mahindra FINANCE

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29th July 2024

To,
BSE Limited, (Scrip 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 Earnings Conference Call for the first quarter ended 30th June 2024, held on 23rd July 2024

Further to our letter dated 16th July 2024, 23rd July 2024 and 24th July 2024, and in compliance with Regulation 30 and 46(2)(oa) read with Schedule III, Part A, Para A (15)(b) and other applicable provisions of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("Listing Regulations"), please find enclosed herewith the transcript of Earnings Conference Call for the first quarter ended 30th June 2024 held on Tuesday, 23rd July 2024 , which concluded at 6:54 p.m. (IST).

This intimation along with the transcript is also being uploaded on the website of the Company's website at: https://www.mahindrafinance.com/investor-relations/regulatory-filings

Kindly take the same on record.

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

Brijbala Mohanlal Batwal
Digitally signed by Brijbala Mohanlal Batwal
Date: 2024.07.29 15:26:20 +05'30'

Brijbala Batwal
Company Secretary
FCS: 5220
Enclosure: As above

"Mahindra & Mahindra Financial Services Limited

Q1 FY '25 Earnings Conference Call"

July 23, 2024

Management:

Mr. Raul Rebello:	**Managing Director & CEO**
Mr. Vivek Karve:	**Chief Financial Officer**
Mr. Sandeep Mandrekar:	**Chief Business Officer**

Moderator:	**Mr. Abhijit Tibrewal** **Motilal Oswal Financial Services Limited**

Moderator: Ladies and gentlemen, good day, and welcome to the Mahindra & Mahindra Financial Services Q1 FY '25 Earnings Conference Call, hosted by Motilal Oswal Financial Services Limited. Please note, this call is not for media representatives, investment bankers or commercial bankers, including corporate and commercial effects. All such individuals are instructed to disconnect now. A replay will be available for Motilal Oswal Financial Services Limited 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 call, 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 conference over to Mr. Abhijit Tibrewal. Thank you, and over to you, sir.

Abhijit Tibrewal: Thank you, Siddhant. Good evening, everyone. I'm Abhijit Tibrewal from Motilal Oswal. Thank you very much for joining us for the Mahindra Finance Earnings Call to discuss Q1 FY '25 results. To discuss the earnings, I am pleased to welcome Mr. Raul Rebello, Managing Director and CEO; Mr. Vivek Karve, Chief Financial Officer; Mr. Sandeep Mandrekar, Chief Business Officer.

Raul Rebello: Thank you, Abhijit, and Motilal Oswal team. Hello, everyone, and I know many of you are joining from different parts of the globe in whichever time zone. Thank you for taking time on this Q1 FY '25 Results Call. I will be making commentary on the circulated document, and I request you to keep the investor document handy as I may read commentary for the same.

So, I'm going to page number four, which is titled as highlights. What you would see for the Q1 specifically, the very strong PAT growth of 45% year-on-year at INR513 crores, this was on the back of our continued AUM growth of 23% Y-o-Y, which continues to be at strong levels, which results, of course, from an income also growth to be at a very steady and strong level of 20% at a Y-o-Y level. The PAT growth was further enhanced because of lower credit cost, which came in at 1.5% versus 2.1% for the same quarter last fiscal.

And now coming to disbursements. You would observe that we have seen growth relatively moderate at 5% Y-o-Y to INR12,741 crores. Prior to this quarter, we have witnessed many, many quarters of very encouraging and strong vehicle growth. But Q1 had its unique challenges. We did mention in our monthly updates about some of the disruptions, which were specific in April and May, considering election disruptions, heat waves in the north belt of the country. And in June, we did witness some flooding in Northeast. All of these geographies are significant to us. And all this would kind of contribute towards more moderate growth that was witnessed in Q1.

Also with the commentary you would have heard from OEMs in the vehicle side about growth moderating to an extent in Q1. However, we do believe this is very early parts of the fiscal, and there could be -- and the overall structure we do, we still have a very bullish outlook, and we will watch for the rest of the year to see how we can amplify our growth.

On asset quality, our GS3 numbers have remained range bound. We have been focused on reducing inter-quarter volatility. So our GS3 numbers from closing of Q4 last year at 3.4% has climbed up to 3.56%. Historically, we've always seen Q1 significantly go up versus Q4. That number has been moderate in specifics of Q1.

When we look at GS2 numbers, yes, this GS2 numbers are much lower than last year same time. And there has been a bump up from Q4 from 5 to 6.1. We do see some specific bumps with certain customer segments and product segments like tractor in certain geographies. We look at this as temporary delays not default, and we are confident of ensuring that both GS2 and GS3 are range bound in the year going forward.

Other updates for the quarter include our -- we're very pleased to have seen the corporate agency license come through. We have commented in the previous quarters about augmenting our fee-based income and the corporate agency license would be a big enabler in that cause. We have received the approval from IRDAI. And we are pleased to announce that six tie-ups have already gone live in the last month active tie-ups, two in life, two in general and two in health.

Please move to page number five. This is a page where we try to give you an appreciation of the P&L waterfall. What you would see here on the income side is that, yes, we have made conscious efforts to improve on pricing, as we also go ahead and increase the prime book contribution, on a sequential basis, there will be a slight fall. But overall, there are efforts, and we do see also, as I mentioned, with some of the fee-based efforts that we will make. And this number will only strengthen from here going forward.

On the cost of fund side, the cost remains elevated for now as per macros, I'm sure you would see there's not much relief happening. However, all the levers which we have at our end, we've, in fact, even in Q1, most of the incremental COF come in in our internal budgets. And we are looking at all levers to make sure that cost moderation happens in the year going forward, which has also resulted in NIMs being slightly lower than last quarter and lower than last year's same time.

On the opex side, this is a number that we think we are moving in the right direction. We have seen steady improvement; this is a lever which is completely within our hands. We have reduced opex on a Y-o-Y as well as Q-o-Q basis, frugality on various projects has been exercised and going forward to -- with some of the benefits we're seeing in the efficiency levels of the investments made in tech, etcetera. Some of these benefits are going to accrue in the rest of the quarters going forward.

Coming to credit cost, this has been a major benefit for the quarter. And you know that credit cost is a summation of provisions, write-offs, and settlement losses. On all 3 fronts, we are seeing ourselves moving in positive territory. With the various levers and the various P&L influencing items moving directionally well, our PAT for the quarter, as I mentioned, was pretty strong at 45% growth.

Request you to move to page seven, which is titled disbursements and the distribution of disbursements. In this page, we would like you to appreciate how each different asset segment has been growing on a Y-o-Y basis. We have a very significant share in passenger vehicles, which comprises 41% of our overall mix. I did mention that the macros in PV, and you would hear commentary from different OEMs, etcetera, and see retail numbers. This number is reflective of what's happening on the industry at large, as well as we've seen that growth taper down and moderate at 3%, this has been at much higher levels in the past quarters.

When you look at CV business and construction equipment, we are not a very, very large player in huge CV, but in especially LCV, SCV where we have a good share as well as some of the bus segment that we've been participating on late, we have seen incremental growth, and that's grown we're at 11% Y-o-Y. Our pre-owned vehicle growth could have been better for the quarter. We are looking at getting back on a high-growth level, which we've seen in the past.

Tractor, the industry has seen actually some amount of cooling off last 2 years, but Q1 has seen -- what numbers you see are a mix of wholesale and retail numbers. These are, of course, retail numbers. Our growth has -- we've had a degrowth in practice. As I mentioned, for us, tractor is a fine balance between growth margins and profitability.

Coming to 3-wheelers. It's a business that we are number two in the market, and our business also has had very moderate growth in quarter 1. The SME business has progressed well, we have been sharing with you our investments made in this business, and we do see the relatively new business, not on a Y-o-Y, but more on a 1x, 2x kind of growth going forward. So overall, highlight from this slide is growth has been moderate 5%, but we do not believe this is reflective of the rest of the year. We are looking at what all are other green shoots as well as areas in which we can participate better to amplify growth in the rest of the fiscal.

Request you to move to page number nine. A very brief slide basically to mention that more on a disbursement and collection efficiency, we are steadily progressing. I did comment on disbursement growth on collection, the headline commentary would be that we are not seeing any deviation from the Q1 that we have seen in the past two fiscals.

Quickly moving to page number 11, which is the spread analysis. This slide is basically giving an appreciation of how our individual line items have been moving from last quarter as well as same quarter last year. Again, looking at income to average assets, yes, there's been kind of a fall from Q4, but growth from last year same time. Q4, let me just mention Q4 see some great interest write-back because our GS3 numbers significantly come down between Q3 and Q4, which gives us a lift in the income numbers in Q4.

We are looking at augmenting the income. We are not happy at a 12.9% level; we are looking at going up. And I did mention the levers that we're working on including fee-based income to augment this line item. Interest cost has been marginally higher as we also consume, our leverage ratio is also kind of go up, we will see an increased amount of interest costs, but we are looking at incremental cost of funds being moderate.

Overheads, I did mention earlier, this is one line item that we are extremely, extremely having a very, very tight handle on and you would appreciate from last quarter as well as same time last year, this number has slipped down. Credit cost, I did mention you would appreciate the specific line items in credit cost, which is the write-offs have come down. This has been a structural change from the past as write-off is now just 1.1%, and we will look at even moderating this number of being range-bound going forward.

Provisions to assets have also fallen. I mentioned that provisions is a function. We have seen benefit from the overall collections that we have demonstrated over the last 2 years, which does have an impact on LGDs, and that does flow into the coverage ratios, which gives us a benefit in the overall credit cost, which is 1.5% versus 2.1% in the last year same time.

Moving quickly to the last slide, which is on the balance sheet, please refer to Page #12. Three important parts here on the balance sheet, capital adequacy, GS3 and coverage ratio. I did -- we've always said that being -- a CAR being reasonable is a key priority for us. We've always been well capitalized above the regulatory thresholds Our Tier 1 is still very strong at 16.4%, overall, at 18.5%.

With our current growth trajectory for the rest of the fiscal, we don't see a need to raise capital maybe sometime next year, Q1, Q2 when our Tier 1 levels are lower, we will look at augmenting our overall cost. GS2 plus GS3 numbers and GS3, of course, I mentioned has gone up to 3.56% from 3.4% last quarter. Q1 historically, goes up much higher. We've been able to contain this movement. I did mention for very specific geographies and segments, which we are confident of getting back very soon.

Coverage ratio has come down to 59%, close to 60%. As I mentioned, this was bound to happen as the LGDs are improving with last 7, 8 quarters, collections overall throughput improving, which reflects directly in the LGD and then as per model based improves our coverage ratios.

With that, I wind up my commentary on the overall financials and Abhijit, back to you for Q&A. Thank you very much.

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

Mahrukh Adajania: So just in terms of your ECL coverage now, what would be a fair estimate of coverage on a steady-state basis for the next 4 to 5 quarters. So it's dropped 3%, you had also guided to it that the cover would fall. But is there a target ECL you have in mind, like some companies have a target that they will not go below 50. There are some NBFCs. So is there any such range that we need to be aware of?

Vivek Karve: Vivek here. So as you know, Mahrukh, we get guided by a model, and whatever model tells us, which is a reflection of the behaviour of the NPA assets in the past is what we typically provide. So if you ask me whether there is a target in mind? There is no target in mind, but we will get guided by the model. But what we will definitely ensure that we will have prudent provisions on the book which more than adequately covers the probable losses that we will incur in the GS3 portfolio.

Raul Rebello: Yes. But Mahrukh, having said that, I just want to mention that the model reflects the actions that we take. So, the model doesn't only drive it. We are -- by the collections that we have been doing over the last 2 years will naturally, as Vivek said, the model basically has an LGD and PD, but the LGD and PD is, of course, influenced by the collection throughput that the team exercises.

The fact that we've been able to -- have demonstrated over the last 8 quarters, very strong collections and the loss given defaults have been coming down because we've been able to -- whether the settlement losses have been coming down, et cetera. At the business team, we are conscious of the fact that this is only going to go down thereafter. Again, with the kind of sourcing that we are doing, the sourcing, quality, and the early buckets that we are seeing, the early bucket movements, et cetera, being contained, we are confident that the loss given defaults are only going to go down hereafter.

Mahrukh Adajania: Okay. But could you share the LGDs...

Raul Rebello: It will be to kind of too cute to give such fine estimates and predictions. As I said, we are in a secured businesses with the handle we have on LTVs, et cetera, and collecting earlier on and repossessing and selling earlier on, we do believe we'll be able to contain end losses and that should flow through the LGDs, and the model will then definitely be in our favour.

Mahrukh Adajania: Got it. And just a follow-up on this that, I guess, last year, sometimes you had indicated that you will have a positive rollover following COVID by the second quarter of this year as far as I remember, that is possibly what you've said. So, does that still hold good?

Vivek Karve: Yes. So, you're right. I think your memory is correct. We have said that. However, we would believe that some of it has got in a way advanced to the first quarter. And Raul also alluded to the fact that the sourcing calls that we have taken in the collection intensity that the collection teams have shown are reflecting in a better collection efficiency and lower credit losses, which would indicate that over a period, the LGD ratios would further moderate. However, we would not like to hazard a guess as we stand today.

Moderator: The next question is from the line of Avinash Singh from Emkay Global.

Avinash Singh: A couple of questions. First one, again, more from the medium terms or that this 1.8% ROE that now comes of so many moving parts. Now you also have a stated strategy to sort of move up in the sort of a customer profile that will, of course, put some pace around your asset yield. Of course, I mean, over the coming quarters and years, you will benefit from the cost of funding side.

But then I mean, opex is kind of a very sticky at around 40% cost-to-income ratio of course, even there is some improvement. But if one were to look at some 70 basis point improvement that is needed for ROA level, how are you sort of seeing -- I mean, given your kind of the product offering in mind, the customer profile that you are seeing, which are they, because I mean cost side also it does not seen that, okay, given the kind of your model, the product mix and customer that's going to come up dramatically. And credit cost is already now irrespective, particularly if I've got a quarter number, 1.5%. So that is question one.

Second, I mean, again, related to the ECL, if I go through the presentation disclosure, there's sort of a negative movement for Stage 1. So basically, now Stage 1, your comments are almost like coming to 60 basis points from 80 basis points a year ago. Now lastly, the product segment has not changed that dramatically. I understand that what you are saying on the LGD side. But for Stage 1, has your PD estimates also changed, I mean, dramatically, that's sort of a leading from 0.8% coverage, invested 1 year back to now 0.6% and almost like a Stage 1 provision in fact, reduced slightly even though, okay, there is AUM growth, 25%?

Raul Rebello: Yes. Thanks, Avinash. So, I'll take the first question on medium-term aspirations on ROA. I would just like to get back everyone's memory to the call we had in Q4, wherein we did mention that the aspirational ROA that we are chasing for the year is not 2.5%, but more like a 2.2% number. So, the 70-bps improvement, I would look at -- please read it in that frame that we're looking at 1.8% more to move to 2.2%. And there the levers, as we've cited, Avinash, today, clearly, the NIM side is not exactly panning out as per plan. We do recognize for the rest of the 3 quarters, we have legroom to influence that number.

But you would appreciate from the last quarter as well as Q1, we have moved directionally well on opex and credit costs. Both these numbers have been directionally moving down which augurs well for our overall aspiration to get to 2.2%. And I just want to make that -- set the record straight that 2.5% was something we set out in FY '22, and we did recalibrate that to an aspiration level of 2.2% for FY '25. Regarding your comments on the Stage 1 PD, I'd invite Vivek to comment.

Vivek Karve: Yes. So, the prognosis is right. As you rightly pointed out, Stage 1 coverage is a function of PD as well as LGD. So, the LGD benefit, which you see in Stage 3 also reflects in a lower coverage in stage, and on top of that, the PDs in Stage 1 also have witnessed improvement over the last 1, 1.5 years, as our focus is largely on early bucket collections. That is really helping us to bring down the delinquency in Stage 1. And therefore, you will see this improvement sustain over a period.

Avinash Singh: Very clear. The 2.2%, again, you are saying is the quarter exit for Q4 or for the full year? Because I mean, if it's a full year, then again for the 9 months, your ask rate will be 2.3% plus.

Raul Rebello: Yes, right. See, as I said, we are not casting it. These are -- this is most what the operating teams are chasing. We are chasing a goal of 2.2%, right, which means, yes, it's deeper going ahead.

Moderator: The next question is from the line of Anuj Singla from Bank of America.

Anuj Singla: So sorry to belabor on the ECL model again. So, we are just looking for some handholding in terms of how we should be looking at forecasting on the credit cost side. So, if I were to use the framework, you talked about some amount of benefit coming with rollover post COVID. So, if I were to look at the numbers, pre COVID there in the total ECL this is ECL 1 plus 2 plus 3 was around 3% of the total asset base. Is that a benchmark, which we should hold on that the company will not go down below that level on a total provisioning basis or even that number might not hold given that the change in customer profile is -- we have better customer mix and product mix.

And secondly, in the same thing, GS3 at that point of time, I think it was around 40% odd, now, we still are way above that level. So, should we see that normalizing to -- on the provisioning -- the Stage 3 PCR going to that level towards the end of this year?

Vivek Karve: So, the first question, Anuj, that you asked is there will be a 3% on overall. See, end of the day, 3% is a derived number. So that cannot be taken as a target, or we can't guide on that basis. But what we can guide on, which is something that we said at the end of last year that as we progress during the year, we expect there is an -- expect an improvement in the LGD ratio, because some of the portfolio, which was a troubled portfolio during COVID period will get out of the 42-month calculation that we do.

So at least we believe that from the level of 60% that you see today, there would be a slight downward revision that will happen in the overall coverage ratio at Stage 3. And if that were to happen, it will reflect on Stage 1 and Stage 2 also. But very difficult to say the exact numbers, will be hazarding the guess, which we don't want to do.

Raul Rebello: I'll just add to that, Anuj, see this 3% number is basically derived from composition of Stage 1, 2, 3 and coverage ratio, right? I think we've been voicing over our aspiration to keep Stage 2, Stage 3 levels as you'd see that we came to a record low level at the end of FY '24. And it is our aspiration to keep the Stage 2, Stage 3 levels in that range. In fact, slightly lower.

Now if the composition of Stage 1, 2, 3 remain at those levels. That's one part of the equation. The second part is, of course, the coverage ratio, which is a function of what is the LGDs going forward. And we have mentioned that the LGDs in our mind because of the period moving forward should ideally be beneficial. So in a way, we have given you an answer without being very specific on what that number should be. We've given you what goes into that number being in the 3% range.

Anuj Singla: Sure, sure. Got it. And the second question is with regards to the opex. Obviously, it's a big focus area for us, and it's been trending down. So, the 2.5% aspiration on opex side, can we see that number towards the end of this year? Or is that a number which we should see in FY '26?

Raul Rebello: So, I'll again go back to the end of Q4 call, wherein we mentioned that we're looking at a pretax save of about 15 bps on our exit number of our consol overall number of FY '24. So that number is closer to 2.65% types of aspiration for a full year basis. We have had some benefit as of now, but we must always balance growth with investments. And so, I would look at really moving levers on the revenue side as well as on the asset quality side without being to penny wise pound foolish on opex. Of course, being frugal, being efficient is all part of the game, and we are completely seized of all the initiatives that need to be done on that direction.

Anuj Singla: Got it. And lastly if I may. On the growth side, the volume growth is negative for this quarter in terms of number of contracts or 1.5% negative Y-o-Y. So, I think it's only driven a value in this quarter. And you did talk about some of the constraints on the OEM side as well as the volumes have been weaker there. So, can you talk about your strategy on delivering the growth aspiration which you have set for this year?

Raul Rebello: Yes. But I'd request you to read that number with some amount of nuances. See, last year, we were doing CD loans, NPL and those numbers also, which we sunset, right? So, you might sometimes this is not just vehicle loans, this is also part of the other digital businesses that we were doing last year same time. So that is one.

So maybe when we can give a final detail on vehicle versus non-vehicle growth, you might be able to appreciate that number better. But having said that, yes, we are also moving up to high-value vehicle loans, et cetera, which is going to hold us in good state. But specifically, when you look at the overall number, looking at the number of contracts for the entire business it's not just vehicle loan.

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

Nischint Chawathe: Just two questions from my side. One was the -- you revisit the ECL and LGD model typically once a year or twice a year, I mean how often do we kind of see these ratios changing? That is one. The second is on the PPOP growth this quarter, which was closer to around 14-odd percent. Given the clear lag between disbursements and loan growth, I think -- and I think based on your guidance of around INR1.2 lakh -- sorry, you have INR120,000 crores kind of loan growth by the end of the day. But it is fair to assume that loan growth comes down. So, what kind of PPOP growth are we really looking at for the year?

And second point also, I think a related point over here is that if I look at the margin, your margin actually -- or your yield on loans have declined on a year-on-year basis. I'm looking at total loan income on average business assets. So, I was just curious as to why we -- I think in our ROE walk, we are looking at around 25 basis points sort of an expansion in yields at least in the first quarter, we seem to have almost like a 20-basis points kind of a decline. So how do we really expect to catch up over year? And considering a, weakness in margins and b, sort of growth coming down, how do we really look at PPOP growth for the year?

Raul Rebello: Nischint, I'll take the -- or maybe I'll invite Vivek for the first question on ECL and take the remaining questions.

Vivek Karve: So, Nischint, you would recollect in Q3 last year, we did a complete revamp of our ECL methodology, wherein we move from one vehicle cohort to multiple segments of the vehicles. And we also assign multiple macroeconomic factors to each of these segments. At that point in time, we said that this refresh, we will do once in a year typically in the third quarter. However, the PD and the LGD will get refreshed every quarter. And that is something that we will consistently do. Over to you, Raul.

Raul Rebello: Yes. So, Nischint, you're right, when we talked about the NIM expansion in ultimate PPOP, I did comment that in the walk for getting from our 1.7% to 2.2%, we would aspire for a 25-bps expansion in NIMs and largely going to be driven from the income line, which last year was 12.8%. Q1 is, of course, 12.9%. We are looking at sweating out fee-based income, which nothing has happened in Q1 because, as I said, the corporate agency license came in Q1, which we will see some delta starting from Q2 onwards.

Besides that, we have transmitted rates in the last 2 quarters now, which will start showing some delta in the going forward income to average assets, as well as our focus on what we call as penal interest charges and other charges. There are certain avenues in which we can augment overall yield by income. In our mind that this expansion from 12.8% to closer to 13% is something which will be gradual, but there are enough of levers in our hands today to start seeing that number move up. It takes time on a large book, I acknowledge. But we have started the process of unlocking these new revenue line items which will start contributing thereafter.

On the question of PPOP, yes, our PPOP numbers are subdued, but we are looking at taking PPOP levels closer to the high teens to 20% type of levels for the year.

Nischint Chawathe: Because your growth itself could be somewhere closer to 20s or thereabouts, given the lead lag in disbursement growth...

Raul Rebello: Yes, the disbursement growth, of course, is right now low, but book growth -- just considering the last 2 years of good disbursements, we don't see too much of a challenge on book growth being in high teens to maybe 20%.

Moderator: The next question is from the line of Jignesh Shial from InCred Capital.

Jignesh Shial: Yes. I was also going to the same line. So basically, assuming that cost of funds is going to remain relatively elevated, how are we going to see the yields moving up? Are we going to see the similar kind of disbursement and asset composition or asset mix composition or are we seeing that there will be some changes happening out here? And, once -- since we are moving more towards high ticket vehicle and all, does that also indicate that, that could be a little lower yield and better on opex side? Or that assuming incorrect?

Raul Rebello: So, the product mix, we have a decent spread across vehicle asset categories. For specific NIM attractiveness, we have cited that the used vehicle segment, which is anywhere between 17% to 18% of our incremental sourcing needs to go up to 20%. That number for Q1 has not gone up to that territory, but there are enough of kind of investments we are making in terms of teams, partnerships, et cetera, to see that number move up.

On the prime vehicle side and on the more affluent customer segment side, we've already hit our threshold. So, our incremental growth is not going to come in from swapping out higher NIM products and swapping in lower NIM kind of capable products. We've already hit our upper thresholds on the PV segment as well as the affluent customer segment in our own internal budgeted guardrails. So that negative drag on NIMs is not going to be seeing going forward.

However, we are living in a scenario, as you mentioned, where interest costs have not moved down, and we cannot be delineated from that vulnerability. We can move levers of PSL, et cetera, which is within our frame. But otherwise, we will hope to see if there is some softening on rates and get benefit from that.

Jignesh Shial: Understood. And just one more, whatever -- the last quarter, the Northeast issue has happened. Whatever was the losses we already booked it, right? Nothing else been left out to be recognized now?

Raul Rebello: Nothing, nothing. We have fully provided for that, and there would be no more provisions required.

Jignesh Shial: On the Slide 15 that you had given geographical distribution that sounds really good. If you can give such more color on the book and all, that would be really helpful?

Moderator: The next question is from the line of Piran Engineer from CLSA.

Piran Engineer: Congrats on the quarter. Raul, just getting back on this, if you can just comment a bit on price competition in the market in cars and CVs. You mentioned that you've taken disbursement yield hikes.

Raul Rebello: Piran, we lost you. Can you just repeat that, please?

Piran Engineer: Yes. I just wanted to understand how pricing competition is in the market in cars and CVs, you mentioned that you've taken disbursement yield hikes in the last 2 quarters, and we've heard this before also. But somehow in the numbers, it does not really show up when we just calculate interest income divided by average loans. So just curious to understand what's going on there? And secondly...

Vivek Karve: Piran, can you repeat your question? I couldn't understand.

Raul Rebello: Talking about NIMs not going up.

Piran Engineer: No, not NIM, yields.

Raul Rebello: Yields, okay.

Piran Engineer: Yes. So just pricing competition. The second part was on the liability side where we've been trimming commercial paper. And just wanted to understand the logic of doing that when rates are elevated and it's better to lock in lower cost of funds. So those were my 2 questions.

Raul Rebello: I'll answer the first one and then hand it over to Vivek. So, on competition intensity, Piran, passenger vehicles, we are still #3 in the rank order. If you ask -- if we see where the competition intensity is, it is PSU banks who we see basically with the rate beneficial, we see a lot of aggression from the PSU banks.

On the CV side, yes, the CV fleet operators, again, are moving towards banks and we see NBFC's overall share in CV come down a little bit. Used CV is still a reasonable fortress for NBFCs, and we continue to play a significant part over there.

See, transmission on rates where you say income to average assets, I'm sure when you look at the whole book, it takes time for whatever rate transmission to show up materially on the overall number. But when it comes to incremental pricing, we are posting the festive season of last fiscal, we have taken a transmission of rates calls more sharply than the first 3 quarters of last fiscal whatever is done in Q4 of last year as well as Q1 in this year will start showing up in the future. Of course, it will not be a significant delta right away in Q2 or Q3. We believe the larger lever for that would be also some of the fee income that we've been talking about, which can come in at a decent clip.

Vivek Karve: And Piran on your -- Piran, on your question of the choice of borrowing instrument. So, one must appreciate the fact that we are now close to a INR1 lakh crore borrowing book as well. And therefore, we need to take a balanced view on the instruments that we use. So, the offshore borrowings will bring in quantum, they come in at a slightly higher cost, but they bring in quantum and they come in at a 3-year door-to-door maturity.

So that provides the much-required stability to the overall ALM mix. That is not to say that we are not going to focus on the short-term instruments like CP, we continue to do that. And if you were to look at our ALM chart, which you'll find on Slide #26, up to -- almost up to 6 months, there is an opportunity for us to do that. And going -- we have already started doing that since Q4, and we will aggressively do that in the next couple of quarters.

Moderator: The next question is from the line of Kunal Shah from Citigroup.

Kunal Shah: So firstly, with respect to yields again, so you highlighted in terms of at least on the product side, we are largely done and there shouldn't be too much of drag. But when we look at it in terms of the regions, okay, wherein we were more focusing on, say, affluent and maybe outside of the rural, could that continue as a drag? Or maybe -- and there also we have achieved the levels which we were looking forward to, and there should not be any further pressure on yields, yes?

Raul Rebello: You have any other questions; we'll take them all together. Is that it?

Kunal Shah: Yes. And second is the last time you indicated that maybe opex, it's not very easy to climb down because you will continue to invest. And this time, you are highlighting that maybe levers are completely in your control, and the benefits are accruing from it. So not getting the contradictory statements over maybe a quarter. So, no doubt you are highlighting in terms of 15 bps getting shaved off. But is it like on the investments we have cut down a bit and that's giving the added benefit on the opex to assets?

Raul Rebello: Yes, thanks. See, on the yield side, the comment I made earlier on hitting the thresholds of low-yielding products was a combination of the affluent and nonrural customer segments that we've swapped in over the last 2 years as well as the more rural customer segments, which we have historically been our stronghold.

So, we have hit the ceiling on the low NIM kind of product threshold, as I mentioned, the affluent and low NIM historic products. So, we don't see us increasing our share there, which will cause a negative drag. So, the negative -- while there is -- one can call it a negative drag on yields, but you know that we have a very positive story there on opex as well as credit cost. So, we have hit our thresholds on those products.

On the opex side, I did mention that -- I think take the narrative as we are not compromising investments for growth with reducing opex. And my commentary was that we will make the requisite investments in distribution, tech digital, continue to do that to make sure that our growth is at a robust level. Having said that, there are benefits in the last couple of years, investments that we've made in tech digital, et cetera, as well as efficiency levels. And that's the lever we have in our hands. And that's the lever which is moving well in the commentary that I made, which is coming down. Even for example, the 2 biggest costs are branch cost and employee costs, right? And those are within our -- largely within our control, and we have been extremely on exercising those controls that we have.

Moderator: The next question is from the line of Viral Shah from IIFL Capital.

Viral Shah: So, Raul, I have few questions. So one is on your yields, right? So, as you mentioned that it takes time to reflect on a book basis, the kind of hikes that you have taken. So, what explains the quarter-on-quarter 40 basis points decline in your yields? Because I'm sure the book mixes on a sequential basis wouldn't have made that kind of a difference?

Raul Rebello: Yes. So Viral, I did open by mentioning that Q4, if you look at Q4 usually is much stronger. One of the biggest line items that improves yield in Q4 is the interest write-back we get because GS3 falls very significantly from Q3 to Q4. Now when the GS3 number falls, the interest, which was earlier reversed gets written back. And that's a big component of what kind of helps the Q4 numbers go up. And that's also sharp from a decline in, let's say, between Q4 and Q1 because we don't have the same delta of GS3, in fact, GS3 is marginally gone up by about 15 bps between Q4 and Q1.

So that's -- and this is on an annualized basis would be less. So probably, that's one big variable. Of course, there are some other variables in terms of penal charges, et cetera, which come in at a higher clip in Q4. But are we happy with 12.9%? Clearly not, right? I mean that's what I've been saying this is not a number that we are looking to live with. We are looking at in the medium to long term influence that number to go up. That the number is under challenge now is a fair challenge that we are experiencing, and we are cognizant that we must move this number up.

Viral Shah: So, Raul, if you can quantify like what was the interest write-back in 4Q and what was the kind of interest reversals that you had to do with this quarter?

Raul Rebello: I'm sorry, but we will not be able to share with that granularity.

Viral Shah: No problem. The next is on growth, Raul, if you -- I look at the preowned vehicle, again, last -- until last quarter, you have been mentioning that this is a segment which is going to be a growth driver. And then when I also look at it in terms of your tractor segment, where we saw kind of a degrowth, we saw another NBFC player reporting very strong growth in that segment. So, is there anything to do with either in terms of the segmental growth coming down or in case of tractors we losing market share? Any of those things?

Raul Rebello: So, in tractor, we are -- it's a business which has always been a focus for us. But as we look at the tractor and CVs are cyclical businesses, and we are looking at businesses which across cycles can give us our ROA aspirations. We always will have to balance going forward between growth, margins, and overall risk.

We are right now still -- I wouldn't say we're losing our bullishness on this segment, but we are making interim correction in specific locations where we do see that there would be stress on a cross-cycle basis and whatever corrections we are making here is going to hold us in a good state going forward more in the medium to long run. I don't want to make any kind of impression that this is a deprioritized business for us.

We are still a leader. We are amongst the -- this is a business where today we largely only finance Swaraj and M&M. But because we're doing this in a captive mode, we are sure -- we've always had the highest amount of credit appraisals, et cetera, but we are still fortifying our ability to be more medium to long term across cycles profitable in this segment.

Viral Shah: Got it. And lastly, in terms of your asset quality and the credit cost piece. So, as you and Vivek have been highlighting, that in the second half of this year is when you saw some scope for coverage reduction, we have kind of preponed that, but what could be your sustainable credit cost when we go into FY '26, that is one.

And second, related to that, is that when I see the delta in your Stage 2 and Stage 3 relative to 4Q in this quarter and versus last year, while the delta is high, how come the collection efficiency number remains the same at 94% Y-o-Y?

Raul Rebello: Yes. Vivek, you want to comment for the coverage first.

Vivek Karve: Yes, yes. So, you're right. We have indicated that as we progress into the year, we expect some further moderation in the LGD and therefore, coverage ratios. And we believe that's more likely to happen. But your question was more on what we should take as the credit cost in the coming year, that is FY '26. So last year, our credit cost was 1.7%. Of course, 10 bases of that were due to Aizawl, but let's say, 1.6% was the real credit cost. And when Raul speaks about our aspiration to at least deliver a 2.2%

post-tax ROA in the current year, we are talking about shaving off about 20 basis points from last year's credit cost of 1.5%, 1.6%. So, 1.4%.

So -- and over a longer period, our aspiration is also to reach 2.5% post-tax ROA, which would then mean that we will need to operate in the corridor of 1.2% to 1.3% of credit cost. And there is no change in this thought process as we stand today.

Viral Shah: So basically, we see further scope of PCR reduction even in '26 or even without the…

Vivek Karve: Yes, not necessarily only PCR reduction. But as the asset quality improves, there is a further scope in terms of lower credit losses coming in from lower bad debts or lower termination losses because these two are also focus areas for us going forward.

Viral Shah: Got it. And if you can also explain the collection efficiency, please?

Raul Rebello: Yes. So, collection efficiency, Viral is a function of due collections as well as overdue collections, right? And hence, that number will not be exactly mathematically equal to the due collections only because there are different buckets of overdue collection. And if we collect more from overdue buckets, the overall CE ratio can be maintained. So, you'll not be able to draw an equal parallel towards the GS3 number of last quarters, this quarter and the same collection efficiency.

Viral Shah: No. But Raul, if I look at Stage 2 as well as Stage 3, which are the overdue buckets, the delta between 1Q over 4Q in this quarter has increased versus last quarter -- sorry, last -- 1Q of the last year. So, despite the delta as an overdue is increasing, I think the collection efficiency should have been different versus what it was last year?

Raul Rebello: Yes. So, I'll just invite Sandeep to come in who also oversees the collections to give you fairer.

Sandeep Mandrekar: Numerator, denominators. So, collection is also a factor that you collect from the overdue the way Raul said. It is also -- it also happens that you collect in the same bucket, that is Stage 1, Stage 2 and Stage 3. You collect more from the one aging. So, you have efficiency, but it doesn't change your movement from Stage 1 to Stage 2. And that's how the efficiency could be there, but still you have the delta that you had between the Q4 and Q1.

Vivek Karve: Because there are age too includes 30 to 60 and 60 and 90 correct. So, there are 2 ages within 1 stage.

Viral Shah: Got it. That's it from my end.

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

Shweta: So, while you highlighted the fact that prime and affluent segment threshold has been split, wherein there will be now no further drag on NIM. But in the first place this strategized -- we had strategized this primarily to fix our sourcing business guardrail, so that's the business cyclicality stands corrected. And just related to that, we are also targeting -- the last quarter you mentioned, we are also targeting GS3 of 2.4% by the end of '25.

So, against this backdrop, then where are we positioned to achieve this? And how are we ensuring reducing business cyclicality. So, on one side, you have taken care of NIM, but again, like you also mentioned it also helps in credit cost and asset quality. So how do you balance that?

Raul Rebello: So, Shweta, we have always said that for us, it's going to be a balance between growth margins and risk. And from a growth standpoint, while we have delivered a decent amount of growth, we do need to be cognizant to the overall growth that's happening in the underlying vehicle segment, and that will also dictate part of our appetite for growth.

In terms of margins, we've selected certain customer segments as well as the segments which will influence -- have an influence on the overall risk quotient, and that's been the choice framework we have been operating in.

Coming to your question on GS3 number, I don't know whether you said 2.4%, but I don't recollect ever saying that our GS3 aspiration is 2.4%. I said we want to be in the corridor of 3.4%, not 2.4%. The number that we exited last fiscal, we will aspire to be below that number, but 2.4% is not a number that I recollect giving any guidance for.

Shweta: Sure. Noted, sir. And secondly, we are around 5% in terms of new businesses. Again, we have been targeting around 15%, but we've been recalibrating in the term because of the obvious reasons with headwinds that we are seeing. So, any commentaries around that?

Raul Rebello: Yes. See, the diversification plan included the SME business growth as well as the growth for -- some of the leasing businesses and the other businesses which are non-vehicle in nature. I'm sure you'll have seen the Q1 update where in our SME business grew at a very high clip. We had a 60% plus growth -- 68% growth to be specific on the SME side. So, any new asset businesses, while, yes, the aspiration is to diversify as quickly as possible. But it must be on the backdrop of very sound risk practices, very sound -- and these are all retail businesses which will take time to shore up in terms of book size. Incremental disbursements are moving in the right direction.

If you look at last year's same quarter, incremental disbursements from SME were only 3%. That number has already gone up by 200 bps to 5%. So, these diversification plans in the 2, 3 non-vehicle category segments are moving up. They are moving up directionally in a manner which we think is good, and we will continue to invest on the diversification plan.

Moderator: The next question is from the line of Gao Zhixuan Analyst Schonfeld. Please go ahead.

Gao Zhixuan: Congratulations on good set of results. Just wanted to understand on the margin side. So, what's our guidance or outlook for margin this year?

Vivek Karve: Okay. So, I'm just repeating your question because while we could hear you, we could not hear you clearly. So, are you asking what is the guidance on margin for the current year F '25?

Gao Zhixuan: Yes, sir.

Vivek Karve: Okay.

Raul Rebello: Yes. So, see, we did mention that we would like to in the medium term be in the corridor of 7%. This has been an aspiration for us to get back to that -- to the 7% margin level, we are below that now. And the levers for us is to augment the income line item more than the cost of fund. We know the cost of fund line item is going to be much more challenging given the macros and I'm sure you would have heard during the call.

There have been a lot of questions on what we are doing to protect the income to average assets and further influence it going higher for us to get back. The aspiration level is to get back to 7%. It is tough. I'm acknowledging that it's a stiff ask, but our business models should basically predicate on getting to that 7% territory in the near to medium term.

Gao Zhixuan: That's very clear. And sorry to go back to the ECL model and the coverage, just want to understand a bit more because I think on previous calls, we talked about our LGD and PD assumptions being decided by the mathematical kind of look back, moving average peer.

And so that moving average will slowly come down. Just looking at the coverage ratio, which is sharp move from a quarter-to-quarter perspective, unlike the past 3, 4 quarters. So, it's a bit hard to imagine that the moving average will change so much, just with the 1 quarter forward roll. Or do I understand it wrongly as every quarter, we refresh discretionary, how do we -- what kind of LGD PD...

Raul Rebello: Yes. So, I'll just overall just make some clarification because there have been quite a few questions on the ECL model and the model just driving the coverage. I just want to set the record straight that -- see the -- it's not that this is some black box model, which is defining our coverage ratios, right? As -- it is -- the LGDs reflect collection intensity that has basically translated over the period of the last 7 to 8 quarters that loss given default, which arises out of the collection intensity gets ploughed into the LGD assumptions, which influences the coverage.

So basically, to make a comment that the model is improving the coverage is -- there's no invisible model, which is helping us do this. This is purely a reflection of the collection intensity and PD and LGD for as -- in December, we refreshed the models. We went with -- the objective was to get more granular from having one model for all vehicle asset categories and only one factor -- macro factor was not prudent. And hence, we refreshed the model in December with the new variables.

And of course, every quarter, the refresh happens on those assumptions. So, I would just kind of leave the overall narration that the benefit that we are seeing on LGD reflects the LGDs, which reflects the collection intensity that has translated over the period of the last few quarters.

Gao Zhixuan: Got it. And if you talk about -- we don't disclose the absolute LGD level. But do you mind give us some color on, let's say, year-on-year this quarter versus the past couple of quarters, how much improvement in LGD have we seen and how does that compare?

Vivek Karve: Yes. So, my recommendation would we look at the coverage ratio because the coverage ratio would reflect. Yes, the Stage 3 coverage ratio would reflect the underlying improvement in the LGD.

Gao Zhixuan: Got it. So basically, Q-on-Q, our LGD improved 4 percentage points, it's going by that roughly there -- is that the right way to look at? Because on Q-on-Q LGD dropped by 3, 4 percentage points. So, you do have a good way to say that our LGD Q-on-Q is...

Vivek Karve: You're right in your assessment. The coverage ratio would give you an indication of the improvement in the LGD. Yes.

Moderator: The next question is from the line of Jigar Jani from B&K Securities.

Jigar Jani: Two questions from my side. One is on the disbursement growth. So last quarter, we have guided for about 14% to 15% growth for the full year of FY '25. If you just back calculate the numbers and the run rate comes to almost 17000 crores run rate. I understand second half is a little bit heavy for us as compared to first half, but do you still stand by that guidance, or you think that there will be a slight moderation still?

And my second question is on write-off, so we had also guided that write-off would see a continuous decline going ahead. But if you compare the write-off on a year-on-year basis, it's marginally higher. So, any guidance on what kind of write-off we could see for FY '25 that would be better.

Raul Rebello: Jigar, on the 2 questions, disbursement, you're right. We were targeting close to a low teen growth. The first quarter at 5% is very, very moderate, and quite bleak compared to our overall expectations. But as you would appreciate, 90% more is in the vehicle business. And we cannot plug in higher growth than what's the underlying vehicle asset sales and retails, which are happening.

We do, in a sense, or influenced a lot about the buoyancy in the vehicle lending business, and we will find as we -- as the year progresses, what could be those additional levers for us to move as the rest of the three quarters pan out. But quarter 1 has been moderate to slightly bleak in our assessment, and we are not going to chase growth where there is no growth. And if the underlying asset growth is going to be moderate, probably that will reflect in our overall growth for the year. And that's why the company sees of the fact of the diversification plan, which helps us not being so much tied to the hip with only one asset category.

Coming to your second question on write-offs. I think while you can look at it on absolute terms, you should also look at it as a percentage of the average assets, because it's -- our balance sheet size is increasing. Just to look at it from when we were INR60,000 to INR80,000 now to INR1.05 lakh crore loan book. Our overall write-off numbers -- because write-offs are a big part of credit cost. Our write-off numbers have in percentage terms, shaved off by 10 bps from last year same quarter.

Moderator: The next question is from the line of Sameer Bhise from JM Financial.

Sameer Bhise: Just one quick question. What is the incremental cost of borrowing for this quarter?

Vivek Karve: We don't want to be so specific, but it has remained in the same corridor of 7.8% to 8%.

Sameer Bhise: Okay. And you expect similar corridor to be maintained. Is that a fair assessment?

Vivek Karve: Yes, because at least today, we do not see any let-up. So yes, that would be my guidance, yes.

Moderator: Ladies and gentlemen, that was the last question. I would now hand the conference over to the management for closing comments.

Raul Rebello: Yes. So, thank you, everybody, for patiently and of course, I know there's been a busy day, many results on, and thank you for joining us for this Q1 call. It's been a quarter of, as I mentioned, moderate growth. But for us, we have taken positives out of this quarter and the big positives for us are around the way in which we are navigating on the whole asset quality aspect. We have seen challenges in Q1 in specific geographies, certain challenges in terms of macros, which in reflection have been navigated decently well.

The second, third quarter of the year are extremely important in terms of both growth as well as the Q3 is overlap with a lot of seasonal -- festive seasons, etcetera, and we are equipping ourselves to make sure that the next 3 quarters of this fiscal are covered well in terms of growth, in terms of asset quality, in terms of margins. Thank you, everyone, and again, I appreciate you joining us on this call. Thank you.

Moderator: On behalf of Motilal Oswal Financial Services, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.