



“Mahindra Finance Conference Call”

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Moderator: Good Day, Ladies and Gentlemen, and welcome to the Mahindra Finance Conference Call hosted by IDFC Securities Limited. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during 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. Varun Saboo from IDFC Securities. Thank you and over to you, sir.

Varun Saboo: Hello, everyone. Thanks a lot for joining into the call. And thanks a lot Iyer sir, Prajapati sir and Vishal for doing this call with us. It was very important for the entire investor community to know the kind of impact that you all are seeing. And also, if you all can throw some light upon how this entire demonetization measures by the Government of India could impact the NBFC space. Sir, we can start the call. You can probably give a small brief and then probably we can open it for Q&A.

Ramesh Iyer: Good morning, everyone. These are times which you do not really forecast and then it comes and hits you. And we internally call this as another disruption or a moment of disruption that we need to respond to. But I think it may be important to once again understand our customer profile before we can get into how does it really worry us or where does it impact us.

To be very, very clear, our customers are all earn and pay customers, so we do not work with a large contracting segment or a very wealthy contracting segment or a farmer segment where there will be a problem of plenty stored and therefore how are they going to use it in the next level. Our problem is very, very current, in the sense that are people earning today or they are not earning today. So, I think to that extent the currency not being in circulation does impact the kind of slowness in the business, given the volume of business and that will definitely have an impact until the new currency comes back into circulation for people to start working again. So, that is one level of impact that we would definitely see that that is going to have a temporary impact on us.

I think the other segment of customer that we work with are the farmers who have crop in hand that they would have normally sold it to maybe a broker or an adatiyas and who would have given them cash, I think that transaction is being held up for wanting to know what next is the government going to buy, if they buy it at what price they are buying it. So there will be some delays that is happening out of it. But they are backed with not a perishable crop, therefore the good news is that they can be sold as things get sorted out. But I think there will be a cost of holding this which will be a warehousing cost which will come to a farmer which one will have to see how one handles it.

We internally look at it as an opportunity to also dive deep into the business model to start understanding how do we handle our customers. So almost everyone is on the street, meeting the customer, hearing a customers' voice and understanding from a customer as to what exactly is their pain point. Unfortunate it is just three, four days from now but everyone is speculating

in their own way, each one is imagining what is likely to happen, each one is giving a response of what is necessary. But that is not necessarily the right response.

We have taken other way around, we said let us not over react to this, let us go and start meeting all customers. Anyways, we would have met them for our collections, we meet them, let us understand. So one clear input that we get internally is that it is the time to draw a very clear vertical line with 80% of our customers who are in zero, one bucket or two bucket who have been paying us regularly, maybe temporarily not being able to pay, I think we will want to partner this customer and even if they tell us give us 15 days time, maybe give us 30 days time, I think we are not going to take any kneejerk reaction to these customer, we are going to work with them, give them the required time, collect the installment as they start earning and they will pay us.

I think the other 20% of the customer who anyway have not paid us for three months, four months, five months, I do not think they have reasons to tell us that they have lot of Rs. 500 and Rs. 1000 note. I think the fundamental question we are asking them, if you had it then why the hell you did not pay us. So, I think there the decision is very clear that if they have the money take them to the bank, get it deposited in their account and get an instrumentor ask them to surrender the vehicle. So maybe this is going to be a time where we will have a very, very clear view between good customer and not so good customer. And not so good customer, I think we will take one clear direction and view on this. And we are fortunate that collaterals have decent resale price, so we are not going to lose money out of these collateral, but at least we will reduce the problem size for ourselves as we go along.

But is it as easy as I am expressing it to you? I think it calls for a tremendous level of effort from the organization which is why the entire organization is out and working on this. We also think it is a very, very strong administrative hassle more than really a business impact, because even if people have money they have to go to the bank, deposit cash, give us an instrument. I think what are we solving of the past, these customers could have gone to the bank even then for depositing when they gave us a post dated cheques. But it is just that we are provided branches and the convenience of administration, so they came and deposited the money with us instead of going to the bank. Today we will have to recreate that connection, take them back into the bank, get them to deposit it in the bank and then give us a cheques or a pay order against it.

So it all are going to take a little high effort. It is an administrative effort. I am not able to see this as a beginning of a new collection problem for our set of customers because they are not the ones who had to get lot of money from the market from which they have to pay us. I think these are customers who earned topay or they work with governments like municipalities, local irrigation department, etc. it will have its own delay but I am not able to see this as something that is going to crack the business model. But this is something that will need us to revisit business model, create very strong administrative processes around it.

But one thing we are staying clearly away from is, we do not want to be seen as an organization which is accepting a Rs. 500 or Rs. 1000 note just because someone says I will come and settle your overdue. We do not want to be kind of seen weakening on any of our governance practices, so we have sent out very clear instructions to our branches not to accept any currencies of these types, take them to bank if necessary. Internally we are dialoging with our own banks with whom we have strong relationships to say that can we get our customers and is there a possibility and facility by which you will give them a little ease of operation rather than they need to stand in long queues, etc. We are also, as I said, engaging with every customer and we will be willing to and we were always but in this situation, even more willing to accept part installment, daily payments from three-wheeler operators.

So these kind of administrative inconvenience, we are willing to accept. I am reasonably convinced that we will get lot of Rs. 10, Rs. 20, Rs. 50, Rs. 5 coin, Rs. 10 coins, etc., from these kind of operators who will collect from customers, only these denominations. Earlier, they were converting it into a Rs. 500 and Rs. 1000, going into the local market, going into the broking system, returning these kind of small changes which are used for different purposes and get back a Rs. 500 and Rs. 1000 to handle it better. In this round, they will come and possibly put it on our table to say this is the kind of money and we will have to incur that extra effort and cost for handling it. But I also think that in these three, four days what we have seen may not be good enough for us to give all reactions. It could be a little premature, so I think another two weeks from here, three weeks from here, when we would have almost got in touch with almost all types of and all segments of customers, I think we would know things much, much better.

But even as we speak, I must tell you that that 30%, 40% of customers who are otherwise paying us through post dated cheques, etc, will continue to do so, for them it is not a major, major impact but there will be some delays in terms of business volumes at the market place is concerned. Our concern also possibly shifts to buying of vehicles. People, even if they had money to buy vehicles I think they will delay buying of vehicle, they will wait and see what next. So that is more a sentimental impact of why buy something when you do not know what next.

So, you will see some delays that may happen but you would not kind of know it until another couple of weeks, because even today after the festival demand normally it would be a little low demand to start with, it only picks up from mid-November to go to end-November. But I personally think that customers may want to ask a question, is this time to buy or is it good to wait for another couple of weeks and then know how things change and then take the next decision.

So I think net-net, I would think these are definitely a new disruptive movement that we would not have forecasted for. These are times where we need to be administratively stronger. These are times where you really spend a lot of time on the field engaging with customers to understand their pain points. But more importantly, these are times when you partner good customers and give them some kind of a support that may be required, including maybe give

some concessions on penal interest, etc., in case somebody delays payment during this period. But these are also times therefore to act little more stronger and stricter with defaulting customers of the past and get back the collateral if necessary and if you believe that they do not have a means to clear whatever your dues at this stage are.

So, I think net-net, we would look at all of this. We are engaging with the dealers extensively, we have dealer council meeting tomorrow with all the major auto dealers and we will understand their view point, what are they expressing, where do they see things go ahead. I also believe that they are also finding various means and responses to this. This is one problem where I think participation from the manufacturer to the dealer to a finance company will all have to happen. This is one-time where many, many ones will take partnership approach rather than an individual approach, because it is a very industry related problem and nothing to do with an individual.

I think the association has also represented to Reserve Bank asking for dispensation in the sense that like the banks are allowed possibility to take some amounts towards their overdue installment, I think the NBFCs have also represented saying we are working with similar segment of customers who want to possibly come and pay their monthly installments and therefore we should also be given this kind of a opportunity to handle this. We are waiting for response and we will come to know in the next couple of days what that response is. Even if that response comes positive I think that will be another addition. But is the problem over with everything around this, I think administratively this will have a pain point for some more time to go. November could be a real test of understanding everything and December could be where we implement some of this understanding.

So I think we will need this two weeks time to engage with customers, know their problem, understand what they are looking for, give them some solutions around what they are looking for, test out the solutions whether they work well and then implement it in December a big bang.

So I think that is our call. While we are concerned about it, is it kind of uprooting us off the ground? My answer is no. I think it is getting us engaged with customer much, much closer. We are hearing everyday verbatim of what the customers are saying and you would see us respond to these situations similar to some situation that we have responded to in the past. But this will need patience, this will need partnerships, this will need perseverance, this will need being closer to customer and engaging with them. And that is the approach that we are taking clearly.

So I think that is our initial input or understanding. But little premature, because it is just three, five days old and we will keep testing this and coming back to you in case we see something and we do something else. But I am open to taking any questions that you may have. And I will be very thankful to you if you can really ask us sharp questions which can be a new direction for us to think. You can even give us input on, if you have any ideas to tell us so that we can look at what can we do strategically. Thank you.

- Varun Saboo:** Thank you so much, sir. We can open for Q&A.
- Moderator:** Ladies and Gentlemen, we will now begin the question-and-answer session. We have the first question from the line of Viral Shah from Credit Suisse. Please go ahead.
- Sunil Tirumalai:** Good morning, this is Sunil Tirumalai from Credit Suisse. First, one thing that I would like to know is the feedback that we are getting, not just on your collections or how you are talking to your customers in terms of your business but what you are hearing about their business and I mean what is the impact on economic activity that you are picking up in rural areas and how are people coping with this? That is my first question.
- Ramesh Iyer:** So as I said, the farmer community are definitely asking this question, we have crop with us and we need to sell them. Normally we would have sold it through an adatiyas or a broker or whosoever normally consolidates this. And at this stage we are not able to and wanting to because they are not able to give us a cheque and they may be wanting to only give cash. And that is something that the farmers may not surely want to handle at this stage. Even though if they accept they go and deposit in their account etc, which they do not want to do. So that is one question that we are hearing and I think there is going to be a very clear response from the government on who and where they will buy this crop, because ultimately the crops need to be bought. So we are waiting for that response from the government in terms of what and how they are going to buy it. So that is from a farmer community that we are hearing clearly.
- I think as far as the contracting segment is concerned, I think what we are hearing is that normally they engage labor whom they pay daily wages. Now these labors are not able to take, let's say a credit and work because for them it is a daily livelihood, they need to earn on a daily basis. And therefore, until the new currency comes into circulation, that is going to have some kind of a delay around this. But I personally think that could be a little more temporary than otherwise.
- Three is, some of the larger contractors believe that this is a time where government will also release their payments much faster than before in order to help them get payments or get the business keep going. But that is a little stretched, we have not seen evidences of that but that is more an expectation I would believe. So from a contractor segment hiring of machines, hiring of labor is something that is likely to go slow for some time, and which would therefore mean some of this work that is happening on the infra front may slow down, whether it is local level road projects or local ground leveling projects or whatever, is likely to go a little slow which will therefore have a cascading impact on equipment buying and things like that. So that is from the contracting segment.
- As far as the regular traders, small traders are concerned, small people carriers are concerned, I think their concern clearly are, our customers are not able to pay in the denomination in which they are supposed to pay. So some of them possibly will get into a credit, like a local trader may get into a credit with the local known customer but how many of them will they want to credit because after all he needs money to go and start buying his things as well. So this was

always a very cash driven economy, you sell things in cash and you buy things in cash and keep doing your business.

So I think we see slowness in those kind of activity like local trading community, people carrying activity, these are all definitely a little slow. But I think these are waiting for the new denomination to hit the market or more of 100s and 50s coming into the banking system. This is not waiting for anything else. So yes, one week of delay may be 10 days of delay, but these are routine regular required activities which will start beginning to happen once you see some currencies float. And which is what I said, maybe we will have to start collecting Rs. 10 and Rs. 50 and Rs. 20 as the consumer start giving. Earlier the operator was converting it, going somewhere offloading that and taking a Rs. 500 and Rs. 1000, now he will possibly come and give me more often than he was giving before. If he was giving earlier, twice a month, now he may start giving me every day evening and come and dump it on my table to say you handle this administratively.

So these are some of the raw inputs that we are hearing from customers. Some of them are saying just wait for 10 days, 15 days. Some of them have money, they say we have installment money with us but we do not know what next, so please give us one week's time, we will like to use this money for our living. And once the market opens up then we will kind of pay you types. So we are typical by nature storer for future and some of them are behaving that way.

Sunil Tirumalai:

And my second question is on just a pace with which the new notes are reaching the areas where you operate. I mean, even in Mumbai we are seeing long queues everyday right from the morning. I am assuming that the situation in the places where you operate, your branches are with your customers will be even worse and notes have not probably reached there.

Ramesh Iyer:

Yes, that is what, the whole administrative delay is going to be the pain point until things get sorted out. So I am not yet seeing it as a business model impact for our types of customer, but administrative hassles are high end. They are not used to really going to bank, they are all used to what they earn they are used to spend or what they earn they are used to keep or what they earn they are used to come and give it to someone like us. Today they are all required to go to a bank, I mean this is a first time their bank accounts will possibly get reactivated as well. Some of them would have become some kind of a dormant account, maybe two, three years is not a dormant account but at least they have not gone and operated for one year, two years. So they will have to all redo their KYC, it is all going to begin from there. They go to a bank with their Aadhar card., tc., from where begins the KYC. So we are taking some of the customers to the banks and getting them reintroduced and getting them to restart. Because all of them have given us some kind of a post dated security cheques and all that which means they had a bank account, it is just that they have never operated. So is it that reactivating some of this, how many of them are willing to, wanting to, how many of them will say let's wait and watch, how many of them will resist this. So it is going to be all about people-people management.

Sunil Tirumalai:

And my last question is, for your business what percentage of your collections are typically in cash?

- Ramesh Iyer:** No, so 60% - 65% was in cash, but we have done I think a little more analysis of how many were in Rs. 500s and Rs. 1000s, so that is 50% of that. Now those are the ones which they were exchanging their small notes to a larger note for administrative ease. Now I am a little concerned that we will have to start handling smaller denomination for some time.
- Moderator:** Thank you. We have the next question from the line of Hiren Dasani from Goldman Asset Management. Please go ahead.
- Hiren Dasani:** Sir, there are news reports that NBFCs have approached RBI for allowing you to accept the old notes. What is the status on that?
- Ramesh Iyer:** No, so the representation has gone yesterday after kind of all inputs and all that. So I think we should know it by today, they will definitely respond, they will call us for some discussion. So let us wait till evening and we may possibly know something about it.
- Hiren Dasani:** And sir, the other thing which you said 50% in Rs. 500 and Rs. 1000 note, is it 50% of the 60% so the total percentage is 30%?
- Ramesh Iyer:** Yes, kind of. See, we collect 70% cash, 50% will be in Rs. 500 and Rs. 1000, and more so, margin money for new vehicles etc, are normally in Rs. 500 and Rs. 1000 because they are large in values.
- Hiren Dasani:** Sir just to be clear, of the total collections 70% is in cash and 50% of that which is 35% of total collection?
- Ramesh Iyer:** Yes, 35% to 40% will be in Rs. 500 and Rs. 1000 notes.
- Hiren Dasani:** And sir, how easy it is to, as you were kind of elaborating on the tying up with the banks and getting them deposited in their bank accounts and all, can you administratively do it in a very efficient manner or banks are kind of resisting to that?
- Ramesh Iyer:** Too early, too premature a comment but banks would not resist to an extent of saying do not come is not the answer they will give. But there are two administrative hazards in this, one is to first convince the customer to come and do this. Second is, the banks are not very close to customer, they are all a little away from wherever they are and not all customers have in the same banks. So therefore it will all kind of consume time and it is going to be kind of a full day job of ensuring that you take them and get them deposited there and all that. So if you ask me, in three days how much of this we have faced as a problem, I think as I repeatedly keep saying it is too premature. Some of them are on their own responding favorably, some of them are finding it difficult to respond. So instead of just going to customer and asking for money we are kind of getting them to the bank and getting them to do. The good news is, many of them also have accounts with co-operative banks and all that, and there you do not find these kind of rush, they are all very local, local banks. So we will kind of use all formats that are possible, that can be used for this purpose.

Dinesh Prajapati: Even we tried to get into some arrangement with the banks, but given the current rush of this for everyone wanting to deposit, the resource crunch at all the banks is there. So effectively even though there is a willingness from the banking side to give such kind of a facility or special facility, at this point of time it is too early to get into such kind of arrangement.

Ramesh Iyer: I think we should not try and try and find solution when there is so much chaos around, let it settle down. We are not in a hurry to find a solution in the first week of the problem, we have time, we have time up to 30th December when this money will get accepted. I think people will start knowing the system much better. And the initial hiccup of what next will get clarified, I think then things will settle a little bit.

Hiren Dasani: And lastly, I mean, on this old notes, let say hypothetically RBI will allow you to it. Do you also foresee a situation where many of your old NPAs get cleared up, because people will just want to settle it?

Ramesh Iyer: I mean, our hope will be that, only with that intention we have gone and asked RBI for this permission. But if you ask me to define our customers, are they people sitting with lot of old notes, I do not think we have so many customers of that type. But there will be one bunch of customers who may want to come and settle and they may ask for some concessions, etc. but why not ask for a concession and get benefit of whatever best that we can offer.

Moderator: Thank you. We have the next question from the line of Ankit Shah from Vallum Capital. Please go ahead.

Manish Bhandari: Hi, good morning. This is Manish Bhandari from Vallum Capital. Sir, my question is, what is the positive of the whole, etc., is what we have undergone, do we significantly over the informal financing channels which is happening for your customers? And do we gain the market share over the period of time? I am less concerned about what happens in intermediate period due to the liquidity issue. So if you could throw some light from your experience.

Ramesh Iyer: So, I personally think if we can really bring in this culture and habit of people also using some kind of a banking system for regular remittance of their money to get instruments that they give us. I think it brings down the cost of operation and it also makes the entire operation a little more easy to do. That is one basic thing.

I think the second is, this is giving us one great opportunity to also more sharply clear our current delinquent account either by taking back the collateral or settling with the customer in whichever forms and means so that we handle lesser problems as we go along and concentrate more on growth as we really progress up.

I think the three is, that the dealer community would really learn a bigger lesson out of this that in future they will not deal with advance delivery of vehicles, they would not give credit to customers for margin money, they would not accept large cash for margin money. So I think that side of the story would get a much better correction.

Manish Bhandari: So, it is not that you gain a significant share versus informal financing channels, lot of informal financing in happens in the CV market and so you do not see that as a situation?

Ramesh Iyer: Informal, sorry I missed you?

Manish Bhandari: Informal financing, I mean to say a small two members shop, pawn shop kind of people who would be doing the series analysis, which happens in lot of areas at a significant rate?

Ramesh Iyer: My personal opinion is that it is a misnomer, some one or two examples and people imagine too large happens through those method. So let us look at the CV or a Scorpio or a UV kind of a vehicle, 8 lakh - 10 lakh vehicle, I do not think a small shop keeper has that ability to do those kind of financing. They were always hand loan financier. I want one lakh margin, customer is short of Rs. 10,000 - Rs. 20,000, he may go and take the Rs. 20,000 loan from someone. In my 25 years in the rural market I have not seen a money lender or a pan shopfellow lending for cars and tractors and vehicles of Rs. 7 lakhs and Rs. 10 lakhs. These are complete misnomer, if somebody communicates through one or two example but they are not generally practiced examples.

Manish Bhandari: Sir, my second question is regarding do you have any analysis, which would give you some insight that this being a liquidity issue and for some of them, it could be a balance sheet impairment issue. So for what segment of your customer it is a balance sheet impairment where permanently they were dealing in cash, cash-in and cash-out and not reporting to income tax system. So for them it is a significant balance sheet issues, so your growth rate taper down significantly over a period time because of this?

Ramesh Iyer: So, if you look at our customer segment, and we keep defining this all the time. One is, we work with earn and pay customers, we are not working with large fleet operators, we are not working with major contractors. So we are working with one vehicle owner who are kind of deploying the vehicle to earn. Now where they are going to be impacted if you ask me is they were deploying their vehicle with a fleet operator or with a contractor and they were getting their daily payment, weekly payment, from these customers in cash and they were paying off all their dues, etc., in cash. Now if those contractors do not transact these people payments could be delayed, their vehicles may be deployed a little less, maybe deployed a little later. So these, our type of customers are going to be impacted by volume of work rather than value which is outstanding to be collected. We are not working with someone who has bought 50 vehicle and earns lot of money and are not disclosing their income, etc, those are not our profile of customers. Ours are all single vehicle customers who are kind of sub-hirers who are in the second, third levels of operations, local people carrying. For them the real issue today is the volume of work, not as much that what do they do with the money that they have. But this does not mean none of them will be of that type, there will be few here and there but our larger chunk of customers are earn to pay. That is why poor monsoon impacts us, that is why a low economic activity impacts us. So for us this is one other event, it is not something that we need to be overly worried, is our profile of customer going to be the worst hit out of this, I do not see it that way. But definitely from a work load perspective they are under pressure.

Manish Bhandari: Sir, my last question is, what further investment you need to do in your IT infrastructure do gear up to a 100% cheque collections, not with the cash and maybe what kind of impacts in next three years it could have your cost to income ratio. Looking at what has happened today and its long-term ramification?

Ramesh Iyer: I think if we believe that 70% cash collecting customers, let's say all of them shift to a banking platform, I would strongly think our controls would be substantially improved and our cost of operation should come down. Because handling cash is by itself a task, go, collect, count, redeposit, reconcile, then control issues, all kinds of stuff, all of those will kind of go to a back seat. And IT preparedness, it is change of instrument from cash to cheque, so I do not think we need to make any change because it is not that we do not collect any cheque at all. So we have an online reconciliation system, we have cash collection system, we have got cheque realization system with banking, all kind of things are in place. It is just that administratively it becomes even more easier from a physical cash to an instrument being deposited in bank.

Moderator: Thank you. We have the next question from the line of Dhaval Gada from Sundaram Mutual Fund. Please go ahead.

Dhaval Gada: Sir, in terms of our customer segments, which is the one area you most concerned about, sir in terms of stress?

Ramesh Iyer: I think the stress concern, if you ask me, will be the farmer community. Because the crop is just out and they are yet not selling their crops, so there is going to be a delay in terms of bulk cash flow is concerned. So, it could be delayed by two weeks, could be delayed by one week, three week, anybody's guess. But that is one segment that we will think to see very closely, how quickly government responds and how quickly the crop gets and bought and they get their money.

Other than that, really the other segment if any which would worry us a little would be the contractor segment who have bought utility vehicles etc. Until they get back to operations, even if they have money they will not pay, let their municipality releases their payment. But if the work does not restart, because they need to have lot of cash for making daily wage payment to their labor for buying of small material, etc. So that system has to come into existence for which the new currency availability, etc., has to take place.

So these are the two segments where we would see some stress for us or a delay for us. But again, they are not something which the money would not come back but it would take its time until the system regulates itself correctly.

Dhaval Gada: And in terms the collections of old notes, you mentioned that the banks were pretty stressed out to collect, because overcrowding. Is there a way where NBFCs like us would get some identity details proof and act as collecting agent and deposit into the bank in one go. Is that a model that is practically feasible for NBFCs like you?

- Ramesh Iyer:** No, so that is what we have asked the banks to kind of agree with us. So we are saying that instead of sending 50 customers to you we will collect it from them, collect their KYC details and on their behalf come and remit it to you with proper authority taken. But we do not want to be seen at any point of time as helping out laundering this money of any type. Unless we have very clear, written instructions and deductions from the banking system, from the regulator etc, we do not want to try any of this. So at this stage we do not have a clarity on this while we are talking to banks to agree to do, I think the association has represented to the regulator but we will wait for any clarification. Until then our approach will be to take the customer to the bank.
- Dhaval Gada:** The last question, sir. We hear that RBI is probably directing the court decision to their government. So is there any interaction with the Ministry of Finance on this?
- Ramesh Iyer:** What are they directing to the government, sorry I missed you?
- Dhaval Gada:** In terms of any of the relief that the RBI can provide, I think they do not want to take a decision, enabling you to take cash, accept cash. So is the association of...?
- Ramesh Iyer:** Yes, so association is approaching all levels of people and try to communicate our status and position.
- Moderator:** Thank you. We have the next question from the line of Nikhil Rungta from Bajaj Allianz Life Insurance. Please go ahead.
- Nikhil Rungta:** Sir, just one question. How do you think this demonetization will impact the sowing off wheat, that is a Rabi crops which happened in the second half of November?
- Ramesh Iyer:** I think that the seeds and fertilizers have already been bought, so it was just kind of activity. I think it will effect to the extent of labor payment and that is the real delay as we see from a labor point of view because they have to be paid on a daily basis, they are not on credit systems. Now I am sure the local labor also understands that if there is no work and it is caused by these reasons, maybe they will also put in some effort for a week, 10 days and wait for money. And what I am told is some local farmers, etc., are finding out of giving them some leverage in terms of food facility and things like that for the families to keep going. Whatever everyday these labor earn and they actually buy vegetables and things like that. So I think to that extent the larger, wealthier farmer, contractor, land owner are trying to help them. But the affect is going to be in terms of wage and wage payment and I think they are all convincing them for a weak, 10 day type of situation. And it is mainly caused by shortage of currency, the new currency notes that needs to reach here.
- Moderator:** Thank you. We have the next question from the line of Vikas Garg from L&T Mutual Fund. Please go ahead.
- Vikas Garg:** On the re-presentation which is being made to RBI and also to Ministry of Finance by NBFCs, so all these NBFCs are coming together and making a single representation or it is coming from each of the company separately?

And second question is, just in your personal view, any particular state of NBFCs and a better of chance of having some kind of a regulatory differentiation while others may not?

Ramesh Iyer:

See, first of all the representation is going from the association and not from individual. So I think each one of us have given our little input and then one consolidated letter has gone out from the association to the regulator. So far as any one will get any special concession, I do not think and I am not able to see it that way because why will a regulator want to take a view on give it to A and do not give it to B. Yes, they may possibly look at deposit taking NBFCs, do they want to deal that differently because it will have an impact on our ability to repay the deposits etc, etc, so do they want to take a view of that side. But it is just speculative judgment, I do not think I have any clue to why will they do it that way or other way. Or an asset finance company will they view it differently versus someone else. Now, these are all, just as you asked the question I am kind of trying to give an answer around it, but there is absolutely no input on will they look at it differently, will they only give it to some, not give it to some, will they look at it by size or by product. I do not think today anybody is even applying the mind on that basis. I think everyone is looking at... Fortunately, this is my understanding, everyone is trying to find a way to help others by partnering. I do not think this is a time where everyone is trying to block someone from anything. So we are trying to reach out to customer and see how do they partner and help them. I am sure the banks are reaching out to us when we ask them, we used to find out is there a way that we can help you. So the whole approach seems to be, can we partner and help each other rather than resist each other. There is no competition spirit on why do we allow them, let them kind of collapse in this round, nothing of that type. So to that extent I think everyone will have a very open mind to find solution.

Moderator:

Thank you. We have the next question from the line of Anitha Rangan from HSBC Asset Management Company. Please go ahead.

Anitha Rangan:

I just wanted to know, in terms of OPEX cost what would be the probable impact and would there be any structural change in the impact on OPEX cost, either on the positive or negative side?

And secondly, what would be the impact of the PTC transactions, because in the short-term if there is any delay in collections, then on the specific PTC transaction case, let's say if that PTC is maturing in November or December and the collections are not sufficient, would that lead to like a delay or default with the credit enhancement is not sufficient?

Ramesh Iyer:

See, if something is going to fall due and mature in this month, I think most of the money would have been paid. So that particular portfolio should not have a major problem. And fortunately, this has come at a time which is normally a period of this type, like September, October are not great collection months, from November month the crop money starts coming because you must know that our securitized portfolios more and less will be practiced. So therefore they are linked to crop payments which are kind of a November mid to November end. So will there be some delay if the crop payment gets delayed? I think my answer is yes. Do we have a judgment on what percentage of that, not yet. But we still have time between

now to maybe mid December, end December and we would think this will get sorted out, the crop cannot be kept not bought for that long. Because the crop needs to come in the system before the January crop comes again. So there will be maybe a week, 10 days delay, I do not see beyond that. And if the actions of buying does not take place at all then yes of course that is a different story. Give us two weeks, we will know it more clearly.

So far as OPEX cost is concerned, if the problem is just for another week, 10 days, we do not see this cost going up substantially. But if this gets delayed by another quarter and we have to kind of administratively take everyone to bank, get it deposited there or they come and give us lose change which we need to handle, I would see at least 0.5% increase in cost because it is going to see multiple activity. Now this is a judgmental number, it is not that we have a very clear working that instead of Rs. 100 note you start collecting Rs. 10 note what the cost movement is going to be. But it will have an impact of moving upwards. But the plus side is, if you are able to get them to start going into the banks, then the administrative cost beyond collection and deposit everything goes off, we do not need to sit and do all the controls and reconciliations and transfer and all kind of stuff. So then to that extent things become even more easier.

Moderator: Thank you. We have the next question from the line of Rahul Ranade from Goldman Sachs Asset Management. Please go ahead.

Rahul Ranade: Just wanted to ask one question, as in, from the looks of it, it is as if the customer segment that you have is more kind of earn and pay. So from a bargaining power perspective they kind of have a poor bargaining power over their counterparts where say in case of a farmer the adatiyas has the bargaining power or in case of a fleet operator, the fleet operator has the bargaining power over an individual vehicle operator. So are you kind of seeing or hearing cases where there is undue advantage being taken of this bargaining power and making payments to them or something like that?

Ramesh Iyer: They would not accept, right. Let us say I am an adatiyas and I am bargaining farmer, I will kind of tell you that I have got money so you give me crop at after price. I may not give my crop because there is also a government announced price. So the bargaining power is can I buy it today versus can I buy it tomorrow. And the farmers normally what they do, they wait to see as the season matures they get better price. Therefore the price difference between government announced price and somebody else trying to buy this. So all will have to happen within two weeks time, so it is not that it has got endless time for things to happen. So we are yet not seeing. See, today to be very honest with you, nobody is applying mind on how to take advantage of this situation by arm twisting anyone. I think everyone is first understanding and grappling with understanding the depth of their own problem and how to handle that first. Like, I do not think we are applying our mind to say let's go to all defaulters and let us negotiate and let us give them concession and arm twist and get all our payments, I think that is not our approach. I think our approach is to first say how do we handle good customers who have a genuine problem, what do we offer them as solution and get that 80% of them set aside to keep going in one direction and not worry about them. Then go to the other 20% and then

start understanding as to what is his thought process, is he going to tell me that I have a lot of Rs. 500 and Rs. 1000 note. Then my fundamental question is, why didn't you give me three days back, why are you waiting for this day to come. So your intentions were not to give me anyways. So I am saying you return the collateral or you convert this money in your own way going to the bank, depositing and giving me a cheque. So we are drawing a very clear vertical line between 80 good customer and 20 not so good customer. So we are not in that situation of going to the 80% and trying to see some advantage to say, oh I will give you a concession, pay me all money, let's close my contract. I do not think anyone is looking at, in this scenario anyone is looking at arm twisting and taking advantage. I think each one is first taking a deep dive to understand the depth of their own problem, what are the possible solutions, how you sustain this period and how do you partner and partnership with customers and so that you sale through this little more smoothly.

Rahul Ranade: Just on this, a question on the opposite end of that spectrum, as in, if one thinks of it this whole is thing is kind of just a temporary liquidity kind of an issue which can easily be fixed theoretically if everyone was told to give their counterparty credit for the intermittent time period. So just from a broader perspective from a rural economic perspective since you watch that closely, do you think there is more scope for this whole rural credit to expand and kind of take care of this problem say if it extends for say one month from here?

Ramesh Iyer: So when you say rural credit means what?

Rahul Ranade: By people just giving each other credit instead of paying each other money to kind of settle the transactions, as in, you can pay me latter types. Of course, it will be difficult at the bottom of the pyramid as you just said that there are daily wage people who have to be paid in cash, but say a little bit about that?

Ramesh Iyer: Yes, so ultimately all this decision is going to be if you see, light at the end of the tunnel that did this, at the end of 21 days, 30 days, 45 days, 60 days. Otherwise whatever decision we have to take today we are postponing it by 30 days. See, in a way if I have to rephrase your question, it is like rescheduling somebody's contract. Let's say a defaulters contract we rescheduled. Now you reschedule if you know that he is going to get some money 15 days from someone else, so you just give me some more time. But if you are rescheduling it because you do not know how long the problem is likely to be and therefore let's get rid of this problem temporarily in the book by rescheduling, then you are just postponing and losing site of the problem. So I am not too sure that giving credit is an answer, because ultimately in the whole ecosystem somebody has to be paid for that whole credit to get paid off again. If everybody is only going to give credit then indirectly we are all saying postpone the whole due by one month or 45 days. But at the end of 45th day the money has to come into one person's hand for him to pay to the next person and then he will pay into the next person. I do not think these require administrative or an accounting solution, I think this requires a business model solution and you have to be closer to customer and participate with their problem rather than kind of just simply giving a very easy solution of saying come and pay me only in March.

Moderator: Thank you. We have the next question from the line of Amit Premchandani from UTI Mutual Fund. Please go ahead.

Amit Premchandani: Sir, you spoke about this will lead to cheques being used as the instrument of payment for your customers. So do you think the whole advantage that NBFCs like you have in terms of cash collection model will get lost if everything moves to cheques?

Ramesh Iyer: I think what we all have to understand is the earnings of the customer till such time does not come through bank, all this models will continue to coexist and will be required. So please understand, you and I sitting in a auto rickshaw in rural India, are we going to swipe credit card, are we going to kind of make monthly payment by cheque to these customers? Then yes, people will use banking system. That is one.

Second is, an NBFC has an advantage not just because they collect cash, I think they have an advantage because they are willing to assess a customer's cash flow and take a credit risk. So let us not take away the capability of an NBFC to assess the credit risk of a customer, collecting cash is a solution to helping the customer pay what he earns. Now that solution can be through bank, it can be through pay order, it can be coming to a branch and collecting, we go and collecting, all that can happen and anybody else can also provide. But unless such time you do not learn the art of assessing the credit of a customer and his earning capability to repay, that gap will never get bridged.

Amit Premchandani: And as all the data gets captured in the bank, if you make the payments through cheque, do you think the ability of the bank to make that credit assessment goes up related to the current situation?

Ramesh Iyer: Yes, we are assuming therefore that all customers will earn very systematically all the money every day, every month and put it in the bank by which bank can come out with a very structured cash flow. Please understand that without this problem of today, just go back two months before that our customers never earned money on a structured cash flow basis, they earn some time more, some time less, sometime they did not earn at all, sometime they earned once in three months, sometimes they missed the season to earn. Now this is what is causing the disruption of ability to take credit risk and live with the risk. So they are not salaried customers, so I do not have salaried customer as my customer in a big way because they are already structured cash flow customer on which a bank is taking a risk.

Moderator: Thank you. We have the next question from the line of Ajitesh Nair from Premji Invest. Please go ahead.

Ajitesh Nair: My question has been answered. Thank you.

Moderator: Thank you. Ladies and Gentlemen, due to paucity of time, that was the last question. I would now like to hand the conference over to Mr. Varun Saboo from IDFC Securities for his closing comments.

Varun Saboo: Sir, thank you so much for giving your valuable time and giving a lot of clarity to everyone. There have been a lot of concerns and we're really grateful to you for giving your time. Thank you very much.

Ramesh Iyer: Thank you.

Moderator: Thank you very much, Members of the Management. Ladies and Gentlemen, on behalf of IDFC Securities that concludes this conference call. Thank you for joining us and you may now disconnect your lines.