



“Mahindra & Mahindra Financial Services Limited
Q2 FY22 Earnings Conference Call”

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MANAGEMENT: **MR. RAMESH IYER – VICE CHAIRMAN AND MANAGING DIRECTOR**
MR. VIVEK KARVE – CHIEF FINANCIAL OFFICER OF THE COMPANY AND GROUP FINANCIAL SERVICES SECTOR
MR. AMIT RAJE – WHOLE TIME DIRECTOR AND CHIEF OPERATING OFFICER DIGITAL FINANCE – DIGITAL BUSINESS UNIT
MR. RAUL REBELLO – CHIEF OPERATING OFFICER-CORE BUSINESSES
MR. DINESH PRAJAPATI – HEAD – ACCOUNTS, TREASURY & CORPORATE AFFAIRS
MR. RAJESH VASUDEVAN – SENIOR VICE PRESIDENT-ACCOUNTS

MODERATOR: **MR. ALPESH MEHTA – IIFL SECURITIES LIMITED**

Moderator: Ladies and gentlemen, good evening and welcome to Mahindra and Mahindra Financial Services Limited Q2 FY22 earnings conference call 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. Alpesh Mehta from IIFL Securities. Thank you and over to you, Mr. Mehta.

Alpesh Mehta: Thank you, Nirav. On behalf of IIFL Securities, I welcome you to MMFS' 2Q FY22 earnings conference call. The company is represented by Mr. Ramesh Iyer - Vice Chairman and Managing Director; Mr. Vivek Karve - CFO for the company, and the Group Financial Services Sector. Mr. Amit Raje - Whole Time Director and COO. Mr. Raul Rebello - Chief Operating Officer - Core Businesses. Mr. Dinesh Prajapati – Head - Accounts and Mr. Rajesh Vasudevan – Senior VP - Accounts.

Now without much ado I hand it over to Mr. Iyer for the opening comments and post which we will have a Q&A session. Thanks, and over to you, sir.

Ramesh Iyer: Thank you, good evening, everyone and welcome to the conference call and thank you for joining us in. True to our belief, I think the rural market has turned positive as we were expecting, and I just want to draw reference back to the call that we had post our first quarter results and we had said that whatever that we were seeing in that market around that time was caused by the second wave of pandemic, which was pretty severe in rural market and I do not want to get into that now.

But that had caused all the dent and the pressure out there, and we had all the beliefs even at that time that the customers who had moved into delinquent accounts during that period would come back to normal as market begins to open up. And as was our expectation that rural always kind of dips faster when something disrupts but at the same time we have always seen, even in the past many a times, that they also pick up with the same speed and climb back to normalcy and then stay up there.

So, we have seen a similar pattern even in this round. They did dip to a very low after the second wave, but then as things began to open up, they did push back themselves up there. And the reason why this happens almost all time in rural is, most of these customers are people who have their daily earnings from that market and therefore they have to come back to the market to start earning their livelihood.

Most of the customer segments that we work with are all earn and pay segment and we have said this many a times before, and therefore, when things do go difficult, they are the ones to get hurt. But at the same time, they do come back and start their earnings through the products that they have acquired.

So, you take any segment, whether it is in the vehicle segment, the tractor segment, three-wheeler segment, all of these segments are earn and pay segment. And with these return of activities back in the rural market, we did see the bounce back of our customer segment. I think things look pretty good across the country if we talk of any state, even if we take states like Kerala or Northeastern States, where the severity of the pandemic continued for longer, and even at this stage, we do see some numbers up there.

But I think the routine activities seem to have come back to normal in most of these markets, which is a good sign from a market perspective and from the segments that we work with. I think the demand for vehicles even as we saw in the festival just gone by and before that the Vishwakarma in Bihar, etcetera.

We did see the demand for vehicle was high and the customer footfall at the dealerships continue to remain buoyant, but as we all know, unfortunately the supply side remains a constraint, but the demand is not. And therefore we do think that as the vehicles start becoming available, we would see more traction also on the disbursement side, because the demand is holding up.

The monsoon has been pretty good. Even the earlier round was good. The crop price was good. The farm cash flows were good. In this round as well, the monsoon is definitely much above average, though there were discussions initially that is the monsoon well spread, is it scattered? Is there a problem etcetera. But I think all those doubts were slightly gone by as the monsoon picked up sometime mid-July to mid-August and I think there was sufficient monsoon for ploughing and therefore we do believe that even this crop will be pretty good. The yield will be good. And I am reasonably sure that the farm cash flows will be pretty good from that market.

I think on the infra front, again with the extended monsoon period therefore, it did not start in October as was expected, but there are already enough of discussions about how things are opening up on the infra front and you would see tremendous action on the infra front in the rural market, both driven by central spend as well as by the state spend.

And I think big states like Bihar, UP, Karnataka, Maharashtra, MP, I think will all show good signs of infra opening up. So, to kind of put it together, we continue to believe, and I have said this before that when the farm cash flow and the infra cash flow starts to go well, I think the rural starts to turn it around itself.

I think very clearly you will see both of this cash flow will drive the rural growth and we are very, very bullish to believe that run up to next election, maybe next two-three years plus you can see the rural buoyancy coming back with vigor and you will see that. Rural has been under pressure now for quite some time, and after a very long time that we have seen in this quarter everything is chucked around well, the way we wanted it to be, and we expected it to be.

Again, good news from this market is, of course there will be delays. There will be defaults. All of that happen, but we have seen a very marginal percentage of customers who are intentional

defaulters, and invariably we will only see customers who are circumstantially hit, and therefore they delay the installment.

And again, our understanding is, delay is not necessarily a permanent default, and it is not definitely not a permanent NPA, and for sure not a bad debt. I think that is the way this business is sequenced out there. We will have to live with these customers.

We will have to partner with these customers in their difficult times. We will have to understand what they are going through and if possible, provide a solution, or if not, at least partner them during this difficult period and as they come out of it, they will definitely repay.

And that has been demonstrated through the collections even in this quarter. I think the work is not yet over. We do realize that this is the first quarter after the results that you saw in the first quarter between April, June and we have now started seeing efficiencies on collection, substantially improving and it is across the country and across the product.

And that is a good news to really look at rather than, you know, it is not from certain pockets which is contributing this. We are seeing collection efficiency improve across the country and most of the products across the country.

So, therefore, our belief is that while we believe the job is still not fully done, I think we have confidence that the way we have predicted it to happen we would see quarter-over-quarter improvements in the same direction and we had made a promise in the first quarter that we would work towards reversing at least 80% of these provisions and we now have the confidence to see it even more clearer, that the path to achieving that is getting more and more clear and very, very focused and directional.

We are also said that we will need to reach the 4% net NPA mark like we did in the previous year and I think with this kind of (collection) efficiency and with this kind of market conditions, we do believe that the approach towards that 4% to reach by 31st March will also be well laid out and we would not have any hesitation to believe that by 31st March, hope that is 4% that we are looking for would be maintained as we moved to the market.

I think the disbursement growth while we have seen a good traction, we have seen a good demand, we have seen a good disbursement in this quarter. But again, if more vehicles were available, if the inventory levels were far superior to where it is, I think we would have gained even higher volume disbursements.

Good news from our side is that we have started gaining market share in all the products that we represent and again we think that with our deeper penetration with adequate people being added at every dealership level with various programs that we have announced which facilitates customer ease and customer convenience and with the competitive offerings that we see around the market, we have been able to also match those competitive offers, etcetera.

I think we do believe that the disbursement growth will pick up. We feel very confident that the two quarters in hand normally are very good quarters from a rural perspective, even in fact, if you see in the past, the second quarter is never a great quarter from a rural perspective with monsoon and, you know, the activity levels coming down. Travel becomes difficult. All of that put together, but I think what has been proved wrong in this round is, because there was a pent-up demand, because people were wanting to come out and start beginning the operation, I think even during these periods we have seen tremendous activity at that level, and which has led to good improvement in cash flow, which has led to good collection. At the back of what we have seen in this quarter we think the next two quarters would be very, very important and we know for a fact that as every year, we would start seeing good positive outcome from this market in these two quarters. Festival sentiments are again very high.

I think people are waiting for Diwali, Dhanteras and the demand is very high. I talked to dealers across the country. I do not think any one of them is expressing a demand problem. I think everyone is saying, oh, if we get more vehicle, it will be a great time for us.

On the liquidity front, again we have had no hiccups at all. Sufficient liquidity available at best of best rates for us, and therefore holding up to the margins has also not been challenging at all. I think there is no pressure to drop lending rates. The borrowing cost is at its best. I think put the two together, we do see good margins that can be really taken in by us.

On the cost front, we had put in lot of efforts and the cost is definitely under control. You would have seen an increase in cost to asset in this round, and it is not in any line item, absolute increase in value. But I think it is purely related to the activity level that has gone up and that has led to the percentage that you see out there, and one must recognize the fact that today we are a little over capacitized in terms of the overall spent is concerned because this particular organization that we have built and the people that we have and the investments that we have made, are good enough to actually manage at least another 10%, 15% growth, for sure.

So, if the asset growth begins to happen, you would start seeing this cost also getting very decently absorbed, and therefore there is this little pressure that we are going through on the AUM growth.

But again, the good news there is at least the decline is now arrested. The disbursements are beginning to happen, and I think you will see going forward, growth of assets also begin to happen. I think during these most difficult times we have taken two or three strategic initiatives, and which is definitely an investment we have made for future.

I think we have broad based our management team. You must have seen Raul Rebello has joined us as the COO, comes with very rich experience from Axis Bank in handling the rural side and using technology for rural and therefore his contribution into future would be very, very valuable and Raul has joined us.

We have added few very strong requirements at our technology front. We have added someone who has come in with a very rich experience of digitizing core businesses and therefore you will see us move in that direction and we would be hugely benefited out of that as well.

Vivek, of course, is now a year old in the company as a sector CFO. Then we have a new HR Head would come in from our Auto Sector business. So, by and large at the larger team side we have got a lot of people handling core activities.

Mohit Kapoor who is our CTO, comes with very rich experience from Bank of Singapore etcetera, and therefore his contribution to even helping us put in appropriate technology is going to be of immense help going forward. So, various strategic steps of this nature are being taken. We have built a very large team on the data analytics side. We have millions of data that we have worked with multiple customers over a period of time across the country for multiple products.

I think they are all being put together and seen how best can all of this be put to use and how we could really forecast demand? How we could guide recovery teams? All of that is beginning to happen and you will see benefits of all of this flow into us as we go along. I think through various projects internally we have set up two or three very key initiative projects. One we call it as the Collection War Room project, where there is going to be a tremendous focus on every bucket of collection.

How to avoid a forward flow in this situation where there is so much cash flow in the market rather works on a backward flow from different buckets. I think you will see a great achievement coming out of those projects. We have put in a project to review certain branches which are below the threshold levels that we are looking at and you will see corrections in those branches beginning to happen, productivity improvement in those branches. And they being pushed to become profitable over a period of time as demand starts to pick up. Those will add substantial contribution. All of this together is on an overall transformation journey for Mahindra Finance, from going through those difficult times in the last couple of years have helped us understand specific areas that we need to focus on and with added management team and with sufficient investment in technology and data, I think we are all poised to get those benefits.

On the Digital Finco business, that we were talking of, it is taken off the ground. I think the disbursements are beginning to happen already. I think they are well set to take the journey of growth and next two or three years that would become a very, very important business of lending small ticket loans to a very large customer base across the country. And to start with, they will be working on a cross sell opportunity before we can embark on a new customer journey.

But it is phenomenally important business going forward as we see the need for those kind of support, and when we use various proxy data that is available it even more convinces us as to why and how quickly should we be doing that business. And you will see traction around those business.

I think, the leasing is another bet that we have on. We do believe that many, many organizations want to go asset light. We have already started pitching ourselves for the, you know, the CTC cars of various institution. We started off of course with Mahindra as the first company for us to offer the CTC cars on lease and we are taking that program to many more companies, and we have some good corporates who have already signing up with us for similar programs.

But we do see on the electric vehicle side leasing will be of very high importance and jointly with the OEM we would launch programs out there and leasing would become a very important business to look at in the next two to three years as we talk about it.

SME is one business where we have always felt that while we want to be cautious about it, but it is a business which can have a clear Rs. 5,000 crores to Rs. 10,000 crores of disbursement happening. As I have said in the past, auto, agri, engineering are the three vertical base on which we want to work on the SME front and again with a large Mahindra ecosystem of suppliers, dealers, etcetera and with various OEMs that we work with, whether it is with TATAs, with Bajaj, with Maruti.

With all of these OEMs, we are seeing a lot of demand for the SME kind of a product both not just on the CAPEX side but also on the working capital side of the bill discounting, etcetera, where the OEMs are the acceptance of the bill and therefore the payment comes from the OEM. That will again add up to our bottom line. It does not suck too much of capital. They are very short term in nature but do add up to the profit line.

So, I think overall if I have to summarize, I think we do see demand coming back. There is a huge demand out there, inventory levels improving. I think we should get the benefit in every product line we have gained market share whether it is in Mahindra Auto, Maruti, tractors, and all of that and we have started gaining market share and not just 0.5%, 1% kind of a number. We are talking of 2% to 3% market share gain.

I think that is going to help us come back to the asset growth. Recoveries have been very good between July, August, September. Every month has seen improvement over each other month and the trend continues to be the same. And we believe run up to March we would see a similar trend of collection leading to decreasing NPA trends, and therefore the asset quality correction would begin to happen well, and that is that growth will begin to happen.

So, putting all of these together, I think we are very bullish about how things look for us from here. We have built a very large team as I said, the existing core team is being trained to handle better things at the ground level.

We have created a state level CEO concept where senior executives have been given one-one state to manage and the outcome that you see is an outcome of a very focused approach that we have taken at every state level. I just talked of how we are reviewing branches for correction. So, therefore I am very, very bullish putting all these together, both growth, asset quality and

improvement to profit, returning of margins will be very, very clearly visible for us going from here.

So, I think I would stop here and then invite questions through which we can cover many, many more things. This is the broad summary of where we have. I have not touched on any number. You must have seen our results. And if you have any questions on that, you could raise it in your question session and then we will try and address all of that.

But I think overall, I feel that the way the quarter has gone for us, and the way we think the future quarters are in store for us, it is going exactly in line with our thinking that we set out in the first quarter after the results. So, thank you, gentlemen once again, for joining this call and we will await your questions and take them as they reach us. Thank you and over to you.

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: My question is really on the provisioning write back. So, in the first quarter itself you have seen 10 billion write back on Stage-3. So, how does it pan out from here on?

Do the write backs get lower? Is this the peak? Because there are concerted recovery efforts in the second quarter. So, in terms of write backs, how does it look over the next 2 to 3 quarters? Does it build up on 10 billion or is this the max on a quarter?

Ramesh Iyer: So, every quarter you would see efforts on and recovery from the existing NPAs will happen, but will it be at the same level that we saw in the first quarter? I think my understanding is it will not be because there will not be so much available to be reversed as much as we reversed in this quarter, but clear trend will be that you will see reversal of provisions made from the previous quarters, will continue to happen. But as you know this business there will always be some new accounts which will also come into NPA.

Therefore, one has to always look at the net as to what is the levels are but trend wise if you are asking a question, the trend will definitely be a declining trend by recovery from existing NPA accounts. But the size of recovery may not necessarily be as high as what we saw in this first quarter. But trend will definitely be declining trend.

Mahrukh Adajania: But if at all, you could put a quantum to how much reversals you expect for the year, if at all that is possible?

Ramesh Iyer: No, so if you recall after our first quarter, we said that about 70%, 80% of the provisions that we additionally made in the first quarter would get reversed, and that provision had two elements, which is Stage-2 and Stage-3 elements.

So, once the restructured account starts to repay and starts behaving normal, we will take over a period of time and understanding of how the curing needs to be done etcetera. And then they would start reversing themselves. As otherwise, the eligible provision that can get reversed, our

belief is about 70%, 80% of the extra provision that we had to make in the first quarter would definitely get reversed and I think we have done in this quarter a reversal of close to maybe about 30%, 35% of that.

Mahrukh Adajania: And my other question was on AUM growth. Of course, you explained well about your market share or expansion but when do you see the chip shortage correcting and is it fair to expect that if that does not happen, you will see a flattish AUM growth even by the end of the year?

Ramesh Iyer: So, when will the shortage get corrected? I am the wrong person to answer that question. In fact, we are also hoping against hope that it should get corrected very, very soon. What we have seen at this stage for us is, at least the contract maturing values are kind of slightly lower than the disbursement that we are doing. So, therefore the trend seems to indicate that even at this level of operation there could be a very marginal to like you said, a flattish level of AUM as we end the year, if the inventory levels do not get corrected.

But if the inventory levels were to get corrected, something in this quarter and something in the next quarter, I think the demand is very bullish for us to start believing that there could be some AUM growth registering. The pre-owned vehicle demand again is very, very high, but unless the new vehicle inventory starts to become available, the exchange programs would not commence so far.

So, there are two things that we can add to all of this. One as I said, market share gain. Second is my belief is that the vehicle prices will start going up sooner than later, and if that was to happen, even with volumes not picking up, we could get some disbursement benefit and that can add to some growth.

So, the growth the way you should look at is when will the volume return to growth area and that will be one growth possibility. Second is the price increase will be the second growth possibility. The third will be contributed by the market share gain that we are doing, and the 4th will be by the pre-owned vehicle demand continuing to be robust and once the new vehicles start to be available, the preowned exchange program will start.

So, we are looking at growth in this four fashion, of which the market share has begun. The others are yet to start.

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

Subrat Diwedi: I just wanted to know in case of Mahindra Rural there seems to be some increase in NPA although that also the rural recovery story that you mentioned that one would expect to play out there as well. So, any comments there?

Ramesh Iyer: Yeah, so you know clearly and this I have said before. Rural housing is linked to rural, more deeper rural, and this not being an earning product, priority wise they always first fulfill their needs before they fulfill the needs of the EMI repayment for housing.

So, therefore it is in the queue, and we have started seeing traction there and there we have the larger chunk of the NPAs in Maharashtra, and we do think that Maharashtra is a story to look at with monsoon being pretty good and therefore there will be a good crop coming out from Maharashtra and clearly the visibility there is corrections will happen.

But you know again it will not all happen in one quarter or two quarters. The trend will be very clearly declining NPA trend, and it will take a couple of quarters more before we can say the problems are completely behind us.

But even they need to start getting back to disbursement and the demand is picking up, it is opening up. So, I think two things will happen there are some disbursements will begin to happen. Collections already are at good levels. Not yet, customers are not yet able to come out of NPA even though they are servicing the loan. And once they start paying little over their normal installment, a declining NPA will be seen. But the trends are definitely in the same direction.

Moderator: Thank you. The next question is from the line of Rikin Shah from Credit Suisse. Please go ahead.

Rikin Shah: I have three questions. Firstly, on the asset quality. Almost two-third of the accounts that are NPA accounts in the last quarter that you had identified, which could be resolved have been resolved in this quarter. And around 30% of the Stage-2 accounts as well. So, the incremental 50% of provision reversal that we are expecting in the remainder of the fiscal year, is it fair to assume that most of that would largely be from the Stage-2 accounts going forward and not the Stage-3 accounts? That is the first one.

Second one while, you know, the provisioning in this year would be a bit more volatile, but if you could give some kind of guidance on what the normalized provisions would start looking from the next year onwards? And the third question is on the growth and the disbursement side.

You did highlight earlier in your opening remarks that we have gained market share in most of the products by 2% to 3% points. If you could just give us some flavor in terms of what changed in this quarter, whether it was withdrawal by some of the peers, or are you picking up the disbursements in this quarter? That will be helpful. Thank you.

Ramesh Iyer: So, let me take the third question first. Actually, if any we are only seeing all players trying to fight for the reduced volume that is available there. So, there is no withdrawal of any player or anything. I think, you know, if you go back to our comments in the past because we were going through this difficult time in the rural, our view was to go little slow on disbursement and ensure that we have a better control over collections and quality.

And that probably must have given room to some of the other players to enter and gain some market share. We have had a 25 years of history in this market with relationship with dealers and OEMs and therefore when we have come back to provide this service to them, we are able

to get our space back, and therefore we have started gaining from what we had lost a little in tractor or anywhere else.

And that is the change that you are beginning to see, and this will go in the same direction. So, far as the provision reversal question is concerned, you are right to some extent. Of course, Stage-2 reversal benefits will come, but you know, our expectation is that if you recall, we had started June end we had a total Stage-3 NPA accounts by contract number about 2.93 lakh accounts.

That has come down to 2.16 lakhs. And we do believe that if we go in the same path, we want to end March somewhere around maybe 140, 150 type of number, and to that extent number of accounts which are in current NPA levels, will also start reversing. So, it will be a mix of both Stage-3, Stage-2 reversal that is happening. Stage-2 will happen also from the restructured accounts as they start to perform better and as we start dialoguing on when is the right time to look at curing them and, etcetera.

So, clearly these two will drive. Was there any other question you had? One you had on the business growth, the other you had on the collection. what was the third question?

Rikin Shah: Yes, sir, the third one was on the provisioning or credit cost guidance for the next year given that, you know, our credit cards historically had been quite volatile in the last few years. It would be helpful to understand how do you see or at what level, do you see the normalized provisioning levels?

Ramesh Iyer: I think the kind of mix of business that we are in and the mix of geography we are in and the segment that we operate in, and this again I have said the best of best in gross NPA level for a business like this, one should always look at is a gross of 6% kind of a thing whereas we had breached that, and we had gone almost up to 9% in March.

And of course, the first quarter was something that we may not want to repeat. Clearly, therefore, the gross could come to anything between 6, 6.5 kind of a number at best of times. And if we maintain our high coverage ratio, our net NPA level should be somewhere between 3% or so, or 3% to 4% kind of range, is what we would think for a business like this.

But some products and some geography could be much better. Some products and geographies would not be as good, but if you were to collectively see it, that is the number we would be ourselves comfortable because that is what we use for our pricing to customers.

Rikin Shah: Okay sir, and any guidance on the credit cost or too soon to kind of guide for the next year?

Ramesh Iyer: The credit cost the worst could be about 3% and the best could be about 1.5%. However, you know, going forward we expect the resale price of the vehicles and tractors should hold up. That should bring down the credit cost. The worst of times it will be 3%, 3.25% we have seen and the best of time setting in the past we have seen one 1%, 1.25%. So, I am just kind of putting the

range, maybe 1.5% to 3% is the range. But if good times do come back, it will be 1.5% to 2%. The worst time we have seen it breaches 3%.

Moderator: Thank you. The next question is from the line of Chirag from DSP Mutual Fund. Please go ahead.

Vivek Rama Krishnan: This is Vivek Rama Krishnan. I had two questions in relation to what you had asked. One was on this asset prices holding up. So, I know Mahindra Finance generally tries to work with the customers. Is there any temptation to repossess the asset and sell them off because the demand is strong? That is question one. The question two is, you also had an urban portfolio. Given the strong growth that we are seeing and opening up and so on, is it also performing better in terms of taxi operators and so on?

Ramesh Iyer: Yeah, so the urban has started behaving well. At least they are servicing their loans though they have still not started paying for the past. Because the offices are opening up, malls are opening up, theaters are opening up, not full-fledged, but they are and therefore definitely the utilization of the taxi operations, aggregators will go up, and we are seeing them servicing their installment.

But those still not earning enough to pay for the past. Plus, we should also not forget that you know at least the urban discussion is still on about the third wave. Is there a new mutant and all kinds of stuff? So, people earning are also keeping back some money for any exigencies or emergency because they do not want to get back to the same situation, they got in the first round.

So, but the answer is yes, we are started seeing a clear improvement in those fronts. What was your other question? This was on the urban?

Vivek Rama Krishnan: On the repossession and....

Ramesh Iyer: So, repossession my answer has been always very clear. We have to be very, very sure of the customer has a bad intention to not pay. Or we believe that he just cannot earn from the vehicle that he has acquired because he just does not understand what he is doing.

Only in these two circumstances that we should believe we should take back the vehicle. If somebody circumstantially impacted, we have knowingly worked with certain customer segments that they are going to earn out of the product and pay. And if they are not earning out of the product, just imagine someone is not earning in a geography and we repossess the vehicle. We will have to sell the vehicle in the same market. How will we even fetch a decent price?

So, the ultimate program that we drive on repossession is first, we see how much money can we really pull out of the customer so that our losses on repossession and sale can be curtailed. That is the first thing that we look for, and therefore an appropriate time when it should be repossessed.

Second is, the timing of repossession is important because certain vehicles pick up demand only in certain times of the year and not all time. Therefore, one has to be playing that game of saying,

okay let us pick up a tractor in the second half of the year where there could be demand for the tractor, etcetera.

The third is, if we know that the customer is delaying the installment because of certain exigencies or because of certain cash flow pressure that he is in and he is able to reach out and explain to us what it is, and we understand. We partner those customers because ultimately, we do not want to be seen as someone who is lending money and reprocessing at the back of it continuously, because the product that also gets killed.

And we cannot run that risk of, you know, brand being eroded for the OEM because then they may not want to partner with us. So, we are a cautious repossession company. We do repossess 3,000 to 4,000 vehicle many a times. That is some, you know, the volume is that we can very easily transact at the local market.

But from our current NPAs or our delinquent accounts when we analyze, we will see what percentage of assets have to be reprocessed where we do not see a possibility of clean and smooth recovery. And therefore, we would reprocess. So, please do not understand as did we take a cautious approach not to repossess during this time?

Of course, the last one year administratively also, it was not very easy to go out and repossess vehicle. The local administration does not allow you to do such things in a difficult scenario as this. The regulator does not appreciate all of that.

So, we also are cautious about all of that. Otherwise, this is a business where we need to follow up, collect and in extreme situation repossess and sell. Repossession is not the first step of recovery.

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

Kunal Shah: So, firstly in terms of this restructuring, so in fact there has been Rs. 2,000 odd crores of restructuring in Stage-2 and almost Rs. 180 crores. So, that is quite high. Maybe last time also it was 3.5%. Now we have moved to almost like 6.9%. So, what is the nature of this restructuring if we have to look at it and is it like maybe this would have actually slipped into NPL and that has not happened, but when I look at Stage-2 plus Stage-3 put together that is still 32.5%, including this restructured pool?

Ramesh Iyer: No, so what is the question?

Kunal Shah: What is the texture of restructuring and is it like restructuring has really helped in terms of the forward flows from Stage-2 to Stage-3, that has not happened and the rollbacks have been visible in the declining Stage-3?

Ramesh Iyer: No, so let me first explain to you that the total accounts that we have restructured is only 104,000 accounts, and when we look at this account it is important to understand that only those accounts were allowed to be restructured, over normal or standard as of 31st March.

Right and we have looked at these accounts who have service their loan. Some of them have repaid 50% of their amount, some of them have repaid 18 months of loans. Some of them have paid more than 12 months of loan. So, we have actually picked up all those accounts which are absolutely good in quality, in terms of their past performance, and the vehicle price underlying collateral price is substantially higher.

And they are not the ones which are delinquent in nature and therefore a restructuring has been considered, and they have also looked at the segments which were suffering, like we keep on saying about the school bus segment, the tourist operating segment, and therefore they were temporary nature to have come into a Stage-1, Stage-2 kind of a situation who were picked up for restructuring.

So, we have not picked up, you know, the ones who have always in the past historically shown so. If you really look at out of the 104,000 account or whatever we have restructured, there were about 5,000 or 6,000 accounts, which historically once had become NPA. And before we have put them in the NPA category, we have not kept them in Stage-2 category.

So, we have applied standards of seeing that even if we are giving restructuring to this account, how their past performances has been. And never ever before they have gone into NPA or the accounts which were picked up and then they were given this restructuring and they have been classified in Stage-2 and we have made substantially higher provision of 50% over the normal model requirement for those accounts.

So, I think in all fronts we have covered ourselves extremely well for any eventuality whatsoever, and then as we see the collection starts to improve, our belief is that we are over provided for these accounts, and as they start reversing, we would get the benefit.

Kunal Shah: Sure, and when we look at this resolved in Stage-2, so this resolved are more of this restructured because that number is again 100 and you mentioned 104 contracts?

Ramesh Iyer: No. Restructured account have not been classified still is not resolved. They are still staying in Stage-2. Vivek, help me correct if my statement is wrong. But even if Stage-2 customers have paid restructured account, we have left them still in Stage-2. We have not moved their stage.

Vivek Karve: Yes, you are right. Probably I think your question was more on the resolution that we have shown under Stage-3. So, it is possible that some of the contracts which are resolved in Stage-3 are the restructured ones and as a result of which they are now classified as Stage-2. They are about 20,000. In fact, they are about 20,000 contracts, which is actually given as a footnote in our investor presentation.

Kunal Shah: Yeah, it is there. Yeah, 20K contracts. Secondly, when we look at it in terms of the behavior of these customers so, is it like maybe now they are able to pay more than one installments. Are we seeing them graduating towards that they would be able to maybe clear it entire overdue? When do we see that happening? And the reason why I am asking is last time you highlighted that you expect the Stage-2 plus Stage-3 to settle somewhere around 20% to 22%.

Currently it is 32%, so are we confident enough that over next two quarters we will be able to bring it down by almost 10% points? Is the behavior that is strong amongst the customers?

Vivek Karve: Kunal, sorry before Mr. Iyer answers your question. What we have mentioned earlier is that Stage-2 plus Stage-3 we will try and bring it down collectively to 25% and not 20%, 22% that you mentioned.

Ramesh Iyer: Okay, yeah, and the trend definitely Kunal, is that the customers are paying and if you recall we had said this in the first also that once they built an overdue of this nature, they do take two or three quarters to start paying more than normal. So, in this round we have seen many of them have paid more than normal. They would see them paying the second round. Some of them will pay more than normal.

And which is why we said at least 70% to 80% of the provision that we carry for these accounts that we had to make in the first quarter would see a reversal before March. So, that trend is very clearly visible as we speak today, unless something very untoward happened between now to March, we do not see that to be a problem.

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

Piran Engineer: I have a couple of questions for Mr. Iyer and one for Mr. Karve. Sir, firstly when you mentioned about market share gains, but when I look at data from competitors so for example, L&T Finance's disbursements are still 20%, 25% higher than yours. IndusInd Bank yesterday spoke about disbursements being higher than pre-COVID levels, but for us it is still relatively muted.

So, can you give us some more details on the market share gains that you are talking about?

Ramesh Iyer: So, can I answer this? Then you go to the second otherwise we miss out?

Piran Engineer: Sure.

Ramesh Iyer: So, first is I do not know which products are you comparing with the other finance company. Because I am not sure other finance company that you named is in auto and car business etcetera and therefore, they may not be a comparison, and also, I do not know which product they are in, and we may not be in that product to register that kind of a disbursement growth.

If people are in two-wheelers and personal loan segment, we are not in those segments, so I think it is important to not just look at absolute value and compare the disbursement growth. It is important to compare underlying product and see whether there is a growth or otherwise.

So, therefore they are not actually comparable. And when you said that you know their disbursements are still higher than ours. Of course, yes, maybe, but in the same product lines in which we are, and if you were to compare us with others who are in the same product line, you would see more or less the numbers would match with everyone else.

But other than that, I do not have an answer on a comparative basis of why somebody higher than, lower than us. But for us, the product lines that we are in, which is the Mahindra Auto products, tractors, Maruti Car, these three represents a very larger volume of us.

But and if you see we have added 60%, 65% growth over first quarter of last year, and even quarter on quarter, there has been a growth. And I am there for referring to the market share gains that we have had in these three products.

So, maybe it will be useful at some stage if you get their disbursement constitutes which product and what is the disbursement for those products versus our products and disbursement, then the comparison could become little more easier. Go ahead with your second question. You said one more for Vivek?

Piran Engineer: The other thing just a clarification. So, the restructured pool of Rs. 4,000 odd crores. Barring the Rs. 63 crores, all of these were sub 30 days overdue as of 31st March. Is my understanding correct?

Vivek Karve: No, they were standard contracts. Which means they were not NPAs as of, they were not Stage-3 as on 31st March 2021.

Piran Engineer: But they were not in Stage-2 either as per you know slide 25. So, I just wanted to clarify that? Were they in Stage-1?

Vivek Karve: No, so let me clarify. As per the restructuring package rolled out, the eligibility criteria is, all those contracts that were standard as of 31st of March 2021, and by standard we mean they were either in Stage-1 or they were in Stage-2. They could not have been in Stage-3, if they were to become eligible for restructuring.

Piran Engineer: Okay, yeah if I may just put it another way, what percentage of these accounts were already in Stage-two but not restructured as of 31st March? Just want to get a sense of the quality of the book before you restructured them out of this Rs. 4,000 odd crores?

Vivek Karve: A bulk of them would be. In fact, many of them would be in Stage-1 also. Because what may have happened is some of them that during Stage-1, because of the circumstantial issues could not pay during the first quarter, they became eligible for restructuring and at the time of

invocation therefore they could either have been in Stage-1 or Stage-2, either during first quarter or the second quarter of the current fiscal.

Piran Engineer: And sir, my last question for you. Over the next say, four to six quarters what sort of a cost of fund decline can we expect? And I am not referring to absolute interest cost, but, you know, interest cost divided by average borrowing. The cost of funds, can we foresee another 50, 60 bps sort of decline considering our incremental cost of borrowing is still pretty low?

Vivek Karve: I would love if the incremental cost of borrowing can be lower. It continues to be lower. The chances that the incremental cost of borrowing will be lower from what it is today. The chances seem lower, because you would have seen the inflation is slowly hardening, the 10-year G-SEC rates have also been inching up.

However, given the fact that there would be a rundown of the old liability and with the new liability that we have assumed in last fiscal as well as the current half, there could be a 15 to 20 basis reduction in at the weighted average level. But on the incremental borrowing we are not expecting any reduction going forward, if at all there will be an increase.

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

Nidhesh Jain: There are two questions. Firstly, how do we think about the return on equity from the business from a medium-term perspective? From next two to three-year perspective with the credit cost, average credit cost of around 2%. How do we think the return on equity will pan out for the business?

Ramesh Iyer: How do you consider what equity?

Nidhesh Jain: ROE for the business from a medium-term perspective? Because if you look at ROE for us for last 4-5 years has been quite low and prior to that it used to be very high ROE business of almost 20%. So, there has been a lot of disruptions in last 3-4 years because of demonetization. Now COVID, but, on a normalized basis over 2 years, how should we think about ROE from the business now?

Ramesh Iyer: See, we think that this business will be 2.5% ROA and 3% ROA type business. But if you look at our capital adequacy currently, we are very highly capitalized, and the growth needs to come back and the capital needs to start getting consumed.

Right, so I think the path will be moved from where we are to go to a 12% to 15% to go to an 18%.

Nidhesh Jain: Sure, and the secondly, on the restructuring. Can you explain what is the structure of the restructured loan in the way? Have you provided any moratorium to the customer, or does the tenure is got extended and EMISs are reduced, or we are providing the principal moratorium? So, if you can explain the structure of the restructuring that we have offered to the customer?

Ramesh Iyer: I think by and large, both structuring. One was in the first the June restructuring that was done. It is like a moratorium equivalent where they pay very small, negligible installment, just remaining in touch, kind of an installment and start paying their regular installment post that.

So, I think four, five period was given. They will start paying. So, June to December, maybe they will pay a very marginal installment, from January they start paying regular. The second restructuring that was done is they pay minimum 50% of their current instalment which they start paying and at three to six months' time they start paying their normal installment. By and large these were the two structure that we used.

Nidhesh Jain: And sir, lastly, vehicle finance as a segment if we think about, we have already become very large in that segment and growth beyond 15%, 16% will be difficult to achieve from a medium-term perspective. So, which all other lending products we are experimenting, or we are thinking of introducing over next three years?

Ramesh Iyer: So, one is, you know, I talked about the SME segment, and first used the Mahindra Ecosystem and then of course the other OEM relationship ecosystem and grow the SME part of it. So, that is going to be one of our growth engines and that will contribute to some growth. The second is the digital Finco that we have started, which is nothing but a small ticket loan.

First to start with to a large customer base of ours and then through that also to look at the market offerings, as we gain experience by cross experience first. So, I think that is the second growth engine, which will add to. So, if we get to a 12% to 15% growth over a period on the core business of vehicle etcetera and if these two can add another 5%, 5% of growth, or at least 3%, 3% of growth, I think to get to a 20% plus growth, these two product would be a supportive growth. I think these three are the main pillar of growth we will look at.

I am not adding leasing to this because leasing will again play in the same vehicle space to start with before we can go into other product lines. But leasing could probably give us 1% or 2% growth because we may go to a new segment of customer in the vehicles that we have not worked with so far.

It was not paid so you know CTC cars etcetera. So, the three new growth engine that we talked of will add to a growth with the core business coming back to normal. All of this together should get us to the 20% plus growth we are talking.

Moderator: Thank you. The next question is from the line of Sanket Chheda from B&K Securities. Please go ahead.

Sanket Chheda: My question was again on **provisioning**. So, we reversed about Rs. 1.000 crores in this quarter but through P&L we have taken about Rs. 350 crores, Rs. 400 crores and consequently though the base of Stage-1 and Stage-2 has increased because of the rates on Stage-3, the overall provision on that is also increased from 3% to 3.3%.

So, is my understanding correct? **Though** for next two quarters we are expecting about Rs. 1,500 crores of write back, but the flow through P&L will be higher than this quarter because we have used some of the write backs to again pegged it to Stage-1 and Stage-2. So, through P&L maybe impact will be more in next few quarters? I mean more write backs will be there in P&L?

Ramesh Iyer:

So, maybe Rajesh or Vivek, somebody can take this question in technical terms, but the way we look at it is, we have maintained a very high coverage ratio already at 50%, 52%, and then I think our LGD has slightly moved up and that could have caused some pressure and all of that may not be required to be reset going forward.

And then there is a large bunch of account which is in Stage-2 which has been done through restructuring and if we get the curing benefit as things become normal, some reversal out of that will also happen. But purely to your question of will the overall reverse will be higher, and the P&L benefit will be higher than what we saw in this quarter. Maybe Vivek or somebody wants to explain a little more technically what exactly that means.

Vivek Karve:

Sure, so when you look at the reversal, the entire reversal may not actually flow to P&L because some of them could be in the nature of resolution through either write offs or through the repossession and subsequent sale.

So, while there could be a reversal at the provision level, there may not be a reversal at the credit cost level. And it is very difficult to estimate that today, because it all depends on the intensity of repossession and subsequent sale. However, if you specifically talk about Stage-3 reversals, which as you rightly pointed out is to the tune of about Rs. 1,000 crores in the current quarter.

Whether that number will repeat itself in Q3 and Q4. We do not think so. And the last point is, on the Stage-2 contracts as the Stage-2 contracts behave properly during Q3 and Q4, it gives us an opportunity to cure them, and when I cure them, it could either be in terms of reducing the extra provision that we are carrying, or in fact putting them back to the Stage they belong at the time of the reporting. So, at the quarter end, that is Q3 and then Q4 end. So, that call we cannot take today because it is purely a function of how they behave for the next six months.

But we see a potential for reduction in the overall provision that we carry on the restructured contracts. As you know, in the first half we have created a total provision of Rs. 310 crores additional provision on account of these restructured contracts. So, if they behave properly, we have an opportunity to write these provisions back to the P&L.

I hope I have answered your question?

Sanket Chheda:

Right so I was coming to the calculation that you were mentioned in initial slides that out of Rs. 2,500 crores of provisions which we made in Q1, 30% you have reversed and you are sure that 80% would be reversed by the end of the year. So, that means another Rs. 1,500 crores worth of reversals would happen over the next two quarters. Maybe what amount will flow through P&L

that we cannot quantify, but is that the ballpark number that will be there, right? Rs. 1,500 crores number?

Vivek Karve: You are right. It is for arithmetical, because if 30% of Rs. 2,500 crores is, it comes to Rs. 753 crores, the balance 50% is what it is. Rs. 1,200 crores. So, not Rs. 1,500 crores.

Sanket Chheda: Okay, And last question to Iyer sir. The guidance that we were talking about Stage-3 plus Stage-2. I remember last quarter we had said I checked it again that we were guiding about 20%, 22% which has been our usual run rate. So, are we just mentioning 25% to be on the conservative side or and the result would be better than that? Just wanted to have a view on that?

Ramesh Iyer: See the endeavor will always be to keep it lower. Should not forget that we are just about coming out of these difficult times. To be over ambitious is also not too good at this stage, because, you know, let us not forget that everything is not become straight already, right?

There is still the ambiguity out in the marketplace. So, you know, when we say we will reach those numbers, is the visibility that we have, it could be better as market conditions further improve.

And we hope and pray that nothing disruptive happens from here on. So, you know, these are all range bound numbers that we will speak of. Nobody will know exact and precise to say okay, this is where we will stop as a destination on 31st March. But visibility largely is that the trend is better recovery, reversal from the past and growth coming back to some kind of normalcy is that very clear visibility at this stage.

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

Aditya Jain: One on the collection efficiency. It has been great to see the monthly updates. Just for the coming months. So, October, November, and December, what is the normal collection efficiency that you would expect outside of any different behavior in this year? What would be the normal levels? And just to confirm on the definition of collection efficiency, it is including GS3 and GS2 but not the restructured loans?

Ramesh Iyer: That is right, pure collection. They are pure collection. So, that I can clarify that they are pure collection and not restructured account added to that. But as far as what will be October, November, December, can we wait for 1st November, 1st December, and 1st January?

Aditya Jain: No. I meant that in general, in the month of October, November and December?

Ramesh Iyer: Normally, October is a little lower than November, December for very simple reason that, festival months people want to spend money, so they hold back something, wait for the harvest money to come, and then they pump it up.

I think things being not as normal as always. In this October we are seeing things look to be better than the previous October. And with good monsoon I am reasonably sure, November

December will also look good, but you must spare us from putting a number at this stage because that is not something that is generally practiced to give immediate this month what will happen or next month what would happen.

Pick up, a trend generally as we see as I told you that we are seeing good collections, we are seeing positivity out there, that should give you some understanding, and I just said one more qualitative comment which is this October seems to be doing better than the previous Octobers because of some pent-up collections that we need to do.

Aditya Jain:

And then lastly, on the restructured contracts which are in Stage-2, so their upgrade decision can be taken when? So, as a policy I mean you would look for one year of normal performance before upgrading or is there a different approach?

Ramesh Iyer:

Since we did it in June, by January, we would have done six months of those contracts. And likewise, July would have done 6 in February and August would have done 6 in March. So, if we see a consistent performance and if we see market conditions holding up, we will start to think about what is the right way to do. Again, those are not firmed up policies yet. Maybe give us another couple of weeks we need to discuss internally. We need to discuss with various, Our Board, etcetera.

These are businesses where if you see somebody is able to pay their regular installment and consistently for six months and you see general market conditions are turning out to be in the same direction, one can take a view of a type. But if you see some blips up and down then one can take a very different view.

So, maybe in another two weeks or so we should have a little more clarity on how do we want to approach this. At this stage we have just left them as it is, but good news is that many of these people sometime even pay more than what they are supposed to pay under the restructured account. So, there will be another trend that we will see how many of them are able to pay more than normal.

So, all of that we will see before we can really say anything. But definitely as we end this quarter, before that, we would have firmed up our policy on how we want to treat it, and then that would be the method we would apply in the last quarter.

Moderator:

Thank you very much. Ladies and gentlemen, due to time constraint, that will be the last question for today. I will now hand the conference over to Mr Ramesh Iyer for closing comments.

Ramesh Iyer:

So, I think both in the opening comment and all through the questions, I think we have almost answered everything that we would have said, or we wanted to say, or we miss saying. So, first I wanted to thank all of you for able to join this call so late in the evening. So, thank you very, very much.

And I just want to leave you with this thought that rural is a good story to watch the way we have always believed for the last 25 years, and we do see return of lot of positivity in the rural

market and I continue to believe surely for the next three years there will be a lot of focus on rural from everyone from there. Whether it is the garments and the growth of rural is something good to, we believe in.

Sentiments have turned positive. We have taken all the right through the difficult time and are really embarking on the growth journey as we look ahead. Thank you for participating in this call and we remain very positive for the next couple of years. Thank you.

Vivek Karve: We also take this opportunity to wish all a Very Happy Diwali.

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