



“Mahindra Finance Q2 FY 2017  
Earnings Conference Call”

October 25, 2016



**ANALYST: MR. KARAN SINGH - JM FINANCIAL**

**MANAGEMENT: MR. RAMESH IYER - VICE CHAIRMAN AND MANAGING  
DIRECTOR – MAHINDRA FINANCE  
MR. V. RAVI - EXECUTIVE DIRECTOR & CFO - MAHINDRA  
FINANCE  
MR. DINESH PRAJAPATI – SENIOR VICE PRESIDENT –  
TREASURY & CORPORATE AFFAIRS - MAHINDRA FINANCE  
MR. VISHAL AGARWAL - SENIOR MANAGER, TREASURY  
AND INVESTOR RELATIONS - MAHINDRA FINANCE**

**Moderator:** Ladies and gentlemen, good day and welcome to the Mahindra Finance Earnings Conference Call, hosted by JM Financial. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance, during the conference call please signal an operator by pressing "\*" and then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Karan Singh from JM Financial. Thank you and over to you Sir!

**Karan Singh:** Thank you. Good evening everybody and welcome to Mahindra & Mahindra Financials Services earnings call to discuss the second quarter results. To discuss the results we have on the call, Mr. Ramesh Iyer, who is the Vice Chairman and Managing Director, Mr. Ravi, who is the Executive Director and CFO, and Mr. Dinesh Prajapati, who is the Senior Vice President, Treasury & Corporate Affairs and Mr. Vishal Agarwal, who is Senior Manager, Treasury and Investor Relations. May I request Mr. Ramesh Iyer to take us through the financial highlights subsequent to which we can open the floor for Q&A session. Over to you Sir!

**Ramesh Iyer:** Good evening. We have had a kind of mix quarter, I would say in terms of disbursements after few quarters in the last couple of years, I think, disbursements have registered in this quarter a good growth upward of 25% plus and I would kind of relate this to two things. One, the rural sentiments definitely are turning positive after monsoon and also that the festival season has kind of had its own attraction. With OEMs offering all kinds of programs and multi products that's being launched during this period in these markets have both contributed to the growth and if the overall kind of growth if one looks at, even the SME segment to us has contributed so if that taken together the growth rate is close to about 29% to 30% kind of a situation.

So it is after a few quarters that we are moving towards these kinds of clear growth rates. So that is one good positive as we see. I think the AUM growth also has been close to about 14% and again it is important to understand that the maturing contracts are also a little high on scale and therefore the net AUM growth is at 14% odd. In as far as income is concerned, while the disbursements of September or this quarter particularly would not have really added up to revenue growth substantially, but even otherwise I think the six monthly revenue growth is close to about 7%.

So these are the three directionally what we think are moving towards our own expectation but it is even to some extent would have surpassed our own expectation in terms of what is happening out there in the rural market. In as far as the NPA is concerned I think our NPA's at a gross level, we have almost been able to curtail it at the first quarter level which was at about 10.7, 10.8 and we are at about 11%, but important to understand that never for a company like ours in the past for so many years that we have been saying this that the first and second quarters are not necessarily the best quarters from a recovery perspective, but given the sentiments out there, I think the growth rate of NPA definitely seems to have curtailed. If you look at from March to June, growth was a much higher NPA growth versus June to September growth if you look at the NPAs have not really grown as high as it has grown in the past. So that is another indicator of things coming under some kind of a control from our perspective.

In as far as the movement of accounts in NPL is concerned, if the entire pool of NPL taken including 100% provided assets are considered, I think the movement in customer contract in NPL bucket we have seen upward of 50% plus, but if you were to specifically look at six months what are the contracts which moved into NPA during this six months that is post March and if one was to look at what is the movement in these contracts they are much, much higher in terms of the movement and they are upward of 80% to 85% plus. So these are some of the good indicators that we already see post the monsoon effect that we have witnessed in the rural market.

Our strategy to go deeper continues. We have added branches. Our intent to add adequate people to be able to service these customers continues. Our relationship with OEMs are all in place and therefore that is one of the reasons that we get benefit of these kind of growth rates when volumes continue to happen, but I think it is also important to understand that these cash flows currently are more driven by farm sentiments and therefore the farm cash flow sentiment is what is driving this growth. We are yet not able to confidently say that the infra story has yet panned out.

I think the infra story is yet to pan out while at the state levels we do see project activities happening, but on an all India basis, we are not able to still announce that the infra cash flows are in its place and therefore one may want to wait a little more longer before we could say that even the infra cash flows is contributing to it.

From the sentiments of the rural market, I think many of the volumes that we have seen so far whether it is the tractor sales volume, whether it is two-wheeler volumes, whether it is consumer durables or even car volumes, UV volumes have started registering positive growth in this market and the beneficiaries of these volumes would definitely be someone like us who have built this deeper penetration. So we do believe that possibly the pain point that we were going through for the last may be one and a half to two years seem to be slowly declining, I would still not say it has come to an end, but clearly they seem to be declining. I think the other factor, which has contributed to a changed activity out there for us is our internal structuring, which we talked about in the previous quarter. Now we have our structure, which is kind of very product based and also activity based, which is there is a very strong team, which is controlling collections of different buckets and therefore we do see that the focus of this team does help us enhance our overall efficiency when it comes to collections and controls and reductions of NPA etc.

As far as P&L particularly is concerned, while the numbers are all with you, I think, only two factors that I would like to bring out as compared to the first half of last year versus first half of this year is in the first half last year we had about a 38-odd Crores income, that is revenue stream coming in from past provisions of the securitized portfolio and that not being there in this quarter you would see a 38 Crores gap at the revenue level causing pressure on profitability of this half as well as last year we were on a 135 days provisioning norm as against that this year we have moved to 120-day provisioning norm which has another 40-odd Crores of impact in terms of profitability. So if it was just to be normalised for these two items of events which were different from the first half of last year I think the profitability also is almost in line with what was there in

the previous year, but we have continued with our practice of maintaining the provision norms as required. You will recall that in the first quarter we had a credit taken in for the 100% provided assets. Some of these assets have been reviewed during this quarter and as our practice of contract which mature and are in book for beyond six months after maturity we do take a write off against those contracts and if the credit against that was taken earlier to that extent that we felt the reversal impact has already been reflected in this number. So net-net I would think that our strategy to go deeper, our strategy to tie up with OEMs, our strategy to focus more on recovery and concentrate on business so as to not lose market share, our strategy to add people and be ready for future business possibilities as well as ensuring of a structure which focuses on each product as a product concept rather than as a branch concept have also come together and have started reflecting positive trends for us and that has reflected in our disbursement growth, in our AUM growth. in our curtailment of our NPLs going from here as well as of course the market support of a positive monsoon have helped us to get into all of this.

I think we will very keenly watch the next couple of quarters from festival mood of this quarter as how quickly and where all does the infrastructure story unfold over a period of time and if that was also to happen then I think we would be in a much, much better position to certify that many, many more things have changed positive while the trends are very positive I think we still will continue to focus on recoveries, NPA controls, quality, ensurement as well as ensuring that we do not lose market share while we may not necessarily have to chase business the volumes of business will help us maintain the growth rate. So I think that is from our side.

From the two old subsidiaries that we have, I think the Rural Housing Subsidiary has done extremely well in terms of their profitability. They have actually had a 100% growth over profit from previous number, on a quarter-to-quarter basis but on an overall basis also they have maintained a high growth rate. I think the asset base has gone to upward of 3300 to 3500 Crores kind of an asset base and they continue to maintain a growth upward of 50%. So for us the insurance business is concerned, again it has maintained growth. Again in insurance while the profits have remained flat over the previous half the reasons for that being investments in branches, investment in BPO that has been set up for renewal business as well as addition of people to ensure opportunities that would come their way for growth. So net-net I think the financial services sector side after a few quarters, we are able to see most of the trends positive and I think if the sentiments continue in this direction, we believe that in the next couple of quarters we would be where we should be as we were in the past.

So that is from our side and I think may be we can open to questions, if Ravi, Dinesh or anybody wants to add. The one other factor that I missed saying while as we were talking is about we have reengaged ourselves into repossessing of vehicles mainly focusing on high provision items like 50%, 100% provided assets, so if you look at our repossession numbers we have a stock of about 4000 to 5000 vehicles in June and we currently have about 10000 to 11000 vehicles, but very interestingly 4000 to 5000 vehicles that we have repossessed during these period of which about 4000 plus vehicles come from 50% plus provided cases. Now have we resorted to repossessions as against our immediate past practice, I think this is a time where we get to a customer, ask them to surrender the vehicles since we do believe that there is an earnability and there is a resale

possible of these vehicles where the customers choose to settle and retain the vehicle or if he is really unable to service the loan then he chooses to surrender the vehicle. So we have formed a team, which looks at all accounts upward of 9 plus in terms of ageing and go up to high as even 100% provided asset and we do believe in this good market condition, if we get the vehicle in we will be able to transact on them and bring down our burden on the provisioning. So I think repossession as an activity, which we had curtailed in the past we have opened it up selectively, but we have opened it up for really chasing higher delinquent, higher provision account and it is not as a measure to just simply go and settle some small dues.

So I think this is our overall approach to going forward. We would continue to engage with our direct marketing initiative of reaching out to customer in the village and draw and generate much and as much more business that we can. If Ravi, Dinesh, if you have nothing to add then we will...I think on the liability side, I did not speak much but I think it will come in the Q&A form, but I think we do definitely see a very clear possibility of our ability to raise funds from all the possible instruments that we can, being a good rated book we are also able to get the most favorable rates that is possible. While we do see some declining rates that is happening, you would have seen a little increase in our finance cost as far as our P&L is concerned, but I think that comes at the back of two things. One I think if we are grown in disbursement that has made us borrow more funds but the revenue for that has still not come in, it will come in future. So that is something that you will see that is happening out there. Two is while people are able to service loans, they are still not able to pay for all the overdue amounts, so a little built up of overdue, which has happened over a period of time, also makes us borrow little more to bridge that gap and that is causing a little impact on our finance cost, but I think that should get evened out as we go along once the overall recovery picks up and the revenue from the disbursements starts happening.

So that is it from our side and we now kind of open it up for Q&A and we will take your questions. Thank you.

**Moderator:** Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. We have the first question from the line of Amit Premchandani from UTI Mutual Fund. Please go ahead.

**Amit Premchandani:** Good evening, Sir. Thanks for the opportunity. Sir, you mentioned that contract which matures and stay for more than six months, you need to take an impact as per the internal policy. Can you just explain what exactly is that?

**Ramesh Iyer:** One is it is not a new policy. Let me clarify this to you. This we have been practicing for some time. These are supposed, let us say a contract is matured today and if there are outstanding amount still in the contract to be received, say it is a three year contract, somebody has already paid 24 months, 28 months, whatever number of months and it is matured today, whatever is the outstanding as of today, suppose in the next six months, the movement is not there, or it does not get settled, then what we try and do is do we make a complete provision for whatever is the balance because we think after maturity if six months have elapsed, if the customer on his own

has not been able to come forward to settle and either we need to go out and repossess or legally settle, while we do that action, we think that if we go out and make the necessary provision, it would be a useful practice, and this we do for all buckets of NPA whether they are in 10% bucket, 50% bucket or even 100% bucket. No sooner the contract is matured and six months has elapsed after the maturity we make the provision and we taken them to write off rather than go through the normal process of NPA provision.

- Amit Premchandani:** What was the impact of this in this quarter?
- Ramesh Iyer:** About 23 Crores to 24 Crores, 20+ Crores.
- Amit Premchandani:** Sir, another follow-up on this, on the repossession of vehicle, you mentioned they are up almost, they have doubled quarter-on-quarter and all the repossessed vehicles, you still account for them as an NPL rather than current asset?
- V. Ravi:** Correct. The nature of the asset will not change. If they are NPL, they will be NPL. If they are in standard asset, they will be standard asset, except that these assets will be valued twice in a year based on physical inspection and the realistic value will be factored in because Reserve Bank of India gives a notional valuation of writing down the assets 20% every year which we anyway we do. Then in addition to that we go on physically verify the stock and estimate their valuation and take up further write down based on the real actual condition of the asset. So that will happen once in August and once in February that is twice in a year. So all these assets that Ramesh Iyer explained that we have repossessed will be inspected now in February because that is the next period then we will look at those assets and we are already writing them down at 20% per year in addition to that based on their condition we will further mark it down.
- Amit Premchandani:** If you can help me understand, as per the RBI norms, repossession need not be reported as an NPA, am I correct in my understanding?
- V. Ravi:** No, basically the repossession is a recovery activity. What Reserve Bank of India guidelines says if the account is past overdue now by five months in MMFSL case it is by four months then it has to be recognized as a substandard asset.
- Ramesh Iyer:** Except that you can take the credit for the value of asset in your custody.
- V. Ravi:** Some of the companies possibly are taking there as a capital. They make it as a fixed asset then it could be coming out of NPA for those companies.
- Ramesh Iyer:** So they capitalize it.
- V. Ravi:** Capitalize it.
- Amit Premchandani:** Yes, Sir. So, what is the amount involved in this repossessed vehicles?

- V. Ravi:** Say 10000 vehicles you take on an average each vehicles 3 lakhs so something like about should I say 300 Crores, 300 Crores. That is a very average valuation. We have an exact valuation.
- Ramesh Iyer:** But it will be more or less ballpark around this, some will be 4 lakhs, some will be 2 lakh average.
- Amit Premchandani:** And what are the plans to move to 90 days, Sir?
- Ramesh Iyer:** I think we have just now stabilizing ourselves so we have six months, definitely before March we will make up our mind whether we should move now or we should move when.
- V. Ravi:** But just to point out to you we are already 120 whereas we are required to be 120 by March 2017. We will try our best to always to be ahead of the curve.
- Amit Premchandani:** Okay. Thank you, Sir. That is it from my side.
- Moderator:** Thank you. The next question is from the line of Karthik Chellappa from Buena Vista Fund Management. Please go ahead.
- Karthik Chellappa:** Yes. Doing very well, Sir, and wish you all a very Happy Diwali in advance. Sir, just a few questions. Firstly, if I look at the monsoon's distribution, particularly the South has been a little weak or below normal. And in past conference call, you have highlighted some of the locations in the South as being key pressure points for our NPA. So, post this monsoon performance, how are we looking at our NPA portfolio in the South? That is my first question. The second question is, if I look at the disbursement growth like you rightly pointed out, it is at about 25% plus. But if I were to look at the number of contracts on a year-on-year basis for second quarter, the number of contracts is only up 7%, which means majority of the growth has come from ticket size. How should we understand this or how should we reconcile this, why is the ticket size growth looking so large? And thirdly, a housekeeping issue; can we have the number of NPL customers at the end of 2Q?
- Ramesh Iyer:** Let me answer it the reverse order. I think the number of customer in NPL I think it is 170000. So that is one number. So far as ticket size is concerned, it is a product mix item because earlier if you look at our products, we had a lot of may be Maximo's, Ace, three wheelers, those kind of product which are low ticket items. In the last let us say this quarter one quarter before even, the number has been always lower than the previous year while the value has been a little higher. It is caused by a product mix change coming from now product like XUVs, Scorpios, cars of various models so each of this product by their respective values are much higher than the value of the product that we had. So I must clarify to you that we have not increased our LTV for a similar product and increased the disbursement. So it is not as though earlier we were giving 75% loan for let us say Maximo. Had we started giving 95% loan to Maximo, no and therefore is the disbursement higher, while the volume is not, I think the answer is no. It is caused from a very clear good product mix coming from a lot of and also very important tractor sales have picked up substantially. So if you look at our tractor growth has been little high at the back of the overall

tractor growth and tractor is also now a 4 lakh, 5 lakh kind of a product and therefore the disbursements are definitely high from a value of the asset perspective and not from an LTV perspective. The first question that you asked on distribution of monsoon, I think while we always were talking about South being our pressure point, but from the last one or two quarters we are also seeing a part of South how it has improved. One, we have definitely seen improvement in Andhra, Telangana not necessarily at the back of waiting for monsoon, but the infra of the state, state development is absorbing better labour and assets. So that continues to be up there. Tamil Nadu definitely had a decent monsoon and it fixed its problem even in the past. In fact Tamil Nadu for us is now in a very clear improvement stage from an NPA perspective and we are comfortable and confident that Tamil Nadu for us could be a turnaround story as we go along. Still we do not see large disbursements happening out there, but we do see collections have improved and we do see corrections out there. Kerala again, if you look at it was one of our pain point in the past, which had multi problems, rubber prices, spices, gulf remittances, local mining regulatory limitations all kinds of things were happening. Some of them have eased. I would still not say all of them have eased but Kerala for us is again a good turnaround story from our collection perspective. Kerala, this Onam if I recall we had talked about probably earlier was not one of the best Onam. So I think the state by itself has got adjusted to a growth a little but I think the recovery improvements are definitely visible there for us. Karnataka is a mixed story. It is not whole of Karnataka is a problem, but part of Karnataka due to weak monsoon, weak mining is a problem. So out of the four states Karnataka continue to remain a little sticky while it is registering some improvement but it is not good enough as compared to Andhra, Tamil Nadu or Kerala. So that is how I will summarise our South, but I think overall monsoon from our point of view has been a widespread, high sowing and I think what we hear clearly is support price is going to hold up. It may not be enhanced big time and yields are definitely good and better so I think one should expect a decent farm cash flow between November and December, if the money gets released.

**Karthik Chellappa:** Great. Sir, just one follow-up, housekeeping issue, you mentioned that the additional provision that you have taken because of moving to a four-month past due is 440 million. If I were to look at our additional NPL in September 2016, which is 5,527 and compare that with September 2015, which is 2,941, the incremental NPL recognition because of this is about 2.6 billion or let us say 2,600 million. So if I divide this 440 million by 2,600 million, I get roughly around 17%. So is that the incremental provision coverage that you have taken on these incremental NPL, is that ballpark right?

**Dinesh Prajapati:** Karthik we have been saying that what is our coverage is for the first timer is always 10% as per RBI norm plus the income reversal and if there is any straight line depreciation which is the 20% WDV. So effectively if I were to add back ballpark it will be in the band of 15% to 18%.

**Karthik Chellappa:** Okay, got it. Perfect, thank you Sir, and wish you all the best.

**Moderator:** Thank you Sir. We have the next question from the line of Sameer Bhise from Macquarie. Please go ahead.

- Sameer Bhise:** Thanks for the opportunity, sir. Just wanted to understand your sense of what could be the outlook for disbursement growth? You explained that product mix has kind of driven it this time around, but how do you see it panning out next couple of quarters?
- Ramesh Iyer:** We do see and I do not want to put a number out there, but we would definitely see October being a very active month from Dussehra, Diwali perspective so the festival demand has been average plus, I would not call it hugely exciting but definitely at the back of various programs and things like that it has been average plus. So surely we should get some benefit of it. So far as November is concerned, one would see a little spillover. December if the inventory levels continue you can see December being a kind of high discount month is my guess. So we think at the back of good monsoon. next two quarters should show positive trend. I do not want to put a number out there, but I would remain bullish for the next two months given the activity level, given the product competition level, given the inventory level at dealerships and given expectations of cash flows at the rural, end all guides us to believe that it would remain very positive.
- Sameer Bhise:** Sir would you say that the discounts have reduced on a YOY basis, I mean, same quarter last year and as we stand today?
- Ramesh Iyer:** Commercial vehicle had actually gone up and personal segment vehicle I do not think the reduction is substantial to discuss. Product competition is driving discount more than demand.
- Sameer Bhise:** Okay. And just finally, what would be our NPL status as on 90 days?
- Ramesh Iyer:** I think it should go up by another 2% to 3% at least.
- V. Ravi:** Roughly around 4%, about 25% to 30% you mark it up. If they are at 11 you take it up to 14 to 15 %.
- Sameer Bhise:** Thank you. That is it from my side.
- Moderator:** Thank you Sir. We have the next question from the line of Umang Shah from Emkay Finance. Please go ahead.
- Umang Shah:** Hi, thanks for the opportunity. Sir, I just wanted one data point about what are the write-offs during the quarter?
- V. Ravi:** Bad debt in the meanwhile, can you come in the queue by the time Dinesh takes out?
- Umang Shah:** I just had one more question. One was regarding, so last quarter; we did some change in policy regarding making provisions on the realizable value basis. And clearly, obviously, you guys also proactively, mark up provisions where the visibility of recovery becomes lower, something that you were explaining in the initial part of your comments. I just wanted to understand, so broadly based on your historical assessment and obviously, based on whatever changes we have done at this point in time, assuming that if the contract tenure is around two-and-a-half to three, or three-

and-a-half years, ideally on an average basis, what is the level beyond which our provision coverage cannot really go?

**Ramesh Iyer:** I do not know whether I understood your question right, let us say we today have a 50% to 52% coverage and if you were to value all our underlying collateral asset of our NPA book, we believe that we are adequately covered. So now that is on a portfolio approach, which is why we have an aggressive provisioning norm that if it becomes 12 months make 50% because that is the time the asset depreciation starts higher than when it is in the first six months or 10 months. So now on a portfolio basis, are we comfortable? The answer is yes, but if you were to then slice it by product to say three-wheeler, is it adequately covered by that method, is the tractor adequately covered? There could be some gap here and there, which is why eventually we have some disposal losses when you repossess.

**Umang Shah:** Sure, sure. So just a related question. So let us say, for example, next year, which is in FY2018, when we move to 90 DPD, do you believe that, assuming that the scenario remains the way it is, obviously if we see higher recoveries, obviously, we are in a different scenario altogether, but just from an understanding perspective, assuming all other thing is remaining the same, do you believe that you would still have headroom to prune your PCR from current 50% levels on a portfolio basis, or you believe that you do not really have any major headroom there?

**Ramesh Iyer:** So if you look at it once you move to 90 day, which means in a business like ours there are actually normal recovery item like tractor, 90 days is an EMI actually. It is not really monthly item. So therefore the coverage may look to have come down. We cannot make provisions for coverage to remain at 50% or 60% when you start providing on a 90-day basis, but what we will try and do is that if they cross 120 or 150 whatever which we think is a time from where we will have to start looking at the assets differently. Then the activity will begin, either repossession will become necessary if we do not want to make higher provision or you start covering them for a higher provision if they continue to remain in a high delinquent bucket.

**Umang Shah:** Understand. Perfect, Sir. Great, thank you so much for that.

**Dinesh Prajapati:** To your first question of bad debt, we had a 138 Crores bad debt entry in this quarter.

**Umang Shah:** Okay. And sir, what would be that number for first half?

**Dinesh Prajapati:** First quarter?

**Umang Shah:** First quarter as well.

**Dinesh Prajapati:** First six months is 131 Crores. There was a write back of 7 Crores in the first quarter.

**Umang Shah:** So there was no write off actually there was a write back.

**Ramesh Iyer:** It has come in this quarter you can put it that way.

- Umang Shah:** Thank you so much Sir. All the best for future quarters.
- Moderator:** Thank you. We take the next question from the line of Alok Shah from Centrum Broking. Please go ahead.
- Alok Shah:** Yes, thanks for the opportunity Sir. Just an as an extension to a question on South part of India. How are we looking at trends maybe in Maharashtra and MP that is my first question? If you could give some number in terms of recovery for the South pocket and Maharashtra, Mumbai as a continuation to that question, that's my question number one.
- Ramesh Iyer:** South, I do not know if you heard my answer in an earlier question within south, I think Tamil Nadu, Telangana, Andhra, Kerala we are pretty comfortable and recovery position is also comfortable where we are seeing improvements rather than deterioration. Karnataka is on an average belt because monsoons on some certain pockets have been good, certain not so good, and mining etc., still not come in, so Karnataka is still an average state for us. So far as Maharashtra is concerned, after two years we are actually seeing a good positive trend. When I say positive trend at least Maharashtra was always on a quarter-to-quarter getting into higher provision. I think the provisioning percentages in terms of account moving into NPA have started coming down. That is purely at the back of monsoon and what I understand through my travel and talking to people, sugarcane not be a great crop not too many sugar mills are likely to open up because the last season sugarcane was not a crop so therefore sugar mills could have an issue but cotton is a good crop. As far as MP is concerned, I think both soya as well as pulses are turning out to be a good crop. Support prices seem to be holding on to previous year. We will have to see what is the state level bonus that is getting added for the overall cash flow improvement.
- Alok Shah:** So to put a number to it, would the collection efficiency for these two states on a first-half basis would have improved over the first half of last year?
- Ramesh Iyer:** Clearly yes. Clearly yes as an answer. Collection efficiency from an NPA movement perspective from an NPA increase growth perspective, all over we would have seen improvement in the states.
- Alok Shah:** So any particular state where we are still facing some challenge apart from KTK that you talked about, Karnataka, that you talked about, maybe somewhere in UP or other geographies?
- Ramesh Iyer:** I would think that in every state there would be certain pockets like for example in Maharashtra I would think Vidarbha would be an area where we still would not see the same excitement that we see in Nasik belt or in Aurangabad belt or whatever. Similarly if you see in Karnataka as I said locations like Hubli, etc., can still possibly have a little issue, so every state has registered positive direction with exception of certain location in certain states, but there is no state to say that oh! In this state nothing is happening right, everything is bad, may not be, but amongst all the states possibly Rajasthan and Gujarat are not reflecting a same level of exciting correction as we see in every other state, possibly because they were already doing okay, okay but the monsoons have also been a little delayed in Gujarat that caused some concern, Rajasthan has had

it own little concern, so therefore of all the states if you ask me to rank all the states of the top ten states of our activity, I would think Rajasthan, Gujarat would figure out at the end.

**Alok Shah:** Okay, thanks for that. Two small bookkeeping questions. If you could quantify the number, the amount of slippages, because, first half, I think it was at Rs.2300 Crores, what was it for this first half?

**Dinesh Prajapati:** That number I shared with you, maybe we can take up at a later date.

**Alok Shah:** May be one small thing here, we are looking at a tier I of 13.2% for this quarter. I mean from March 2016 the capital consumption has been higher. Is it because it does not include first six months profit, is that so or is it really that capital consumption has been higher particularly the tier I?

**Dinesh Prajapati:** If you see the book growth which is AUM growth is now inched up to 14% so obviously that is consuming the capital and on top of it our profitability has not grown in the current cycle the way we have been growing, so I think that catch up has to be done for us to see the tier I getting aligned.

**Alok Shah:** So in that context, 13.2% probably is the lowest since 2008 levels?

**Dinesh Prajapati:** Yes, I think so.

**Ramesh Iyer:** I think earlier lowest would have been around 14% or so.

**V. Ravi:** We are still about 30% above, 10% is required.

**Alok Shah:** Yes, so that is fair. Thank you so much. I will join back to the question queue.

**Moderator:** Thank you, Mr. Shah. We have the next question from the line of Hiren Dasani from Goldman Sachs Asset Management. Please go ahead.

**Hiren Dasani:** Thank you. Sir, what would be the yield adjusted for the interest reversal for this quarter? The loan yield on the portfolio as a whole, adjusted for interest reversals?

**V. Ravi:** Portfolio once again I will give. It is around 15.5%.

**Ramesh Iyer:** It is between 15% and 16%.

**V. Ravi:** First page of audit committee.

**Hiren Dasani:** Okay, 15%. So would you think that the collection efficiencies from October onwards would be, let's say, closer to 100% percent or more?

- Ramesh Iyer:** We were already at about, for this month if you take specific to September we would have been 94 or 95 if we were to take the quarter we would be somewhere around 92 to 93 types. So normally October to December, October would not be that big but definitely November December if the crop price gets released, the collection efficiency will go up because states like Maharashtra, MP, etc., will have a very high demand due from tractor customers.
- Hiren Dasani:** Okay. So the way it will just to be correct, the way it will reflect in your numbers is that your reported loan yields will actually look higher because you'll also earn some of the prior period interest, right?
- Ramesh Iyer:** Yes.
- Hiren Dasani:** Okay. And then there will also be provision reversal, which will start as and when, let us say, the NPL number starts coming down?
- Ramesh Iyer:** That is for sure, if NPL number reversal starts happening the provision reversal benefits will start flowing in.
- Hiren Dasani:** And that should ideally start from Q4, if let us say, everything falls in place?
- Ramesh Iyer:** If everything falls in place, yes, one should start seeing much betterment from Q4 but it will get adjusted to the extent that we may want to move to 90 days.
- Hiren Dasani:** That is correct, yes. So the first reversal will happen in the interest income side and the second leg will happen on the provisioning side?
- Ramesh Iyer:** That is right.
- Hiren Dasani:** Okay. And Sir, one question on the employee expenses side. We are seeing kind of growth in the employee expenses in the mid-20s for the past two quarters, earlier higher. If I look at average cost per employee, that is also moving up pretty fast which is somewhat at variance with what we are seeing in the rural economy at least. So what is happening here?
- Ramesh Iyer:** One is if you recall in the past calls, we have said we are continuing to have people in the system, clearly looking at an opportunity as they open up, we cannot add people, we need to add them, align them, get them ready, but more important is, today the efficiency of employees are not high enough because of the market condition. So these percentages while they grow on a year-on-year basis and then as a percentage to either asset or a percentage to revenue may look to be growing because the productivity factor needs to kick in which will come in once the market condition improvement happens, but just on the employee cost we have one, one time item of about 7 to 8 Crores where we do our annual convention and the cost of that has been incurred during this quarter or during this first six months. I am sorry that is not annual convention, it is a performance pay outgo for the employees which was based on the March performance which was not provided because the performance was expected at certain level since the performance exceeded the expectations there was a performance payout, which happened in this first six

months which is a one-time event and they are not repeatable in nature. Otherwise on an employee front about 11% is caused by increment and about 7% is caused by addition to employee.

**Hiren Dasani:** Sure. And the last question is on your profitability on the housing finance side. That also seems to have improved nicely this quarter. So, again is it part of the broader improvement in the rural economy or there was something else?

**Ramesh Iyer:** Clearly recovery from past dues resulting in lower provisions requirement while if you have to look at their gross NPA still remains where it is because the NPA reversal is not happening while recovery within NPA account is happening causing some provisioning benefits.

**Hiren Dasani:** Okay. Sir, are you sharing any gross NPAs of this subsidiary in the presentation, I could not?

**Dinesh Prajapati:** We have shared only value. Percentages similar 11% type. We can share it with you. We can share it with you. If you speak to Dinesh later, he will give you the information.

**Hiren Dasani:** Thank you so much.

**Moderator:** Thank you. We have the next question from the line of Bhaskar Basu from Jefferies. Please go ahead.

**Bhaskar Basu0:** Good evening, Sir. Just a follow-up question on the earlier question even other expenses seem to have gone up quite substantially on a Y-o-Y basis. Any reasons for that? And cost to income continues to remain elevated at around 40%, 45% plus compared to the 30%, 35% range last year. So what is your outlook for this going forward?

**Ramesh Iyer:** So one is other expenses as a variability to the business growth which is the commission payable to dealers' etc., as and when the volume increases to the extent that there is a variable item which also keeps going up. The other item in the expenses side is the legal expenses that we have incurred where we have put in a very specific large legal team working on, settlement of high delinquent account etc., while they may initially sit on the expense side we are reasonably sure that they have an ability to either reverse the provision of the past or generate a new stream of revenue arising out of not allowing accounts to get delinquent. So it is a conscious decision to incur that cost and I think that is about Rs.10 to Rs.12 Crores that we would have incurred towards arbitration etc., and typically in this business we do not really have this expense on a month-to-month basis, they come as they incur. So some of them may not be repetitive in nature that if in this quarter there is a 10 Crores impact is it a continuing every quarter 10 Crores may not be but definitely in this quarter the expense is high on the legal front and clearly dealer commissions for business growth is a higher expense.

**Bhaskar Basu:** Okay. And also just on the provision side, again, it continues to be high, sequentially also it's gone up. I understand last quarter, you had the impact of realizable value?

- Ramesh Iyer:** But if you remove that then it is half of last year and if you remove from the provision 44 Crores what I said is because we have moved to 120 day and then you compare it to last year's first half the provision amounts are almost similar as first half of last year.
- Bhaskar Basu:** Okay and what do you think is a kind of a more sustainable credit cost going forward? I think you've been talking about some numbers there, but what would be a kind of a sense in terms of what the credit cost could be once you start seeing some improvement?
- Ramesh Iyer:** We normally think that the credit loss that we talk of in terms of after settlement, reposition, disposal all considered, I think anywhere between up to 2.5%, 2.75% is sustainable given the kind of business that we are in. If market conditions substantially improve they even go below 2%, but I am kind of taking an average situation to be what it should be then around 2.5% is something that we believe is doable, because gross NPA will keep moving up even when we go to 90 days it will further go up.
- Bhaskar Basu:** Great okay, that is all from my side. Thank you.
- Moderator:** Thank you. We take the next question is from the line of Nilesh Parikh from Edelweiss. Please go ahead.
- Nilesh Parikh:** Yes, when we, say, visited few of the branches, there has been the change in the structure, which has happened, okay, in terms of say, the branch managers not doing? So, what has been the overall impact both in terms of the operations, as well as whether any cost angle is attached to it? So, what would be the overall impact of this entire business restructuring which has happened?
- Ramesh Iyer:** This is something that we kind of contemplated over last six months to one year before we announced and in the last quarter call, also I said this. We think it is a very positive change for us because the size of each branch has got larger by a multiproduct approach and the way the market conditions are you need to be multi-skill to handle multiproduct both from business point of view as well from recovery point of view. If we have to bring higher focus with so many products now getting introduced in the market, it was becoming extremely necessary that we enhance our focus by product rather than looking at by branch being the unit of measurement and we believe that the growth that we have seen in this quarter is an outcome of introducing such a change in the past. It is too premature to say all that is because of that but nevertheless if you look at our car volumes have clearly grown beyond Maruti to many other products. If you look at our non-Mahindra tractor growth it has been much higher as compared to before, if you look at our pre-owned vehicle volume growth it has been higher than before, so we believe having created a product focused team like this, their ability to reach out to dealers, negotiate with OEMs, launch programs as required for each of these products, have definitely helped us gain these volumes in most of the products. In any case for us very clearly commercial vehicle, construction equipment was always a separate vertical because of the separate skill set that it required. Now with each product getting that focus, but also understand importantly that these product team are not just going to lend money. They are also going to recover from the customer for the first 12 months. So therefore the outcome is not necessarily just the business growth the

outcome is also a better recovery, leading to less future NPA and what we have tracked in these contracts from January were transferred to this team, the collection efficiencies of business done after January has handled by this team have been upward of 94% to 95%. So it also brings in some future quality possibilities and discipline to that extent.

**Nilesh Parikh:** But that would be largely with respect to maybe the car and the UV product?

**Ramesh Iyer:** Meaning what.

**Nilesh Parikh:** No, Sir, this kind of a structuring, that would be largely

**Ramesh Iyer:** It is all for all products, tractor is a separate team, car is a separate team, UV is a separate team, refinance is a separate team, CV CE is a separate team.

**Nilesh Parikh:** Okay. And so would, maybe the growth which was there in this particular quarter, can we say some part of it would definitely be on account of this kind of a restructuring which has happened?

**Ramesh Iyer:** I said that I do not want to kind of prematurely say that all growth is because of that, but definitely some growth will be attributed to this, but if market conditions do not support no structure can grow.

**Nilesh Parikh:** And now this structure would be largely in line with what the other players are also following it, or this is because maybe I think some of the players were already doing this?

**Ramesh Iyer:** That follows. Somebody will now quickly do what we were doing before. So this industry all of will never be on the same page.

**Nilesh Parikh:** So there is no differentiation as such, maybe so. I think larger part, maybe people who are already doing it and maybe?

**Ramesh Iyer:** No, these are all very need based action and it is nothing to do with strategic intent or anything or somebody has done it well, so let us do that that is not the approach. Is it going to be helpful to you, does it make sense to you, what is the reason, why it will make sense to you and therefore we have to do. I think the other thing at least we believe is we should be extremely flexible that if, it does not work after one year we would not want to sit on judgment and say having done it we will make sure we will only live with this forever. We should have the flexibility to then move to something else which is more necessary.

**Nilesh Parikh:** Okay, but there has not been any transitioning impact because of this, maybe any negative impact, because of this transitioning?

**Ramesh Iyer:** One year we kind of talk to people around, we communicated to people around, we tested what are the possibilities, not possibilities before we announced the formal structure. So what are the issues when you will normally have in a structure? First and foremost is people issue. Some will

feel lost authority, some will feel I have reduced area, some will feel I am given a product which is not interesting to me and all that. So that was well taken care over a one-year dialogue with different sets of people and then the team formed and structure announced. So for us the outcome of this structure is concerned, as it is too premature to say just because things are going well, I do not want to say that our structure has worked extremely well. So we will kind of give it a little maturity time and let us see up to March and then we will take a call as to how much does it work or what tweaking needs to do to be making it work.

- Nilesh Parikh:** Good. Thanks a lot.
- Moderator:** Thank you, Mr. Parikh. We will take the next question from the line of Siddhesh Mhatre Dimensional Securities Private Limited. Please go ahead.
- Siddhesh Mhatre:** I was just going through your cost per employees. You had said that there would be salary revision is expected in FY2017. So how much that will, should we assume more growth in cost per employee?
- Ramesh Iyer:** I think you did not get my answer. Somebody asked a question that your employee cost is already high, what are the constituents of that, the answer was that it includes a salary increase of 11% for employee which was given. It includes 7% on account of volume increase in people over last September and it includes one time ex-gratia payment on the basis of March performance that is another 7%-odd, which has contributed to the change.
- Siddhesh Mhatre:** Thank you.
- Moderator:** Thank you, Mr. Mhatre. As there are no further questions, I would now like to hand the conference over to Mr. Karan Singh. Over to you Sir!
- Karan Singh:** On behalf of JM Financial, I would like to thank Mr. Ramesh Iyer and the senior management team of Mahindra & Mahindra Financial Services and all the participants for joining us on the call today. Wish you all a Happy Diwali. Thank you and good-bye.
- Ramesh Iyer:** Thank you. All the best and Happy Diwali.
- Moderator:** Thank you very much Sir. Ladies and gentlemen on behalf of JM Financial that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.