mahindra FINANCE

Mahindra & Mahindra
Financial Services Ltd.
Mahindra Towers, 3rd Floor,
Dr. G. M. Bhosale Marg,
Worli, Mumbai - 400 018, India.

Tel: +91 22 66526000

28th April 2025

To,
BSE Limited, (Scrip Code: 532720)
Phiroze Jeejeebhoy Towers,
Dalal Street, Fort,
Mumbai - 400 001

National Stock Exchange of India Limited, (Symbol: M&MFIN)
Exchange Plaza, 5th Floor, Plot No. C/1, "G" Block,
Bandra - Kurla Complex,
Bandra (East), Mumbai – 400 051

Dear Sir/ Madam,

Sub: Transcript of Earnings Conference Call for the fourth quarter and financial year ended 31st March 2025 held on Tuesday, 22nd April 2025

Further to our letter(s) dated 28th March 2025, 15th April 2025 and 22nd April 2025 and in compliance with Regulation 46(2)(oa) and Regulation 30 read with Schedule III, Part A, Para A (15)(b) and other applicable provisions of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("SEBI Listing Regulations"), please find enclosed herewith the transcript of Earnings Conference Call for the fourth quarter and financial year ended 31st March 2025, held on Tuesday, 22nd April 2025, which concluded at 7:10 p.m. (IST).

This intimation along with the transcript is also being uploaded on the website of the Company at:
https://www.mahindrafinance.com/investor-relations/financial-information#transcript-of-earnings-call.

Kindly take the same on record.

Thanking you,
For **Mahindra & Mahindra Financial Services Limited**

Brijbala Batwal
Company Secretary
FCS: 5220
Enclosure: As above

"Mahindra & Mahindra Financial Services Limited Q4 FY '25 Earnings Conference Call"

April 22, 2025

Management:

Mr. Raul Rebello:	Managing Director & CEO
Mr. Pradeep Agrawal:	Chief Financial Officer
Mr. Sandeep Mandrekar:	Chief Business Officer, Wheels

Moderator: Mr. Abhijit Tibrewal
Motilal Oswal

Moderator: Ladies and gentlemen, good evening, and welcome to the Mahindra & Mahindra Financial Services Limited Q4 FY '25 Earnings Conference Call. This call will be recorded, and the recording will be made public by the company pursuant to its regulatory obligations. Certain personal information such as your name and organization may be asked during this call. If you do not wish to be disclosed, please immediately disconnect this call.

Ladies and gentlemen, please note this call is not for media representatives or investment bankers or commercial bankers, including corporate and commercial FX. All such individuals are instructed to disconnect now. A replay will be available for investment bankers and commercial bankers, including corporate and commercial FX. The replay is not available to the media.

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, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the call over to Mr. Abhijit Tibrewal from Motilal Oswal. Please go ahead.

Abhijit Tibrewal: Thank you, Ryan. Good evening, everyone. I'm Abhijit Tibrewal from Motilal Oswal, and it is our pleasure to welcome you all to this earnings call. Thank you very much for joining us for the Mahindra Finance call to discuss Q4 FY '25 earnings. To discuss the company's earnings, I'm pleased to welcome Mr. Raul Rebello, Managing Director and CEO; Mr. Pradeep Agrawal, Chief Financial Officer; and Mr. Sandeep Mandrekar, Chief Business Officer. On behalf of Motilal Oswal, we thank the senior management and the Investor Relations team of Mahindra Finance for giving us this opportunity to host you today.

I now invite Mr. Rebello for his opening remarks. With that, over to you, sir.

Raul Rebello: Thank you, Abhijit. Good evening, everyone, and thank you for joining us on our Q4 earnings call. As mentioned, Pradeep, our CFO, has just joined us a month ago, and we welcome him to the leadership team. Pradeep's 2 colleagues, Sapna and Rakesh also on the call, along with Sandeep, Chief Business Officer, Wheels.

So good, I would request you to keep the investor deck handy as usual. I'll be referring to certain slides, which I'll call out during the source of the commentary. Request you to turn to Page number 4, which is the key highlights slide. So here, you'll see we've created 2 panels for a quick comparison and quick kind of reference to both quarter 4 and the full year.

First, on the disbursement front, it's been a mild to moderate Q4 and mostly like a full year, if you look at the growth of 2% and 3%, respectively, which is also reflective of the underlying wheels commerce that we participate in. The book, however, has still grown at 17%, considering the disbursements of the past. And we have closed at close to INR120,000-odd crores of book, INR119,673 crores to be precise.

With respect to asset quality, we continue to operate in our desired ZIP codes. The GS3 closed at 3.7% and GS3 plus GS2 below 10 %, basically at 9.1%. On end losses, we separately disclose end losses because this is an operating metrics of actual crystallized losses. This is a combination of write-offs and settlement. When you add provisions to it, it culminates into the full credit cost. So, the end losses for every quarter of financial year '25 has been in rupee value crores lower than the preceding year, which shows that we have less amount of portfolio, which is either getting written off or losses due to settlements.

Just to give you a comparison, we have drawn the line on the right-hand side from '22 to '25. You'd see that the end losses have sequentially come down from INR2,513 crores to INR1,559 crores. On overall credit cost, Q4 was at 1.4%. And for the full year, we were at 1.3%. This is compared to 1.7% in the last fiscal.

Our NIMs, well, we must acknowledge have compressed both sequentially on an annual basis. Overall, one could attribute it to 2 factors. Yes, the cost of funds has remained a bit elevated during the year, and we have seen a marginal reduction in our yields, too. I'll go into details when we discuss the margins.

Highlight on PAT for the quarter, it was down 9% and for the full year, of course, up 33%. I request you to move to Page number 5 now, where we will talk about specific operating metric highlights for the year. On the business side, the tractor leadership in terms of both NBFCs and banks will continue to be top of the pile.

Our leadership position also got further established because we've seen M&M and Swaraj being much higher in terms of incremental market share. Overall, we've seen a Y-o-Y growth of 8%. We continue to have a strategic focus on increasing our fee-based income. The corporate agency license has helped in that front. We now have tie-ups with 10 insurance companies, and the fee-based income has showed in well for the year.

On the diversification front, the SME business has delivered a 48% disbursement growth during the year, which will continue to be a focus area for us going forward. We have talked about our transformation journey with the Project Udaan. We are seeing benefits of this early benefits. We have successfully launched the digital

onboarding on a pilot basis and our whole collection stack journeys have gone live. We are seeing outcomes.

As I said, we see our noncash collections have significantly increased from 69% in last fiscal to 77 % in this year. Furthering on the efficiency front, our disbursements, if you see, we have talked about our disbursements have seen a CAGR of 17%, but our headcount has been flat for the last 3 years.

We continue to make investments on the tech front to be resilient. We have migrated most of our applications, our critical applications to the cloud. And finally, I must mention that it's encouraging to get outside validation. We have been awarded the best talent and workforce team by business today among NBFCs, which reflects our ongoing commitment to invest in our people and our workforce.

I request you to proceed now to Page number 8. I will place some commentary on the individual product growth. The growth for Q4 was quite reflective of the growth for the full year. I did mention tractors saw one of the stronger performances followed by passenger vehicles. We have seen degrowth, flattish growth in the rest of the segments. CV has been flat, has been degrowing. 3-wheeler has degrown as well as the POCL -- the preowned vehicle business.

Some of the degrowth, of course, can also be attributed to rebalancing of our risk appetite done in the certain segments that we wanted to recalibrate between the growth and risk aspirations. Our SME business, of course, grew -- I did comment on this earlier on. I think at a summary level, if you look at the non-wheels business, it accounts for 7% of our new disbursements versus 5% in the last fiscal.

I request you to move to Page number 9, where I'll talk about margins and the overall DuPont. So yes, the NIMs did come down to 6.5% for the full year as well as for the Q4. Breaking down the NIM performance, COF has gone up by 20 basis points. There has been, of course, a leverage increase also as we consume more capital.

Overall borrowing rates also had started to come down only in Q4, so we didn't see a full year benefit for this, but we do see a going forward benefit in COF, which will flow through NIMs. On the yield and split on loan and fee income, sequentially, quarter-on-quarter, yes, the loan income did see a decline to 11.6%, while fee income witnessed an increase to 1.3%.

On a full year basis, I must say that the loan plus fee has remained nearly range bound at 12.8%. Operating expenses have sequentially quarter-on-quarter increased by 10 bps, but on a full year, gone down by 10 bps to 2.7%. Credit cost for Q4 was at 1.4% versus nil for the previous quarter. We did talk about the PCR benefit that we got in

last quarter. But for the full year basis, the credit cost has decreased by 40 bps from 1.7% to 1.3%. This is, again, as I mentioned earlier, both factors working well, the end losses going down as well as provisions by 10 bps.

Moving to asset quality deep dive on Page number 10 and 11. The GS3 number at 3.7%, I did mention it decreased. We are seeing not such a sharp decrease that we saw last fiscal. You would have -- just to remind you, last fiscal, Q3 ended at 4, and we did drop 60 bps to 3.4. This year, relatively, the underlying, I think, we can't compare it to last fiscal in terms of the wherewithal on collections and overall cash flows, not as positive as last year.

But nevertheless, we did see a 20-bps decline from Q3 to Q4 in this fiscal. In rupee value terms, the bottom part of the slide shows that credit cost in rupee value terms has decreased INR205 crores in 2025. This is INR156 crores in end losses and close to INR50 crores in provisions.

Moving to Page 11. We did guide, if you remember, at the end of Q2, we did guide for at the bottom right-hand side of your screen when we had the GS2 numbers, which went up in Q2 as well as the credit cost went up. We made a guidance of sorts that the GS2 plus GS3 will be range bound below 10%. We have closed at 9.1%. We also did give a range of 1.3% to 1.5% for credit cost. Happy to know that it closed at 1.3%.

We also had a -- we didn't face a lot of comments last time on when we see the PCR cover, which sharply fell to 50.1% in close of Q3. We did mention that we did see a good recovery of the COVID quarter, which resulted into that decline. But we also mentioned that the PCR cover won't significantly climb in the next 2, 3 quarters. The PCR number has climbed to 51.2%, and we do see this range bound. I did give a guidance also that to where we expect it to in the next 3, 4 quarters climb to not back to the original levels that we saw at COVID.

Moving to Page number 12. All of you would recollect at the end of fiscal '22, beginning of '23, we did mention how we would prioritize the various key metrics for the organization. We did give aspirational numbers that we would hope to close by '25. I want to be completely transparent on mentioning what went well, what didn't go so well. There are buttons of colors of red, amber green that we have placed, which you can see on Page number 12.

On balance, I think asset quality was clearly worked as per plan. We have operated in the ZIP codes that we wanted to operate on, both in -- on the GS3 numbers, the GS2 numbers as well as credit cost. Some of that has resulted into, let's say, a sharper than anticipated shave off in terms of NIMs. We do see ourselves climbing from here on.

Cost of funds clearly was not an envisaged number back then. On the growth front, again, I think a green is a right reflection of where we have moved in terms of book growth. Yes, the recent disbursements have not been as encouraging for us to be seeing the same levels of book growth in next fiscal considering what we've seen this year.

On the investments in operations, we have done a significant amount of senior management upgrades. You've seen the slate of our leadership team, all those who have come in over the last 1.5 years as well as the talent that already existed in the organization. We've got a great set of leadership teams of the past as well as some new leaders, functional leaders who have come in. We have spent on tech, digital, opex numbers also directionally moving well.

Overall, diversification, honestly, not really moved in line with our earlier anticipated levels. But we have a calibrated plan in place to get the non-wheels business to start now moving in the right manner and right clip. Overall ROA also has moved well between last year and this year. And frankly, we don't want to operate in these kinds of ranges. We do see ourselves climbing up to 2 and beyond very soon, and there is a calibrated plan on all levels of the DuPont, whether it's revenue, whether it's opex, whether it's cost of funds, credit cost to make sure that we start moving towards the right levels of ROE.

The last page, which I'll end on and then hand it over for questions. We're not giving any specific guidance for '26 and going forward, but I'll leave you with where the organization is prioritizing on. Clearly, our differentiator is the wheels business. We will over-index on our -- defending our position of strength in the various wheels' businesses, specifically in tractor, you would have seen the forecast for the year. We do see from most of the OEMs, a positive commentary on tractors. We do -- we have equipped the shop to make sure we write those tailwinds. We also see some green shoots in some businesses.

The LCV business has been talked about to have a turnaround year next year. This SUV business within PVs will see a disproportionate amount of increase compared to the rest of the PVs. So, we will attach our sales to those opportunities to find growth within the wheels business. Clearly, the margins need to step up from here. We do believe we have hit our rock bottom in terms of NIMs of 6.5. We should climb only from here onwards. And there will be benefits of the COF, which we're starting to see in Q4 flow forward as well as some of the pricing efficiencies, which are stated to play out.

On the risk level, I think we are in the right mix right now and just maintaining that number needs to be the focus. We will continue to be absolutely focused and on the

ball on the collections, on underwriting, on risk control unit, etcetera, etcetera. Diversity in SME leasing fee-based income will continue.

You would have seen in our financials; we have taken a higher provision in MRHFL. We have -- we are right shopping -- rightsizing the shop employee base from close to 10,000 has come down to 5,000. We have provided the net NPA now in MRHFL is below 1.5%. We have made provisions, and we think that's reflective of the business, and we will only see course correction from here on.

Look at the bottom of the slide, being a resilient business across cycles is a priority, whether it is efficiencies in sales, underwriting, all those will be a big part of the priorities. We have a specific use case for all our digital and AI activities to give upsides on business and controls. And as I mentioned, the ROA aspirations going forward is only to climb from where we closed this year.

So, with that, I'll pause and thank you for your patient hearing. We will move to question and answers.

Moderator: The first question comes from the line of Mahrukh Adajania from Nuvama.

Mahrukh Adajania: So, my first question is that how do you view disbursements from here on? Like any rough outlook on what the disbursement growth would turn out to be given that there are some segments identified with higher risk or lower yields, which you don't want to now be doing. So, a brief view on disbursal growth. And then most of the margin improvement would be driven by cost of funds only. Would that be the correct takeaway?

And the third question is on asset quality, right? So, do we see the PCR stabilizing here now? How do you view it? Because the improvement in the fourth quarter in the 2, 3 has been very minimal, right? So compared to other fourth quarters, which you had already alluded to. So, it's not as if you had not guided to it. But how do we view it from here on? Is most of the stress over now? How would asset quality and ECL pan out?

Raul Rebello: Yes. Thanks, Mahrukh. So, your three questions on -- I'll take them sequentially. On the growth front and how we see specifically financial year '26, see, the kind of underlying vehicle segments where we have a very high market share, we will continue to find growth in the underlying commerce there. I think the last year, what we have seen is there has been a significant moderation in the passenger vehicle growth in the CV growth. And our growth of 3% or flattish growth in CV has been kind of paced with the way in which the underlying commerce has moved.

In tractor, we grew 8%. I think if I were to just summarize what we can look forward for next year, the trends of -- in passenger vehicle, the trends of SUVs continue. The low ticket, the kind of small vehicles are continuing to see stress, which was a part of our portfolio. So we'll have to recalibrate what we can get from that growth. But clearly, we have also managed to get a good amount of growth coming in from the SUV segment. And we have also in the CV segment, as you know, in the LCV, whether it's the bus segment, we have managed to get some growth there. We'll look at finding opportunities in wherever the underlying commerce is promising.

I think amongst the vehicle segments, tractor seems to be right now the most attractive, at least from a forward standpoint. But with our disproportionate amount of dependence on wheels, we will have to find growth opportunities across all wheels categories for next year. And I think considering the organization was -- one would say we did over-index on more on the controls, on the risk, etcetera, considering where we ended up in the COVID era, we did prioritize that over, let's say, growth in the last couple of years.

So, we do believe now we are well equipped to catch the growth -- whatever growth signals and growth opportunities present themselves, we'll be in a position to catch it. We do want to make sure that we get to -- in the medium to long term, we do want to get to the middle teen to high-teen growth. That's our objective. I don't think the organization wants to grow below that clip in the growth side. I don't give specific guidance for every year. That's our objective.

On the margin front, since you asked about whether the margins will come only from COF, that's not the case. COF will improve. What are the other levers are clearly the fee-based income, which you've seen quarter-on-quarter go up. We will -- we have just touched the surface of the corporate agency license. We will see more fee coming in.

We have -- as the leasing business grows, there is fee avenues from that, too. So, we have a fee-based income, which will provide for margin expansion. We also look at some of the underlying wheels businesses, as you know, tractor has a higher NIM. That should also provide us some expansion going forward. So those are the kind of levers for COF and -- sorry, for margin expansion.

On PCR front, I did give a guidance on where I think in the next 4 quarters, we can maximum go. And I just want to repeat that. We did come out from 61%, 62% to 50.1%, 50.2%. We have planned up to 51%. I don't see that number looking at our collection throughput, etcetera, going beyond in the next 4, 5 quarters beyond, as I said, last time also 55%. That's on the outer end, just considering the kind of pools of collections -- pools of where we collect from on the 42-month period.

Mahrukh Adajania: Thanks a lot.

Moderator: Thank you. The next question comes from the line of Raghav Garg from Ambit Capital. Please go ahead.

Raghav Garg: Thanks for the opportunity. My first question is on asset quality. So I see that the slippages, they continue to be higher versus last year fourth quarter. They're up about 63% for the quarter and about 70% for the year. Can you highlight what are some of the challenges that you faced in the fourth quarter with respect to, say, collections? And another question is, how are you looking at FY '26 with respect to asset quality outcomes? That's my first question.

Raul Rebello: Yes. So, Raghav, maybe if you ask your question, I'll take them all at once.

Raghav Garg: Sure. My other question was on the pre-owned disbursements. So they've been declining, right? Just wanted to understand that a little bit more as to what has happened there. That is a focus area -- that has been a focus area for you, right? But disbursements have declined. So, I just wanted to get some color there. And I think the third question is on funding cost benefit from the 50-basis points rate cut. You may have answered that partly. But if you could just give us some number in terms of, say, whether it's a 20, 30, 40 bps benefit that you would get on the funding cost from a 50-basis points rate cut. That's all from my side.

Raul Rebello: Thanks, Raghav. I'll take the question sequentially. On the first one on asset quality and slippages, see we provide you the details. We don't -- just for consistency, we don't give a gross slippage number, but you can calibrate it from the loan losses and the provisions. Typically, you basically compute slippage as a percentage of opening book of the previous year. If you do that number, you will see that we have been consistent compared to last year, it's been in the 3% to 3.5% range. So, there's not any -- even for Q4, it's not been a number which is very divergent from the past.

In Q4, what we see and if you compare to last Q4 also, we do tend to have an opportunity in Q4 to settle more cases because Q3, the whole repossession settlement momentum is usually much higher in Q4 as well as some of the traditional slip, when we talk about bad debts, that the bad debts by sequencing it, if you see the Q4 numbers, traditionally see a higher amount of bad debt number. So, you will see overall gross slippages in Q4 higher than the previous quarter. But if I were to look at the full fiscal, gross slippages have not been higher than the previous 2 years. It's been in the same range in percentage terms.

Coming to the question on POCL, on preowned vehicles. For us, preowned vehicles is a combination of top-up loans that we do within our existing customer segments and

what we do in terms of the open market, whether it is the dealer, broker community and the aggregator community. I would say this year -- and I've been talking about this in the past to increase our used vehicle business.

Let me say that the used vehicle business of our own customers who graduate to the third year or fourth year, that has kept momentum. But some amount of the used vehicle business, just balancing between the risk that we saw in some segments, we sat out of some of that opportunity for last year in some pockets.

Not to say this is structural. We are looking at getting back with the right balance of making sure that we can bake in that risk and still grow that segment. As a percentage of our incremental sourcing, we want to get this business to be upwards of 20%. It is closer to a 17% right now. So that's the objective. It is just, let's say, a couple of quarters where this has gone down compared to the previous quarters.

Finally, on the COF benefit of how the 50-bps repo impacts us, rate transmission takes time. It doesn't happen immediately on tap. Needless to say, we will see that benefit coming through. Some of the incremental lines that we have raised in the last quarter are seeing that benefit, but I don't think it will be something that we will see immediately. Going forward, one can factor that these rate benefits considering that a lot of our borrowing is still floating our rate. Our lending 40%, 45% is fixed. So we should see a benefit of the rate transmission.

Raghav Garg: Sure. Sir, just with respect to your first answer, so point well taken that gross slippages have been steady or at a similar run rate over the last 2 years, 3 years. But when you look at the collections data as well, right, for FY '25 full year, whether you look at 4Q, it is lower. In fact, 4Q has been trending down since FY '23.

And that's the point that I was trying to get some clarity on that your net slippages are higher, right, in this quarter and even for the full year. What are the challenges? And then what is it that -- what is your outlook for FY '26, if you can...

Raul Rebello: So, Raghav, I can separately kind of give you clarity on the slippage numbers because there seems to be a disconnect in our understanding. I can clearly provide that clarity. I don't see a slippage sequential increase. Q4, as I mentioned, does go up over Q3. My guidance for next year, I don't want to kind of discount that it's not as rosy as FY '24.

There is a requirement for us to make sure that in an environment where underlying leverage levels are slightly higher than base case where there's been a long period of, let's say, liquidity squeeze, we will need to make sure that we continue to collect and ensure that our collection efficiencies are keeping pace.

Right now, there is a good amount of efforts being done to ease the liquidity situation. And hopefully, the rates also going down, we should see we are getting into a zone, which won't be as tight as maybe Q2, Q3, Q4 of last fiscal. We should see some relief.

Nevertheless, I don't want to hazard that things are going to be extremely rosy. We will need to be mindful of the fact that collection efforts, especially for a business like ours where we lend to a lot of middle-income segments, new to credit customers, we will have to continuously be on the ball on collections.

Moderator: The next question comes from the line of Avinash Singh from Emkay Global Financial Services. Please go ahead.

Avinash Singh: If I mean, one were to look at your FY '25 numbers versus guidance, I mean, the ROA miss has been largely driven by, as you acknowledge, the NIM part and the other part also is the opex standing higher. Now I mean, looking ahead, I mean, and also growth a bit softer.

If you were to still chase growth or try to do growth better than what you have done in the last 4 years or at least in line. And in that -- and also try to diversify, particularly those diversifications like some initiatives like mortgage and all will come at some opex, whether for a tech branch or people infrastructure.

So, in that context, even if there is going to be some bit of improvement towards NIM, but there also the mortgage kind of a thing could put some pressure. But how do you see opex going forward? I mean my question is that, okay, not immediate quarter, but how this 1.9% is going to improve because opex, I still see to remain sticky.

At the same time, on the yield side also, if the vehicle segment is kind of -- the growth is slow, then the competition can also keep some pressure on yields. So still, I mean, beyond fee income, there is some kind of -- I have a concern around yields. And also, how do you see opex kind of looking ahead? So eventually, I mean, we can visualize how the ROA is going to be?

Raul Rebello: Yes, thanks. Since your question was, I think, slightly more dense on the opex question, especially with the diversification. While Q4, I do acknowledge, has gone up by 10 bps to 2.9%. there were many one-off opexes in Q4. I would urge you to look at the overall opex for the full year, which we are sequentially down by 10 bps from last year.

Do we think that the steady state DuPont ROA tree, the opex should be in a 2.9 like we exited Q4. Definitely not. It is our objective to operate in the same levels of about 2.5 to 2.7. Irrespective of the diversification plan, some of it upfront will get baked in.

In the mortgages, just to clarify, this is not extreme prime mortgages that we plan to do. While we build the capability for mortgage and a lot of it will be leveraged from MRHFL itself. Affordable housing is going to be over-indexed in the mortgage playbook. There will be an opex increase, but that will come in also when you look at the overall ROA.

The revenue is quite attractive for the affordable housing participation. So, in a nutshell, I do not see us breaching the 2.7 kind of a number on an opex front. Maybe there might be quarters where we might go above and be in that range. But overall, I don't see us significantly climbing from where we are, irrespective of how much of diversification we do.

It might go up, as I said, marginally to accommodate for those investments. Some of them will be capitalized. But overall, at an ROA level with the revenue, which will come in from the commensurate businesses, see, we're not going to do businesses which will be revenue depleting over the medium to long term. Most of the choices that we make will be with businesses which can keep our revenue, our yield aspirations in line to get us to that 2% and then climbing to the 2.5% ROA.

Moderator: The next question comes from the line of Nischint Chawathe from Kotak Institutional Equities. Please go ahead.

Nischint Chawathe: This is actually on your growth guidance. I guess it's a fair expectation to say that we'll probably be somewhere closer to mid- to high teens growth over the next -- over the medium term. But what is the role of non-vehicles in the overall business? How do you expect it to ramp up? And what proportion could non-vehicles be, let's say, 2, 3 years down the line? And is that kind of baked into the numbers that we are talking about?

Raul Rebello: Yes. Thanks, Nischint. Again, I'm not doing any FY '26 guidance here. But if you just look at last year, our incremental disbursements moved up to 7.5% in the overall mix. Our non-wheels business now is close to a 7% on a stock basis.

I think in the next 3 to 4 years, the right mix would be to get the vehicle business in the 75% range and the non-wheels business, which is primarily in the SME business in the leasing, and we will talk in detail about the -- in the coming quarters about how mortgages will also start adding up in the overall playbook. So yes, the way to look at it in the medium -- in the next 3 to 4 years is to get the vehicle business in a mix to be closer to a 75% and the non-wheels to be 25%.

Nischint Chawathe: And the pre-owned is something which we consider as a part of wheels, I believe?

Raul Rebello: Pre-owned will be wheels part of wheels, yes.

Nischint Chawathe: Got it. And the provisions and cleanup in the housing subsidiary is done? Or would you kind of still expect some kind of noise out there over the next couple of quarters?

Raul Rebello: No, no. We think we have -- there's only one way now -- the way is up, as an up in terms of profitability, provisions are all done.

Nischint Chawathe: Sure. Got it. Thank you very much and all the best.

Moderator: Thank you. The next question comes from the line of Shubhranshu Mishra from PhillipCapital. Please go ahead.

Shubhranshu Mishra: Hi, Raul. Thanks for taking my questions. Three questions. The first part is as we have some new team members, if you can introduce them with a brief background of the new team members. I'm sure we have a notifications as well. That's the first. Second is if the auto or the wheels part is slowing down or at least we are alluding to the slowdown, it is slowing down for everyone.

So how do we think of yield protection, or do we think of yield compression going forward because everyone would be looking at the same pie. And the third is around the collections. How many people do we deploy in collections and how many of them would be in soft bucket, how many of them would be hard bucket if we can split that it will be great?

Raul Rebello: Yes. Thanks, Shubhranshu. I'll take your questions. First, on the people front, the leadership team, Pradeep, I'm sure we gave you background. Pradeep has been a seasoned professional with Aditya Birla for many years, he was CFO there. Mahesh Rajaraman is our CRO. He joined in about 6 months back, last assignment at Yes Bank, but many years with HDFC. Compliance Officer, Narayan came in after 27 years from RBI, a very senior officer in RBI. He handles our collection -- sorry, compliance function.

Our Head of Legal is Farida, who -- with the group earlier at M&M heading Legal and now she is our Chief Legal Officer. We have Manish who heads HR, who's been with us. Sandeep, as I mentioned, is a wheels professional really been with Mahindra Finance for a long period and led many growth business here.

Bijoy came into head leasing business and the co-lending business. He was a senior leader at Axis Bank, joined 6 months back. Shiv Kumar is our SME leader, now 2.5 years in the organization was running a $2 billion business in a private sector bank. Jaspreet, our Head of Mortgages, who has been seconded to MRHFL, close to a decade with Bajaj Housing Finance. Our Head of Data, Digital, Deepa, many years with -- in the technology function.

Our Head of Underwriting, Gaurav, again, from a private sector bank. Head of Marketing joined some time back a few months back, Anu Raj, again from Aditya Birla Group. So, we've got a solid set of leaders who've come in. And of course, we've always had a great set of existing leaders from the Mahindra Finance family who are extremely great -- sales and distribution professionals, where we had to augment the team was more in the functional side, control side. And I think we've got a great set of leaders now.

Your second question on the Wheels business, NIMs and the challenges, you're right, it's become -- the wheels business is a very attractive segment for most lenders, private sector, public sector, NBFCs. So yes, it is a defense plus growth strategy for us. We are cognizant of the competition intensity. We do have some moats in terms of distribution, in terms of geography, in terms of partnerships with the dealerships and channels.

We don't take any of that for granted, but we keep working on the efficiencies that we have and working on them to improve from wherever we are. I don't want to kind of discount that, yes, margins might shrink, but we will also have to make sure that our ability to become more efficient so that the overall margins are protected is -- and that's why for the last couple of years, you would have seen without any addition in manpower, we have still managed to have growth coming in.

Some of the efficiencies of the toolkits we use are playing out and it will further play out as we go forward. On your question on manpower split between collections business, collection manpower with the kind of -- we can't just -- we have reorganized our collection workforce to be more product-specific and we have a bucket focus also so that the collection teams are segregated basis the buckets that they own.

There's a huge bias towards early bucket collections and product collections. A decent part of the organization, I'm not sure we give those details on what percent is collection, so I will refrain from that. But I must say that we have got much more efficient in the collection function. Just read it overall, if the organization has kept us constant manpower for the last 3 years, then there will be clearly -- every function would have got more efficient.

Shubhranshu Mishra: Understood. Thanks. I will come back in the queue.

Moderator: Thank you. The next question comes from the line of Viral Shah from IIFL Capital. Please go ahead.

Viral Shah: Hi, Raul. Thanks for the opportunity. So, Raul. I would say broadly three questions. One is, so I understand, of course, within Wheels, there's various moving parts which

are playing out. But specifically with regards to the SUV portfolio, we mentioned this -- I'm sure we are referring to the exclusive partnership that we have forged with the parent to fund their EV business. So how, I would say, margin or ROE accretive is this business and why say being our ambition to be a more independent player, why should we then pursue this business?

Second, I would say, is more on the asset quality front. So, see, I understand this year, we managed to track to the lower end of what you had guided 1.3%, but you had a PCR buffer which we kind of utilized this year. Now going ahead, how should one look at this business? Because incrementally, your -- not just the end losses, but then the provisioning on the non-NPA assets will also start contributing to your P&L cost?

And thirdly, if you can give some color on the mortgage business, Raul, what is the plan over there? Like I understand you said that it could be over-indexed on the affordable side. But within that, what is the ticket size or the yield segment that we are targeting? That would be helpful.

Raul Rebello: Thanks, Viral. So, I'll take your questions in sequence. See, clearly the EV business, which M&M has launched, which has got some good success going in terms of bookings, etcetera. There is an aspiration to do 5,000 units a month, even if we get a good decent share there, it is going to be a good amount of disbursement growth for us. We do not plan to only finance, let's say, or just finance the low IRR business.

It was very encouraging for us to see those 230 dealers across the country, be it the metro cities like Bombay or the upcountry locations like, let's say, in Udaipur also where the demand for these vehicles have been all across and not just related. In fact, the demand, I might say, is more higher in the self-employed segment than the salaried segment. So, we are seeing a very universal demand, which gives us the ability to operate in that sweet spot of IRRs that we want also.

So, I don't think one has to be worried that the EV business is only going to be a low IRR business. We are going to get a decent share of the IRR that we would like here. Having said that, we have participated as an entry offer in the low IRR also. Viral, we are looking at and I mentioned this in the past, we have now some tie-ups with some mainstream banks on co-lending, etcetera.

So, we will see how best to use our balance sheet as well as our distribution to orchestrate this commerce that we are finding. The objective is not just to do growth at any cost. We need to be -- and you are right, we need to balance it with the margin requirement. That's on the EV business. So, it is going to be a promising monthly clip of numbers that we can get and we will see how best to keep on balance sheet versus off.

On your second question on the PCR and the credit cost what to look at I'm not changing my range. I'm going to stick to a range that we would the ROA can stomach for this business. We will operate in the 1.3% to 1.7% credit cost, which is a combination of end losses and provision. I think what is clearly -- we have benefited from this year is the provision has hardly -- there's not been any 10-bps provision for the full year, whereas the credit cost -- the end losses have been 1.2%, hence, 1.3%.

But it can't be the same for every year. And hence, with the levers that we have at hand, we will operate in the 1.3% to 1.7% corridor. We'd like to be in the lower part of it, but one has to be fair and reasonable on that. On the mortgage business, see, I think we don't want to do too many things at one time. We first want to set that -- set the existing book in order very quickly.

I would say, first, providing leadership clarity that's happened, right sizing the organization that has happened. You would have seen sequentially, if you look at the results also in that business, the GST has marginally come off. But more importantly, the number of employees, the kind of choices we are making on growth, there's no growth. It's all the GS3 reduction is happening mostly on collections and making sure that we are over-indexing on collections right now.

Once we have a reasonable in the next couple of quarters, clarity that we have gone progressed in the path that we have wanted to on the mortgage business, we will then clearly have a separate investor forum, analyst forum to detail our mortgage plans, which could be 2 or 3 quarters away. As I said, for the next 2, 3 quarters, the objective is to right-size and get the existing INR700-odd crores in shape.

Viral Shah: Raul, if I may, just a few clarifications to the answers that you gave. So, on the mortgage side, you mentioned right sizing the business along. So, going ahead, will we be doing this business only in the sub or also in the stand-alone book?

Raul Rebello: Both options are open, Viral, I don't want to give you a clear -- because we want to have the right forum to elaborate on that. Both options are open at the moment.

Viral Shah: And secondly, you mentioned on the credit cost range. Just wanted to re-clarify, you mentioned 1.3% to 1.5% and not 1.7%, right?

Raul Rebello: Yes, 1.3% to 1.7%.

Viral Shah: 1.7. Okay. And...

Raul Rebello: In stress scenario, I want to be -- we are in a cyclical business. We have cycles. So I want to give a range in the cycle that we operate.

Viral Shah: Okay. And lastly, on the EV business, I understood what you mentioned. If you can give some color on the yield -- indicative yields at which we are doing the business?

Raul Rebello: Clearly, we must climb from where we are. We are already seeing a trajectory in the fee-based income. We will also see with some of the choices of asset categories in the wheels business that we are over-indexing on, tractor clearly is going to be a big winner in the year ahead, which should give us some lift from where we are.

Viral Shah: I mentioned the EV business, not the Wheels.

Raul Rebello: Sorry, I thought you said yields you were talking about, right? Overall yields.

Viral Shah: No, yields in the EV segment, the EV business that we are currently doing, if you can give indicative color there?

Raul Rebello: We don't give such, I would say, specific guidance, Viral, so I would refrain from that.

Moderator: The next question comes from the line of Shweta from Elara Capital.

Shweta: A couple of questions. So given the guidance of mid to high-teen kind of growth and also coming from your commentary wherein you see only tractors as a bigger lever, at least in the medium term for growth. And we also had this agenda of reducing the business cyclicality by reduce -- by increasing the prime versus sub-prime or below prime customer share. But in the quest of also NIM management, we sort of -- I mean, I take the liberty of saying that we put it on the back burner.

So now with respect to business cyclicality, vis-a-vis our guidance of mid- to high-teen growth, which are the levers or business segments which materially will contribute to next 1 year? And it's not like the non-wheel business suddenly will climb from, say, 7%, 10%-odd percent to, say, 25% in immediate period. So that's my first question. Also now taking cue from the previous participant question, now that the credit cost guidance clearly has been -- has moved up higher, right, from 1.3% to 1.5% now to 1.7%.

So is it that -- I don't know -- so should we infer that write-off pool will continue to remain higher? So we are already, what, in 440, 490-odd range. So that's been since past 2 quarters. Will it remain in that similar kind of a number in absolute terms? And, if you can just give a profiling of the assets of this write-off pool. It could be diversified, but just which kind of business segments are contributing to write-off pool? Yes, that's -- these are my 2 questions.

Raul Rebello: Thanks, Shweta. So on your first question on growth, I just want to clarify when I said mid- to high teens, I was not talking about FY '26. I was giving you our -- for the next

3 to 5 years, what is our range of growth that we would expect. I would still say FY '26, one needs to be reasonable. We'll have to be cautiously optimistic on FY '26, just considering the recent ways in which the Wheels business has moved. I don't think -- and my guidance of mid-teen growth was not for FY '26. And I don't want to kind of talk about specific year growth.

In the medium term, if you were to ask me where will the growth come from? In the Wheels businesses, if you just look at the underlying commentary from the OEMs, whether it is the PV business, whether it's a Tractor business, whether it's the CV business, I think if you look at a CAGR growth up till FY '30 projections, which most OEMs have given or research reports have given, one could say that most of these businesses are in the low teen kind of guidance, right?

That's the kind of guidance at least I've seen, Tractor might be a little lower than that. But otherwise, it has been -- there's been like a 10% to 12% or 12% to 13% guidance in terms of CAGR for the next 3 to 5 years. Being a leading player in all these categories, I do think we should try to keep our market shares and build on that, and that's our capability with the distribution investments we are making to make sure that unit plus value, there will be value appreciation, I'm sure, in each of these categories to give us the mid to high-teen rupee value growth.

That's the estimation in the medium term. On the non-Wheels business, clearly, it's not a question of teen growth or non-teen growth. We'll have to grow in multiples, whether it's the SME business or some of the leasing business, etcetera. So those businesses will clearly have to be with the base that they are at, grow at a much higher clip. On your question on asset quality, see, I think just to be fair, and I gave a guidance of 1.3% to 1.5% at the end of Q2, that was for the full year.

The guidance of 1.3% to 1.7% is more like a -- I'm giving you a -- because of the cyclical businesses we are in, I'm again giving you a range that the ROA tree can afford for us in a cycle -- down cycle, up cycle. So, the 1.3% to 1.7% is more like a medium to long-term range that we will operate in. The 1.3% to 1.5% was the exit of FY '25. Again, where the management and the team would love to be at is in the lower end of that spectrum, of course, but we must factor in adverse cycles also.

On the write-off question that you had in the end, do we see write-off happening -- how do we see write-off happening? Is it happened in specific sectors? I'm not sure we give a color of whether write-off happens more in one versus the other asset category. I wouldn't say it is too divergent. It has been quite secular. We write off -- the write-off periods have been -- as per the model, we have policies, we have kept the write-off periods. And the fact that the amount of write-off has been reducing is encouraging.

It's kind of a reflection of our underwriting capabilities. It's a reflection of -- if you've seen our Stage 2, our Stage 2 numbers have been, I would say, very steady state for the last 2, 3 years range bound. So if the Stage 2 numbers have been range bound, I think you can -- your model can factor that clearly the write-off numbers will not suddenly start going up. If the Stage 2 numbers are going up, then that would be a reflection of how write-offs would start -- or Stage 3 was going up, then that would hazard the write-off number to go up in the foreseeable future.

But the fact that the early books or the Stage 2, Stage 3 has been range bound for the last 3 years, in fact, going down should have the write-off settlement numbers in the overall credit cost being again range bound and at the lower end.

Moderator: The next question comes from the line of Abhishek from HSBC.

Abhishek: So Raul, one clarification. So this yield drop of 30 basis points Q-o-Q, what is the real cause of it? Because if I look at your mix, it doesn't seem to have changed that dramatically. So is it that yields itself have fallen? Or is it something else, maybe some calculation issue? Why exactly would yields have fallen about 30 bps Q-o-Q?

Raul Rebello: Abhishek, any other questions? I'll take them all together.

Abhishek: Yes. The other thing is when you say the non-Wheels business will get to 25% in 3, 4 years, is it 25% of disbursements or AUM? Because AUM for it to get to 25% of AUM, that would be quite sharp. So I just wanted to get a sense on that.

Raul Rebello: Just come again on your second question, I didn't...

Abhishek: I think you said the non-wheels, so mortgage plus non-wheels would reach around 25% in 3 years to 4 years. That is 25% of disbursements or 25% of AUM?

Raul Rebello: Yes. So the goal is to get to 25% on AUM. As I said, I've kept optionalities out of mortgage, etc., where we'll do and how we look at the mortgage business also part of the SME business and the leasing business over a period of -- let me give you an outlook. This is not 3 years, not 4 years. This is over a period of 3 year to 5 years, right? That's the mix that we are looking at achieving at the end of, let's say, '29, '30. Coming to your first question...

Abhishek: Sorry, just to clarify, that's SME, leasing and mortgages, these 3 put together.

Raul Rebello: SME leasing and mortgages, yes, that's right.

Abhishek: Got it. Thank you.

Raul Rebello: Yes. Your first question?

Abhishek: Yes, on the yield drop, just wanted to understand why it would have fallen.

Raul Rebello: Yes, you're talking about quarter-on-quarter, right?

Abhishek: Yes.

Raul Rebello: So let me first give on the full year, we have been a range bound. On quarter-on-quarter, there's been a sequential drop. While there's no change in specific loan pricing, etc., because that won't reflect. There was a onetime -- we have reset a lot of our systems, our loan origination system, loan management systems during the year.

And what we did clearly as we moved is to recognize customers during the year as we need to provide the interest calibration from the date of disbursement instead of, let's say, date of agreements, etc. We have provided that benefit back to the customer to make sure that our interest calibration for customers is extremely on date instead of T+1, etcetera, it is on T date. So that benefit has gone back to the customer, and that's the Q4 drop that you would have seen as a onetime.

Abhishek: So is that now a normalized now that your systems would have reset to this new model, 11.6, 11.7 is that a normalized level to expect or it goes back. So, there's a onetime effect, but it goes back to 11.7?

Raul Rebello: Onetime effect.

Abhishek: Onetime effect.

Raul Rebello: We gave the benefit for the period for this to the customer.

Abhishek: And any chances of yields improving going forward?

Raul Rebello: Yes. As I said, see if I want to break it up into near term and long term, we are hit our -- I think we have hit our lower level even on yields, because for FY '26, especially what we saw in Q3 and Q4, the tractor incremental businesses have been chugging along really well, and we see this proceeding to the whole of next fiscal.

And tractor, needless to say, the yields come in at a much higher clip than the normal vehicle portfolio. So we are hopeful to see the overall loan income go up and some of the benefits of the corporate agency and fee will climb.

Abhishek: Okay. So Raul, just to summarize, basically, for the yields, your main dependence is on tractors firing next year. If that happens, then you're home with the yields objective?

Raul Rebello: See, I think the way to read it is tractor disproportionately higher than the rest of the pack and used also. Used and tractor are the 2 ammunitions in our kitty to get yields up.

Abhishek: But used has not really been picking up for you. So any specific reason there? Because last quarter also, that was a bit of a slow quarter for used and this quarter as well?

Raul Rebello: Yes, that's right. As I mentioned that there are some pockets where we had to balance between risk and growth. Having, let's say, wrapped our head around that equation, we should -- it won't -- it doesn't seem as powerful in artillery as tractor. But yes, it is on our shelf to dial up on.

Abhishek: Okay, thank you so much, thanks for clarifying.

Raul Rebello: Thank you.

Moderator: Thank you. The next question comes from the line of Harshit Toshniwal from Premji Invest. Please go ahead.

Harshit Toshniwal: Sir, a few questions around the diversification point that -- today, when we look at our business...

Moderator: Harshit, I'm sorry to interrupt you there. Could you please speak up? Your audio is too low.

Harshit Toshniwal: Yes. Is this better?

Moderator: Yes.

Harshit Toshniwal: So, just wanted to understand that when -- and probably if you can help me understand the basics. I don't have that history. But when we say diversification, as a strategy, what are the products where we want to diversify? And when we look at today's mix, I think SME is that line item where we can see some of the diversification going through.

And within the others, we have a trade advances. It's a club number when you look at the AUM. If you can help us split that what is the trade advance basically to the dealers itself, which I would not want to -- should be classify as a new vertical itself? And what is the real diversification in terms of personal loan, other loans?

If you can help us, give some color that when I look at today's AUM. Where exactly are we sitting on the diversification? And what are the products who are -- even within the SME segment, if you can throw some color on the nature of the business?

Raul Rebello: Yes. So Harshit, it will be wait for everyone else to -- for me to double-click on diversification because we've done it in detail. But if I were just to help you to navigate to Page number 17, where you will see a detail of our business assets across categories, you will see how they are on book right now broken up, and there is a page before that on disbursements and the share.

To give you some color on your last question on SME, see, the SME business has a bunch of -- it's largely -- it's not largely, I would say, mostly only retail. We have a little bit of supply chain finance sitting there, but it's mostly retail and in retail, mostly LAP, right? So that's the constitution of the SME business.

The others that you're talking about, there is a trade advance, which is basically, let's say, -- a line which helps retail finance at the vehicle business front. We don't blow that up into the others into trade advance, personal loans, consumer loans. Consumer loans, let me tell you, there's no consumer loans for this fiscal. We were doing it last year, which we sunset.

So, there is, of course, implements business -- tractor implements business, which is also sitting in that. They are so small that I would -- I'm sure you would appreciate it doesn't make sense us breaking it, and that's why it's in others because they are materially so low. Once each -- any of those businesses becomes higher than 5%, then I think it makes sense for us to do those.

Right now, they are all clubbed in the other section. I'm happy to Harshit take you through a specific diversification offline just to do justice for the entire.

Harshit Toshniwal: No, sure. I think that makes sense. Just one follow-up itself that -- so when we say 25% mix as a target, we include primarily SME into that -- the SME LAP as one product segment into that. I'm just trying to understand that if we need -- if we want to see the diversification today, that number we should just look at the SME mix in the portfolio.

Raul Rebello: If you look at it today, but I haven't given up the optionality and I haven't kind of told you about our -- I mean, so we do it at the right forum. Options are open on whether mortgage comes into that mix. Clearly, right now, if you look at it, it looks a little aggressive. It's only SME. So we did with that optionality in place. There's, of course the leasing business also that we have right now. And there's a small PL business, which has just built over the last 2 years.

Harshit Toshniwal: Got it. And one just follow-up. Maybe I think you have mentioned that you want to discuss in the different forum, so that's fine. But in case if -- when we look at our branch structures today and if you want to expand more into -- when we look at the SME LAP segment as a whole, what percentage of branches will be having this product

right now of the 1,350, 1,360 branches? And then is there a room for branch penetration itself for that to grow much faster at this point of time?

Raul Rebello: Yes. So again, unlike Wheels business, the LAP business is not such a distributed business. We don't need to do it out of 1,400 branches. We today do it -- I don't know whether we disclose that number, but I mean, I can share we do about 150-odd branches. We don't need to increase much more.

There is a concentration in certain hotspots of the LAP markets, and it makes sense for us to surround our branches, as you know, are close to 1,400 branches. So we have distribution in most of the hotspots. We don't need to unlock all the 1,400 branches for SME. SME, the LAP business is, as I mentioned, a little more concentrated business around certain hotspots.

Harshit Toshniwal: Okay. One last thing, sir, that the disbursement in the others, the trade advances that segment itself has been growing very fast. If you can help us what is exactly driving that disbursement? That's just the trade advances to dealers only at this point of time? This quarter, it was a INR400 crores number, but that number has been shaping up well in the last 2, 3 quarters.

Raul Rebello: Please don't read that as only, as I said, trade advance. There is farm implements, there is Genset, there's personal loans sitting in there.

Harshit Toshniwal: Yes, sure. Okay, sir. Perfect. Thanks a lot.

Moderator: Thank you. Ladies and gentlemen, that was the last question, and we conclude the question-and-answer session. I now hand the conference over to the management for their closing comments.

Raul Rebello: Thank you, everyone. I hope we have been able to cover most of your questions. As I said, it's been a year in reflection. It's been a year of moderate growth. But nevertheless, we have seen some positive outcomes in terms of keeping asset quality in an environment which has been quite tough. We've kept that in a manner which we think is reflective of a resilient business.

We do have our plans to make sure that we get back on growth, and we are able to make sure that as we find growth in the next few years, we keep the asset quality and the ROA aspirations now to operate in the ZIP Codes of inching upwards of 2% going forward, right? Not -- again of '26. As I said, going forward.

But thank you very much for joining us on the call and look forward to be engaged.

Moderator: Thank you. On behalf of Mahindra & Mahindra Financial Services Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.