Mahindra Finance

"Mahindra Finance Q3FY13 Earnings Conference Call"

January 18, 2013

Mahindra Finance

MANAGEMENT: **MR. RAMESH IYER – MANAGING DIRECTOR**
MR. V. RAVI – CFO
MR. DINESH PRAJAPATI – SENIOR GM, TREASURY AND CORPORATE AFFAIRS
MR. RAKESH BILDANI – MANAGER, TREASURY

MODERATORS: **MR. KARAN UBEROI –ANALYST, JM FINANCIAL SECURITIES**

Moderator: Ladies and gentlemen good day and welcome to the Mahindra & Mahindra Financial Services Q3FY13 Results Conference Call hosted by JM Financial Institutional Securities Private Limited. As a reminder for the duration of the conference, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call you may signal for an operator by pressing * and then 0 on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Karan Oberoi of JM Financial. Thank you and over to you sir.

Karan Uberoi: Thanks. Good evening everybody and welcome to Mahindra & Mahindra Financial Services Earnings Call to discuss third quarter numbers. To discuss the results we have on the call Mr. Ramesh Iyer who is the Managing Director and Member of Group Executive Board; Mr. Ravi who is CFO; Mr. Dinesh Prajapati who is the Senior General Manager in Corporate Affairs and Mr. Rakesh Bildani, who is Manager (Treasury). 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: Hi, good evening. I know the numbers are with each one of you. So I think instead of really going through each number it would be possibly useful if I can kind of tell you what we saw in this quarter and what we expect as we go along we will see. Clearly, we did see that the rural market continues to show the buoyancy for vehicles and tractors and whatever, but it may not be as evident from our disbursement growth which was about 17-18%, because we have consciously taken a little step back on the commercial vehicle segment which was introduced by us last year for financing and I am sure most of you realized that segment is going through a little stress and we do not want to be seen participating in that segment very aggressively at this stage until things take a better shape. But what we have done though in that segment is we have got into LCV aggressively which is doing well, growing well and there are products available from each and every manufacturer and that kind of helped us maintain some growth. In as far as the prime products like the Mahindra auto products are concerned they continue to maintain growth and we are maintaining our market share of about 30 odd percent in that segment.

As far as tractors are concerned again yes the overall number definitely seems to have come down from the industry perspective, but fortunately for us we got into financing of the competing non Mahindra tractors as well and we are averaging about 800,000 tractors a month which is again just the last two months' phenomenon, we got into it about 4-5 months back in a small way. The last one or two months has seen some decent numbers for us and the third segment where there was some correction that was happening is the Maruti Segment which of course is our largest portfolio. We continue to be the number two financials in terms of the overall ranking for Maruti car is concerned. But again they had a little supply constrain and things like that and that pushed some number low but we have seen them bounce back through their new launches and December did witness a good retail for them, a good number for us. If I was to look at the three months and then kind of look at standalone each month, I think October was a good month; November was not as good; December was again a good month and I think going forward we believe with this approach of ours of going slow little on commercial vehicle will be more than made good by a good participation in the LCV segment.

The tractor industry is going slow will be more than made good by us participating in the non Mahindra segment and our car segment both Maruti as well as non Maruti both are expected to kind of maintain the growth which will help us bounce back to much higher numbers than what we see for this quarter. So while 17% considering what is happening up there in the market is pretty good. It may look to be a little lower than what it was in the past and we are not overly concerned with this number that has happened in this quarter because there is a clear visibility going forward on how the growth pattern is likely to be in different product segment. In as far as the overall collections are concerned, I clearly see that we don't still see any stress on our asset while, yes again, one might have seen a little move up in the gross NPL that is not again because of any stress at the recovery level, it is also even in the previous quarter we have explained this like we have started little more aggressive provisioning or considering NPLs on the two-wheeler or the personal loan and those kind of segment which we have in our book and that would therefore see it move up a little more, but clearly we do see that the collection efficiency still hold up; the resale prices are still not substantially dipped for us to fear about is collateral depreciating and going forward again in the last quarter one would see the correction happening, but I may want to put in a clear caution here is one should not expect in the previous years the kind of dip one saw in the last quarter etc, because we had a very high gross NPLs in the past and that used to get corrected in the second half. If you now see the pattern for the last about 12 months or 18 months or so, it has been pretty uniform all through and therefore one cannot expect a substantial correction to this gross change in the last quarter but yes will 4.1 likely to become 3.5 or 3.8, definitely one can take a visibility there, but if you look at last year March, I mean last quarter and if one felt that there was a drop of 2% gross NPL, 3% gross NPL, I don't think that scenario is forecastable because we have reached a level of gross NPL from where for it to substantially come down is not the visibility in a business model like this. But clearly the collaterals are holding up, if you look at our loan to asset, we have not increased it at all; it is still at that same 70% level.

If you look at our average book, it has not moved up beyond 30. So there are no quality sacrifice that has happened whatsoever for the growth and therefore we don't see any issue as far as the quality front is concerned. We continue to create deeper penetration. We have added so far 30 odd branch and we expect that we will open up another 12-14 branches as we always keep saying, we will end up the year with about 45-50 branch for the year closing. So that is going to be our focus and that will help us, therefore participate better in terms of our business and collection is concerned. May be one structural change internally that we have brought in which is bringing results which was done in the last month that is December and going forward which is what is likely to help us much better. We created a team of about 125 supervisor level of people who are being assigned 3-3 branches to monitor and therefore they look at about 400 branches performance very closely and which means that, let us say, last one year whatever branches have been opened, 60-70 branches are the ones which are new and they are exempted from this supervision but otherwise about 400 odd branches will be supervised by this 125 people and they will ensure high quality. They will ensure the business growth as required etc. We are also seeing our penetration into the Hyundai car segment, penetration into Ford, penetration into Toyota are all yielding results and we have moved up in the chain as far as Hyundai is concerned.

We are the #1 NBFC and in as far as the overall ranking is concerned we are somewhere in the third and fourth and we have started from a 500 car base we have now moved up to close to about 1500-1800 car base even there. So I think overall if you look at, we are continuing to be very buoyant about what is happening in this segment. We continue to believe that a business model as ours continues to have that demand from the manufacturing side. We do clearly see our penetration and our participation in all products is our big strength and our direct marketing initiative which we were relying up on for our growth has come out true for us and we are maintaining about 15-17% growth clearly in that segment as well and if one looks at each of this put together we do expect that the borrowing cost for us is likely to come down if at all there are any rate corrections that can happen in the market that is not what we are relying on to protect our margins.

Our NIMs continues to be very healthy. There is no pressure on us to operate, fortunately there are also adequate supports that we receive from the manufacturers in terms of subvention or protection for rates etc and there is no pressure from their side to drop rates. So there is no pressure for us to drop margins to gain market share and we therefore believe that any borrowing cost drop could possibly add to our margins going forward. But that is not something that we are already taking into account for this purposes.

So I would think net-net one puts the overall summary in terms of going forward the growth volumes we would consciously continue to go slow on the heavy commercial vehicles. We would focus on LCVs for offsetting that, while one do realize that value offset is not so very easy between LCV and HCV in terms of so much of value difference but there will some percentage of offset that will happen. Clearly on the tractor front kind of participating in the non Mahindra segment is being our strategy to ensure increased volume.

Our second hand vehicle segment has been performing well and I think it is moving up in our balance sheet composition and that is something that we will focus in a difficult market scenario like this, its always a demand for second hand vehicles which is high because want to invest less on their capital purchased and get maximum out of it and therefore one does see at least in the LCV segment in the UV segment there is a demand, car segment has as demand for second hand vehicle. We will continue to focus on that.

The Construction Equipment business of our which is constituting of a small construction equipment not the heavy continue to do well at the state level projects and that focus will remain because that is not as impacted as any other businesses. The UV segments are doing well and in the UV again we have opened up and we are participating in the UV of all manufacturers and not restricting ourselves just to Mahindra and that is getting us the additional volume and on the LCV from the UV bucket, which the Mahindra Maxximo or a Tata Ace kind of vehicle we have started doing about 15-1800 Tata Ace per month. So this one new segment that we have got into. So on the business front this is how the product mix change will look like, as I said our penetration increase and this model of putting supervisory staff to look at three branches each. Will focus on better collection efficiency and we do see correction even to the gross NPLs happening while as I said one cant expect the dip to be as deep as one would have seen in the previous year, because its reached certain levels, from where the corrections beyond a point in a business model like this is not doable. But no pressure on collections as yet and we do believe that the efficiencies in the last quarter will reflect that very clearly. Margins no pressure. We are not in any mood to drop our lending rates, but if we were to get any borrowing cost benefits, the decision whether or not be taken but at this stage we believe it is not required to pass on and therefore that will be retained by us has be go along. No pressure on the borrowing front. I don't think we have had any liquidity pressure.

The borrowing costs at least have not gone up, while they may not have yet come down. For us particularly may be some of our past borrowing which were a little low cost borrowing, would have matured and we would have replaced it with some new borrowings and therefore one would have seen a borrowing cost correction very marginally in our book but that is the only reason as otherwise there are on pressures again on the liquidity front that we have faced. So I think overall summary would be that for us to say that the margins are well under control. We are buoyant about retaining the margin. We do see correction in overheads that has happened. We don't see any spurt in the NPLs. There are no signals for us to worry about. Resale prices are protected, repossessions are not been difficult, no regulatory changes impacted that and as I said business model in terms of multiproduct approach will help us maintain the asset growth. Those are the summary on which both our current quarter and as we go along is based. I kind of now will ask Dinesh or somebody to specifically speak about some numbers and then we can open it up for Q&A.

Dinesh Prajapati: I am sure everybody would have got the results and as we have seen in our quarter result announcement, YTD consolidated PAT has gone up by 45% and consolidated similarly income has gone up by 45%. For the current quarter our total income has increased by 35% to 1001 crores and as against 741 crores in the previous years. Similarly, PAT has gone up to 200 crores versus the previous year 155 crores which is registering a 29% growth. Not giving beyond this numbers because I am sure everyone has the numbers. We will straight away go to the Q&A where in we will take up the questions now on.

Moderator: Thank you very much sir. Participants, we will begin the question and answer session. Our first question is from the line of Amit Premchandani from UTI Mutual Funds. Please go ahead.

Amit Premchandani: A question on the tractor sale front, are you seeing any pick in advance sales in the tractor segment especially in western India, some of the states like Maharashtra or Gujarat pushing sales through this?

Ramesh Iyer: I think the industry has learned it the hard way in the last round and as an industry as an overall association I don't think any manufacturers is encouraging that, but is there any particular dealer in particular location doing it, I think the answer could be yes, but that is purely a dealer decision and it is purely a local decision but as otherwise we are not seeing this as a direction from the manufacturer to get into this practice become they have come the very hard way in the last round.

Amit Premchandani: Okay sir and sir on the CV front, generally CV demand is very cyclical considered one of the benchmark of cyclical recovery, so are you seeing any cyclical recovery in the CV demand?

Ramesh Iyer: Again CV, one has to look at from 3 or 4 application segment; the tipper, the goods, the container and the passenger. The passenger did not dip even in this cycle as much. What really dipped I would think to start with was the container with the kind of the dollar price etc imports got impacted, all kinds of things happened there. There we are seeing some slight correction movement exports happening all kinds of things, but not substantial. Tipper is the one which is much impacted because of the mining segment, the coal segment. So the various segment of the projects announcements not happening. The release of payments including mobilization advances or even running bill payments from the government is not, from the projects are not happening actively. So I think the tipper segment seems to be the one which is also impacted. Goods one would see an impact after the harvest, if one would now see some movement of crops etc happening if the harvest has been normal plus from Punjab and some other location and some would see some improvement but it is too early to remark about are you already seeing positive signs, I think the answer is no yet.

Amit Premchandani: On the tipper front sir, what would the over capacity of the industry would be?

Ramesh Iyer: I don't honestly know that answer, but I know for sure Goa, Karnataka, Part of Maharashtra, Part of MP every market is having this problem. Orissa, Jharkhand, so I think name a state there is a problem with coal or mining or some major projects.

Moderator: Thank you. Our next question is from the line of Ashish Sharma from Enam AMC. Please go ahead.

Ashish Sharma: Sir just one important question on the growth in UV segment. This has been a very fantastic quarter in UV with growth in disbursements 94% and if I see number for 9 months it is around 50+, do you think we can sustain this number and what are the sort of launches we expect from Mahindra to sort of sustain this performance?

Ramesh Iyer: I will not know what are the launches, but I think the products that they have already launched like an XUV or a Quanto and their old horse Boleros are all doing extremely well. Even as we speak we are saying there is huge demand for a product line like that. But as I said in my introductory thing we have also got into non Mahindra UV. Our growth comes from not just depending on Mahindra, but also comes from our ability to participate in the non Mahindra segment of UV. Very clearly we see this segment continuing to grow for two reason, one of course the people movement part of it is very active all across, second it is also partly used for certain goods carrying capabilities and all that, which also continues and at the local level this has been the prime vehicle, there has not been too many alternative to this vehicle and that every age of this vehicle whether it sold at the end of 3-4-5 years there is a decent resale price which the seller of the owner of the vehicle gets. So demand is also driven also by a protection of good resale. So if you ask me the demand for the product, still up there. All products on the UV segment is continuing to do well and as far as your third part of what are the new further launches from M&M, I think I am not the right person to handle that question.

Ashish Sharma: Okay sir, just confirming, do you expect that for next two years this segment can at least grow at 35 to 40% sort of a growth rate?

Ramesh Iyer: We wish it grows but that 30-35 I think will not come just from volume but also will come from value increase of the product.

Ashish Sharma: And sir second was on the car segment, after two sort of a okay quarters you have seen sort of a improvement in the car segment and you mentioned that we have increased our tie up now with Hyundai also contributing strongly. Do you see any issues with the segment or you see this momentum to carry own going forward sir?

Ramesh Iyer: See even if you see two quarter back if the segment did not do well, it was because of the largest market shareholder Maruti not doing well and their reason for not doing well was more their production cap up problems and things like that and not really a market demand and if this quarter has done well, if we look at Maruti's retail 1st December what they announced is a 1,22,000 vehicle and I think if the car segment overall has to do well two things will have to happen. One Maruti has to do well, second is new product launches will drive growth and we see both of them seems to be certain to happen

Aashish Sharma: And sir one question was on the distribution strategy. I think we talked about number of branches but in terms of villages we have already penetrated and what sort of a potential we have in terms of penetrating further Taluks and the Villages what will be the strategy for Mahindra finance sir?

Ramesh Iyer: I think if India as a whole about 600,000 village and if you knock of about 30% being not commercially viable for any business, just put some number up there, you still have about 400,000 village to reach and we are only there in about 170,000 village. So if that is any number to go by, because ultimately it is not the number of branches that I have, it is number of villages that I can cover from the branches that I have and therefore in each branch I will have enough people to be able to those particular geographies

Ashish Sharma: And in terms of your market share between Mahindra and non Mahindra I mean number of vehicle we are financing where do you see that settling down, I mean what will be longer term funds?

Ramesh Iyer: We have been continuing saying that. See, the distribution will be 45-50 Mahindra and 45-50 non Mahindra, I mean it will keep swinging one way or the other. We don't see that becoming 20-80 kind of a situation.

Moderator: Thank you. Our next question is from the line of Parag Jeriwala from Macquarie Securities. Please go ahead.

Parag Jeriwala: Yes sir, just wanted to know what is happening on the securitization front I mean this is the third quarter which typically sees some securitization and assignment movement. So how you are positioning yourself in terms of are you going for assignment or you are going for securitization, what are the average yields and etc.?

Dinesh Prajapati: See we have not done securitization transaction for the first 9 months till date. We are in almost final negotiation stage with couple of banks for doing a securitization transaction. So probably we should be able to revert back to you by end of the month how much quantum of securitization transaction will be closing this quarter or we will be doing this quarter roughly. So one thing I want to make it clear is assignment transaction seems to be quite difficult in the current round of discussions with the bank. So there is a lot of data's exchange between the banks and us is happening. So most likely we may get into assignment transaction most probably in the next financial year, but most of the transaction for this year will happen through a securitization transaction. As far as the pricing is concerned I believe it will be close to around 200 basis point lower than the market rate because of the PSL benefit.

Parag Jeriwala: Yes, but lower than the market rate how do you compare this to your earlier yields if you can compare that?

Dinesh Prajapati: See, since the securitization transactions will happen for the SRTO it will be more or less around what we used to do in the earlier rounds also. Let us assume that if you were to do in the previous year, we would have got the similar 200 to 300 basis points lower than the market rate, so it will be in the similar band.

Parag Jeriwala: Okay and what are the spreads generally on this?

Ramesh Iyer: Spreads in the sense**?** As our lending rate yield is around 17 to 18, one can expect a spread of around 12.

Parag Jeriwala: Okay, what I am saying is that as per the RBI regulation you cannot get more than 8% right?

Dinesh Prajapati: No, that is base rate plus spread. See if you see the RBI guideline what RBI guideline says is that whatever the buying bank whatever is their base rate plus 8% spread is what is the maximum yield of the customer whom you would have lend. Let us assume that my customer lending rate is 18% for the sake of discussion because suppose it is the minus 8 say 10% is the base rate of the buying bank and 18% is the maximum yield of customer whom I have lent could qualify for that, but since I will be entering into a transaction supposingly at 7% or around that, then my difference will be around 11% spread.

Parag Jeriwala: So I mean you want to say that in securitization they can even buy at below base rate as well.

Ramesh Iyer: Otherwise one would not be really discussing that securitization is gone. Securitization assumes liquidity and rate benefits. Liquidity can be offset very easily from the market, rates can't be and therefore one is always looking at innovative methods of getting into that.

Dinesh Prajapati: See as it is if I am getting from the banks at a base rate, why would I sell the PSL asset at this type of price, it will always be at a lower than the normal market rate and so even though let us assume for the sake of documentation, even if the transaction may happen at a base rate since I am going to be a servicing or a managing agent for the bank, the servicing cost will be recovered by the company which will eventually mean that effective price of the portfolio will be either in the straight form since it is securitization root it is allowed to price the discounting rate at a lower than the base rate, you can directly have a discounting rate lower or if the discounting rate is higher then collection fee will be there as a part of the transaction.

Parag Jeriwala: So basically IRR on this transaction would remain fixed?

Dinesh Prajapati: It will be 10 or 11 or whatever that works out to.

Parag Jeriwala: And sir just final question I mean how much is securitized or assigned last year in FY12?

Dinesh Prajapati: Last year we assigned 1400 something.

Ramesh Iyer: 1500 crores roughly.

Parag Jeriwala: And this year it would be likely to be around?

Dinesh Prajapati: Likely to be around 1000 crores.

Suresh: Dinesh, this is Suresh here. Just one more question, banks are very reluctant to follow the SPV route because of taxation issue and there could be some market to market hit on their investment but do you thing the banks are okay, because is there any tax clarity. Just some clarification on that?

Dinesh Prajapati: See up till September there were most of the banks who were interested in buying the portfolio, they had this apprehension of taxation and as we come closer towards March obviously they would have taken a conscious decision of taking with the compliance and their legal set up. At the same time since as a seller we were very clear that we cannot give this type of counter guarantee for the double taxation part. So I think they would have internally checked with their sources and the most of the buying is happening in the market and already there are few deals has happened in the last quarter and there is no such condition of taxation, so I think more or less it is been understood by the industry that there is no such double taxation impact will come for this type of buying by the bank.

Suresh: So the assignment route not being there is reluctance from your end or the banks, because banks would be always open for an assignment route right and you were consciously not wanting assignment to be done because of this PSL spread cap issues and stuffs?

Dinesh Prajapati: No, I think spread cap is applicable for both securitization as well as the assignment. There is only because in assignment route one cannot give a credit enhancement as a seller, it is how do I give comfort to the buyer. As a buyer he would want to get the credit risk price in this pricing. So the pricing arrival is the only challenge which is there in the assignment route which is where lot of data sharing is going to happen between the bank and the seller which will take some more time because then he will have to go through the historical static database of last five year or seven year or whatever his internal process will require for them to arrive at the risk price.

Suresh: And this last question why this arbitrage. I mean RBI, is it not aware that you can go through the securitization route why they have banned credit enhancements on assignments. I am sorry I am asking the question to you than to RBI, what is the logic behind banning credit enhancements or assignment and allowing it through the securitization route.

Ramesh Iyer: He will tell, who they can tell right? The correct answer for it is that assignment takes place between two institutions. The buyer is informed and the seller is informed. Reserve Bank of India logic is that informed buyer is buying with a lot of wherewithal he has got a whole credit analysis department and a vigilance department. He should not do lazy banking. They should do a proper checking of the portfolio what they purchase and they simply cannot ride on or piggyback on the seller's credit assessment. So they say that when an informed buyer is buying why he should be given the crutches of a credit enhancement where as the securitization paper abroad at least is generally purchased by retail investors even in India is allowed as a security to be listed in stock market and to be purchased by retail investors of course we had no body purchases even government of India's security, no retail buying is taking place. So as and when retail purchase takes place in securitized paper, of course they are novices. They don't have the wherewithal to judge, so the credit enhancement is given. So one the segment which is chosen for assignment is always and informed by us, so they don't require this support, in case our securitized paper to begin with we are selling to mutual funds and banks but in future when the market expands and the retail buyer starts getting in, they would require this credit enhancement. So they cannot do complete analysis of the paper etc. So to develop the market this is how we have done.

Moderator: Thank you. Our next question is from the line of Anish Tawakle from Barclays. Please go ahead.

Anish Tawakle: In the last few years some of the larger private banks have made a lot of expansion. I have done a lot of expansion network, expansion in the semi urban areas, is that changing the competitive landscape for you and if so in which areas are they more focused and in which areas are they less focused?

Ramesh Iyer: See in rotation we have seen private banks coming in. First somebody came in they set up some branch, but ultimately we should understand that it is not about having a branch. It is about having people in the branch who reach out to customer who are another 80-100 KM away from the branch. Otherwise the competition landscape really does not change, they come and set up a branch they try to use an intermediary, try and do it for sometime, doesn't work they kind of rotate it and then shut it down, but currently I think the focus of this banks who have come their also is on the liability side. They are kind of opening bank account they are trying to get in saving bank and they are trying to mobilize deposits and in the process whatever customers they can acquire for cars or commercial vehicle in that local area they are trying to do for sure. But we are not yet feeling the pressure of let us say this banks coming up. Now the second thing is whether private bank or any other branch I think the processes and the document required for credit decisions are like any nationalized bank. So the real pressure is felt by then locally present nationalized banks. So the competition when a private bank comes in enhances against the nationalized bank not really against the NBFC, because NBFCs model is set up a branch, have people who go the field, go and meet customers and take the dealer to deeper markets for their growth and ensure fiscal recovery there, The third thing is if they set a branch now they would be setting up where we had set up four years back. So we have gone deeper and for them really reach to compete with us in the deeper segment could take little longer.

Anish Tawakle: And we are looking at some numbers here right? Like HDFC branch network in semi urban areas has gone up from 460-960, that is more than yours.

Ramesh Iyer: No, therefore you must look at it, let us say they call, I don't know what will they call semi urban, but supposing they were to call Panvel as semi urban just for example. In Panvel East and west we have two branch. For me I have one branch in Panvel which does business in Roha which is 80-100 KM away from there. So that is what I mean and the final thing is there is huge merit to having already a customer base and a very large dealer relationship, So unless somebody is able to do some things which are better than you there is no automatic shift of business that happens either from dealer-side or a customer-side and rate is not the one which is going to decide that shift.

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

Kunal Shah: Sir firstly may be if you can, you have given in this senses with respect to the distribution of M&M and non-M&M particularly in UVs and tractors, if you can say on the outstanding basis, in UVs and tractors how much would be M&M and if we look at the incremental disbursements in the first nine months how would that be?

Dinesh Prajapati: If you look at Page #23 of the presentation, AUM break up number; utility vehicle is 29% of the AUM and tractor is 19% of the AUM.

Kunal Shah: Yes, I have those numbers, I am just saying on the AUM basis out of this 20 of UVs and 19 of tractors how much would be M&M related in this and if I look at the..

Dinesh Prajapati: Kunal, that is why we have put in brackets M&M, if you see the non-M&M we have put it in the third row, so where we have clubbed.

Kunal Shah: Okay, so there everything is clubbed between say

Dinesh Prajapati: Non-M&M UV and non-M&M tractors.

Ramesh Iyer: Just to give you a big feel; if we do 100 tractors totally about five tractor may be today non-M&M and 95 will still be M&M and Swaraj.

Kunal Shah: And UVs also somewhat similar.

Ramesh Iyer: It could be 510, I mean it is not a substantially large portion of tractor being non-M&M because we have just begun, like I told you monthly we do about 8-9,000 tractor of which about 1000 tractor is non-Mahindra.

Kunal Shah: Okay because if I look at sequential pickup in the disbursement in tractor it was going up from almost like 950-1400. So just wanted to check if the substantial chunk as I mentioned is on the non-M&M side.

Ramesh Iyer: No, it may not be. Substantial will not be non-Mahindra.

Dinesh Prajapati: As we have been saying around 10% of our incremental tractor portfolio is through non-Mahindra.

Kunal Shah: And secondly on CVs you mentioned about the stress and say some of the containers and tippers, but how about the competition, is it the competition which is also worrying in terms of the pricing and that is the reason like you don't want to be aggressing on the MHCV side?

Ramesh Iyer: No, it is not pricing. See when the industry goes slow the demand for LTV keeps going up and we don't want to participate because it is not a large portion of our portfolio one and the skill set required when you do high LTV in a difficult market condition, the skill sets required by people are very different and we are not yet a matured company in terms of that segment is concerned. So when there is an opportunity for us to go slow we have chosen that.

Kunal Shah: And the last one in terms of the SME lending one account was there last time, so wherein the recovery of expected. So what is the status do we expect?

Ramesh Iyer: The good thing as we speak is that they have got a sanction from SBBJ, don't quote me out in detail, but they have got a sanction from SBBJ and any moment we should get the money.

Kunal Shah: Okay this can be technically upgraded in the near term?

Ramesh Iyer: Yes we praying for it, you also pray on our behalf.

Moderator: Thank you. Our next question is from the line of Venkatesh Sanjeevi from ICICI Prudential. Please go ahead.

Venkatesh Sanjeevi: My question is from the SME and the personal loan category. I just clubbed in the other segment which is about 7% of your AUM, but going forward let us say a 3-4 year view what sort of role will this particular category play, how large will it be?

Ramesh Iyer: Since the overall balance sheet is growing I think this lot will not be substantially different in terms of percentage. Okay, today it is 5-7% may go up to 10% kind of a situation because our focus on SME continues to be in the Mahindra ecosystem. We are not really reaching out to the market to say we are a big SME player, like today our AUM of 25,000 crores has a SME of about 300 crores or something like that and pre-owned vehicle, both together I think will contribute to 10-11% within that I think 90% or upward will be pre-owned vehicle, because that segment which we understand well that is our same market, may be our existing customer selling a vehicle to a customer of his choice and therefore the product and customer both are known, so it is a more easily doable and good return and possibility to handle the recovery much better segment. So SME will be a Mahindra ecosystem situation.

Venkatesh Sanjeevi: And person loans?

Ramesh Iyer: No, personal loans again it is to Mahindra employees and things like that. We are not a market player on that.

Dinesh Prajapati: Total kitty of personal loans by giving to all group employees everything, including our existing customer and all that is around 8 crores of total…..

Ramesh Iyer: Rounding off difference actually, don't even worry.

Venkatesh Sanjeevi: Okay and what would be the yield on SME financing book?

Dinesh Prajapati: Around 14 point something.

Ramesh Iyer: And interestingly one should know that while it may not be on dotted lines guaranteed by Mahindra but the payables of M&M is therefore controlled.

Venkatesh Sanjeevi: So these must be secured lendings anyway.

Ramesh Iyer: Yes.

Venkatesh Sanjeevi: And the other question I had was the 64 crores of a profit on insurance that has not been booked so far.

Dinesh Prajapati: Correct, not yet.

Venkatesh Sanjeevi: So when is it likely to be booked?

Dinesh Prajapati: That will happen most probably before the end of March 2013, this quarter.

Moderator: Thank you. Our next question is from the line of Srinivas Rao from Deutsche Bank. Please go ahead.

Srinivas Rao: Yes sir. Thank you very much. I have to two questions, one in your opening commentary you mentioned that there is no pressure from OEMs with respect to asking you to reduce rate or even talking about subventions. Any particular reason for that given that as you mentioned the economic environment is quite weak, so why are the OEMs slightly not putting pressure on you, that is one question. I mean is it a reason that they believe a falling rates or lower rates don't influence the purchase decision?

Ramesh Iyer: One is very simply they want to increase price, the same day how would they tell you to drop rate, because we will argue right?

Srinivas Rao: Fair enough.

Ramesh Iyer: So fortunate or unfortunate it is coinciding. That is one. Second is unlike past just because money is available people are not buying. I think the people have also got little conscious on if there is need for a vehicle they are buying. So that is why LTV is not going up. See when the LTV goes up pressure on rates will also start happening because the EMI starts moving upwards both due to principal and interest. So that is why you know commercial vehicle there is a pressure LTV is going up, there will be a pressure on rate which we are also already seeing. But in car or in UV or in those segments you will not have it because the LTVs are still not going up.

Srinivas Rao: My second question is that you mentioned about the tipper segment which obviously have been dramatically impacted over the last almost 18 months. Yet we have across the NBFC spectrum we have not seen any major impact on the financial of the NBFCs I mean some write-offs have happened but not significant, why that has happened, I mean the system seems to have absorbed it fairly well.

Ramesh Iyer: One is, the first impact will be on buying that we are already seeing. Buying is not happening, if the work is on, but the work is not large enough to buy new vehicles to that extent work has got impacted, but if the work had completely come to a grinding halt, where even existing vehicles are not being deployed then only recovery gets impacted.

Srinivas Rao: And that is not the situation as of now?

Ramesh Iyer: That is not the situation. Therefore, I added the word saying that the mobilization advances are not being released for fresh purchase of assets.

Srinivas Rao: But existing whatever OPEX if I may say that that is continuing to some extent?

Ramesh Iyer: Yes it is continuing. But I am sure he would have witnessed some stretch in terms of cash flows are concerned, not stretch enough to become a NPA but definitely overdue increase will happen.

Srinivas Rao: Sir one final question I have, you have mentioned that collection efficiency is good, but directionally this quarter was it better than the last quarter, any directionality would be helpful.

Ramesh Iyer: I think I won't say it was better than last quarter but definitely it was surely equal to last quarter, it was definitely not better than last quarter because I think some factors of elections in Gujarat and Himachal did play in. Then South is still not doing as well as one expected in January we saw some collection after the Pongal. So I don't think we can make a statement to say directionally this quarter was very buoyant collection quarter as compared to the previous ones.

Srinivas Rao: But it is materially bad also right?

Ramesh Iyer: No, that is why the gross NPLs have held up.

Moderator: Thank you. Our next question is from the line of Nilanajan Karfa from Brics Securities. Please go ahead.

Nilanajan Karfa: One quick question related to the elections that are national elections. You have seen multiple elections through the cycles. In terms of customer behavior are you seeing any difference in terms of what they expect in terms of their own wealth collection versus their purchasing power and their ability to pay up.

Ramesh Iyer: See when election comes, when elections are round the corner you are asking what will happen to their buying pattern, etc.

Nilanajan Karfa: I mean based on your feedback and what you are seeing on the ground today and typically buyer's expectation or the customer's expectation of what happens in a rural market just prior to elections?

Ramesh Iyer: It is too early but one would see three months prior to elections some actions that way. **It is a lesson (Inaudible) 45.30** for us when the elections are round the corner is not to reposes vehicle because you know sometimes there could be political pressure, there will be some political announcement of certain things to do not do, so more than buying it will be on the collection front where one goes little more cautious. But you will see very high cash movement 2-3 months priority election but exactly around the election month, things slow down as activated because people are very busy with this entertainment which happens.

Nilanajan Karfa: We are still not anywhere close to it?

Ramesh Iyer: No it is too early, too early.

Nilanajan Karfa: And just second question on this collection. You just talked about it. Is there incremental pressure in what we saw last year or last quarter itself is it like increasing day by day or how do you see it.

Ramesh Iyer: Increasing pressure in the sense of visiting customers to collect money and that kind of things?

Nilanajan Karfa: Yes.

Ramesh Iyer: See there are 2-3 things which one can see a signal if things were to go bad one, the first thing that happens is people are willing to surrender asset if you go for recovery means one should know locally the economic activities are impacted, we are not yet seeing that. Two, if you repossess the resale dip substantially, that has not happened. Three, the buyers demand high quantum if they are unsure of the business. All three are yet not seen, but having said that is it that you can just visit a customer one and you can pick up money immediately and I think even not that. So you may have to visit more than once to get the money. So to that extent the activity on the field has increased which is why I used the term saying created 125 supervisors who will handle three branches. So that you drive it very closely and you drive it very organized.

Nilanajan Karfa: My related question, why I am asking this question because you said that the projects are not happening, even the state projects and definitely as you just mentioned for the…..

Ramesh Iyer: No, let me clarify. When we say state projects are not happening. I am talking of no new announcements are happening which impacts purchases. Okay, the existing projects are all at 50-40-60% level of its completion. They are all completing their budgets come March, they want to finish their projects. So there is an activity, there is a cash flow. It is not as what you call aggressive as it used to be let us one year back or one and half year back.

Moderator: Thank you. Our next question is from the line of Kashyap Jhaveri from Emkay Global. Please go ahead.

Kashyap Jhaveri: My question is on this subsidy transfer scheme, we are understanding some lot of other agri input players like fertilizers and pesticides that in some or the other way it is going to help their sales significantly because there will be more cash available on other fuel items with the rural population. Does it affect you in anyway and if yes, then would want to understand in two ways, one is that obviously they will have now access to banking system which is sort of a precursor to direct transfer and secondly they will also have cash in hand which is also good for us. So in both the ways how does it affect us?

Ramesh Iyer: See some of them may possibly be even look at bank as an option to borrow in future if there is a regular flow of money coming into that account. Now is there going to be every month enough money for them to be able to borrow and repay, one doesn't know but yes some banking habits do get created. But more importantly we have not lent to them on the basis that Aadhar money will come in bank and they will pay us. The vehicles and tractors do get deployed locally and then they earn on that vehicle. Aadhar is an additional flow of income for them. So yes that additional flow of income helps somebody to repay genuinely and correctly but I am not seeing rural customer very willing to shift cash flow, earn from one and repay for something else. If he earns from the vehicle he will pay you. If he gets an Aadhar money we will use it for something else. If it really happens the way it is projected to happen, microfinance will come down.

Kashyap Jhaveri: We are not looking at once they inculcate the banking habits any of our customers that probably we might face competition from banks in that case.

Ramesh Iyer: I am not too sure that Aadhar customers were our customer, because they are very labor, your two-wheeler may be… What we are financing 4 lakh, 5 lakh, 3 lakh asset Aadhar money is kind of a hand loan equivalent where they borrow for daily living from somebody or it is may be at best that two wheeler, microfinance that segment of customer and I also think many of them are women labor. So if they give 4 lakh, 5 lakh hand loan to Aadhar.

Kashyap Jhaveri: No, all I am saying is that eventually when everything shifts to the cash transfer…..

Ramesh Iyer: Let me give you one simple example where you use a jeep for carrying people from one place to another and you pay Rs. 10 freight charges passenger fair to him, Aadhar is not going to help. Aadhar is to handle certain government run transaction instead of local panchayat distributing the money it will come to their bank.

Moderator: Our next question is from the line of Ashish Sharma from Enam Asset Management. Please go ahead.

Jiten: This is Jiten. Ramesh, just asking you that are you as confident about 2013 -2014 as you see 2012-2013?

Ramesh Iyer: I have no reason not to be, because one is retirement 15 years away, but I think personally, I don't think things at the ground level are as scary as we hear and we read. Let us look at it, we are only an enabler right? The bigger fear will first start from the manufacturers who are producing vehicles to sell them, then it will come to the dealers who have set up such large shops to sell and I am so interested if you go around and see every manufacturer is making a dealer invest money in showrooms. So I think the confidence comes from the fact that the local guy who understands the local market much better than us is willing to invest money is the confidence from which we speak to say "oh! There is a demand."

Jiten: And Ramesh, something about your pet project the housing side, has not mentioned anything about it so far. So can you throw more light on the progress that you are making there and how do you see the outlook?

Ramesh Iyer: That company is continuing to do extremely well and even in this quarter as they closed they had a phenomenal growth of 50%, 60% and things like that, but I think it is still small for us to speak too much about it. So in terms of assets they have reached close to about 800 crores of book from 300 of last year and they have added couple of states this year, but the struggle each state it continues to have a struggle of the ticket size going deeper, putting the legal team in place. So therefore the growth will happen the way we are projecting by 2015, we are confident that it will touch the 4000 crores that we were talking of and profitability wise we have had no pressure on margins and no quality issues yet. But I have to tell you whichever market has the water problem like Maharashtra, part of Maharashtra has problems of water, the housing we will go slow, because the consumer themselves stop constructing in that market. So we would be cautious in terms of our aggressiveness in this market. But as otherwise I think all signals that we picked up in its initial round and the reason why we were feeling confident and passionate are not getting challenged.

Jiten: And Ramesh with the kind of distribution you have built which is incredible and one of the finest in the rural and the semi urban side, what else are you planning in terms of your new business with the kind of distribution you have build out?

Ramesh Iyer: See one if of course we don't want to shift our attention from what we know well, which is automobile tractor second hand vehicle in that segment, but within that what we have done is we have gone much beyond even Mahindra not only in the car and other segment but within the tractor and UV segment also we have gone into competing product. So we are becoming a good enabler for many more manufacturers who are trying to reach that market very clearly and I think that is something that we don't want to surely miss out on and we want to grow it bigger and better, otherwise the SME segment we talked of that has not anything much to do with our distribution, but that is much to do with our understanding of the dealer and the supplier side having worked in the auto space and using the Mahindra ecosystem to start with. We will then take that product also to companies like Maruti and other with whom we have very strong relationship and see whether a similar arrangement we can put in place there and get into that segment but we will remain within the auto space which we understand.

Jiten: And going by the confidence that you have in your business over the next 2-3 years and I have no reason to believe that you will not grow by 25-30% every year your AUM, when do you think you will be fine with the kind of capital you have now a days.

Ramesh Iyer: I think two years is what we had projected ourselves in terms of this capital should suffice and with let say a 15% capital adequacy and if 10-12% becomes necessary by the Thorat Committee requirement then I think 18 months to 2 years is the space we should look back to say it should raise capital again.

Jiten: So by March '15, between January and March '15 you could come back, you are saying?

Ramesh Iyer: I should think so. We are now in March '13, that is right.

Jiten: So two more years and you think you would?

Ramesh Iyer: 18 months to 2 years, like exactly in the last QIP to this QIP.

Ashish Sharma: And sir what sort of cycle ROEs we can look forward?

Jiten: I mean ROEs have been good so our expectation….

Ramesh Iyer: We have always said we look at ROA of 3% at least anytime and if we were to leverage ourselves 5.5 or so, 18-20 is always doable, however, difficult the market is?

Jiten: Ramesh, what gives you sleepless nights in terms of the environment business, etc?

Ramesh Iyer: Difficult questions from analysts like you. On a serious note, what are the sense of this company apart from the relationship, etc., it is the process and people. Process is something which continuously our senior management spend time to see what can we shift to a technology platform which gives better control, are there standardization possibilities and cost benefit, bring down the cost. So that is something which engages our time. The second is the people, their capability building, see it is not easy to sit here and say "oh! Get into multi product". Are the people's capability being developed in the sense of appraisal of different product customers, product applications, recovery capabilities, repossession and disposal and you start developing them and then a new player want to come to that market and they will say let us pick up few guys from Mahindra Finance and get into tractor business. So temporary you could kind of lose some people to some models like this. They come back because they don't see the same passion in the other side may be, but the truth is that retaining people continuously and in a business like this difficult cycle comes and you need to spend time together to motivate them. I think people capability building, retaining people and have little extra stock in hand, even if you were to lose some people the branch cannot suffer. I think that is the area of our focus and that is what gets us engaged almost all the time.

Jiten: And you say that since you are operating on the rural and semi-urban side it gives you all the confidence to say that the story has just begun and structurally you are saying good times in the next couple of years for M&M Finance.

Ramesh Iyer: I clearly see that because in spite of our penetration we are covering only 1,60,000 or 1.70,000 village out of the 6 lakh villages if you were to knock of about 2 lakh villages as commercially not viable. You still have equal number of villages to still cover.

Jiten: And plus per capita it will keep going up right?

Ramesh Iyer: Capita keeps going up and look at where will the manufacturers look for their growth, they can't any more look at it in major metros. Major metro seems to be driven by new product launches and therefore existing product lines have to be fulfilled through the semi-urban and rural markets.

Jiten: So if somebody woke you up in the middle of the night and ask you are looking at this sort of growth for the next 3-5 years, you will very confidently answer yes?

Ramesh Iyer: I just finished my round across the country with all our people, more or less they are giving me this confidence and therefore my sound will be that.

Jiten: Sure, so like 3-5 years you don't see any problems in a 25-30% growth for the company.

Ramesh Iyer: Three to clearly I don't want to say it is difficult, because I don't think in spite of all that we are doing you superimpose this on the rural economy I think we have a 6, 7, 8% market share. So 2 million customer and 650 branches 11,000 people I think are the basic data points from which we must speak for our next three years.

Jiten: Great. Ramesh congratulations again. We are very proud of your team and your leadership and I think it demonstrated excellent results. All the best for the quarter and the years ahead.

Moderator: Thank you. Our next question is from the line of Kiran Chheda from Value Quest Research. Please go ahead.

Kiran Chheda: Sir I just wanted the details of the income from the operations, because I understand that that is not interest income, that is surely something else also, that has been included in that. So would it be possible to share the other details?

Dinesh Prajapati: I think there is only very small portion of other income which we are anyway gaining in our presentation which is 5 crores of other income, which is like income from shared services, but it is just 5 crores.

Kiran Chheda: So that 995 crores of income from operations is mainly interest.

Ramesh Iyer: Correct.

Kiran Chheda: But that interest includes that subvention income and all that?

Ramesh Iyer: Yes, the business will be a part of that.

Dinesh Prajapati: Let me clarify here, subvention income is a replacement of interest and it is not up-fronted. The subvention income which we receive from the manufacturer or the dealer is distributed over a period of the contract. So there is no up-fronting of income even in subvention.

Kiran Chheda: That is all. There is no other income other than subvention.

Ramesh Iyer: Nothing.

Moderator: Thank you. Our next question is from the line of Kirsty Desson from Standard Life Investments. Please go ahead.

Kirsty Desson: My question really relates to the promoter shareholding going forward particularly if we see more interest in the parent company in gaining a banking license where the promoter has to sell down to 40% holding overtime and my concern is what pressure that might have on the share price and shareholding?

Ramesh Iyer: On the shareholding at least when we did our last QIP and when we came down from 56 to 51 and 52 levels, there was a discussion and dialogue and the impression we carry clearly is the parent shareholding pattern would not be a constraint for growth. Going forward if we were to once more come to market for raising capital whether we have to go down because of banking or whether even if we have to raise fresh capital because of the NBFC model, the stated deposition is either they will participate or they will dilute. So I think we have a fair degree **of** comfort of the parent willing to relook at their position if that is the requirement for the growth of this company.

Moderator: Participants, we will take the last question from the line of Mr. Manish Shukhla from Deutsche Bank. Please go ahead.

Manish Shukhla: First on the proposed asset quality provisioning norms from RBI, would you be following the calendar as proposed in the guidelines or there is a thought process to do it earlier than that the reason I ask is you are already at 150 days and secondly does it change anything materially on the ground for you in terms of the way you run your operations?

Ramesh Iyer: I think let us look at the second question first. Whenever we do, we believe we move from 150 to 120 and eventually to 90, it could push up our gross NPA by may be 150 basis point or whatever. But the truth is we very closely monitor and measure the credit loss and not as much worried about what the regulatory frame guides us to do. Second therefore when will we do, we already started looking at different product lines and see do we need to go ahead and do something little more and little faster. So we have taken up first the two wheeler what are the small portfolio of personal loan, two-wheelers, etc., we have. I think on the 60th day itself we have started providing for them. We will also give a geographical shape to that if we see some geography continue to behave not too well and therefore we see there is a huge recovery pressure and therefore we need to take some corrective action, I think we will do that. So we will not wait till the regulatory announcement of moving from wherever we are to what they want us to. But we will first apply the business logic to it and see what are the decisions we need to take, that if it takes us anywhere close to them, that is fine and if not whenever that announcement comes on and around that time we would already be in the rates that they want us to.

Manish Shukhla: Second question that I had was on funding cost during the quarter, there seems to be a sharp jump quarter-on-quarter on funding cost the way I have calculated it, is that correct or am I am missing something?

V. Ravi: The jump is mainly on account of volume growth. Actually the QIP money has come in the second quarter, so it has, to some extent, reduce the impact of interest rate increase and the interest rate increase is that the regime of the interest rate was very stable, what is happening is that 2-3 years before the low cost borrowing whatever we had, some portion of it got matured. So there is an indirect to the cost not because of the market function, second volume growth, because of disbursement, cumulative outstanding borrowing is more than what it was during the corresponding period but to some extent what the increases were offset by QIP money of nearly 1000 crores.

Manish Shukhla: Because if I look at your funding mix also, the share of CPs has gone down and that of bank term loans and FDs have increased and given the interest rates that looks a bit weird because CPs are costing much cheaper than FDs and term loans.

Dinesh Prajapati: See if you see Manish, we have been always speaking that, we have been very conscious about ALM and we have never resorted to short term borrowing source for lending long term and you know that QIP money has come in. Obviously the first thing to do would be to use that money by repaying the short term liability which is maturing. So there was a very conscious decision that whatever short borrowings was there in the books we had repaid immediately on day #1 to that route and obviously over a period of time once again, we will have a reasonable CP in our balancing based on the ALM position. So that will be accordingly taken care.

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

Karen Uberoi: On behalf of JM Financial I would like to thank Mr. Ramesh Iyer and the Senior Management Team of Mahindra & Mahindra Financial Services and all the participants for joining us on the call today. Thank you and good bye.

Ramesh Iyer: Thank you.

Moderator: Participants with that we conclude the conference, thank you for joining us. You may now disconnect your lines. Thank you.