

9th February 2023

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

National Stock Exchange of India Ltd., (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 Q3 FY23 Earnings Conference Call held on Friday, 3rd February 2023

Further to our letter(s) dated 30th January 2023, 3rd February 2023 and 4th February 2023, and in compliance with Regulation 30, Schedule III, Part A, Para A (15) (b) (i), 46 (2) (oa) and other applicable provisions of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("SEBI Listing Regulations"), please find enclosed herewith the transcript of Q3 FY23 Earnings Conference Call held on Friday, 3rd February 2023.

The transcript of the Earnings Conference Call can also be accessed on the following link:
https://mahindrafinance.com/media/394362/transcript_earnings-call_q3fy23.pdf?_ga=2.239565891.1992894329.1675663059-719049991.1674456611

This intimation is also being uploaded on the Company's website: <https://www.mahindrafinance.com> in compliance with Regulation 30(8) and 46(2) of the SEBI Listing Regulations.

Kindly take the same on record.

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

Brijbala Batwal
Company Secretary

Enclosure: As above



“Mahindra & Mahindra Financial Services Limited.
Q3 FY '23 Earnings Conference Call”
February 03, 2023



MANAGEMENT:

DR. ANISH SHAH – MANAGING DIRECTOR-M&M AND CHAIRMAN – MAHINDRA & MAHINDRA FINANCIAL SERVICES LIMITED

MR. RAMESH IYER – VICE CHAIRMAN & MANAGING DIRECTOR – MAHINDRA & MAHINDRA FINANCIAL SERVICES LIMITED

MR. VIVEK KARVE – CHIEF FINANCIAL OFFICER – MAHINDRA & MAHINDRA FINANCIAL SERVICES LIMITED

MR. RAUL REBELLO – CHIEF OPERATING OFFICER, CORE BUSINESS – MAHINDRA & MAHINDRA FINANCIAL SERVICES LIMITED

MR. DINESH PRAJAPATI – HEAD – ACCOUNTS, TREASURY & CORPORATE AFFAIRS – MAHINDRA & MAHINDRA FINANCIAL SERVICES LIMITED

MODERATOR:

MR. ANUJ SINGLA – BANK OF AMERICA

Moderator: Good day and welcome to the Mahindra & Mahindra Financial Services Limited Q3 FY '23 Earnings Conference Call. This call is not for media representatives or Bank of America investment bankers or commercial bankers, including corporate and commercial FX. All such divisions are instructed to disconnect now. A replay will be available for Bank of America investment bankers and commercial bankers, including corporate and commercial FX. The replay is not available to the media.

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 the call. If you do not wish for it to be disclosed, please immediately discontinue this call. 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 star, then zero on your touchtone phone.

I'd now like to turn the call over to Mr. Anuj Singla. Thank you, and over to you, sir.

Anuj Singla: Yes. Thank you, Neerav. Good evening, everyone. This is Anuj Singla from Bank of America Securities. Thank you very much for joining us for the Mahindra Finance call to discuss quarter 3 and 9-months FY '23 earnings. To discuss the earnings, I'm pleased to welcome Dr. Anish Shah, MD of M&M and Chairman of the Board of Mahindra Finance; Mr. Ramesh Iyer, Vice Chairman and Managing Director; Mr. Vivek Karve, CFO; Mr. Raul Rebello, Chief Operating Officer, Core Business; Mr. Dinesh Prajapati, Head of Accounts, Treasury and Corporate Affairs. Thank you very much, sir, for giving us the opportunity to host you.

I now invite Dr. Anish Shah for his opening remarks. Post which we will open the floor for Q&A. With that, over to you, Mr. Shah.

Anish Shah: Thank you, Anuj, and good evening, good afternoon, good morning to everyone. Our apologies for the delay today. We just concluded a Board meeting and have an exciting announcement that we had to upload to the stock exchange site before we could get on this call. I will plan to stay on the call for the first 10 minutes or so to

cover the announcement, as well as address any questions, and then hand it over to Ramesh, Raul and the management team to take it forward.

So, over the last 12 to 18 months, we have been very clear about the path that Mahindra Finance is headed in, and that has been around improvement in asset quality, ensuring that we significantly reduce the volatility in asset quality, in driving growth, in bringing in a much stronger management team as the business moves into the future, and to look at data and digital in a way that can really help Mahindra Finance be a leader in technology in financial services. So these are the 4 areas of focus that we've had over the last 12 to 18 months.

You will see the results and many of you may have seen it already about asset quality, and I won't spend much time on that. The management team will take you through that in detail. What I would like to talk about is our succession plan. We've announced earlier that the MD and CEO, Ramesh Iyer, will retire on April 29, 2024. I would give a lot of credit to Ramesh and the team for building a very strong business.

As we see the business, the core is truly extremely strong. It's been the volatility in asset quality that sometimes has caused angst for all of us. And that's something that, as I mentioned earlier, we will reduce. But the team has built a fantastic business. It's a great franchise. It's one that even today with banks and other NBFCs in this space, continues to be a very strong leader in rural and semi-urban markets. And therefore, the strength of the franchise is one that can be leveraged to do a lot more as we go into the future.

So that's the reason why I would give a lot of credit to Ramesh and the team who have built it. As is our norm at the Mahindra Group, we also want to ensure a very structured and a thoughtful succession process. That is something that you had seen when I got into my role, where the announcement was made literally about 18 months or 15 months prior to that happen. At exactly in that same vein, we are making an announcement 15 months prior to ensure a very smooth succession at the leadership level.

We have gone through a very detailed process. The Mahindra Finance Board was collectively very deeply involved in it. There were several candidates that we looked at from across the industry. And I must say that it was very gratifying to see many of the top bankers in the country also very keen to talk to us about this role at Mahindra Finance. Having done a very detailed assessment of all potential candidates, we are pleased to announce that Raul Rebello, who is currently our Chief Operating Officer,

will resume the post of MD and CEO designate for now, and then will assume the post of MD and CEO when Ramesh retires on April 29, 2024.

Raul comes with a very strong background with Axis Bank, having spent 19 years there, has built a very strong business at Axis Bank. And then over the last 17 months, at Mahindra Finance, has really led, along with Ramesh, the turnaround that you've seen and the improvement in asset quality, the growth, the focus on technology and data, all those things.

And therefore, we feel that Raul is an ideal candidate to take this business forward. The details that we've gone through with him on the vision for the future on how to leverage technology, how to be a tech leader were also, I would say, inspiring for the Board and something that you will see in the months and years to come. And therefore, we're very excited to have Raul Rebello as the next MD and CEO of Mahindra Finance.

At this point, therefore, let me open it up for questions. I would caution in a sense or request that please do not ask questions on M&M because we are in a silent period right now, till we announce the results next week. I'm here in my role as Chairman of Mahindra Finance and would be happy to address any questions on the succession plan.

The details on the quarter, I would again request please wait for the management presentation and then go through the questions after that. But specifically on succession, if there are any questions, happy to address that.

Management: Yes, just catching with -- so Dr. Anish Shah mentioned that the management would like to make some comments on the results as well. So, if the management is okay, we can go ahead with the comments. And after that, we can proceed with Q&A.

Anish Shah: Yes, that sounds good. I think we can do that. Are there any other questions on succession?

Management: Sir, we have one. But I think we can combine it along with the other questions if that's okay with you. So, we will have many more towards the end. And I think...

Anish Shah: Why don't we cover the one question because I will step out after that and leave it to the management to go forward.

Management: Neerav, can you open.

- Moderator:** And the first question is from Jignesh Shial from InCred Capital.
- Jignesh Shial:** And congratulations for -- to Raul, and even you guys for such an advance announcement and all. I just had a one question that with Raul moving towards -- gradually moving to the top role, are you seeing any further additions into the top management level immediately? Or how -- any changes in the structure have been talked about or it will be more or less just a change in succession plan that has been talked about? Any further changes that we are seeing in the top management side? That is what I wanted to know.
- Anish Shah:** So Jignesh, over the last two years, there have been a number of senior leaders who joined Mahindra Finance, many from very reputed banks in the country and that has really helped build a very strong team here. This was sort of one additional step that was a critical one, which we've taken now. It will leave the post of the Chief Operating Officer open, which is Raul's current position. And we will review that.
- And the two options are that either we will fill that post as is and bring in a new Chief Operating Officer, or there may be some small changes. But I wouldn't expect something significant or dramatic because you've got a very strong team in place now. And this was a plan laid out 18 months ago and executed in a very structured manner. So, I would not expect any significant changes.
- Jignesh Shial:** Thanks for the answer. I will leave back for the question and answer. Thank you so much.
- Management:** So, with that, I will leave it to the management team to then take it forward. Thank you all again for joining the call today. And we will continue to be in dialogue with you. So, if there are any further questions, you have after the call as well, please feel free to reach out to us, and we'll respond to them. Thank you. Ramesh, over to you.
- Ramesh Iyer:** I'll very quickly give an overview and then we can get into the Q&A. I'll take you back to -- a few quarters back when our NPA had gone to the highest level, and then we have made a commitment that how we see things changing. And then on, every quarter, we have seen things going in the right direction as envisaged by us. And it's not by chance, it's going in the direction.
- We clearly put in place various initiatives that were required to bring things to control. And we also have said repeatedly how the rural market buoyancy helps this get corrected. We continue to see the rural market continuing to be strong. The demand is high. Cash flows definitely are showing very, very positive trends. Good news is, the

monsoons have been good, yields have been good, support price announced is good, therefore, the farm cash now definitely is holding up. We are also seeing opening of the infrastructure in different states, and this will only further enhance going forward, and the contracting cash flow is doing pretty well.

I think every activity levels, which had subdued in the past, which we had listed out, whether it is the tourism, people movement, we see no pressure on any of those fronts and that's clearly indicative of how the cash flows of the rural market is performing. We've also always stated in the past that demand for vehicles, tractors, pre-owned vehicles are a direct indication of the improved cash flow, and that results also into collections being always good, because that speaks of the overall cash flow strength of that market.

Demand is holding up, very clearly footfalls at the dealership continues to be high. Supply positions have improved, vehicle availability is increasing. There are some vehicles nonavailability in some parts of -- locations nonavailability, preowned vehicle was a short supply product. But all in all, we see availability has improved, and that has resulted also in the good retails. And you can see from our disbursements, we clocked the higher disbursements in MMFSL this quarter as compared to any of the past.

The NPA levels are continuously declining. Also, important to read it with, we had no repossessions during the quarter. And in spite of that, we've have seen quality correction, which is again a reflection of the cash flow holding up. But there was this order of repossessions imposed on us. We had said that it's come in a quarter where normally the repossessions would be low, and with the improved cash flows, we may not necessarily resort to high repossessions. And that's come out pretty true that we have done well in spite of no repossessions.

We have overall improved market share in most of the product lines that we work with. And we are very happy to report that we continue to maintain our leadership position in most of this product in this market. We are very efficiently using the data and the various proxy data that's available for even underwriting. And if we kind of analyze our last 12, 18 months of lending, extremely happy to note that the delinquency from that portfolio is pretty negligible.

And therefore, as we progress in that direction, and we start cleaning up our past both by recovery, repossession settlements and all of that, we would be a very healthy balance sheet in terms of our asset quality is concerned and coupled with the growth that we are already witnessing.

We had talked about our strategy up to 2025. We are very much on course for achieving most of those parameters, and we are progressing extremely well on those fronts. We have invested sufficiently and adequately appropriately in the technology space. And we have a Project Udaan, which is a transformation project in hand, where all of us are very actively engaged with our best people put in that project, and that will really bring much higher degree of stability to what we are focusing.

We do believe that, until 2025, it is definitely a great opportunity in the rural market. And we are absolutely ready for capitalizing on that opportunity, given our deeper penetration, given our investment in technology, given our vast relationship with OEMs and dealerships, and very clear indications of getting into new product lines. And more specifically, I'll call out the SME as a segment, where we had set out clearly that what would we want to do in the next couple of years.

And currently, we run the book close to about INR 4,000 crores in the SME segment. And they largely come around the auto engineering, agri space that we well understand. It comes around the small trader community that we well engage with. And we believe that, that's a great growth opportunity.

The other 2 growth engines, which is the leasing business that we got into, again, very happy to report that we have underwritten more than 200, 250 clients, and they are all good corporates who offer their CTC vehicle to their employees. And we believe that we are getting ready for the future, and we are rather one of the NBFCs who got into it much earlier than anyone else, and we definitely see advantage and the growth coming from there.

On the digital finance front, which we have launched a year plus back, I think all processes well tested, technology well tested, and we've kind of built relationship across. While the numbers are too small to report at this stage, but you will see numbers punching in. And if we look at the next 1 year, we should very categorically be able to talk about that being another vertical of growth for us.

All in all, we think that having done things with lot of patience and partnership approach with the consumer, we've been able to turn it around, and we are at a juncture now where we are able to clearly see growth for us. Some of the areas of clear focus for us going forward, we are conscious of the fact that the borrowing cost has gone up. And what we have done is, we have also passed on to the consumer, more importantly in the quarter just gone by, the effects of which could be seen in future, around 80 basis points has been passed on to the consumer.

But there is still a gap, but we don't believe that that needs to be bridged in urgency. And our expectation is in the next couple of quarters, we may probably start seeing the interest rates come off. If not, we can always take a decision to work more and how much more to really pass on. But we don't see any specific pricing power being withdrawn from that market, but there is sufficient competition across the country. But given our presence for a long period of time, and as we said about our relationship, large customer base, people penetration, all of that put together, we are able to counter that pretty well.

Any competition that you see in our NIMs would also come from a product mix change. Because different products come at different rate levels or yield levels and therefore in certain products, which are low-yield products, are high in volume, like especially the personal segment cars, et cetera, you will see some compression on NIMs, but they more than get offset by lower operating cost and lower credit for those products.

The other area of focus for us very clearly is going to be on the opex. It looked a little elevated at some point of time, but you now start seeing the productivity kick in, the disbursements growing and the AUM growing. But at the same time, we have little overinvested into future, especially with our transformation project.

And we would continue to invest in that direction even in the coming year, while the absolute operating cost would remain under control and the productivity would kick in. But additional invested cost into these projects will keep the cost a little elevated. But we do see a 20-, 30-basis point improvement that we are very cautiously working on, and the benefits of could be seen over a period of time.

Putting all of this together, I think our real clear way forward is to keep controlling the asset quality and maintain continuous improvement. And as you all must be aware, that RBI has already lifted the ban on the repossessions. And therefore, we will resort to repossessions from delinquent accounts, which are long outstanding, and that should release further provisions from the book as we reprocess and transact on them.

And we, therefore, strongly think with the growth returning, with asset quality under control, margins being maintained and with little additional focus on the opex, as we consume capital, our returns should also start to improve, while our first attempt is to keep continuously focusing on the ROA improvement.

And parallelly as we consume capital, you'll also see the ROE improvement. So, all in all, we think we are doing -- taking advantage of what's happening in the rural market, and we are being benefited from what's happening out there. And our confidence is that, in the times to come, rural market is a place to watch, and it will have the continuity of the positive buoyancy in the segment that we see there.

I would stop here and open it up for Q&A

Moderator: The first question is from the line of Abhijit Tibrewal of Motilal Oswal.

Abhijit Tibrewal: Congratulations to Mr. Raul Rebello as well. Sir, two quick questions. First on margins. I'm just trying to understand, I mean, there were a wide-ranging expectation that we will see a compression in margins, but it looks like we've been able to kind of maintain steady margins. So, I mean, is -- I mean, should we read it as -- I mean, given that the interest rates have now peaked out, going forward, we can maintain steady margins? Or -- and how should we look at margins going forward? This is the first thing that I'm trying to understand.

Ramesh Iyer: So, as I said, I think you should look at margins from 2 or 3 angle. One, you are right, we also believe that the interest rates must have peaked out but start rolling back only in the next couple of quarters. It's not going to happen in a hurry. Nevertheless, we have passed on some rate increase. And we would continuously watch that space. And if the interest rates were to further go up, for sure, we will further discuss on how do we pass it on.

Also, it's important to understand that, and you must have seen it, but now we also enjoy a AAA rating. We've been upgraded to AAA and that should bring in some benefit on our borrowing cost, as well as ability to borrow from more vendors, more providers of funds and could be an advantage from a cost perspective. And the fourth is, clearly, as the borrowing cost starts to correct downward, we should be benefited out of that. And maintaining the current margin levels, therefore, for sure is not an immediate challenge. Will it start improving from here, will definitely depend on the 2 or 3 parameters that I talked of.

But please be conscious of the fact that product mix will keep moving the NIMs up and down. That depends on the yield of the product. But on the end result of the ROA, it should benefit us if it comes from certain products which require low opex and low credit costs.

Abhijit Tibrewal: This is useful. Sir, the next question that I have is on the asset quality. I mean, obviously, from peak gross three levels of about 15% plus, I think we have come a long way, and congratulations to the team for that. Just trying to understand, over the last -- or next, let's say, 1 year, where can this gross Stage 3s get to and how much scope do we have now for the the previous months also you talked about, even that this RBI guidelines you have said now that we are in a position to repossess a lot of the old delinquent accounts, which we need to further see repossession?

And also, on one of the other areas that you kind of reported is this bad debt and maybe settlement clauses. So, given where they are and given the fact that we've not done any repossessions, I mean, was there more in the nature of customer settlements, which led to -- I mean, that type of number in the P&L?

Ramesh Iyer: So, in one of the earlier calls, we had said that even though repossessions are not -- have been entertained, we were definitely in touch with the customers. And you are right, we have reached out to them for a settlement. And there definitely settlements come at a little lower loss than probably reprocessing and selling some of the high delinquent account vehicles. So, you're right that to the extent you see that number, it comes from -- some comes from whatever stocks that we had in the books which would have got sold, and some comes from the settlement that will happen with the consumers.

But your specific question on where do you see the Stage 3 going forward. This is a business which will have a little volatility when it comes to quarter 1, quarter 2 versus quarter 3 and quarter 4, and that is more by nature of the cash flows of that market. But with repossessions opened up, et cetera, we will definitely concentrate on high aging buckets like 12-plus, 18-plus kind of a bucket. And to the extent there we settle, or we repossess and settle, et cetera, should give us a scope for at least another 100-basis point improvement on the gross NPA over a period of time.

On a normal regular basis, if everything going well in the market, we do believe that a 3%, 4% gross NPA in this market always will be on that given that we are in tractors, we are in 3 wheelers, we are in pickup vehicles and all range of vehicles.

Abhijit Tibrewal: And sir, just squeezing in one last question. To get to those guided ROA levels by FY '25 to 2.5%, I think one of the biggest drivers of improvement in ROEs are going to be your operation and credit costs. So, I think during your opening remarks, you talked about and you talked about -- you are working very hard towards, that you are seeing the opex grow by about 20 to 30 basis points and that the improvements will come

over a course of time. So, are we talking about a sustainable 20-, 50-basis point kind of an improvement every year from here on?

And sir, secondly, in terms of credit cost, in terms of the franchise that you have built, you've, in the past, talked about, I mean, reducing the longer tail of the more vulnerable customer base and targeting a slightly more niche customer segment, rich niche customer segment. So I mean, against that, I mean, what are those sustainable credit costs that this franchise that you've built you can work on?

Ramesh Iyer:

So one is on the ROE that you said and you referred to my initial remarks as well. And we did say that we will work, at least on an immediate basis in the next couple of quarters, how do we get to 30-basis point saving arising from there. It's hard work because it is a variable model. As volumes increase, as collections improve, it comes with a pair of parallel variable cost. Definitely, with the sentiments of the market being pretty good, there may be some productivity kick-in for sure.

So as far as the credit cost is concerned, I mean, it's important to look at our coverage already, right? We are at about 59% coverage. And as we speak, and as I said, the future delinquency improvement will come from high-age bucket which already carries a higher provision. So our view is that we may not have to necessarily over worry on the credit cost front going forward. What we really have to focus on is the opex coming down and the NIMs being protected by better borrowing, by better lending rates and better product mix management, and that will collectively lead to an improved ROA that we would like to see.

Moderator:

Next question is from the line of Kaitav Shah from Anand Rathi.

Kaitav Shah:

And I believe congratulations are in order for Mr. Raul Rebello. First of all, a good set of numbers. So my question is more on the subsidiaries, if there is any visibility or plan around improving the numbers on both the subsidiaries?

Ramesh Iyer:

So on the subsidiary, let me first take the MIBL, which is a smaller one. Very clearly, we are awaiting certain regulatory changes, but we've been given to understand out on the way, and you would see a good turnaround in this business. Because if you see the top line of this business in terms of our ability to carry out various business and the yield numbers, we are pretty healthy, right?

What has caused a little depression on the bottom line clearly is the way the commissions are structured, and that's definitely undergoing some change, and you will see change in this business for sure, but more importantly, the larger business,

which is our rural housing business, we have taken a very conscious call on how much should we do the rural housing lending and how much would we get into the affordable lending. And while we started off initially with a 15%, 20% of affordable lending, we do believe that we need to get to a much higher percentage in the affordable lending space. And the months gone by, we have seen a mix of at least about 50-50, 45-55 kind of a number. And you will see that first very clearly arresting the volatility of the NP.

And as all of us know that the business that we got in the rural housing to an extent initially was a little experimentation, we were the first to get to the business. And it has given us lot of learnings from different markets at different points of time. And therefore, we've taken this conscious call on also getting into affordable housing, a little more larger than we are today. That changes the overall ticket size of the loan as well as, therefore, the mix of the business changes.

On the rural front, again, it's a great business to be in, except that we've very quickly aligned and realized that we need to cut certain segments, while there is enough high-end segments available even for the rural lending. And therefore, the segmentation has helped us to move up the ladder and go into different segment of cost. And you can see in rural housing, at least in the next 1 year, you will see a dramatic change not just on the asset quality of the book that we are building, also collection too, because we're putting a very strong legal practice in place to be able to negotiate with the customer, settle with the customer, use separately where required, et cetera, et cetera.

So one side, we will do the past book cleaning up, and on the other side, we will build a very strong future book. And these 2 together should help grow the book as well as return back to high profitability level.

Kaitav Shah: Right. Right. Wonderful. Sir, one data keeping question on the customer count that you have, and what you've added in terms of digital for this quarter and what it would look like, say, in the next 1 year?

Ramesh Iyer: Sorry, when you ask this question, you mean how many customers are we acquiring digitally? Is that the question or?

Kaitav Shah: Yes, overall customer set and the number of customers acquired digitally, and what is it that we are targeting?

Ramesh Iyer: The customer base live today is close to about 20, 22 lakh customer we have live. And you must be seeing our monthly updates where we say, on an average, we are upward of 60,000-plus customers every month we add. And good months, we have added 70,000, 75,000 plus customers, right? In terms of digital acquisition is concerned, it may not be a very high number in vehicles, especially vehicles like tractors till, digitally. But we have seen -- we have started seeing traction there. But more importantly, in our personal loan segment, if you recall, quite some time back, we had discussed and launched a product called Manthan, which is to our existing customer, existing extremely good customer who have reached 12 months, 15 months, 18 months without default, we are giving them certain personal loans which will mature much before the vehicle loan matures and therefore, the vehicle acts as a collateral.

But that loan largely is digitally handled. And that is close to about 40 odds for a month is what we do there. And in number terms, there will be about 4,000, 5,000 customers or maybe even 6,000 customers. And that we see will grow faster as compared to digital growth in vehicle tractor business.

But many of the processes, including recovery processes, including KYC process, are all very well digitally handled. So one additional data point I will want to give you, a company which used to be 90% plus cash-collecting company over a period of time has now come to about 40% is what gets cash collected and 60% is coming through various digital means. And that's an interesting phenomenon for us because then that helps us in terms of even improving our cost going forward.

Kaitav Shah: Right. Got it. Got it. And one last question, if I may be allowed to ask. Sir, in terms of the operational changes, this one more for Mr. Raul Rebello, are there any other low-hanging fruits? I mean you have already -- we've already seen some ground level changes. But are there any other low-hanging fruits to improve the efficiencies from here on that you could talk about from a strategic perspective?

Raul Rebello: And so I think you would have seen our Vision '25 document, wherein we have put out our growth plan, the asset quality plans, as well as our opex plans. More from a growth standpoint, while we have our organic channels of growth, which a dealer channel, we're also investing a lot in, as Mr. Iyer said, in other channels of acquisition. So the non-dealer channel, as well as the platforms for origination. We've also -- you have heard from our last update, we've tied up with India Post Payment Bank. So we're unlocking as many partnerships to acquire customers, as well as service

customers in a manner which is -- for customers, there should be an ease of having a financial relationship with us.

Moderator: Our next question is from the line of Shweta Daptardar from Elara Capital.

Shweta Daptardar: Congratulations on good set of numbers. A couple of questions from my side. So you made a comment in the opening remarks mentioning that you have maintained your leadership positioning and also market share across products. But if I'm looking at your breakdown of business assets as well as disbursements contribution, then your 3 key products, auto and utility vehicles, tractors and cars, all have been reporting slight sluggishness -- I mean, sorry, 9 months Y-o-Y as well as compared with March quarter.

So would you like to throw light upon then what would be the key growth businesses going forward? That's question #1. Question #2, so you have fairly addressed this, but still in absolute terms, if I have to look like credit charge to P&L in terms of provisioning, so that number has been a little volatile. So if we have to sort of model in that particular number, so how shall we look at provisions on P&L going forward?

Ramesh Iyer: So let me take the first one. In the business, our mix, you may see some sluggishness in growth of the first 3 products that you found out. That has no relationship to the market share and leadership position that we have. Because they are already a very large base number, and what we do in that business will depend on the underlying volumes of the market. If tractor industry grows by 2% or 3%, since we already have a 30%, 35% market share, therefore, we will also get only that kind of growth coming from there.

So I think you have to delink these 2 verifications. On the market share front, on the leadership front, is very independent of the growth rate, this product offers internally. And therefore, if you kind of look at our growth engines, we always have said that pre-owned vehicle will be a growth engine for the year because the demand for that is pretty high. I think it's also important to look at as the vehicle price, tractor price, starts to go up for the same volume the disbursement will go.

So far that benefit is not still coming in because the OEMs are also cautious in terms of when and how much amount they want to increase. So when the price increases on the vehicles, tractors, et cetera, begin to happen, which we believe in the next 12 months, you will see a few increases should happen. And that will also bring in a higher disbursement for the same volume.

So therefore, one should look at retention of market share and the volume that we clock on a monthly basis on this product to be very independent of each other. But the growth that is projected by all the OEMs going forward also seems to be looking attractive, and which is why we are confident that we'll maintain our growth rate. And as far as the provision number that we should consider for the P&L purpose, maybe Vivek will take this question.

Vivek Karve: So Shweta, you can hear me, right?

Shweta Daptardar: Yes, sir.

Vivek Karve: Okay. So what I would suggest is instead of looking at OEM delivery number, you should probably look at the overall credit cost number, because there is an interlink between the provisions and the other write-offs that we do. Because to the extent a mandate is written up, you would know that we write our mandates on a quarterly basis. And in fact termination losses or settlement losses that are also accounted for as and when they are the incurred.

And in most of the cases, these come out of the Stage 3 -- gross Stage 3 assets that we hold. And therefore, my suggestion would be not to look at the provision number per se but look at the overall credit cost as a number.

Shweta Daptardar: Fine, sir. Sir, one question, if I may squeeze in, which, again, you have already addressed partially. So did you buy for an incremental 100 bps decline in Stage 3 GNPA's going ahead?

Vivek Karve: I think the question was how should we look at the trajectory of gross Stage 3 over the next 12 months. I think that was the question that was asked. And that's where Mr. Iyer said that potentially we could look at a sequential downward movement in the gross Stage 3 from where we are today.

Shweta Daptardar: Okay. And sir, are we giving a breakup of Stage 1 and Stage 2?

Vivek Karve: Yes. So we give that -- you're talking about the guidance or you're talking about the breakup?

Shweta Daptardar: No, breakup separately of Stage 2.

Vivek Karve: Yes. So we do that. So it is already available on Slide 25 of the investor presentation. But now that you're asking this question, as of 31st of December, we had close to INR 6,500 crores of Stage 2 assets, which comprises 8.4% of our asset book.

- Moderator:** The next question is from the line of Subramanian Iyer from Morgan Stanley.
- Subramanian Iyer:** Congrats on a good set of numbers and congratulations to Mr. Raul Rebello. My question is again with respect to credit cost guidance for FY '24 and ahead, given that it's very important for your ROA projections. Given the business mix and risk profile is undergoing a change and we have also seen the impact on loan yields, would you guide to a much lower structural P&L provision charge than what you used to guide in the past of about 180, 200 basis points in normal times?
- Ramesh Iyer:** I think, if you're talking of a little long term, definitely, as the asset quality, the segment of customers are changing, mix of business starts changing with little more of SME coming in, I think the answer would look to be an yes for sure.
- Subramanian Iyer:** Sure. And maybe we have already taken the bulk of the provisioning in this year, right, and you're seeing good recovery. So why not for FY '24?
- Ramesh Iyer:** No, if you look at we still have 5.9% NPA, right, while we have made provisions for. So if you look at the GS3 at 5.9%, our focus is to collect from what we have provided and you may get some benefit. And as I just said in the opening remarks as well, that repossessions have been allowed and we will focus on high delinquent accounts. But to forecast that as a number is a challenge. So maybe -- and we have put out our monthly number like we put out our monthly numbers for January. And you would have seen that the NPA levels are maintained at a December level, which is not normally the outcome anytime.
- You always see at the quarter end, the first month of the next quarter, you see something going up. The very fact you see in category that's been curtailed; we are reasonably confident to believe that our efforts on the delinquent account resolution is working. And we will put it out on a month-to-month basis, but to make a commitment, what would it look like in February, March will get a little challenging for us.
- Subramanian Iyer:** And my second question is, if you can highlight where do you expect your exit cost of funds versus the current calculated levels of over 7.2 %? We have seen a -- with respect to yields, we have already seen a sharp compression in 2Q. So do you expect that, going forward, the yield should stabilize or maybe even more -- or move higher? Yes.
- Vivek Karve:** Yes. So the high interest rate scenario will continue. So it's not that the interest rate curve has flattened, we are just guiding. And you would have also seen Fed recently

taking up the rates by another 25 basis. It has to be seen what action the RBI will take. But ultimately, we believe that the high interest rate scenario is here to continue at least for the first half of the next fiscal. So that's the view that we have today. And you also know that during the current year, we have had to borrow at a rate higher than what we have done in the past. And as the older book, which probably could have been a lower-cost book, exits, some pressure on the overall weighted average interest rates will continue. And slowly, maybe towards Q3 or Q4 of next year, there could be some signs of the rates stabilizing at a lower end.

So if your question is, have you already started seeing a lower cost of borrowing, the answer is no. Having said that, we'll always use a very prudent asset ratio for borrowing mix, and we'll try and optimize cost of the assets in book.

Subramanian Iyer: So assuming, obviously, that you will have some MCLR based-borrowing data, I assume, as well. I mean where do you see possibly the cost of funds exiting in the next 3 to 4 quarters?

Vivek Karve: So see, right now, as of 31st of December, if we are at a certain rate, I believe over the next 3 to 4 quarters, we believe on a weighted average basis, another 15- to 20-basis point increase in that particular borrowing mix.

Moderator: The next question is from the line of Nischint from Kotak Securities Institutional Equities.

Nischint: Yes, am I audible now?

Moderator: Yes, you are.

Nischint: Sure. Before my question, just continuing with the previous question, the rate hikes that you have done, are you seeing the full benefit already flowing in the P&L? Or do we kind of expect to see the best going forward?

Vivek Karve: No. We've just increased the rates in this quarter.

Ramesh Iyer: So, November onwards we increased, so you will start seeing it over a period of time.

Vivek Karve: And Nischint, as you know, this is a very large book that we are carrying. So the rate benefit is on disbursements that we do on a month-on-month basis. So you will see the benefit over a period of time. It's not a magic wand that will reflect in the weighted average yields overnight, it won't happen.

- Ramesh Iyer:** And Nischint, as you know, this will benefit only the new book, right, I mean the new lending that we did in November, December. So the past book is still a fixed rate. So you will start seeing, at least the new business has come at this new yield. And therefore, the full benefit you won't see at the NIMs level until the past book has matured and the new book is up.
- Nischint:** Sure. And the hike that you have done last month was how much? I mean I guess you mentioned a bit in aggregate, how much was last month?
- Vivek Karve:** Nischint, my request is let's not get so much.
- Nischint:** Sure. Fair point. Just one broad question. We calculate this ratio for the repayment rate for the quarter. And basically, that's an interplay of your quarter-on-quarter loan book growth and disbursement. And I think the sense that we got was that the repayment rate was very high last quarter. So was there any specific trend out here that's -- a business trend out here that you would want to highlight?
- Vivek Karve:** No, actually, if you see our -- the asset book, there are 2 components in the asset book. And 1 component is the loans that we grant to our SME as well the book is comprising the trade advances. So the trade advance is also a function of the incoming festive season. So we have witnessed a much higher level of trade advance, and we closed the second quarter. And much of the credit volume has gone to trade because the months that followed, both October as well as November, they were festive months. And these advances have now got converted into retail.
- And therefore, the trade advance level has now seen a much more normalized level by end of this quarter. So that's how probably you should look at it. So if you can look at June to December, maybe that could be a better way to look at it, instead of looking at it from September or June to September and then September to December.
- Nischint:** So is it fair to say that a part of the Jan business would also have a fair amount of trade advances?
- Vivek Karve:** So normally they will not. No, no, what we published as disbursements, if you're talking about our monthly details -- business on the stock exchanges, no, those are the loans that we advance to our customers. These are pure disbursements.
- Ramesh Iyer:** That does not have trade advance.
- Vivek Karve:** It doesn't have trade advance.

- Moderator:** Next question is from the line of Sanket Chheda from DAM Capital Advisors.
- Sanket Chheda:** Congrats on a very good set of numbers. My question was on the PCR cover that we have. So even if we include the impact of the new classification and also the PCR is currently at about 45%, 46% pre-COVID level that we used to have of about 30%, 35%. So moving ahead, as you are highlighting that cash flows are improving and as far as the new NPA formulation is concerned, you don't see it any meaningful in the coming times. So whether we will move back to 30%, 35% levels over the course of say next 5, 6 quarters or how do you see that particularly on the PCR cover that we have?
- Ramesh Iyer:** So this is a formula-driven approach, right? I mean it is not about us doing a 60% provision or bringing down to 35%. It is a historic 4-year data which is formula driven. And you will see as each year pass away and a better year comes into play, you will start seeing this getting corrected.
- Vivek Karve:** And just to add to what Mr. Iyer mentioned, you would expect that we carried during the COVID period an overlay. But today, the overlay is 0. So everything is completely driven by the ECL model that we have adopted.
- Sanket Chheda:** So the formula-driven thing adds to the subjectivity of good times and bad times, like that?
- Vivek Karve:** No. So if you look at the ECL model, ECL model is -- in our case, at least, is completely a function of the historical trend of the collection behavior of our customers. So far as the Stage 1 and Stage 2 provisions are concerned, yes, it is also based on a projection of the future, but which also are -- also completely based on external indicator. So, the management judgment, I would say, is very, very minimal. And just one more correction. I don't know where you picked up this number of 45%, 46%, but our Stage 3 PCR is 59%.
- Sanket Chheda:** No, Stage 3 here is 59%, but we said that 77 crores, which under RBI's amendment who will get added to the Stage 3, then the Stage 3 moves to 7.6. And then corresponding whatever net NPA we have, based on that the number was coming to 44%, 45%.
- Vivek Karve:** Yes. But I don't know, but maybe in that case, you will also have to add other provisions. The provisions that we are already carrying in Stage 1 and Stage 2 for this -- for this IRAC NPA, which is otherwise not getting classified as gross Stage 3. So if you've done that it is fine, but if you need any more clarification.
- Sanket Chheda:** Yes, a small addition would be there. Yes.

- Vivek Karve:** No. problem.
- Moderator:** The next question is from the line of Bhuvnesh Garg from Investec Capital.
- Bhuvnesh Garg:** So 3 questions from my side. Firstly, on leasing business, just want to know what kind of ROA and ROE we are targeting from this business?
- Raul Rebello:** Yes. So this is Raul here. So our leasing business, as you know, we mentioned that we're doing our B2B business which is largely lending under the employee lease program. And our average pricing that we get over here, I mean, we aim for a 12% plus. We have to play that for corporate. I don't think we disclose product-wise, ROAs are different for that. But we completed a couple of players in the market and this is every deal we evaluate and we price it accordingly. It's a growing business. And for us, it's a strategic business in terms of how we are diversifying also from the core.
- Bhuvnesh Garg:** My second question is on your other opex. We've seen sharp decline in your other Opex Q-o-Q. So just want to know what was the reason for this.
- Vivek Karve:** Yes, so there are 2 reasons, 2 reasons for it. So you would recollect that we have taken onboard or taken on payroll some of the resources that were earlier part of our outsourced payroll. So therefore, I would say it's a contra between the employee cost line item and other opex line item. And the other key reason is that because during the third quarter, we were not doing any repossessions using third-party repossession agencies, those related costs were also not incurred during Q3. And that's primarily the reason why you will see the Y-o-Y increase in the other opex at a very lower number of 1.1%.
- Bhuvnesh Garg:** And thirdly, on your yield. So if I look at your yield, it seems to be up by 50, 60 bps Q-o-Q. So just want to understand what drove that increase, given that you mentioned that 80 bps hike that you took in November, and then also you are moving towards high profile and more quality customers where your yield would have been low. So just want to understand that what drove this 50, 60 bps increase in the...
- Vivek Karve:** So we presume that you are referring to Slide 22, wherein you are saying the total loan income to average profit has gone up from 13.4 to 13.7. So it would definitely reflect the yield increases that we have taken in the third quarter. And that is one of the primary reasons why it is so. And there is the product mix also. To the extent we are able to do more business from high-yielding products, so to that extent the yields will be better.
- Moderator:** Next question is from the line of Shubhranshu Mishra from PhilipCapital.

Shubhranshu: And hearty congratulations to all on this appointment. First one is, if we can specify the rollback rates in Stage 1 and Stage 2 this quarter versus the last quarter, this is first. Second is, if we can speak on housing finance, maybe one was -- there was a previous participant who spoke on this. However, it seems like the capital advance allocation for the longest period of time, which gained significant gross NPAs of almost 16%. And then last 10 years fairly about total cumulative PAT of INR 1,000 crores. So why are we running this business at all, sir? Do you think that it's a misallocation of capital would be feasible, if you can just hive this off at a point in time?

Ramesh Iyer: So maybe we'll take your input and review, but you should look at it as, definitely at last 5 year out of the 10 year has been most challenging, and you know what rural went through right from demand to the COVID situation. And we've chosen to work with that customer segment who are taking these loans of 1 lakh and 1.5 lakh for house improvement, room addition, and they were doing pretty well in the first 5 years. It's just that this disruption caused them enormous pain, and we have realized that this is not the segment that we should go after.

But having built that franchise, and which is what I was explaining, that there is enough opportunity to move this a little up in the segment and go up to a 2 lakh, 5 lakh kind of a segment in rural, which is more affluent in nature. And we don't want to miss that opportunity. Having invested so much of time and money there, we do see a turnaround clearly possible. The other thing we should look at is this. I said we are changing the mix and about 40%, 50% of the future book will come from affordable housing space, which again is an 8 lakh, 10 lakh, 12 lakh kind of a product we are looking at, maybe up to 15 lakh. And that would come at a very different quality and a yield level.

And the 2 together is the real change in strategy that we are looking for the housing business. And you're right that for a little longer period of time that we've not been able to generate sufficient profit, but we do see that in the next 3 years, you will see a dramatic change in this business.

Vivek Karve: And regarding your first -- coming to your first question, I think you wanted to know about the rollback rates, and this is a dynamic situation because there could be roll back and roll forward. But if I were to give you a rough indication, if you look at again Slide 25 of our investor deck, you will see that what was 83.5% as of September 30 has now improved to 85.5%, 85.7%, in fact, for Stage 1 as of 31st December.

And this is a direction upwards, so on Stage 1, which is a good news for us. At the same time, Stage 2 has come down from 9.7% to 8.4%, and Stage 3 has come down

from 6.7% to 5.9%. So that should give you a fair bit of an indication on the rollbacks or roll forwards.

Moderator: There are no further questions. I will now hand the conference over to Anuj Singla for closing comments.

Anuj Singla: Yes. Thanks, Nirav. Mr. Iyer, any closing comments before we conclude?

Ramesh Iyer: Not really. But except that we feel extremely happy and energetic with what we see in the rural market. And I think, now all the pieces are in place for us to really capitalize on that emerging opportunity. And as we have demonstrated in the last few quarters, we do believe that run up to 2025, the strategy that we have committed, we are on course for that.

Thank you, everyone, for participating. Thank you very much.

Anuj Singla: Thank you, sir. Back to you.

Moderator: Thank you very much. We conclude this conference. Thank you for joining us. You may now disconnect your lines. Thank you.