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We expect second half of FY19 to be good for rural market, says Mahindra Finance's Iyer

Reema Tendulkar,
Surabhi Upadhyay &
Anuj Singhal
CNBC-TV18

Ramesh Iyer, vice chairman and managing director of Mahindra and Mahindra Financial Services, says in an interview that the company's growth will be driven by rising rural demand in the second half of the current fiscal year. Edited excerpts:

With auto sales looking good and the monsoon expected to be normal, how is the fiscal year shaping up for you?

Even in the previous fiscal year, quarter-over-quarter we have had good movement upwards. Last quarter was the best given that we continued to see the dealerships transact in large volumes in rural India. We see rural sentiments are very positive and, clearly, on the back of a good monsoon, we believe the sentiments will continue to be positive as we move into the festival season. The second half, therefore, is always the best for rural India, and we expect that would happen.

INTERVIEW

You ended the last fiscal year with absolutely breathtaking growth numbers on the disbursement side. Will that momentum carry forward in Q1 (first quarter)?

Clearly. We do not see much competition in the locations we are operating in. We added 100 branches in Q4 last year. That would bring in productivity. Besides, we have become a significant player in pre-owned vehicles and pre-owned commercial vehicles, besides tying up with multiple original equipment manufacturers (OEMs). With our large network, deeper penetration, and relationship with every OEM, we should see growth at this level. Product discounts are continuing and once we see discounts come off over a period of time for the same volume, the values could be even higher.

Ramesh Iyer, vice-chairman and managing director of Mahindra and Mahindra Financial Services. ABHIJIT BHATLEKAR/MINT

The problem with your company was asset quality, but the last two quarters have been about improving it. You reckon, you are on the right path and you will continue to improve that?

I must clarify. The gross NPAs (non-performing assets) definitely was an outcome of customer cash flow, but our credit losses have never climbed because eventually the customers do pay off their dues as the crop cash flow comes in. We believe that the worst is over as far as rural is concerned and with the monsoon expected to be good, we believe that it will be better.

Have you gained market share in the core passenger vehicle segment, given the kind of numbers you have reported in the earlier quarters? Where does it currently stand?

Clearly. We have gained market share for all products, not just cars. The growth comes from our deeper penetration and additional branches, besides we are also running another programme—servicing close to six million customers across 330,000 villages. So we have launched a programme where we reach out to our existing customers who then help us get more enquiry from that market. It helps us increase our volumes. Currently we are doing about 15-20% of our volumes, and that has put us in a position where we are gaining market share for every product.

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What will the book look like in FY19? How is the lending business for taxi aggregators, such as Ola and Uber, faring? Any risk to this part of the portfolio?

We don't see a risk because it is not concentrated in just one particular city. It is widespread. We are in Bengaluru, Hyderabad and Mumbai. We are one of the early entrants into that market and, therefore, the original, the driver-owner whom we had financed, have paid off more than 40-50% of their dues. But the growth from that business may not happen as much.

But the larger question is how the mix is going to look like. I think we will have about 45% of the book coming from the Mahindra products, such as auto and tractors, within which about 18-20% would be tractor, and 30-32% will be the auto products. We will have cars at 30% and then we will have construction equipment and commercial vehicles at 8%. Pre-owned vehicles will be in the same range of 8%. SME (small and medium enterprises) currently is about 6-7% and is expected to move up to 10%.

With the yields going up, will it hurt the borrowing cost? Can you maintain your net interest margins at the same level?

Clearly. The borrowing costs may be moving up, but we have always taken a view that whether it comes down or goes up by 25-30 basis points, we don't tamper with our lending rates. If it was to keep moving in that direction and we see about 50 basis points increase or fall, we pass it on to the customers.

Over a period of time, it gets passed on in order to protect the margins. It is also important to understand that these are operating costs. People buy vehicles if there is a feel and need, at least in the segment we operate in—the earn-and-pay segment.

feedback@livemint.com