

# 'We'll be Comfortable with 6% Gross NPAs on a 90-day Basis'

ET Q&A

Mahindra Finance expects NPAs to fall by 300-400

basis points in the next four quarters to 6-7%. In an interview, **Ramesh Iyer**, managing director, told Shilpi Sinha that rural segment is growing faster than the urban segment and he is looking to expand to another 100,000 villages in the next one year. Edited excerpts:



**of years back. Are you growing the book now?**

**Mahindra Finance has NPAs in double digits. Do you see this falling to 4% as earlier?**

Our NPAs have come down to 10% from 13%. It is a big change when you look at the gross number. It has happened in 1-2 quarters. If it is equalised for 120-day basis, we will be around 9%. We have maintained our coverage ratio at 55-60%. So, our net NPA is technically sub-4%. In our kind of customer segment, when somebody becomes 3 EMI overdue, there is no way he can pay and come out. But when things improve, he may start paying. The other data point is out of the NPAs, how many customers are still servicing their loans. In the next 3-4 quarters, if markets remain like this and the government continues its focus on rural areas, we'll come back to 6-7% of gross NPAs.

**After moving to 90-day loan recognition norm, is the customer behaviour changing?**

Around 50-52% of customers are paying EMIs. On a 90-day basis, we don't think this business can be below 6-7% of NPAs. We cannot expect NPAs to go below that. When we were at 180 days, our NPAs were 3-4%. We will be extremely comfortable with 6% gross NPAs on a 90-day basis. Our credit losses will not be more than 2%. One credit installment not paid 1-2 quarters, may be not shown as NPA. We write off once we make 100% provisions. RBI allows us four years to write off. We do it in two. Every month, we repossess 3,000 vehicles. At any time, we will have stock of 8,000-10,000 vehicles across the country. These numbers have gone up.

**Where have you seen improvement coming from the most?**

We have seen big improvement in Maharashtra and Madhya Pradesh. We have not seen a big correction in Karnataka. Tamil Nadu may not show further improvement because the monsoon was not great. Demand is picking up across the country. Maharashtra is a good growth story for us. We see growth picking up in UP, Bihar and Andhra Pradesh. We are seeing flat growth in Punjab and Gujarat, while Karnataka and Kerala are not registering growth. North East is growing.

**Which product segment is going to contribute to 18% growth in the overall book?**

We have decent market share and don't see growing it further. We will get growth through volume, which we believe will be in the range of 10-12%. There are non-Maruti segments - Hyundai and Nissan are going deeper into rural markets. Our market share is 5-7% and we see that growing to 12%. Pre-owned vehicles, growing slowly post GST as there no rate clarification, is growing more aggressively for us. It was 7% of the book and now may go up to 12% of the book.

**You had reduced exposure to commercial vehicle segment a couple**

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**We have seen big improvement in Maharashtra and Madhya Pradesh, and growth is picking up in Andhra Pradesh and UP**

We are very small in commercial vehicle and construction equipment segment. We are present in this segment to lend to customers with less than 5 or 10 vehicles. We are not in fleet-operator financing or for large contractors. That business is showing a growth of 100% for us but the book is also small. Our base is very small so our growth rate will be very high. Last year we did an average ₹250 crore disbursement every month that has almost doubled to ₹480 crore. For us to grow at 18-20% two more things have to happen and the price has to increase. For one, same volume discounts have to vanish. Commercial vehicle discounts have come down from ₹2.5 lakh to ₹1-1.5 lakh.

**Has loan waiver changed the behaviour of customers?**

Loan waiver brings in more bargaining approach to loans. Somebody asks us not to charge penal interest. Farm-loan waiver is for sub-marginal farmers. They are not asset owners. In our case, customers bring in 25% margin money.

**Will you look to grow urban markets in cycles when rural does not do well?**

I am not convinced of the story that every year you should grow better than the previous year. In the past 23 years, our CAGR is 25%. So, one year if we are not growing doesn't bother me. I would not shift to urban just because rural is slow. We took a bold decision to bring in a product vertical. One of the biggest challenges we saw in this circle was that we were very branch driven. Branch managers had the capacity to lend and recover multiple products. He had capability to handle a certain number of people and a certain number of customers. Suddenly, we found that it was becoming a challenge and a multi-product structure was creating further fuss. In difficult times, you need to look at products differently. We changed it into an end-to-end product-based vertical. One team lends money and another recovers.

**How do you plan to grow your rural loan book?**

Rural is growing faster than urban in terms of the growth rate. I am just representing through vehicles like Bolero and Alto. Rural has restarted and is going to be the growth story, my answer is yes. We are talking about a history of 23 years. We have seen all cycles. There is enough scope to grow in rural. We are present in 330,000 villages. I have personally taken the target to add another 100,000 villages. We are 5 million customers and we believe these customers are used as an extended sales arm. Can they give us 5 million enquiries? If they do, I am good for next five years.