“Mahindra & Mahindra Financial Services Limited Q1 FY’21 Earnings Conference Call”

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MODERATOR: MR. ABHIJIT TIBREWAL – ICICI SECURITIES

Moderator: Ladies and gentlemen, good day and welcome to the Mahindra Finance Q1 FY'21 Earnings Conference Call hosted by ICICI Securities. 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 the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Abhijit Tibrewal. Thank you. And over to you, sir.

Abhijit Tibrewal: Thanks, Aisha. Good morning, everyone. I take great pleasure in having with us here today the senior leadership team of Mahindra Finance. We have with us Mr. Ramesh Iyer – Vice Chairman and Managing Director; Mr. V Ravi -- Executive Director and CFO; Mr. Rajnish Agarwal – EVP, Operations; Mr. Dinesh Prajapati – SVP, Treasury and Corporate Affairs; and Mr. Rajesh Vasudevan – SVP, Accounts.

They are here to discuss the Company's performance in Q1 FY'21 and the business outlook going forward. We will have a Q&A session post this discussion.

Let me now hand the floor over to our honored guests from Mahindra Finance. Over to you Mr. Iyer to share your opening remarks on the results. Thank you.

Ramesh Iyer: Thank you. Good morning, everybody and welcome to this call. So let me first begin by saying we are very excited with what we are seeing in the rural market. And I have been saying this for a while now that we definitely see rural turnaround story to be much, much better, much faster than what we see in the urban markets. And we are fortunate that we are a very rural-focused company with a very deeper penetration. It is very exciting for us to look at almost all our branches are up and working; we have close to about 1,100 plus branches where we already are seeing our employees definitely in action, but we also see a lot of footfalls from the consumers. The dealerships are all open and operating and we have about 300 plus smart branches operating out of dealerships, are all in action and we see a lot of footfall even at the dealerships. So I would think that the rural buoyancy is very clearly visible. If I look at what we saw between April, May and June, I think sometimes we had a call in May, and I had said that April was a disaster from an overall collection and business perspective, because it was the first time that the lockdown was announced, nobody knew next what, all branches were shut, no dealerships open, and therefore there was absolutely no business volumes and there was hardly any collection; we had about Rs.500-odd crores collections in the month of April. As we marched into May and we closed May, we saw that volume of collections doubling and we also saw some marginal improvement to business volumes. But June was a great month and therefore my request for everyone would be to look at the quarter disbursements or collection as a one month action and not a three month action. And in the month of June, we saw about 30,000 vehicles is what we transacted and we collected about Rs.2,200 plus crores from various consumers.

Again, a very important feature of this is while you recall I said about 75%-plus consumers had taken moratorium, but 40% of the customers have actually repaid installment during this period, which is a great sign and it is an indicator of how the rural cash flow is panning out.

The harvest was good, the overall yield was phenomenal, the support price was good. And very interestingly, the cash flows also came in on time, and we see buoyancy continuing even in July out of the farm cash flow. So definitely, we see things changing for good from rural perspective, both from business and collection point of view.

What we have though decided for sure is, these are times to really watch them very closely, to have a very close look on a month-to-month basis and not really forecast for three months down and decide only that way we will go. So we would look at it very closely, both in the fourth quarter and in the first quarter, we did make some aggressive provisions. And that comes from our analysis of area, certain locations, certain products, certain profile of consumers. And we think that we have taken that position of wanting to provide on the basis of these parameters so that we are adequately covered for any exigencies that may come through if there was another lockdown to happen in some of these locations.

I think from a product perspective, tractor is something that definitely reflected phenomenal buoyancy and followed by the pickup kind of vehicles, small cars, pre-owned vehicles, small LCVs, are the segments where we saw good traction, but heavy commercial vehicles in our opinion could kind of take much longer than the other products for sure. And the taxi aggregators while they are returning back to activity, but obviously the volume of business for them is insufficient, and therefore they could take little longer than expected. So, these are the two segments which may take a little longer and we are taking a stance to cover them up sufficiently in our provisioning, when it comes to providing for these segments of consumers.

I think one of the constraints that we see surely out there is the production constraints of OEMs, their ability to make sufficient vehicles available or tractors available. If enough of supply was made available to the dealers in the month of June, our numbers actually could have looked even better. And therefore production constraint has been one of the reasons, even for pre-owned vehicles. While that demand is definitely high, but because of not too much of exchange program that is happening, not too much of repossessions by finance companies, so, therefore, the supply side for pre-owned vehicle is a little subdued. And until that picks up, converting the demand into a real credit could take a little longer.

But having said all of this, I think the July-September quarter, if we look at on a very short term basis, may not show reflections of all changes already, but clearly the direction would be towards the positive trends that we are continuing to see in the rural market. But post-October that is the festival season onset as we move towards March, we would very strongly believe that you can see a lot of buoyancy, of course, with the caveat that the COVID, with vengeance should not be repeating and entering into the rural market. Rural is definitely well insulated from what we see in the urban markets. And even if there are pockets where you have these problems, they are a little widespread and not concentrated and therefore we see activity levels continuing to happen.

From the liquidity perspective, I think we are extremely comfortable. Our ALM is perfect match on every bucket basis. Also whomsoever we have reached out to for resourcing for ourselves, whether it is a bank, a mutual fund, or our bonds, all of that has received a lot of positive traction. And we are sufficient with our fund position to be able to meet all our liabilities and meet the interest servicing requirement as well as fixed cost necessities.

If you recall, I had also talked about our cost rationalization approach. And my request would be do not look at the cost drop that you saw in this quarter to be something of a permanent in nature all time going forward, to these extent. Definitely, there are one timers in this like for example, because of the lockdown situation, the traveling have been much lower, so the traveling cost obviously has been much lower. But as markets open up, as the business starts to happen, collection starts to improve, I am sure people will need to travel, etc., And there will be some costs that would come back from that direction. But nevertheless, we are very confident about at least 15%, 20% drop in the overall cost that we have taken very, very strong and specific initiatives like whether on the branch rationalization, whether rent renegotiation, whether the security services, whether the BPO services, whether the branding and advertising costs, and even using technology more efficiently and bringing down the people cost in terms of traveling etc., will lead to that. When I talk of this, I am not here talking about the people cost reduction. Definitely, one decision that we have taken is that we are not recruiting as we were in the previous years until things completely normaliz. And therefore, you would also see some saving arising out of no major addition happening. We have moved about 5% of our fixed cost into a variable that would bring about some change for sure. And we have taken a view on the increments to be deferred for the first quarter or second quarter and then a view would be taken only post thing starts to happen. So those could be some additional benefits that could flow this year. But they would over a period of time, possibly will catch up. But I am reasonably confident and sure that from our cost level that we were 2.85%-3% kind of a situation, as I said last time as well, we have taken a very aggressive stand to bring it to 2% level, not in a hurry will that reach to 2% level, but we will move towards 2.6%, 2.4% before we reach the 2% level, and we have very clear visibility of all of this.

So net-net, if I have to kind of summarize what we see on the marketplace, I think we are very, very comfortably poised to get the benefit of what is happening in the rural market.

I just want to draw a reference to one point of time activity. The rural completely depends on two cash flow, which is the farm cash flow and the infra cash flow.

The farm cash flow, for the first harvest was very good, monsoon is on-time, widespread, sowing is very high, and therefore every indication that the second crop will end up to be very buoyant. So the farm cash flow is a fixed situation from improvement very clearly visible.

So far as the infra cash flow is concerned, all of us are exposed to the reading of the government focus in the rural market. We are seeing in many pockets, the mining opening up, we are seeing very clearly coal auctions beginning to happen, we are seeing road projects once again beginning to happen. Put all of this together, as well as from the state level various projects, the two together will drive the infra cash flow.

Therefore, if you go back to 2010 - 2014, kind of a period and look at the rural market, when both the farm and rural cash flows were doing well, rural was absolutely buoyant and we got all the benefit. Our hope and belief clearly is in that direction that between 2021 to 2024, you would see most of these infrastructure projects on a state-by-state basis opening up. That would be one source of employment generation and labor absorption and asset absorption. So therefore, we do think very strongly that the asset volumes will start to pick up and we are betting on post-October, things will start showing up and the labor absorption would be better and overall therefore, we see the cash flow improvement happening from the rural market.

Having said all of this is the reason why we want to be ready with capital. While our capital adequacy is appropriate and adequate at this stage, we do believe that if all that we are forecasting do turn out to be a reality out there, then our consuming of capital would be at a much faster pace. And therefore, we think we need to raise adequate capital, and we are ready to embark on that opportunity that emerges from the rural market. Now, if we therefore decide that we want to go through this capital raise, the thought was to do it the best way possible in this situation, and therefore, the rights issue was the program that was decided upon. My request to all of you would be when you look at the price at which we have gone to the rights issue, it has absolutely no relevance and logic to explain as to why 76% discount. So do not look at it from a discount to the market perspective. Look at it from why at Rs.50. This is our 25th year, this is our silver jubilee year and we were contemplating on what is the best way to compensate all our shareholders. And the only way that we thought was since we are coming out with the rights issue, if we were to make it attractive for the shareholders, we would be able to allow every shareholder to be able to participate. All of you have been our great friends in the most difficult time to the most good time everyone has participated and help us to be where we are. And this is our most simplest and the sincere way of thanking the shareholders who have been a great partner with us. And that is the only reason why we thought that we must price it extremely attractive for everybody to be able to participate and not look at it from a discount to the market perspective. And therefore, the logic for raising capital is very clearly growth-oriented. And the purpose of pricing is to be extremely shareholder-friendly and compensating.

I think put all of this together, we very strongly feel and are very, very energetic and positive about the trends that we see in the rural market. So I am saying with our readiness of capital, with our readiness of debt, with our penetration strategy, with our people on ground there, with our relationship with all the OEMs and with our funds being all in place, we do believe that we are in the right space at the right time to be able to embark on this journey of growth, and we are very, very confident that this is how things are likely to pan out in that marketplace given what we see on the ground there.

With that, I would actually stop here on what we see and why the capital is raised and why we are priced at it for every shareholder to be able to participate being our silver jubilee year.

So thank you very much for the participation. And I will now open it up for the Q&A.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Mahrukh Adajania from Elara Capital. Please go ahead.

Mahrukh Adajania: Sir, when you said that 40% of the moratorium customers have paid, this would be part payment or how do we view the moratorium now?

Ramesh Iyer: No-no, so, as I said, April, May was a very weak collection months. So when I said 40%, in June 40% of the customers have paid their full installment. In tractor, it is even much lower; it is just about 52% or 56% of the customer actually took moratorium. And there also 40% of them have paid. So effectively just about 30% of the tractors customers are now enjoying or wanting to enjoy the moratorium.

Mahrukh Adajania: And for overall?

Ramesh Iyer: Overall, it would be around 48%. According to me will further go down as we see July or August because that is the trend we have already seen in the first quarter. If we see the visibility of cash flow and you will start this decline being seen also in these two months.

Mahrukh Adajania: But the payment would be full installment, not part?

Ramesh Iyer: Yeah, yeah.

Mahrukh Adajania: That is in the month of June?

Ramesh Iyer: That is right.

Mahrukh Adajania: Sir, in terms of liquidity, now you build up enough debt buffers. So does it peak here or you will continue to maintain a high liquidity buffer and what percentage of liabilities or what percentage of total assets would you want to keep your liquidity buffer at going ahead?

Ramesh Iyer: I think as far as actual drawing is concerned, we are sufficient to be able to meet the liability for the next three, four months very easily. We have enough signed up limits that we can draw any time as we require. Then as you know the rights issue money will come in and our own collections have been pretty good. So I do not think we need to draw more and store more, but we had very clear tie-up that even up to March we can meet all liability and be able to service all interest and meet the fixed cost requirement. Dinesh, anyone wants to add, please chip in.

Dinesh Prajapati: Yeah, I think what you have said is holding true. We are sitting on more than Rs.8,500 crores of liquid investment pool. So that should, plus the sanction line and the collection trend what we are experiencing. Given the drop in the business volume at a marketplace, this should be good enough from the point of view of the current liquidity position.

Moderator: Thank you. The next question is from the line off Subrat Dwibedy from SBI Life. Please go ahead.

Subrat Dwibedy: So, on the moratorium front, you mentioned that 75% was the moratorium earlier, and out of that pool 40% have paid up. So somebody gets out of a moratorium I guess only when he clears the existing EMI of the month plus the whatever accrued EMIs and overdues were there of previous month. So just wanted to know, what is the percentage of that number where people have cleared all EMIs outstanding, including June EMI and are completely out of moratorium?

Ramesh Iyer: No, no. So whether they pay or not, they will all be out of moratorium at the end of August. Do not link they are getting out of moratorium to their payment. I think what I am trying to explain is that the trend of their repaying the installment in spite of they being in the moratorium, is the only point that I am trying to make. I am not for one saying that all of them are absolutely current and zero outstanding and they have paid for April, May, June, and they will continue to pay for July, August and September. So that is not the comment. I think the comment very clearly is from June, we have started seeing people repaying even if they have taken moratorium. It is completely understandable that in April when they have not done any work it is not possible for them. So when we close the moratorium in August, let us say, and if people pay between June, July, August, then they would still have one or two delinquency based on where they were at that stage. And that would be paid over a period of time. So please understand the comments from June, some of them from May, but let us take June as the starting point, that 40% of the customers have started repaying their monthly installments from June. And that is a trend we see and we see that to be an improving trend and therefore the pressure when moratorium ends, for us to be able to collect from the customers is not going to be high as against everyone's original thought process of will it bunch up into a large overdue, will people not pay during moratorium, will NPA zoom up after the moratorium ends, I think those things are getting proved against.

Subrat Dwibedy: And segment wise if you could give any color on how the moratorium has been or how the collections have been? You mentioned the tractors is one of the best. What about other segments?

Ramesh Iyer: No, no. So I think it is important to understand and we have said this many times in the past, product relevance is little low, geography relevance is very high. Because whether they are a small car operator or whether they are a tractor operator, one of their source of income will be farm when it comes to rural. So since the farm cash flow has done well, we have seen uniform collection percentages in all segments. And when we offer moratorium also, we did not pick and choose to say we will give it to 'A' and we will not give it to 'B'. That is why the percentage was very high when we start. So the trend has been pretty similar in almost all product ranges, but geographically it would be different, like MP was the best, because I think the farm cash flow in MP was phenomenal. So therefore you will see by geography, there could be some trend change. But clearly on a product basis, every product has behaved similar, except of course heavy commercial vehicles where though the collection was good, but the fleet operators and all of them have to start earning so that they can pay their sub-operators. And we do not finance large fleet operators, we have people with one vehicle, three vehicles, and they could take a little longer.

Subrat Dwibedy: In the car segment, what percentage would be the taxi aggregators like Ola, Uber which will take longer to…?

Ramesh Iyer: No-no, very small percentage out of our total 20 lakh customers, the total aggregator volume is I think about 80,000-odd. And of that we are seeing at least about 30%, 40% of them again are on the street. But yes, are they earning like before? The clear answer is no. So even if you were to consider, it is about 80,000 customers to whom we have financed these kinds of vehicles and we are in touch with all of them and they were all very current until the lockdown really happened. And we do believe that in September as the lockdown opens up, they may not be in a position to start paying immediately from September, but post-festival from October November we can start seeing some return of these products able to service their loans. They may possibly require lowering of the EMI and therefore they have to consider some longer period for repayment for that.

Subrat Dwibedy: The non-Ola, Uber segment, that would be largely rural transportation based or how?

Ramesh Iyer: Only, only. All our customers, 20 lakhs when I talk, is about 80,000, 1 lakh-odd customer would be in the peripherals of urban, but otherwise everything is into the rural transportation whether they are carrying small essential goods like fruits, vegetables, trading activities, local contracting activity, local people carrying, there is no major public transport system out there, so, people do use these vehicles for going from point-to-point. So, all of them are in these kinds of activities and mostly all rural.

Moderator: Thank you. The next question is from the line of Alpesh Mehta from Motilal Oswal Financial Services. Please go ahead.

Alpesh Mehta: The first question is right now at the ECL level we are at around 5.5% of the overall portfolio. What would be your comfort level because since last two quarters obviously management overlay is playing a big role in terms of provisioning expenses, so, any sense on that front?

Ramesh Iyer: So, if you look at our historic working, we need to have a loss provision ECL of about 30%, which we have moved to upward of 40% and in some products may be even higher. If you look at we have about 130,000 accounts in ECL and the kind of provisions that we have made. And if we were to be able to take back all the way and transact them at the marketplace, we are sufficiently covered according to me. So, if we are at 5.6%-odd, I think the comfort level would be even at below 5% level because these are all earn and pay customers and they do not end up not paying ever. So, the delay will definitely be there, but non-payment situations are limited, so, which is why we feel comfortable. But given the current market conditions, given that we will not be repossessing vehicles and settling with consumers on that basis, we have taken a forward-looking view on certain locations, certain products, certain application and done some additional provisioning. I think when things starts to improve, we may see this to be possibly slightly on the higher side.

Alpesh Mehta: This current provisioning what you are mentioning is for the existing stress that you have in the portfolio but post the moratorium, there is expectation of some rise in the NPL. So, would this…?

Ramesh Iyer: I am not willing to buy that reaction. I have been repeatedly saying, if you look at individual customer who have put in 25% of their own money and they have repaid the loan for the last 12 months, 14 months, 16 months, 100% there would be delay and their ability to earn right from first September is not going to be there. But today, even though we are on a moratorium, these consumers are earning, right, that is why 40% of them are unable to service the loan. So I do not think that we must extend this theory to say, "Oh, there is going to be a boom of NPA coming because of this." I personally do not think so at all. Definitely, there will be a delay, customer may not pay every month on time and they may not be able to pay every month also. But clearly, you will not keep bunching up happening a lot of them fall in the wayside. So, I would very strongly urge to think if the underlying cash flows of these consumers return back to average, not even saying original normal, we would not see that happen. But let us take a position to say that the COVID returns big time, it moves into rural market, then I think even the regulator intervention will be there to further extend the moratorium or allow a reschedulement. So in the changing scenario of the rural market, cash flow improving, and in the changing scenario of the consumers back on the street earning their money, we see already that the customers are willing to repay and we do not see the situation deteriorate substantially from here.

Moderator: Thank you. The next question is from the line of Amit Nanavati from Nomura. Please go ahead.

Amit Nanavati: Two questions. Firstly, again, on collections, basically, at least, to the extent of 48% of your customers is not paying, any sense you can give around what percentage of customers are already up and running in terms of business activity but will take some time to recover and hence you will see a one month, two month delay or maybe some percentage of customers where you have seen it will take much longer to recover who still impacted as things stands today? Secondly, on OPEX side, if you can give further more clarity around what percentage of the OPEX reduction, especially overhead, is more volume linked in terms of dealer commission, incentives, etc., what part would be more business activity linked where travel, conveyance, etc., which may bounce back once you start reviewing all your business activities?

Ramesh Iyer: So first on the cost, traveling, conveyance and dealer commissions are direct variables, in the sense that if the business volume increases, the commission will proportionately increase. And likewise, the traveling and conveyance is a direct relationship to activity level on the ground. And therefore once things absolutely normalized, and business volumes and collections volume starts to pick up, you will see the traveling cost also moving up in that direction. Except that both of that are not likely to substantially increase like before. We have renegotiated for some of the approaches, we have also relooked at some of our processes to approach that accordingly. Like, for example, the digital repayments have increased from a normal 35%, 40% to a 50% type level which would automatically would mean little less travel required for collections and bottom line. Those are direct variables linked to the business volumes and collection volumes. Otherwise, if you look at any other item that I talked of, branch rent renegotiated, the security services that we have engaged, the BPO services that we are using, the advertising and branding costs that we were otherwise incurring, these are all direct corrections. So which is why I said that if you have seen a 40% drop, I think what we are comfortable to believe is at least 20% is definitely sustainable out of this, which means 50% of the current cost reduction that has happened is sustainable from each line item. The other contributors are definitely traveling and dealer commission. The other area where we are seeing a definite reduction that is sustainable is the legal cost. We were using arbitration, we were using notices to be sent and all kinds of stuff, and all of that has also been renegotiated in this current scenario for the new price going forward. So, I would think that if we save Rs.100 during this period, Rs.50 of that is variable, Rs.50 is definitely sustainable. So far as the percentage of the customer who have taken moratorium and at this stage are not paying, larger percentage of that is from the tractor portfolio who will get their money maybe in July and you will see corrections to that which is why I said it you will see an improvement to this percentage happening. The two segments where we think people who have taken moratorium and not paying, it will take longer is surely a commercial vehicle segment and the aggregator, taxi operator segment. And therefore, out of the 75% of the customers taken, we would think about 20% of the portfolio would require a longer time them to be able to start servicing. But they again post-October would start servicing their contract. But their ability to kind of pay for the past which has been built may not be there, they will all go to the rear end having used the moratorium. So surely they will be able to service their loan off a monthly installment. But will they be able to pay for what has happened between April and August? I think those bunch of customers will actually use the moratorium and will be able to pay on the extended period. The other 50% of them would definitely actually clear their past dues and their moratorium will actually get adjusted between September going into March.

Moderator: Thank you. The next question is from the line of Sanket Chheda from B&K Securities. Please go ahead.

Sanket Chheda: As we believe that a rural economy will revive much faster than urban economy, my question was more towards that, normally what recoveries we see in the second half of the year, we did not see that in FY'20 and hence we exited FY'20 with already high stock of NPA, also in first quarter, there is increase in delinquencies. How do you it panning out in the second half of FY'21? And what credit cost guidance would you like to spell out if any?

Ramesh Iyer: So like you said, we already saw the increase in NPA in the previous year. And then if you see the first quarter, it has not gone up as much as one would have normally seen in the rural market for two reasons -- one, of course, because of the consumers who are under moratorium, not everybody got exposed to that kind of a movement forward. And even within the other 25%, 30%, who did not take moratorium, it is only about 10,000 consumers who moved into the moratorium space during this period. Definitely we do not see a substantial increase. And I am repeating myself from what I said earlier, we do not see a bunching up and increasing of NPA happening post lockdown and as things open up between October and March, because this year the farm cash flow for sure would be again much, much better than what we have seen in the past. And that would help recovery of dues from this customer. My understanding is that if we hold on to where we are at this stage, we could actually start seeing the improvement to these numbers as we move into March. But definitely increase is not something that is forecasted by us or that is not the visibility that we are talking.

Moderator: Thank you. The next question is from the line of who Udit Kariwala from Ambit Capital. Please go ahead.

Udit Kariwala: Two questions. First is that you were discussing on the call about the price of rights issue and we appreciate that if that went this year, because indirectly when the price is so low, it kind of forces an existing investor to pump in more money, why cannot rights issue be followed by bonus later on, rights issue which is at a higher price, I am just thinking, that could also be one way to look at it, right, I mean, you will end up…?

Ramesh Iyer: I will definitely communicate your sentiments to my board. But it will be unreasonable for me to make any comment on this as a management.

V. Ravi: If mathematically you look at it, rights issue at a market discount to the market price is 15%, 20% and then followed with a bonus, bonus you have to take it as zero, the average works out to close to what we have given. Mathematically if you look at it, we did not do these kind of economics, mathematics to arrive at that Rs.50, but if you look at very roughly that is what will come; one at 0, one is let us say 20% discount in the market price, more or less what you will arrive around Rs.50?

Udit Kariwala: Right sir, but it is just that as an investor I have a choice, in the second option, I have a better choice whether I need to invest or not, that was the only concern. The second point which I had was on the quantum sir. Why is such a large capital raise quantum? I mean, are you expecting such high growth or some part is that you are anticipating that it could be required from the asset quality perspective, some sense around that because it would be ROE-dilutive?

Ramesh Iyer: Yeah it is. But if you look at in the past, I think whenever we have raised capital, we have taken a view for at least two or three years requirement. And that is only view we have taken because you should also understand, we have a rural housing subsidy and we are seeing a lot of traction there as well where asset quality is definitely beginning to improve and they will also embark on to some growth story surely, and if continue to support and invest in that business, that will need some support for sure. But more importantly, we are definitely seeing rural turnaround and growth story returning and it will absorb a substantial portion of this capital. But yes, I mean, will you require 3,000, could it be 2,200, 2,500, is any anybody's discussion and debate, but we think that this is an adequate size with which we are comfortable to meet all requirements for the next two to three years for sure. And we want to remain a little high on the capital side in the current scenario whether the rating agency, whether the lender, everybody would feel comfortable about adequately being capitalized in this round instead of having just about the level that you need.

Moderator: Thank you. The next question is from the line of Anita Rangan from HSBC Asset Management. Please go ahead.

Anita Rangan: I just wanted to understand like this quarter, your employee costs and your other expenses have come down like substantially. So is this like driven by COVID and a sustainable trend or like if you can break down what is the structural component and the variable component in this?

Ramesh Iyer: No, so I thought in the earlier questions this got answered, but nevertheless the structural changes from the overhead perspective is other than traveling and dealer commission. I would think other reductions are all structural in nature and they would hold up for sure. So far as traveling and dealer commissions are concerned, they have linkage to the overall volume that we transact at the marketplace both from business and collection point of view. So far as the employee, OPEX, etc., is concerned, as I said, we have moved about 5% of our costs from fixed to variable and therefore they are sustainable. Yes, if the overall productivity improves, if the overall performance improves, that 5% comes in through a variable route, otherwise, that is something that on a fixed basis has been reduced. Definitely, no additional additions have been made. Very small percentage of people would have left and not been replaced. But that would contribute to be a very small percentage. There is other variable component in the employee side which is the field executive incentive program, which is again linked to performance on collections and disbursements. And if that was to return with overall growth perspective, then some of that would come back, but otherwise that is something again on a variable basis have been saved. So, during this quarter let us say if we have saved Rs.100 rupees, I said that going forward, one can expect 50% of this to remain sustained, 50% of it is variable which will come back if the volumes were overall comeback.

Anita Rangan: You said among the geographies for you, M.P. was the best. Can you say like which geographies had more impact relatively and which was bad also?

Ramesh Iyer: South has been not doing as well as we would have expected it to do and that has been for some time, nothing to do with COVID particular, even otherwise, activities have been lower. And therefore, I singled out M.P. because the crop was very, very good and the overall cash flow in M.P., Chhattisgarh was phenomenal. As otherwise, most of the other states have been around the average between each other. South has been a little low performing and within South I would think Karnataka which is also again very mining dependent and all that, and they could see some traction post-October as mining begins to open up.

Moderator: Thank you. The next question is from the line of Rikin Shah from Credit Suisse. Please go ahead.

Rikin Shah: I have a few questions. The first was in this quarter, we saw that the SME disbursements were up sharply in absolute terms. So, was it driven only by the MSME Scheme or was there any other factor into it? That's my first, and the second question was the average ticket size for the standalone book, if we compute based on the value of assets financed and the number of contracts, it comes out to be up 30% year-on year?

Ramesh Iyer: No, no, no, there is something wrong. It cannot be. I mean, our retail LTVs have not changed at all. So maybe Dinesh or somebody can take it offline and explain to you, but there seem to be some computation issue there. Because we have done 30,000 vehicles and the asset value that we have financed for any asset is not more than I guess Rs.4 lakhs to Rs.5 lakhs which is as much as what it was in the past.

Vishal Agarwal: Probably you could remove the SME piece there and then see it and then compare the same.

Ramesh Iyer: Vishal, can you take this question and explain offline? Because SME growth of some percentage you said is, I think, SME is a business that we completely stopped. Actually that might be we did some Mahindra supplier bill discounting, which must have come there as one-time transaction of some Rs.200-odd crores I think. So both of this, Vishal can explain to you in detail. But I want to stay assured that the LTV for retail assets have not moved at all. And especially if the trucks we are financing has come down, I would expect that the LTV would remain stable or go down but definitely not go up.

Rikin Shah: Sure, I will follow up with Vishal later. Regarding the RWA to total assets ratio, so in FY'19, it used to be 87%, in FY'20 it has come off to 76%. So was the RBI regulation earlier in this year solely responsible or was there any change in the mix and that resulted in lower ratio?

Dinesh Prajapati: No, this is the outcome of the liquidity pool. So, if you see the total assets, the liquid investment pool has gone up given that what we have created a liquidity buffer of more than Rs.8,500 crores and all the investment which is parked in the fixed deposit, the banks and this kind of investment pool, do not carry a risk weight and which is the reason why the RWA will come down.

Rikin Shah: So, we should expect that as the liquidity drag unfolds, this ratio can gradually inch up again?

Ramesh Iyer: There has been no regulatory change on the risk weightage.

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

Umang Shah: I have got two questions. One is in this quarter if you could just throw some color as to where the slippages have come from given the fact that a large part of our book was already under moratorium and therefore the DPD freezing. And second on the data point, if you could share two data points, what is the moratorium by value -- would it be similar to the proportion of customers and what proportion of morat customers would not have made any payments so far?

Ramesh Iyer: So value to moratorium and number I think is more or less same, they are not very different from each other, maybe 2%, 3% lower or it will be around that, so there is nothing. And on people who have not paid as I say out of 70%-odd who took moratorium, 40% have paid, it is the balance 59%, 60% of them are the ones who have not serviced their loan during this period, and that is where the expectation that some of them would start paying in this round, that is between July and September. To your first question, many of the tractor customers did not want moratorium, because they were expecting their cash flows to come in. And wherever there would have been a shift from June to July cash, they would have moved into an NPL, that is why about 8,000, 10,000 contracts would have moved there. And I am very hopeful that I think out of that 11,000, 8,000 was tractors and would reverse itself in this round because the money has now come in and our collections are good as we see even in July.

Moderator: Thank you. The next question is from the line of Nidhesh Jain from Investec Asset Management. Please go ahead.

Nidhesh Jain: What will be the credit cost estimate or guidance or aspiration for FY'21 given we have now a decent amount of information about moratorium and how the customers are behaving? What will be you estimate fo credit cost for FY'21?

Ramesh Iyer: So, our endeavor is to work hard to take the net NPA levels to 4%. And I think definitely we will see improvement through collections and as market opens up, we would also have an opportunity to repossess and negotiate with customer and close. So that by itself will help us move in that direction. But if there was any gap if we think over a period of time, if necessary, based on product lines, like I said, commercial vehicles and taxi aggregators, we may take an aggressive stand and make little additional provision. And we would try and reach that number in the next 9-months, 12-months type of situation. And we think that opportunity is opening up in rural. So clearly, one should forecast a downward trend to the gross and net NPA through the market actions, and if necessary, with some little addition provision from our side to make that happen.

Moderator: Thank you. The next question is from the line of Nikhil Wadhwa from Motilal Oswal Financial Services. Please go ahead.

Nikhil Wadhwa: One clarification question I had here which was on the moratorium. The percentages that you mentioned is the value right and not number, right?

Ramesh Iyer: So we have seen both value and number wise the percentages are almost same.

Moderator: Thank you. The next question is from the line of Piran Engineer from Motilal Oswal. Financial Services. Please go ahead.

Piran Engineer: I had one clarification on Umang's question. Out of your morat pool of customers, 60% have not paid a single installment since April, not even part payment. Is that correct?

Ramesh Iyer: Part payment could be there but you are right, 59% of them have not serviced their loan. I have not checked if someone part payment there. But it is right that 59% of them have not serviced the loan between March, April, May, as we gave them the moratorium, you are right.

Piran Engineer: I am guessing that continues in phase-two also, even in June, July, they have not paid?

Ramesh Iyer: No, June they would have paid. I have not checked on part. Maybe Vishal or somebody can check in and let you know, but if 40% of them have serviced, the other 59% have not paid, you are right.

Piran Engineer: According to you in the month of June, since auto industry saw good volume, how much of that would be pent up versus structural?

Ramesh Iyer: Auto did not see a very big jump. Yeah, month on month yes, but overall volume compared to any time in the past was much lower and I do not know, there was not too much of pent up and all that because there was not too many inquiry waiting to convert. So these are a month trend change that we have seen unlike in the past where people bought vehicles even as an investor and put it to use. In this round, we have seen actual user buying the vehicle. So actual user buying, I do not know, they may not be pent up, they just decided, okay, now things are opening up, I will buy a vehicle.

Moderator: Thank you. The next question is from the line of Subramanian Iyer from Morgan Stanley. Please go ahead.

Subramanian Iyer: Just a follow up question on collections. You mentioned in terms of moratorium. But previously you had mentioned that collection efficiency in April was 15% which had improved to about 50% in May. So what is it in value terms for the month of June and if you have any early number for July?

Ramesh Iyer: June, as I said, we collected upwards of Rs.2,200 crores, which turned out to be roughly 72%, 73% or 77% around that percentage. So far as July is concerned, the early signs are it is better than June for the first 10 to 15-days that we saw in June.

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

Abhishek Murarka: Sir, when you applied this management overlay in both your standalone business and the rural housing, can you share some of the thought process that brought you to that number? It is a very a specific number, so you would have obviously done some calculation. I just wanted to understand the thought process.

Ramesh Iyer: As I explained, there are two or three things that we looked at. One is we looked at all accounts that were frozen let us say on 29th February or 1st March, and we looked at them by age, how many of them are more than two year old account, how many of them are more than 12 months old, and how many of them are less than 12 months old, right. And if somebody was less than 12 months and is already having a two EMI outstanding, we believe that they may take a little longer than normal to repay. So therefore, that was one set that we looked at to say, okay, how do we make higher provision for these accounts, because someone who has been more than two years with us or more than 12, 18 months with us, and have paid for that number of months and they had only one overdue and also have initially invested 20%, 25%, then the asset has substantial ability to protect the principle there, right, even if they were to become default. The second that we looked at was which are the products which are going through some stress and which is where we came to the commercial vehicles and the taxi operator as the other segment where we looked at what to do. The third that we looked at was by geography as to which are the geographies where because of the COVID situation the stress is higher especially in April, May, they were in red zones, activity levels were just not there, etc., And the fourth element that we looked for, people who have been in the outstanding for much longer, maybe 30-months, 36-months, then we said why continue them further because we are not going to repossess very urgently and therefore, we increased the provision and fully covered them, I think 40, 42-months, something of that cutoff and fully provided for them. So, these are the various methodologies that were applied to the overall portfolio and then arrived at both in March as well as in June.

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

Aditya Jain: On the additional provisions that have been made in this quarter, could you just talk about which stage they are allocated to between stage one, two and three?

Ramesh Iyer: I think most of it would have gone to stage-three because as I explained, we looked at what is their outstanding and what is the balance remaining, what is the repossessions to be done, etc., but I think around Rs.130, 140 crores would have gone to stage-one and two. Rajesh, you are in the call? So, around 470-odd crores would have gone to stage-3, Rs.140-odd crores would have gone to stage-1 and 2 and there was some dealer outstanding of trade advances of Rs.30, 40 crores would have gone against the trade advance are the large three buckets. Anything else, Rajesh? Am I right with this number?

Rajesh Vasudevan: Overlay was for Rs.476 crores that is largely to three and we reset our forward-looking parameters during the quarter also. So, that has large impact on stage-1 and 2. Our PDs, LGDs also got reset and then the TA what Mr. Iyer said, small amount of TA which we provided.

Moderator: Thank you. The last question is from the line of Nischint Chawathe from Kotak Securities. Please go ahead.

Nischint Chawathe: Just a couple of numbers. If you could share what was the actual collection in April and May? I believe you said it was Rs.2,200 crores in June.

Ramesh Iyer: Yeah, close to around Rs.500 crores in April and close to Rs.1,000 crores in May and it went to upward of Rs.2,200 crores in June.

Nischint Chawathe: What was the monthly demand for June?

Rajnish Agarwal: Around Rs. 2,900 crores.

Nischint Chawathe: If you have any outlook for disbursement growth for the next nine months?

Ramesh Iyer: The disbursement growth is, one is of course we are very sure that we will maintain our market share and there maybe even some improvement to market share. But the OEM themselves very unsure in terms of their volumes like when we talk to different OEMs they are very buoyant about the production commencing and they will be able to supply large numbers, etc., If we were to go by all their numbers and if we were to maintain our market share, forget increase in market share, I think we would end up doing 50,000, 60,000 vehicles which would mean close to Rs.3,000 crores plus. I am not too sure that we want to go by what the numbers they are putting out because we are not yet seeing their ability to supply with kind of a speed. So, I do not know how to put that number out, but as I said 30,000 vehicles we did in the month of June. As an ability even in a subdued supply situation, we can touch 45,000, 50,000 vehicles type numbers, but if the OEMs meet their targets and they are truly able to supply volumes like. when we talk to Maruti, they are talking of very high inquiry levels at dealerships, that is what the dealers tell us also. And we have a good market share. So the best disbursement could be 60,000, 65,000 vehicles which would mean Rs.3,000, Rs.3,500 crores, the worst could be 30,000 vehicles which means Rs.1,500 crores and we would believe that somewhere in the average one could look at, because I am not too sure that everyone will be able to supply sufficient quantity at least for the next couple of months. But post October, I think we can expect volumes to stabilize and disbursements to keep growing.

Moderator: Thank you. I would now like to hand the conference over to Mr. Abhijit Tibrewal for closing comments.

Abhijit Tibrewal: Many thanks to Mahindra Finance management team and all the other participants for a very vibrant discussion today. Have a good day. Thank you, all.

Ramesh Iyer: Thank you.

Dinesh Prajapati: Thank you.

Moderator: Thank you. On behalf of ICICI Securities, that concludes this conference. Thank you for joining us and you may now disconnect your lines.