



“A Discussion with Mahindra & Mahindra Financial Services Limited on their Decision of Not to Bid for a Banking License -- Conference Call”

June 24, 2013

MANAGEMENT: **MR. RAMESH IYER – MANAGING DIRECTOR, MMFSL**
MR. V. RAVI – CFO, MMFSL
MR. DINESH PRAJAPATI – VP, TREASURY, MMFSL
MR. RAKESH – MANAGER, INVESTOR RELATIONS, MMFSL

MODERATOR: **MR. MANISH SHUKLA – RESEARCH ANALYST, DEUTSCHE**
EQUITIES



*DEUTSCHE BANK: A Discussion with MMFSL on their
Decision of Not to Bid for a Banking License
June 24, 2013*

Moderator

Ladies and gentlemen, good day and welcome to the conference call of Mahindra & Mahindra Financial Services Limited hosted by Deutsche Equities. As a reminder, for the duration of the conference, all participants' lines are in listen-only mode, there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Manish Shukla. Thank you. And over to you sir.

Manish Shukla

Good evening, everyone. I welcome you all on behalf of Deutsche Equities. We are pleased to host the senior management of Mahindra & Mahindra Financial Services for this call. As you would be aware, today afternoon, the board of MMFS decided not to apply for the banking license. So we will be hearing from Mr. Ramesh Iyer and his senior management colleagues as to what was the thought process behind that. I would like to now hand over the call to Mr. Iyer.

Ramesh Iyer

Good afternoon. This is Ramesh Iyer. And I have with me V. Ravi -- our CFO, we have Dinesh Prajapati -- our VP, Treasury and we have Rakesh -- our Investor Relations Manager. We thought this call would be useful in terms of sharing with you on what was the thought process that went through in our board and deliberation and discussions, and at the end of it surely we can have questions.

We looked at this opportunity of the banking license which has been in the news for quite some time from the time the original draft guidelines came in, then subsequently the guidelines were announced, and we were given an opportunity then to put out what are the clarifications that we wanted, and then there was a clarification issued on 3rd June by the Reserve Bank of India. That is the time all of us kind of got together once again internally as an organization to review this opportunity even more in detail. Until the clarifications had come in, the guidelines had certain challenges in itself, but we still thought that once we put in a request of our clarification, possibly some of the answers would come out, which will help us understand the scenario better.

Just to give a little background, as you all know, we are now a very large NBFC with a very large asset base, very deep rural reach and we continue to maintain our growth trajectory in that market growing even bigger, and therefore the clear decision point for us was if you were to convert this NBFC into a bank or if you were to float a bank by this NBFC, then one had to understand what really would be the outcome of the current NBFC as a format.

Our understanding is the way the retail business or vehicles, tractors, commercial vehicles, second-hand vehicles, etc., are done, clearly we do see that NBFC is the right format or a well-suited format for carrying out a business of that nature, because all said and done these are retail businesses, where the success of the business is also through a very efficient recovery mechanism and both lending and recovery is well done only if you are very close to the customer and therefore deeper penetration, opening more branches is the real fundamental



*DEUTSCHE BANK: A Discussion with MMFSL on their
Decision of Not to Bid for a Banking License
June 24, 2013*

strategy or the success story. And that is what we have demonstrated so far in this model. And therefore as of today as we speak, we are a large company with 670-odd branches with about 11,000, 12,000 people manning them across the country, and therefore we had to ensure that we keep the interest of all stakeholders in mind in whatever decision that we take. We also think given the way the guidelines is today and the clarifications which have come, it requires us to take certain decisions right up front; one of them being keeping the CRR, SLR on the entire NBFC balance sheet, which would mean a very large amount set aside to be kept as CRR, SLR, and it is not about just our ability to bring this kind of funds, which of course is possible for a group like us, but more importantly, the cost that it will bring in up front for such a large balance sheet built on totally a different format, and therefore that was one of the decision points.

The second was that if all of these branches had to be converted in a shorter span of 18 months provided in the guidelines to become a bank, I think it is very impractical to even consider that 700 branches can overnight be converted in such a short time into a banking platform. And during this intervening period, we will continue to be adding branches and growing the balance sheet, and therefore it will continue to have this impact of conversion and SLR, CRR to be kept. So therefore the second decision point was how easy and how many of these branches can actually be converted into the banking platform.

I think there is a third requirement which is the 25% of the total branches that we would eventually have as a bank; 25% of it needs to be in such locations, which are unbanked with the population going below 10,000. And therefore even if we were to go ahead with the path of converting our 670 branches into a banking platform, which would have meant that about 180, 200 additional branches will have to be created in those unbanked smaller area, and that would have by itself become a huge challenge of how do you create that and what exactly do they do once you create that. The other way round of looking at it was that if you were not to be able to convert all our branches, how many of the current branches then you actually give up in this process and therefore what kind of an impact does it bring on the business and how does it then the whole balance sheet look like.

Taking all of this together, we thought that if we were to go ahead and request the regulator through the clarification that we sought that, whether there can be a coexistence of the NBFC along with the banking model for a reasonable period of time until when whole of this branch can in a very logical step-by-step without destroying any value for any of the stakeholder be converted into the new platform. Because at no stage as a corporate the way we built our business, we ever wanted to really destroy value to any of the stakeholder including our future customers. Because it is very important here again to understand that what looks to be a business model it is also a very strong support in the financial inclusion, direction that the regulator and the government has been looking for when we go out and lend credit to that set of customer and population, it is also the families of these populations who get the benefit of it because almost all products that we finance are livelihood products and therefore, that is a new stream of cash flow that these customers also generate. Keeping all of this in mind, we did not



*DEUTSCHE BANK: A Discussion with MMFSL on their
Decision of Not to Bid for a Banking License
June 24, 2013*

at any stage wanted to play a role of destroying the value for any of the stakeholder and therefore the board came to this conclusion today that clearly, if you look at the guidelines, do not really address the transitional issue that is being faced when you have to convert such large NBFC into the banking platform, and it clearly looks to us that because we are a large NBFC, the impact of this guidelines are severely impacting large NBFC as ours, and therefore the decision was that we would stay put the way we are today. And if the amendments to the guidelines had to come the way we are expressing and anticipating, and if we try to commit any point of time, then we believe that we are still wanting to be moving to that platform subject to the amendment addressing all those issues that we are talking. Because at no stage we ever wanted to move towards banking just because there is an opportunity out available there. We want to move into that platform only if what we do currently can be done in a much, much better and a larger way tomorrow. If it is going to be the same way or less than the same way, then that is not an opportunity for us at all. And therefore, we have always stated this that as an NBFC, we continue to see that the opportunities are no less. We continue to believe our strategy of going deeper penetration, building relationship with multi-manufacturer, getting into more geography and therefore supporting many more larger customers wanting to acquire assets will continue to be our approach, and therefore in the new format of banking if it had to come through, we wanted to look at, "Does that allow us to do the same business without destroying value to anybody and still serve the purpose for which we had set up this whole activity." And I thought this is something that we will share with you and therefore these were the fundamentals on the basis of which this decision was taken, and we have today come to this conclusion through the board's guidance that if all these amendments and guidelines are not really reset to accommodate this requirement, then I think at this stage we will continue to remain and continue to deliver what we have been doing so far. So this is I thought is the summary of our decision point and that is where are today. So, I think we can open it up for questions if people have any and the whole team is here and we can take any of these questions.

Moderator Thank you very much sir. We will now begin the question-and-answer session. We are going to take our first question from the line of Rishi Arya from Canara HSBC. Please go ahead.

Rishi Arya What prevents Mahindra Finance to do business in the banking environment, is it regulatory, operationally, what are key top 2 or 3 things?

Ramesh Iyer I don't know exactly what your question is addressed to, but we believe that currently we have 670 branches, all of them cannot be converted into a bank within the timeframe that has been set out in the guidelines, and therefore, let us say that 100 branches become a bank branch, at least the guidelines says that therefore the other 600 branches would ineffective become non-operating for business. That is one of the biggest challenge that we see and we have not really even addressing at this stage how to convert our 2.5 million customers into a banking platform.

Rishi Arya So banking platform would mean...?



*DEUTSCHE BANK: A Discussion with MMFSL on their
Decision of Not to Bid for a Banking License
June 24, 2013*

- Ramesh Iyer** Everything else, like getting into agreements to be changed, all kinds of things will have to undergo change, those are administrative challenges even though.
- Rishi Arya** I understand, and theoretically, one branch converts into a banking branch, can it operate on a completely similar fashion the way does right now, will it also limit the operation?
- Ramesh Iyer** I think it will also limit the operation is our understanding because in a business like us, I started off with that, that it is very strongly recovery-based model as well. And therefore on the street banking virtually is what gets done. We go to the customer place, collect money and then it is transported into a bank account which is close to the branch and the branch is not where the customers really come in, because the customer maybe 70, 80, 100 Kms away from the branch where we are situated. Many of the things that we do today as an NBFC on the street, therefore will become difficult which is why we are asking for the coexistence for a reasonable period of time, where we can then start realigning all of this, bring in some even more stronger technologies, support if necessary and then participate possibly in a different set of customer base as well who are very close to the branch.
- Moderator** We are going to take a next question from the line of Anand Vasudevan from Franklin Templeton. Please go ahead.
- Anand Vasudevan** What I would like to understand is, will this be the same stance at the M&M group level as well?
- Ramesh Iyer** I would assume so because as MMFSL board, ultimately, that is the decision today taken and we have not been guided otherwise anyways. So I don't think it is going to be an alternate decision on this and it will be this decision.
- V. Ravi** It is Mahindra Group decision, in the sense, Vasudevan, if you look at it, the guidelines do not permit NBFC coexistence within the group. Let us assume there is a bank decision also is there by any other entity within the group, then these NBFC activities have to be transferred to a bank. So, our company will have to be involved for such a decision. So it is a group decision.
- Moderator** We are going to take a next question from the line of Sanjay Parekh from Reliance Mutual Fund. Please go ahead.
- Sanjay Parekh** Just wanted to know that, if you would have applied for the license, what would be your thought process in terms of how our ROA and ROE would look over the next 2 to 3 years? Of course these guidelines are not very amicable, but to what level would have it led to a fall in ROA and ROE for us?
- Ramesh Iyer** I think we may not be able to say how this would look, but if you look around the banks, and if you look at what are their ROA, I am not too sure that we can be very different from all of them as a banking platform except that you will have a better leveraging as compared to an



*DEUTSCHE BANK: A Discussion with MMFSL on their
Decision of Not to Bid for a Banking License
June 24, 2013*

NBFC and therefore even though the ROA could be lower, the leveraging could be better and therefore the returns could still be something else, but I think we have enough banks around us which tells us how they are different. If you look at our own overall behavior of the financial numbers, we are probably better than many banks, we are as close to in terms of being the leader on the NBFC front as well. So I think it is not right for us to say how this would have changed itself, but one has to take a call that what are the banks around and therefore how we can be very, very different from them.

V. Ravi The key learning is that the impact of CRR, SLR is immediate, whereas the CASA build up will take over a period of time. Basically, in a bank, the CASA brings in the cost benefit, which is to some extent is absorbed by additional burden of CRR, SLR. But here if you see the CRR, SLR burden will take place immediately, and the CASA benefit will come over a period of time. What will happen is that the hit will be more than the benefit.

Sanjay Parekh And we are better placed on priority sector, but how would we have done there, but ...

V. Ravi Priority sector is not posing a problem in the initial years for Mahindra Finance.

Moderator We are going to take a next question from the line of Shrey Loonker from Reliance Mutual Fund. Please go ahead.

Shrey Loonker Just wanted to understand Ab initio, but for the ROA, what were the operational reasons for which a banking license made sense for us apart from financially, what was the larger thought operationally, how would it help to us, just Ab initio why were this even an opportunity?

Ramesh Iyer I thought I said it in the beginning. We believe that if the same thing can be done in a much better, maybe over a period of time even at a little cheaper way because once you built a lot of CASA etc., your cost of funds benefit would come, and maybe you would therefore pass it on to some customer and then eventually make the customer sense. And then as a bank when you possibly have in the same franchisee or the same channel, you can do many more things like, you can even play a role on the liability side much stronger than you play today. That is one possibility that one wanted to always look at. Then SME financing which is otherwise a little more core to a banking platform than to really NBFC platform. So I think there are opportunities of doing many more things which otherwise would not be possible on an NBFC platform, but not at the cost of giving up what an NBFC is doing extremely well.

Shrey Loonker At present, if you were to map your branches what percentage of branches would have qualified for the unbanked one?

Ramesh Iyer Unbanked one will be very small; 10 to 15 branches maximum, but that is another point of explanation that we have given to the regulator that don't go by the branch address, but go by the customer address. Branch will always be conveniently located from employee perspective, administrative perspective, etc., etc., but ultimately we are servicing the customer on the street,



*DEUTSCHE BANK: A Discussion with MMFSL on their
Decision of Not to Bid for a Banking License
June 24, 2013*

that is one more point that I have made that the flexibility difference between a bank and an NBFC is that we do transact many things on the street. Our customer today are spread in 1,70,000 villages. So it is important to look at where the customer is and who is getting the benefit of the whole platform as compared to where your real branch is. But nevertheless, I think from the 2 to 6 category perspective what our regulation is talking about in the Tier-2 to Tier-6, I think about 400 branches would have qualified under that.

Shrey Loonker

Given that now we are going to continue in the NBFC format, say probably 5 years down the line, would it be fair to say that our share of unbanked branches will be more? I am just trying to map the expansion out.

Ramesh Iyer

Let us go 5-year behind and if you take last 50, 70, 80 branches that we would have opened, and if you were to look at the population of those locations 5 years back, possibly some of them would have been unbanked. The country is also progressing. So what looks unbanked today, 5 year later may not look that way. So wherever we are today, 5-year back they were also not fully banked and they were not fully economically active.

V. Ravi

But what our branch expansion has steadily been always going more than interior, more deeper, we are not opening much in cities and all, we are going deeper and deeper and deeper.

Ramesh Iyer

80% of India's districts we have covered as a district and out of this about 9,000 odd taluks, we are already there in about 6000 odd taluks. So as a branch expansion program, I don't think we are looking at taluk headquarters or district headquarters, it will therefore be more deeper.

Shrey Loonker

Given that we have taken a decision, would we like to be proactive on the NPL recognition norms?

Ramesh Iyer

We are actually almost in end of June. I am not too sure that these are very precise balance sheet question, if we can avoid this and wait for 30th June to be over?

Moderator

We are going to take a next question from the line of Ashish Sharma from Enam Asset Management Company. Please go ahead.

Ashish Sharma

The reason is that CRR and SLR sort of regulatory caution, in the press release you have mentioned that both bank and NBFC needs to coexist. If one of a regulatory arbitrage is given by the RBI, I think which one is important for you to reconsider this decision?

Ramesh Iyer

I think if they agree to coexistence, everything is a subset actually. So we would prefer coexistence.

Ashish Sharma

At this stage is there any possibility for you to have a dialogue with RBI or is it the final decision?



*DEUTSCHE BANK: A Discussion with MMFSL on their
Decision of Not to Bid for a Banking License
June 24, 2013*

Ramesh Iyer We go by the guidelines and guidelines says that no forbearers would be accepted or clarifications clearly says that. When the guidelines were issued, I am sure people had put up for clarification certain questions and when the clarifications came out, it said that no forbearers will be allowed.

Ashish Sharma Just now you mentioned about other competition. We have seen some of the private banks become quite aggressive in the rural and the semi rural sort of geography. Is it important for you to have that liability side of products also...?

Ramesh Iyer As an NBFC on the liability side, fixed deposit is one product. We have a license and we are mobilizing deposits currently. And as we move along, I think we would open more collection centers, more service centers. Ultimately, fixed deposit success is in how well you service your customers there. Like we had originally only 2 centers, today we have more than 6, 7 centers, 10 centers, so we will keep increasing the number of centers from where deposits will get mobilized and the customers would get serviced.

Ashish Sharma Does it not change the branch expansion plan for Mahindra Finance, we will be little aggressive now?

Ramesh Iyer No, we had said that at the beginning of the year as well that we normally open about 50, 60 branch a year. In this quarter, I think we have opened about 15, 16 branches already. So I don't think we will reset that plan either less or more. We know that 50, 60 branches in the year is the requirement which can recruit about 1000-odd people, train them, and put them on street.

Ashish Sharma You mentioned about the taluk's penetration. We have already done 6000 taluks. What would be the number for a bank which is aggressive? Would have they already mapped these taluks or they are far behind even mapping these taluks?

Ramesh Iyer I think they may be behind. I don't know if you are talking of private banks coming to rural, where we started off with, I think they will come to where we were 3,4,5 years back or maybe even further.

Moderator We are going to take a next question from the line of Parag Jariwala from Macquarie Securities. Please go ahead.

Suresh This is Suresh here. Just wanted to understand one important aspect which a lot of NBFCs are telling as a reason to apply for a license and they are saying that banking as a sector is size agnostic, in the sense that eventually say 15, 20, 30 years down the line as an organization if you want to exist, you cannot build a balance sheet or say \$30 billion in the back of wholesale deposits or wholesale funding and that is the reason you want to go for utilization of your franchise or being in a position that fixed deposits. So how do you look at this, because you are telling that fixed deposits you are going to accept, at the same time there is an RBI committee which is looking at possibly banning all the NBFCs from accepting any kind of deposits that is



*DEUTSCHE BANK: A Discussion with MMFSL on their
Decision of Not to Bid for a Banking License
June 24, 2013*

also being in the discussion and RBI governor has also made some statements? So, just wanted your thought process on this.

V. Ravi

Basically, what we are thinking is that to access liabilities there are 2, 3 important requirements, the brand name, very high credit rating, and very good capital adequacy, and of course the past track record, and this will probably determine. Our view is that, when assume for a second, there are only limited funds available that would chase a good brand name, high rated company, very high capital adequacy companies which is having a sound track record, and all these parameters we very well qualify, in addition to that we have an excellent asset-liability management policy. So I believe that if we can diversify our resources which we have been doing successfully, we should not have a constraint for growing the balance sheet, and we always have in fact whether even if someone is going to give us, let us assume practically 100% of the funds that we require, we always have a policy of limiting them to a prudent level from our side even though the cost could be somewhat cheaper. So we always keep in mind a risk management policy, asset-liability management policy so we spread our basket and eggs quite well. So I presume that with these kinds of already proactive initiatives, we should not have any problem in building a balance sheet provided these 4 factors are kept in mind.

Moderator

We are going to take a next question from the line of Kashyap Jhaveri from Emkay Global. Please go ahead.

Kashyap Jhaveri

My question is on the SLR and CRR requirement. When we initially thought of applying for the license or let us say post the draft guidelines, was it a thought in the mind that probably to meet these norms will be fairly long period available?

Ramesh Iyer

Not really fairly long period, but we thought that at least in the NBFC asset, they will allow time to run down and not really require to keep an SLR, CRR on that, because those are the assets created in another format, then to expect that they will all be transferred here and then you will have to keep it, because all of us know that you cannot convert all your current branches into a bank immediately. And therefore our belief was to the extent the branches get converted and the asset out of those branches of course we have to give because they move into the banking platform. But all other assets, our expectation clearly was, it would not be. Clearly, it was our expectation and which is why we waited for the guidelines, and more importantly waited for the clarification. If it was well understood right at the beginning that it will all be only this way, then one would have gone ahead much in advance we would have made this mind. We have to wait for the clarification to come through and therefore this decision.

Kashyap Jhaveri

Second question is a sort of continuation of the previous one, eventually at certain point of time Mahindra & Mahindra Financial Services will be probably of a size where borrowing through the wholesale route or borrowing from the banks might actually become sort of cost counterproductive, in that sense probably the banking license window might not actually open up at that point of time which it is today. So have you thought of that longer than period that in



*DEUTSCHE BANK: A Discussion with MMFSL on their
Decision of Not to Bid for a Banking License
June 24, 2013*

a certain point of time when the borrowing through the market when certain size becomes a bit difficult and window at that point of time actually may not be available, what is our plan in that sense?

Ramesh Iyer

Clearly, if you look at from the current scenario as well, if an application does not assure a license to everybody and therefore from the regulator point of view, even NBFC is an important requirement and a format. Some people right at the beginning for whatever good reason, said, they will not go ahead with banking. So, there is a very clear future forecasted from everybody that even as an NBFC, you are required to be a part of that whole economic system. So it is not that this format is not the requirement that is one. Second is historically, if you see when some window shut therefore there are some alternate developmental window that gets open. Even today NBFCs are not allowed ECB whereas the regulations are changing to become more stricter for NBFC, we have been talking about it last couple of years, and like Ravi just explained in the previous question, if you are a AAA-rated, well governed, good balance sheet, all that considered, there could be an opportunity of a new liability program coming in. The securitization for next 25 years would not remain as an unmatured product. So therefore securitization can become once more an active proposition. 10-year back if one were to forecast next 10 years down the line how the liability is going to look like, not many of the things we would have been able to also forecast. But I think as the country progresses, as the overall financial need increases for meeting aspirations, then I think the regulator also plays a developmental role, not just plays a controlled role. So we are very confident and hopeful that as the regulator plays the developmental role, more instruments will come into play. Very recently, we could raise debt from external agencies or whatever, FII. This was not something that was even discussed 6 months back or 1 year back. Therefore, the multiple opportunity. Look at the capital itself, when capital adequacy moved from 10 to 12 to 15, there was a thought process that NBFC may not be able to bring capital, they may not be able to match the growth, but I think demonstration of the NBFC as a format has helped people to be able to raise capital as well. If the company does well, the model does well, if the country does well where such models are required for retail growth, I very strongly think that one would see more developmental role and instruments coming into play.

Kashyap Jhaveri

In your deliberations, obviously, was there any thought process if still we were to convert into a bank given the clarifications, what are the ways we might have discussed to raise that kind of 8,000, 9,000 odd crores. Was there any possibility of raising first of all that money? And obviously cost is one of the matters which might have deterred us.

V. Ravi

This year so far we have raised Rs. 9,000 crores, last year we raised Rs. 16,000 to Rs. 18,000 crores, so much more than Rs. 8000 crores we have...

Kashyap Jhaveri:

I am saying, this would be Rs. 9,000 crores over and above what we were actually raising through the year.



*DEUTSCHE BANK: A Discussion with MMFSL on their
Decision of Not to Bid for a Banking License
June 24, 2013*

Ramesh Iyer I want to just clarify to you that it is not about raising money which is a concern, it is about raising money for an asset which is created on different platform altogether and that will have to run down over a period of time because they are not going to stay with you forever, and therefore we are saying that this kind of a regulatory need should be imposed on the new platform on which new assets are going to be raised.

Kashyap Jhaveri But we were fairly confident that we would have raised that kind of an if we were to go for a banking license?

Ramesh Iyer Let us turn it around, last year we did some Rs. 25,000-crore disbursement, suppose this year we want to do Rs. 40,000-crore disbursement, I don't think we have got round and say, "Oh! Will we be able to raise Rs. 40,000-crore?"

Moderator We are going to take a next question from the line of Chinmaya Garg from Dron Capital. Please go ahead.

Pathik Gandotra Hi, this is Pathik Gandotra. I have two questions actually; first is that if the SLR, CRR cost was up front, was always very well known to everybody that is the cost that you will have to take initially if you want to become a bank, the benefits eventually will come over a period of time as you get CASA and then fee income avenues open up to you and you can take more leverage, and you can scale up to a much bigger institution over a 25, 30 of horizon, so those were the clear benefits of becoming a bank and SLR, CRR cost and a short term hit on profitability was a reasonable cost to pay for it. I don't understand as to why that equation would have certainly changed for you that is point #1. And point #2 is, this country has witnessed mergers or banks in NBFC where NBFC branches have existed in the merged entity as asset finance branches, and all of them have not been converted to bank branches. There is a precedent for that already which exist in this country. So I don't understand why that would have also been a problem in you becoming a bank. So frankly I really cannot understand why the board has decided not to become a bank.

Ramesh Iyer One is we want to be very clear whatever are the guidelines we want to stay with the guidelines rather than expecting and imagining something will happen. That risk we don't want to take as a business model. We have a very large business model with list of stakeholders who's interest needs to be correctly protected and I don't think ever before the guidelines was written which says no forbearers will ever be allowed.

Pathik Gandotra Forbearers mean SLR, CRR is what you are saying?

Ramesh Iyer Not necessarily, I am saying even for that matter, I don't think it is practical for us to imagine 700 branches can become a bank branch tomorrow.

Pathik Gandotra All I am saying is that do they have to all become branches or some can coexist as just asset finance branches and they can still be branches?



*DEUTSCHE BANK: A Discussion with MMFSL on their
Decision of Not to Bid for a Banking License
June 24, 2013*

- Ramesh Iyer** No, it can or it need not, I don't know, but if we would like to exist as a bank branch, if we are becoming a bank, we want all our branches to become bank branch, otherwise no point in just keeping one far away one branch just doing some asset thing, and how do you control all that they will not do things in a wrong way, we don't want to run any risk of branch, we don't want to run any regulatory risk, and then ultimately therefore 700 branches of us cannot become a bank branch tomorrow morning. And then you have to read it along with that 25% additional we have to open in less than 10,000-population locations. So therefore it brings in another additional requirement of branch to be opened. So if that cannot be made then the number of branches that we would convert will become much lesser and the way we understand is that whichever branch of NBFC does not become a bank cannot do business, which means straightway giving up of business until they become a bank branch and the whole time available is only 18 months.
- Pathik Gandotra** What was the most important if you want to take off the reasons why you would not decide to do this?
- Ramesh Iyer** I am saying operational reasons.
- Pathik Gandotra** No because I am saying that if any NBFC could have become a bank, in my mind was...
- Ramesh Iyer** Just for your convenience, let me put it the other way round, that we had only 20 branches and we had Rs. 1,000- or Rs. 2000-crore of balance sheet, I don't think there would have been any discussion at all. Rs. 30,000-crore to 2.5 million customers spread in 670 to 700 branches all to be converted into a banking platform in less 18 months and not do any business during this period because all time will be taken away just doing this.
- Moderator** We are going to take a next question from the line of Nikhil Rungta from Standard Chartered Securities. Please go ahead.
- Mahrukh** This is Mahrukh. Just wanted to check that you were saying that you needed more transition time and obviously the transition time was not enough. So what was the transition period that would have satisfied you?
- Ramesh Iyer** Best would have been forever coexistence, and definitely more than 18 months.
- Moderator** We are going to take a last question from the line of Umang Shah from CIMB. Please go ahead.
- Umang Shah** How do you expect the competitive landscape to change next 2- to 3-year period assuming that some of our competing nonbanks do get converted into banks and are into similar kind of businesses?



*DEUTSCHE BANK: A Discussion with MMFSL on their
Decision of Not to Bid for a Banking License
June 24, 2013*

- Ramesh Iyer** Already, there are enough number of banks, so one more in that order if at all. So that should not add new competition. And very clearly if you mention that some of NBFC if they convert to a bank, and therefore I think today in fact they would be competing or we would be competing with them in most of the locations if they are of that type and therefore they may not actually be there in most of the locations overnight. So next 2, 3 years, if one of the existing NBFC was to convert to a bank competition for us would actually reduce.
- Umang Shah** It is more for a clarification to an earlier question which was asked that the decision that you guys have taken, so there is not going to be any kind of dialogue from your side at least with the RBI to put up your concerns, is that right?
- Ramesh Iyer** Today, the board has decided to make a press release, so that is the kind of communication that has gone to everybody clearly, and the board has also guided the management that we will intimate RBI about this decision of ours in line with what we have released to the press.
- Moderator** I would now like to hand the conference over to Mr. Manish Shukla for closing comments. Thank you.
- Manish Shukla** I would like to thank all the participants who are on the call. Mr. Iyer, would like to make any final closing comments?
- Ramesh Iyer** Nothing, most of it I said it, and I just want to kind of reiterate that we looked at this guidelines with clarification very, very closely before taking a decision that we have reached, and while we were all time looking at this as a possible opportunity, but at no time we ever felt that our progress of the NBFC model needs to go slow and therefore we have continued to maintain our strategic intent of going more deeper and continuing to participate in the retail financing that we have been doing all these years as well as that we have been doing so far. So I thought those are the only kind of final comments that I may want to offer. Otherwise, we do see the rates have come down and therefore the rural market should show some kind of strength of buoyancy once again, along with the rates we were expecting the rates will come down, they have not yet, I think we are at that. Thank you so much.
- Manish Shukla** Rates will follow the range. We would like to thank Mr. Iyer and all his colleagues for giving us this opportunity. Thank you all the participants. Have a good day.
- Moderator** Thank you. On behalf of Deutsche Equities that concludes this conference call. Thank you for joining us and you may now disconnect your lines. Thank you.