"Mahindra & Mahindra Financial Services Limited Q1 FY24 Earnings Conference Call"

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I would now like to turn the call over to Mr. Anuj Singla from Bank of America. Please go ahead.

Anuj Singla: Good Evening everyone. This is Anuj Singla from Bank of America Securities. Thank you very much for joining us for the Mahindra Finance call to discuss 1Q FY24 earnings. To discuss the earnings, I am pleased to welcome Mr. Ramesh Iyer – Vice Chairman and Managing Director, Mr. Raul Rebello – Managing Director & CEO Designate, Mr. Vivek Karve – Chief Financial Officer- Financial Services Sector, and Mr. Dinesh Prajapati – Head of Accounts, Treasury, and Corporate Affairs. Thank you very much for the opportunity to host you. I now invite Mr. Iyer for his opening remarks post which we will open the floor for Q&A. With that, over to you, Mr. Iyer.

Ramesh Iyer: Welcome everyone. Thank you for this opportunity. I think all of you must have seen our results in the numbers which must be with you already by now. I think a few good things as we kind of begin. 1) I would think since I have been associated from the inception, this is the first time where we see the Stage-1II number in the first quarter is actually lower than even the March end number. And that's very very unusual for this business because we have always believed that the first and second quarters for the rural, the market that we largely represent, always has not too much of activity with the monsoons; starts with the heavy summer, moves to monsoon until the festival season begins to happen from end September, maybe early October. Things then start to begin, and therefore, we always have seen that pressure. Unlike ever before, I think we have seen this number both in Stage-1 and Stage-2 reflecting good holding up. And that is nothing but a clear reflection of the economic activity out there leading to good cash flows.

2) I think the other good thing that we saw also was that the disbursement for this quarter at a Rs. 12,000+ crores number is a very very high disbursement considering that we ended the fourth quarter on a very high note even at the overall industry out there. And that gives us clear happiness to also state that we have gained market share in the product lines that we are in. More than that, in spite of all the competition out there trying to do various things, I think our reach, our relationship, and our customer retention approach, all of that is producing the required results that we are looking for.

I think there was always this question on the pricing possibilities and the pricing pressure. Happy to state again that at every stage that we have tried to push up the rate a little. It has got accepted at the market. Therefore, in spite of, again, competition both at product level and at finance level, we have not seen too much of pressure on the ability to pass on price. While you see a little compression to our NIMs, that is more caused by us having borrowed fresh money for disbursements. And when we reprice our liability, it comes at a new rate, and it does take a lag for us to be able to pass on.

Also, our initiative of focusing on pre-owned vehicles as an initiative including pre-owned tractors is yielding good results, and we are able to see numbers move up in that direction.

Also, in the Prime X segment that we keep talking of, in that market as well as in the semi-urban market, when we start looking for customers from a segment higher than the segment that we were earlier operating in, there was always this question about how competitive we would be and what are the possibilities. And if some of you may recall our past discussion that when we have a 30% to 35% market share in the case of Maruti and in the rural market, we have a 12% to 15% kind of market share, I think it makes a big difference when we negotiate with the dealer to say when we are in a certain segment, we also need to get a certain other segment and we have been able to penetrate through that. They definitely come at margins different from the earn & pay segment, but they also come at a much low cost of operation and a much low credit cost. So, we are also building a book of way forward which qualitatively will not only be different but also has an ability to give the margins because of the low cost of operations and the low credit cost.

From an overall demand perspective, I think we are continuing to see the demand holding up, but at the same time, we are conscious of the fact that we also see the OEM's ability to supply more vehicles, and therefore, some inventory build-up at the dealership is seen. But at this stage, dealers still believe it as positive because these stocks are necessary for the coming festival season. Therefore, they see that more as a positive at this stage.

The overall economic activity on all fronts, whether it is people movement, tourism, the infrastructure side, the road, all of these projects are in full swing. Therefore, we see excellent cash flow position on the ground. We all started the year with a little fear expressed about how the monsoons would pan out to be. But as we speak, and all of us are exposed to this number, I think the monsoon spread has been pretty decent and all the relevant states have got decent monsoon, and therefore, the belief is very clearly one would see good yields coming out. And

with the election year ahead of us, we also believe the support price would be good. So, for a business like ours, which is dependent on intra cash flow, people movement cash flow, tourism, and farm cash flow, we are very very excited that what we see on the ground makes us believe that our strategy that we put out in 2022 that by 2025, we will be of a certain size, of a certain return, and of a certain quality does not seem to be a difficult task in hand for us.

We remain invested well in our project Udaan, which is the transformation project, which looks at new initiatives on the digital front, new initiatives on the people front and the process front. And we are progressing very very well on that. And we are almost on schedule for getting the benefits of it. Like we have stated this before, while it may bring in some cost as we implement this, but the benefit that we would get on implementation of this project will be disproportionately beneficial so that we would rather call it an investment at this stage and not a cost at this stage. But nevertheless, it will come in with some cost which will start showing the benefits around all of this.

Our importance to the OEM partners that we work with stays very very high. We have been having strategic meetings with all the OEM partners and we do get a lot of information and insights which makes us an important partner for all of them.

If I put, therefore, all of this together and as I said, for the first time ever in the history, we have seen the first quarter showing this kind of quality numbers and we continue to believe that this would be the trend going forward. And with our forecast of how we see the second half with a good festival season leading into good harvest, I think we are in a great place for us to repeat our past performance that we saw even in the previous years. The cost of borrowing, our belief, is not going to come down in a hurry. While all of us know it is not moving up any further maybe, but we are not hoping on the cost of funds to come down to be able to make better margins. Therefore, our margins will come from our pricing ability and the product mix change that we are envisaging to protect the margins going forward.

As I said, the little dip that you must have seen in this quarter is more caused by we borrowing a little more and replacing our maturing liability. And as we start moving the price up for our new disbursements and as we mix the product with more of even pre-owned vehicles, etc., we would see improvement to that happen as well.

There are some specific actions that we have put in place, and we are working on it to bring down our OpEx on an overall basis. While we are seeing some initial trends of that benefit, but I think that exercise is still not over and not complete in itself, and we have identified certain specific areas that we need to work on. And the project Udaan that I was referring to addresses our process deep. Therefore, a reengineered process with use of better technology is what eventually will help us also bring down the cost.

We are sufficiently capitalized, and therefore, there is no need for us to at this stage look at any capital raise or whatever. Also, since we were AAA rated a little while ago, we are able to see opening up of new avenues of our ability to raise money. While we have never had a situation

where raising liquidity was an issue, but nevertheless, it's happy when we look at we get more revenues from where liquidity could be raised and even getting money for a little more long term possibilities.

Putting all of this together, we feel that we are at the right place, and all corrective actions have already been initiated and put in place. Most of them are already working for us. Therefore, going ahead we are very very positive of where we see all of this leading to.

The management team is in place. While we have made some new additions to our management team, but now most of them have been with us definitely for more than 2 years close to, and therefore, they are also all well in place not just to understand this business, but also to have a good cultural integration into the organization and contribute by their experience that they come with from different institutions. Therefore, that adds to the additional benefit of relooking at this model in a different direction.

I would only request on one thing as I close, which is, you must have seen the news on the acquisition of some holding by the parent in the RBL Bank and we would not be able to add any value to any questions that may come in that direction because it's purely a corporate action. And I would honestly submit and request that we avoid spending any time around that because we would not be having any answers to any of your questions that you may have except that I can tell you that this is purely a corporate action, and you would have seen a stock exchange announcement by M&M on this.

With that, I will kind of stop here and invite questions with clearly leaving a positive outcome that what we see in this quarter gives us a lot of happiness to believe that the following quarters would only be better than what we are seeing. Over to the moderator.

Moderator: We will now begin the question & answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

The first question is from the line of Manish Ostwal from Nirmal Bang. Please go ahead.

Manish Ostwal: I have a couple of questions on quarter 1 numbers. First, on the margin side, you said there is some cost increase and loan mix impacted the margin this quarter, and with a lag effect, the margin may improve. Secondly, the margin guidance which we have given long term is 7.5%. Just because the price action in the coming quarters will take the margin to that level or how do you see the margin in the rest of the current financial year?

Ramesh Iyer: As you are also aware, once we start putting out a new price, you don't get the benefit immediately. But clearly, visibility-wise you will see it move upward. And we do hope that as we close the year, we are able to get very close to those numbers. Honestly, 7.5 when one puts out, you don't expect the cost of borrowing to remain this high. And while we believe that the cost of borrowing may not come down, but if we are lucky and the cost of borrowing also starts to come down, definitely you will see that margin move in that direction. But purely by pricing

and with this being the cost, I'm afraid that we may not be wanting to believe that it will reach 7.5 so fast. But clearly the cost of borrowing will as well come down and the two together will help us. And as I also added, we are kind of looking at more pre owned vehicle as an improved growth story for us and that should also help us in the improvement of margin.

Manish Ostwal: Secondly, Sir, I was looking the Slide #8 and the 22 where eight we have mentioned the collection efficiency 94%. And if I look at the on YoY basis, there's no improvement even if I look at the full year performance of last year, the collection effects in 96%, I understand the seasonality of the business but despite of the recovery in the market which is reflecting your loan growth and the vehicle sales numbers in the marketplace, why the collection efficiency has not seen any improvement in our numbers? And secondly, how one should read the trend in your credit cost remaining part of the year versus the 2.1% which we reported in Quarter 1.

Ramesh Iyer: In some way there was an answer in your question. Seasonality is definitely one answer, and you would see credit cost improve as we go to the third and fourth quarter and we have seen it even in the previous year and you will continue to see that for sure. I think it's also important to understand when you say 94% this quarter and it's sequentially not much improved, we see this as a good number and you probably compared it to last year's first quarter as well and last year's first quarter was also one of our best quarters. So, if you are able to reach this kind of 94% levels and if you go few quarters before, you will see this number used to be a 9% type number. So clearly we are very happy with looking at a 94% as a number for the first quarter and we are seeing trends continuing in the same way and therefore we don't see second quarter to throw up any surprise. And if that was to happen, you will see the third and fourth quarter helping the cost the way we are projecting for ourselves.

Moderator: The next question is. From the line of Mahruk Adajania from Nuvama. Please go ahead.

Mahruk Adajania: Sir, my first question is on slippage. I know that you don't spell out slippage is correctly, but because the credit costs are slightly higher than expected, could you give some broad color on slippage or at least some broad color on recovery and upgrades of non-restructured, standard loans during the quarter so that we can calculate the slippage and then also if you could highlight the amount of interest reversal in say Q1 relative to say Q3.

Ramesh Iyer: So, if you kind of look at our Stage-3, they have actually improved over the fourth quarter. And if there was a slippage from Stage-2 to going to Stage-3, then you would not have seen this improvement for sure. Even at Stage-2 level you are seeing and holding up happening, which means even from Stage-1 the flow is not high. And also, the third thing is if you have a 94% collection it only means that the overall collection from every bucket is appropriate and adequate and therefore there is no pressure on, is there any slippage on the credit front. And I don't know on the restructured you said if you were referring to the COVID time restructured portfolio if at all I don't exactly remember what I think when we started, we had some 4000 or number. It is Rs. 1800 crore is what is just remaining there and they're performing portfolio otherwise we will have to classify them in whichever bucket we have to classify them.

Mahruk Adajania: I was not referring to the outstanding or asking you the number. Basically, I was referring to the presentation where you shown amount of restructured assets which have been upgraded from Stage-3 to Stage-1.

Ramesh Iyer: OK, so Vivek wants to add. It's a technical thing, so.

Vivek Karve: Vivek here so curing or upgrade typically happens from Stage-2 to Stage-1 and we have very stringent norms for any curing that we do. So, the assets which are in Stage-3 would not get cured that is one. I just wanted to also add to what Mr. Iyer said, if you also look at the GMPA as per IRAC, the difference between the IRAC GMPAs and Stage-3, that number also has remained range bound in fact, over a period of time that number is slowly coming down, which should also give you some understanding on the slippages. Just reconfirming what Mr. Iyer said a while ago.

Mahruk Adajania: So there were no material interest reversals or anything therefore?

Vivek Karve: Because a material interest reversal would happen if there would be a big jump or a big drop in our GS3 because that's where the interest reversal takes place because in Stage-1 as well as Stage-2, the interest approval continues. The question of reversal arises only when an asset which standard was so far becomes NPA.

Mahruk Adajania: So, when you written that restructured assets….

Vivek Karve: One more thing if under IndAS there is an interest accrual that happens on a net basis. However, in the case of banks, probably you are coming from the bank where the interest reversal has to happen the moment when asset becomes an NPA. In the case of NBFCs which follow in date the interest approval keeps happening on a net basis.

Mahruk Adajania: When you say restructured assets of 466 crores have been cured during the quarter and now reclassified under Stage-1, it's from Stage-2 to Stage-2, right?

Vivek Karve: Precisely that's perfect understanding.

Mahruk Adajania: Because the statement talks about Stage-3 first and then about restructured assets so that's why the misinterpretation.

Vivek Karve: Don't link the two, they two independent things.

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

Viral Shah: I had two questions. So, one was on your GNPA, you mentioned that quarter-on-quarter sequentially, you actually saw a bit of correction. But if I look at it, your write-offs actually were at 1.6% now historically in 1Q we have seen very low write-off so is this sequential GNPA results because of this higher write-off number one. And my second question was on basically

your repayment rate, typically in 1Q your it sees a bit of a decline, this quarter there has not been as much of a decline compared to the history. So, would that be a function of the kind of change in the borrower mix that you have been trying to achieve in terms of more of mass affluent.

Ramesh Iyer: What was the second question? Sorry, missed you?

Viral Shah: Second was with regards to the repayment rate. So typically, in 1Q, quarter-on-quarter implied repayment rate reduces materially, in this quarter it has not been the case. So, is that actually because either you have changed or reflection of the changing borrower mix of more affluent customers not requiring earn and pay, or you actually now starting to structure your contracts more on an EMI basis versus more lopsided in the second-half of the year?

Vivek Karve: So let me first answer your second question and then we'll go to your first question. On the second question, we have not experienced any significant increase or decrease in our overall door-to-door maturities of our loan book. So, I think that's not what we are experiencing today. So probably that should help answer the second question. Your first question was about the write-off. On write-off, if you look at over a period of time, you take FY22, you take. FY23, our total write-off having a upwards of Rs. 2000 crores. However, if you look at the first quarter of the current year, that number is much lower at 313 crores.

Viral Shah: FY22 and '23 in that sense we're not a normal year. I'm looking at on a pre-COVID basis your typical write-offs in the first quarter used to be less or sometimes even negligible.

Vivek Karve: However, we have also changed our accounting policy a couple of years ago where we do the write-off every quarter, earlier we used to do write-off once in a half year. September and March, we used to do it, now we do it on a quarterly basis. So, it may not be a like-to-like comparison.

Ramesh Iyer: No, and I think also it's important to understand that if the gross NPA absolute value had substantially gone up and then we bring it down through a write-off, then your answer is right. But if you look at on an absolute basis, they are in that ballpark of 3700-3900 type numbers. So therefore, they are not held there or corrected through write-off or whatever it is. So I think it's purely by collection and I think I urge you all to also look at 94% collection efficiency, therefore, you see that each bucket is holding up to that number. If the collection efficiency was much lower and you say, "oh! there is a correction happening to the bucket", then your conclusion that are you taking some write-off. etc., is true, but if the collection efficiency are 94 people don't pay us advances and advances anyway, don't get into collection efficiency. So, they are pure EMI payments and if pure EMI payments come then you will see that stability of each bucket begins to happen.

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

Abhijit Tibrewal: So again, going back to the liability side of things, just wanted to understand that in addition to the increase in cost of borrowings that we have seen and obviously, I think everyone is seeing

that today borrowings which are maturing being replaced with higher cost liabilities. In addition to that, there is a lot of volatility that we're seeing on your yield line as well so is that a function of what you were explaining earlier on the call, the Prime X customer that now we are targeting kind of reflecting in lower yields? Otherwise, without interest income reversals and like you explained, we have not had many flows in the Stage-3 or the NPA buckets so unlikely, we would have seen any interest income reversals. So, what really explains this is that we've not had what about 3% to 3.4% QoQ growth in the interest income, which is also reflecting in a good decline in yields.

Ramesh Iyer: Vivek or Dinesh will provide you the figure, but I would assume that the 40-basis point dip that you see, 50% of it would be caused by cost of money and the disbursement that would have happened now the benefits of that will only flow later. So, if you have a disbursement growth and the proportionate income out of that disbursement doesn't come in, whereas the interest starts to kick in so you will see some correction coming through this. And you are right to some extent the Prime X number definitely will bring that pressure, but that's a conscious call that we have made to be in that segment because that comes with a lower OPEX and the much lower credit costs and therefore they shouldn't affect our ROA going forward. So, while we may see whatever is the compression of NIMs that you see by a Prime X customer would be more than offset in the OPEX and the credit cost to lead to a better ROA. So, therefore with a consciousness we are getting, I also must to confirm to you of the total book currently the Prime X type customer would be no more than 10% to 12% at this stage. So therefore, they are not going to substantially compress either of the line items there. And whatever we try and pass on as the lending rate increase, the benefit starts to come only a little later and they don't come immediately as we pass on. So, I think you would start seeing a change of these numbers as we built the asset in the next 3 quarters.

Abhijit Tibrewal: And just one last question, now how should we think about your credit cost, essentially, if I look at this quarter, Rs. 330 crores of write-offs unarguably on a declining trend, how should we think about what we call as write-offs or reposition cost or repo cost? So essentially, is this is a trajectory which will kind of continue for the for the next two quarters and also we're trying to understand in your SEBI release you talked about your ECL model refresh and how you kind of keep moving taking last certain number of months into consideration. So now given that whatever maybe 2-3 years of last data that we consider, are we now kind of getting into a plane where the base itself can start getting worse in terms of the ECL model. And one last question for Vivek sir in terms of your liabilities, how are you posturing your MCLR link bank loans essentially earlier when rates were rising most of us wanted to benchmark ourselves against 6- and 12-month bank term loans. How are you posturing your MCLR-linked bank term loans now?

Ramesh Iyer: So let me first quickly give you the NPA answer. Last year if you look at, in the beginning of last year we started off with some close to 8% NPA and that had to come down to 4.4%, you will obviously have a different level of termination settlements, closures, etc. 4.4% or 4.5% closure of March and if you believe that that has to be held at a 3.4% type number, they don't come through these kind of terminations and settlement. So, you should understand that we are almost at a level where the NPAs could be as low as it could be, and it can only improve from

here, because we don't see flow forward from Stage-2 to Stage-3. And we are not in the best of quarters. So, I can give you all assurance that our gross NPA or Stage-3 number is probably at its best from a first quarter perspective and no major untoward incident on the ground, we are very comfortable to be in the position that we are in and to bring a correction to this number we don't have to resort to any major repossession, settlements, and things like that. What we are working on is how do we hold each stage at Stage-0, 1, 2 and don't allow them to forward flow and which is where I keep referring to the 94% collection efficiency which gives us that comfort. So therefore, be rest assured that you won't see a similar large chunk write-offs or termination like we would have seen in the past, when we bring down the gross NPA from a very high level to a level low. This will all happen by the normal method of settlement, recovery, closure and 60% coverage is protecting the write-off eventually that is likely to happen through these products and therefore you may not see a big hit. Let's for a minute imagine the entire 3000 odd crore of NPA has to be resorted to only by a settlement repossession then will it not fetches the 40% balance yet to be provided for? I think my answer is clear yes. And that is where the ECL model works well. And my last comment would be as our book composition keeps changing, we will find that the 60% is a higher coverage because we still use a historic data, whereas the current book is not of similar nature and therefore one would only see a benefit of this excessive provision going forward. Is the comment I would leave you with on the liability, I'll ask Vivek to explain.

Vivek Karve: So, I heard you asked a question around MCLR, but to me the question was not very clear. So, can you please repeat your question?

Abhijit Tibrewal: So essentially what I'm saying is what you've seen in the M&M and other peers, we typically consider past data that would be two-year, three-year, four-year data for the ECL model. And then every quarter after quarter, right, the recent quarter comes into that that ECLR and then subsequently the whole quarter gets knocked off. So essentially what I'm kind of trying to understand is this 200 crores of increase that you've seen in terms of provisioning excluding the write-offs, what Mr. Iyer was also explaining that at this point in time, whatever provision coverage ratio we are maintaining at Stage-2 Stage-3 when can we that point in time where we can start seeing the requirement for a lower provisional coverage ratio on Stage-2 and Stage-3?

Vivek Karve: Now, I have a better understanding of your question. So probably we may have to wait for one more year.

Abhijit Tibrewal: So, the last question on liability, were you explaining something on ECLR?

Ramesh Iyer: No, this will happen in a years' time, right, because we are taking a 42 months average when we arrive at this, and therefore each year book as they run-off and the new year book comes in this will start to show the correction. So, if you take April '21 onwards where we have taken various steps for a better-quality book so therefore '21, '22, '23, as we come to the next year or mid of next year, you will suddenly see this playing out very, very well.

Abhijit Tibrewal: So what I wanted to understand is your liabilities book, when the interest rates were going on quite naturally, everyone wants to push you towards 6 month and 12 month MCLR-linked bank term loans. Now that there is I would say almost certainty of stability in interest rates, repo rate or maybe an outside chance of a smaller quantum repo rate hike, how are you posturing your MCLR-linked bank term loans now with regards to the tenure?

Vivek Karve: So, if your question is that whether we would like to maximize floating rate loans, yes, we would definitely like to take that opportunity but at the same time, we also need to be mindful of our ALM so we would take that judicious calls from time to time. So, it will be very difficult to tell you exactly. Is there a formula, yes, there is a broad formula, but we work within the boundaries of the overall ALM that we need to achieve and the opportunities are available in the market. As on date about 38% of our bank borrowings are floating and in any case, the money market borrowings are anyway fixed.

Ramesh Iyer: And we won't breach the ALM norms.

Vivek Karve: Of the entire borrowings 38% is floating.

Moderator: The next question is from the liner Sanket Chheda from B&K Securities. Please go ahead.

Sanket Chheda: So, a couple of questions, pardon me if it's repeating. The first one is on your spread, while we talked about that maybe 40 bps was out of cost and 20 bps would be out of yield. On your Slide #21, it's the other way around actually from the last quarter there is a 40 bps falls in the yields and about 20 bps in the cost of fund, which is resulting in about 60 bps of fall in the in the gross spreads that's one. And the second is that the cost of fund is rising since the last two to three quarter for us. I understand that once we take the hike, it comes with a leg, but our yield is even lower than last quarter's Q1 so I was just not able to reconcile?

Ramesh Iyer: So, the book also has certain assets which would have been booked, let's say three years back at a very different yield, right? As the book matures and you are getting the new book come in, you will see this compression which will be visible which should therefore reflect in a credit cost to be not similar to what we had two years back. So, I think while we should focus on the NIMs, we should also look at how the credit cost is panning out to be, to look at the net result and which is why I was referring to saying that when we start lending new and at a new rate, even the benefit of it won't happen immediately. That will happen on a cumulative basis and surely and I don't have an exact number, but then if, let's say some tractor portfolios have matured over this period, which would have been a much higher yield item. And against that, if you are actually growing an asset which is in a UV or a car, right, therefore they will be at a different yield, but then the cost of operation and the resultant credit cost for these two products will also be very different. So, which is why I said that if you look at separation which happened due to cost of borrowing, we will cover for that through our lending rate movement and the product mix movement by increasing our second-hand vehicle financing, you will see the NIMs improvement, while the Prime X will still come at a lower yield, but they will also come at a lower OPEX and a lower credit cost. I think that's the way we will have to look at the overall.

Sanket Chheda: The second question was again on the write-off front. When we say that maybe all the buckets are in the ideal situation would have been if it wouldn't have affected profitability. So, with the help of write-off, we can keep the NPA numbers may be same or lower in any quarter irrespective of Q1. So just wanted to understand we when we guide about maybe asset quality, or the stress level then then how should we look at profitability in in that context?

Ramesh Iyer: So this quarter is not affected by an NPA going up or whatever it's. Affected by the. LGD change, which has come in and there is an additional provision. So, no sooner you see the LGD either constant, you will see no further impact and which is what I was explaining that as the book of the past matures and the new book of a better quality keeps coming in, you will start seeing the LGD climb down and therefore the higher coverage that we carry actually becomes a reversal benefit even though we held it at that time.

Sanket Chheda: So the LGD I understand the increasing provision on Stage-1, 2. So Stage-1, 2, 3 provision increasing, I understand that would be out of say increase LGD requirement, but out of 526, Rs. 313 crores are the write-off?

Ramesh Iyer: Correct, so that is not a new number, right, that if you historically look at that number on half year basis, it would be cumulative of two quarters except that a year back or so whenever we move to every quarter writing it off. So that number is not a substantially new number and that is from within the NPA pool. It is not outside of the NPA pool number.

Vivek Karve: And if you look at the trend line on the write-off over the last six quarters, that number has been gradually going down and I think that is the trend we can expect going forward.

Sanket Chheda: Yes, but now limited fund was that if you wouldn't have taken that, the NPA would have gone up, yes but that is okay?

Vivek Karve: Sorry to clarify on this, but this is the business as usual so where you are lending business, these write-offs will always happen as per the write-off policy of the company.

Sanket Chheda: Yes, but then that narrative doesn't hold quite that NPA has not...

Moderator: Thank you. The next question is from the line of Abhishek from HSBC. Please go ahead.

Abhishek: My question is on this Tier-1 ratio. It is down by about 100 bps Q-o-Q and if we look at a slightly longer period also it has come down quite sharply, I mean last year 1Q it was 22.8, so what is leading to such a high capital consumption?

Vivek Karve: The disbursement growth, so last year our disbursement growth was 80% full year and in the current quarter, the disbursement growth is 28% and of course we have not raised any further capital, so it will reflect in capital.

Abhishek: But Vivek, the disbursement growth is just 4% Q-o-Q, so will it sort of consume 100 bps because you also have some profits to boost?

Vivek Karve: Implement of the Tier 2 category and we have so far not raised any fresh year capital, but that we can always do.

Abhishek: No, I am talking about Tier 1, the 100 bps Q-o-Q Tier 1 consumption, so disbursement growth is just 4% Q-o-Q, so risk-weighted assets would have to go up much faster than your Q-o-Q asset growth for this kind of?

Vivek Karve: But the loan book increases the loan book has gone up 5% on the Q-o-Q basis. It is mathematical, I think it is only a function of the disbursement and its resultant impact on loan book and the rundown, so the net increase in the loan book. There is no other discontinuity.

Abhishek: No, it just seems like the risk-weighted asset growing faster when we are doing relatively less risk-weighted assets, that is what I was trying to take?

Vivek Karve: unlike in case of banks.

Abhishek: Or would it be operational risk when you enter into a New Year? Would it be?

Vivek Karve: No, the answer is no.

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

Kunal Shah: So the question again on the credit cost guidance and particularly any impact of the, maybe the floods in North because we have almost like 25%-30% exposure in the Northern region?

Ramesh Iyer: It is I think too premature. We didn't have any collection efficiency dip in North when we look at it as we close June and therefore I don't think that it is caused by that. It is very uniform across and again go by collection efficiency, we don't have where we have the states where we have collection efficiencies were 60% or 70% and somewhere else it is 100%-110% to lead to 94%. I think it is pretty uniform collection efficiency across, so we have not had any jerk.

Raul Rebello: So you are right, there has been kind of quite heightened rain in some parts of North India, but when we look at a long trend, the discomfort that is caused on a weekly basis or a fortnightly basis, customers are resilient and maybe they would miss the installment, but it comes back quickly. So these are temporary disruptions, but nothing that gives us worry for a medium term.

Kunal Shah: And credit cost guidance would be given that maybe write-offs are almost like half if we just look at in terms of the run rate, annualize this run rate and maybe in terms of the provisioning write backs could also be limited because we are already at a low level of stage 3, but should it be fair to assume that we can still settle at 1.5-1.7% odd credit cost or maybe it could be higher looking at the Q1 trend?

Ramesh Iyer: The only answer we can give is if Q1 has shown this color and if there is nothing untoward, the next three quarter, we are very comfortable to believe that it is going in the right direction.

Kunal Shah: And one last question on Mahindra Housing, so again this quarter we reported a loss, so there seems to have been a good quantum of provisioning out there, but still net stage 3 is going up, it is like almost 8.5% more than Rs. 500 odd crores, so should we expect some kind of a write-off out there and maybe some knock on the networth which can happen and further infusion into the Mahindra Housing?

Ramesh Iyer: I think all the cleaning that was required based on our **on ground** has all been carried out and still now be solved through pure recovery and settlement and we don't expect anything big to come from there.

Moderator: Thank you. The next question is from the line of Gao Zhixuan from Schonfeld. Please go ahead.

Gao Zhixuan: Just on the write-off amount, so first quarter I think usually is the worst season for that, so any rough range of you know this year's total write off that we should be thinking about any ballpark range would be very helpful?

Vivek Karve: If I have understood your question correctly, is there any guidance on the total quantum of write-offs that we are expecting for the full year? Is that your question?

Gao Zhixuan: Yes, that is right.

Vivek Karve: So very frankly, we do not provide any specific guidance on these numbers, but if you were to hazard a guess, the current quarter's number is probably a good indication.

Gao Zhixuan: So roughly quarterly run rate it should be somewhere about the first quarter level?

Vivek Karve: Yes, it should be in that ballpark. It is, I am talking about the write-offs.

Gao Zhixuan: And secondly on the cost to assets, it should be appreciate that we are in a benign asset quality scenario and we are doing investment phase, so how should we think about cost to assets this year versus last year?

Vivek Karve: Again, your voice is not very clear, but did you want to understand OpEx as a percentage of assets?

Gao Zhixuan: this year versus last year and positive asset how should we think about the ratio?

Ramesh Iyer: I understand, right at the beginning I commented we are at 2.8 as against 3 point something that we closed last year and we are investing in adequate technology, people training and all of that for much preparedness for future growth etc., that we have projected for ourselves. So we would see a temporary movement up, but committed to the 2.5% that we put out as our way forward while we would see this 2.8 hovering between 2.8 and 3 type numbers, but clearly you will start seeing the decline of it as the benefit of all those investments starts to flow in because while we are incurring it as a cost, we do recognize that they are not a onetime cost and they are in for much future and therefore, if one looks at a period for which this is getting done, we are

comfortable to believe that while temporarily, some increase may see, but that will start correcting itself.

Gao Zhixuan: And lastly on the margins, the cost of borrowing, how much do we expect it to go up further from current level, you know to the rest of the year and any ballpark estimate assuming there is no RBI rate changes anymore?

Ramesh Iyer: So at this stage, we are only believing that the borrowing cost is not going to come down in a hurry, but at the same time we are confident that I don't think we are expecting any further increase to cost, but as our past liability matures and we start getting a new money, it will come at a new cost that should be more than protected by our increasing lending rate that you are projecting over a period of time. So simple answer would be we don't see a big movement either reducing costs at this stage, nor are we expecting new borrowing is going to push up the cost substantially. I think we are where we are.

Gao Zhixuan: I fully understand the current incremental borrowing cost, it is not going to go up anymore, right, but I am just wondering the average current book borrowing cost, the cost of fund, how to price to our incremental front-end kind of borrowing costs, right? So how much difference is it the incremental borrowing cost versus our current cost of fund?

Vivek Karve: So that is what I think he tried to answer. The incremental borrowing cost is not likely to be higher as compared to the cost at which we are borrowing currently.

Moderator: Thank you. The next question is from the liner Shweta from Elara. Please go ahead.

Shweta: Two questions, one is, if I look at the disbursement mix, why has there the decline quarter-on-quarter on the SME side?

Raul Rebello: The disbursements have grown. The book is a bit flattish over Q4. The reason is because we had the mature book which is running off much faster. We had some lumpy loans which are running off and otherwise, when I look at on a disbursement we have factored in a 50% growth and in Q1 we have achieved close to about 45% of Y-o-Y. The flattish book is largely because of runoff, but otherwise, from an incremental growth we are doing well.

Shweta: So, the next question is why there is sequential surge in repositions, repossessed assets quarter-on-quarter?

Ramesh Iyer: So, when it comes to the year ending, clearly what happens is we do sell more vehicle, but the number of vehicles repossessed in each quarter would not have gone up, just the stock would have gone up because we start with a much lower stock as we do the cleaning for the year ending. It is nothing more than that.

Moderator: Thank you. We move on to the next question from the line of Nischint Chawathe from Kotak Securities. Please go ahead.

Nischint Chawathe: Just one or two small questions. Have you raised lending rates for new customers during the quarter?

Ramesh Iyer: This quarter, I think not all products, but some select products there has been a very small increase.

Raul Rebello: Yes, we have passed on a marginal increase if you look at Q1 versus Q4, we've been able to pass on a marginal increase. But we don't want to give any forward guidance because as you know, it's becoming a very competitive market and Q2 and Q3 as the festive season unfolds, we will have to be competitive.

Nischint Chawathe: On the one side you are growing the Prime segment and on the other side, I guess this quarter we saw a fair amount of increase pre-owned vehicles on the AUM. So, just trying to understand keeping the incremental rate hikes aside from a portfolio mix point of view, are we really shifting towards lower yields of it or are we shifting to higher yield of it?

Raul Rebello: While we have our Prime segment coming in, we have clear upper limits on how much will it be as a percentage of our incremental sourcing. We are conscious of we have given you guidance on what kind of prime,. So clearly there is no drastic shift away from our core business, which is the earn and pay customer segment but as diversification requires us to also cater to a new customer segment, we have specific vehicles to deliver and to attract that customer segment, but we have upper limits in terms of what that means as a percentage of our incremental sourcing.

Nischint Chawathe: Now does it mean that faster growth in pre-owned will sort of offset any compression in yield because of the Prime segment?

Raul Rebello: Yes, that's the objective and you would have heard Mr. Iyer talk about the aspirations to grow. In fact you would also see it pre-owned vehicles is 17% of our incremental sourcing and we are looking at growing that segment.

Nischint Chawathe: And just very quickly, your growth in operating expenses was in the single digit this quarter. Does it continue for the year, or would you see it coming closer to the 25% loan growth that you're doing?

Vivek Karve: A while ago Mr. Iyer talked about it, in the first quarter our ratio is 2.8% we expected to inch up closer to 3% for the full year.

Moderator: Thank you. The next question is from the line of Umang Shah from Kotak Mutual Fund. Please go ahead.

Umang Shah: I just have one question. So, given that the outlook is looking fairly benign and collection efficiencies are kind of holding up, all else being equal, how confident are we that we should be able to close the year with NPAs levels lower compared to last year and credit costs also remaining in the similar range or are we looking at credit costs being higher compared to what we have seen last year?

Ramesh Iyer: So, first quarter an NPAs or GS3 is lower than fourth quarter of last year for a model like this, which is for the first time it's happened I think and I repeat myself, if there are no unknown major disruption in the market, we don't see any anything very different unlike in the past, where third and fourth quarter has always been good and they would remain good, that's our belief and therefore we are happy with where we have ended for this quarter.

Umang Shah: And so, the credit costs also then should remain fairly range compared to what we have seen last year.

Ramesh Iyer: Because you should look at it as follows, right? If there are no new NPAs built out and the existing NPAs are provided for sufficiently then you know the outcome.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to Mr. Anuj Singla for closing comments.

Anuj Singla: Thank you very much. Mr. Iyer, any closing remarks before we conclude?

Ramesh Iyer: No, I think the only closing remark that I would make hearing from all the questions is clearly we are relooking at our product mix and want to focus, and we are able to reach traction on the pre-owned vehicle which will improve the yield and therefore, will lead to improving or protecting the margins going forward for sure. We don't see borrowing cost going up beyond where we are and therefore the compression coming from the borrowing cost to compress the NIMs any further is not our way forward look. Three is if Stage-2 is holding up where it is and Stage-3 is showing correction and having provided for 60%, the uncovered portion of the current NPA pool is on the Rs. 1500 crore, whichever way we may want to solve by collecting, by repossessing, by selling, disposing it will not be more than that number for sure. And as we see more collections there and the first quarter has reflected that with the collection efficiency also holding up, we see for ourselves the next 3 quarters to be showing the trends better than what we have seen in the past ever. And the disbursements are holding up and therefore growth is something that we are comfortable and confident about in spite of whatever be the competition. Overall, from our perspective, we believe that what we have seen the previous year after all the correction efforts that we put the year before is all yielding results and yielding results in the right direction.

Moderator: Thank you very much. We conclude this conference. Thank you all for joining us. You may now disconnect your lines.