 2.4%. So what we have really effectively permanently saved I would think is 50 basis points arising from those various heads.

Prasheel Shah: In your presentation, you said there is excess liquidity which is actually affecting your gross spread. So how much would that be like just a ballpark figure?

Ramesh Iyer: Exact number, Dinesh can say. I think it is about 50 to 60 basis points out of some 7,000, 8,000 crores that we carry as excess liquidity. On a phased manner we will bring it down, maybe from 8,000, we will first bring it down to 5,000 to 6,000 and then go gradually to 4,000 maybe. So maybe another 25 basis points saving surely is possible around that space. Dinesh, is that right?

Dinesh Prajapati: Yes, we are carrying more than Rs.8,500 crores as of 30th September liquid investment pool. So as Mr. Iyer guided, we are in process of bringing down this liquidity pool based on our strategy.

Moderator: Thank you. The next question is from the line of Subrat Dwibedy from SBI Life. Please go ahead.

Subrat Dwibedy: First on the collection efficiency front, you mentioned that it is 82% now and it is 5% more than that on a normal course of business. September 2019 collection efficiency would be around 87%, 88% on overall basis?

Ramesh Iyer: We can exactly check but I guess it will be around that for September.

Subrat Dwibedy: And within that segment-wise, are there any variations, any more color you can give?

Ramesh Iyer: I think normally we do not have too much of product variation in the past. We normally have geography variations only like south would do little less than west and central or north and that variation continues even in this time except that the three or four segments that I talked on, has added to the variability in terms of lower collection, that is the taxi aggregator segment, the school bus segment, this was not in the past, in the past we always used to have geography variations only.

Subrat Dwibedy: You also gave a number of 1-1.5 lakh accounts out of 16 lakh accounts which would come for potentially a restructuring. In terms of value, where do you see this number as a percentage of savings?

Sandeep Mandrekar: It is around 6,000 crores.

Subrat Dwibedy: So when you say that the LTV will not be impacted even if there is a restructuring, so how will this restructuring be done?

Ramesh Iyer: I think it is important to understand. What the customers are asking for is one of the following: Some of them are saying we just need additional two months or three months, that means from January we will start to repay. So what typically happens is it is like a moratorium, right, October to December we would not have any installment for them and then the entire balance outstanding or future receivable will be divided by the balance of the contract period with additional interest that is chargeable and EMI worked out for them. So, that is one set of customers are asking. The other set of customers are saying, please reduce our EMI size for next six months and take us back to the current EMI size post six months. So therefore whatever short payment that happens in these six months will get added to the future outstanding and then EMI will slightly go up for the balance period of theirs. I want to be extremely clear that we are not giving them any additional money during restructuring to any customer... no additional money is being provided no additional funds are being given. It is the same outstanding that is due from them and future due from them is being given an additional time either by giving a moratorium or by reducing the EMI size or extending the contractual period instead of 24-months expiry it may expire in the 30-months period.

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

Kunal Shah: Firstly, in terms of the collateral value and once we repossess, do we see the risk of higher LGDs, maybe currently we are not very aggressive in terms of repossession and hand holding them, but otherwise going forward when we do it, so do we see higher LGDs out there?

Ramesh Iyer: See, I think we should understand the loss is on account of two or three things, right. One, if the asset is misused and not maintained, you lose some value or if the asset is repossessed but not sold for long then it loses value or if the asset model changes and the resale price dips, then you lose money. We do not lose money when an asset is not being put to use and when they commence to put to use or if they surrender on that day, will we lose? We may not. There is one positivity in this whole thing which is when the vehicles are moved from BS IV norms to BS VI, if all the vehicles that we would repossess would be BS IV, my personal opinion is that they will all have a decent demand because they will earn the same revenue that a BS VI earns, and whereas BS VI vehicle will be priced higher. So there will be a large set of consumers who may look for a BS IV vehicle on a second-hand market which they can put to use commercially and earn better money. Now that is one possibility, not tested or I am not making a statement of an absolute fact that that has happened but definitely that is one clear possibility. And also we should not forget that these are customers who are not general defaulters, they are customers who have repaid 10-months, 12-months, 8-months even some of them 15-months plus. So why will they not want the vehicle to be retained or at least settled at a better price? Because their equity in the business is higher now having paid so much installment, plus upfront they have invested 20%, 25%. So I would very strongly think if we repossess customers who service the loan well, they would have maintained the vehicle well, they would

have repaid certain amount plus margin initial. So, we do not think the losses should go up if any. If the resale price should hold up to an extent that we can even see the average recovery is better than what we would have normally got from a defaulting customer. Normally we lose money where we have done a wrong lending and then we have to immediately repossess and try and sell or where the customer has misused the product and not paying us, we do not lose money in good customer cases and these we are talking of good customers who are not able to service the loan because of circumstances. So they will not misused the products.

Kunal Shah: And secondly in terms of write-off, so what would be the outstanding 100% write-off amount, and is there any scope of recovery out there? And maybe what would be the policy in current circumstances? I think this quarter also it was largely write-off which led to GNPL coming down. And if we have to look at overall GNPL number, earlier also we were at 9%- 10%, so are we saying that even like post-COVID there could be some movement from stage-2 to GNPL but we should be managing to what we had seen in the last three, four years, it will not exceed much of that?

Ramesh Iyer: I would very strongly think so because even in stage-II, let us say we talked about because of the Supreme Court judgment, some of the contracts are being stated in stage-2 instead of stage-3, but we have taken an aggressive stance and made provision for it like a stage-3 account. So even if they were to move towards stage-3, there will be no additional provisioning coming from there. So, I think when I said that we will be able to hold on to the NPA, I am also betting on the fact that we have sailed through the most difficult six months of rural market and an absolutely poor market condition. What we are all entering into is an improved market condition with the second half for rural which is normally good. So, even if the recoveries are not as good and as aggressive as what we have seen in the past and if they are moderated, we still think that our NPAs are not likely to spurt.

Moderator: Ladies and gentlemen, we will take the last question from the line of Piran Engineer from Motilal Oswal Financial Services. Please go ahead.

Piran Engineer: I just have two, three data clarification questions. Firstly, had you given moratorium to your NPL accounts as of Feb 29th? One of the competitors did.

Ramesh Iyer: No, we have not. I think the regulation itself does not allow that.

Piran Engineer: Sir, my next question is, your number of customers you mentioned 20 lakhs and other point you mentioned 16 lakhs. So I just want to know....

Ramesh Iyer: 20 lakh is the cumulative live customers that we are servicing, maybe a little bit more than that. 16 lakhs are the customers who by the RBI guidelines were eligible for moratorium. And out of that, I think 14-odd lakh customers, Sandeep, am I right, were provided or whatever.

Sandeep Mandrekar: Moratorium was to 16.7 lakh customers.

Piran Engineer: When you mentioned 2.5 lakh customers have paid in the last six months, those are standard asset customers, or does it include your 1 lakh GNPL customers also?

Ramesh Iyer: No-no, we are talking of standard asset customers who took moratorium...see, when moratorium was given, we do not expect them to pay. I think the question was that in September, have they paid? So we said out of that, 2 lakh customers have not been able to service the loan even in September.

Piran Engineer: But if you stress portfolio which is taxis and school, etc., is 7%, 8%, why is the collection efficiency still lagging at 82?

Ramesh Iyer: No, but do not forget that 7%, 8%, is from that segment. But there will be others who are not suffering but not earning all their money every month. So they will also have one EMI outstanding and all that, right. See, everybody if they were to pay their current demand on-time, then where is COVID and where is the market from.

Piran Engineer: Then in light of this, how should we think of credit cost for this year?

Ramesh Iyer: No, as I said, right, we are entering the good phase of rural market. We definitely do not expect NPA to go up from where it is. Because what we have gone through is the worst six months of not only the COVID impact but also rural market impact. Normally if you look at our book for last 25-years, the first six months are always the toughest period for us. Now, with the harvest money that will start to come in, the infra money will come in, the project settlements will happen, we do not see the credit cost substantially go up and I said those three, four segments which are suffering if we give them a restructuring, then that adds to the benefit of they are not moving up.

Moderator: Thank you. Ladies and gentlemen, due to the time constraint, that was the last question.

Abhishek Murarka: On behalf of everyone, thanks for joining the call and thank you, Mr. Iyer and team for giving us the opportunity to host this call. Thanks and have a great day.

Ramesh Iyer: Somebody who could not ask a question, maybe they can post it to Dinesh, Vishal or someone and we will make sure that they get answered.

Dinesh Prajapati: Yes, I will take care.

Moderator: Thank you. On behalf of IIFL Securities Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.