

9th November 2022

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 Q2 and H1 FY23 Earnings Conference Call held on Thursday, 3rd November 2022

Further to our letter(s) dated 26th October 2022, 2nd November 2022 and 3rd November 2022, 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, please find enclosed herewith the transcript of Q2 and H1 FY23 Earnings Conference Call held on Thursday, 3rd November 2022.

The transcript of the Earnings Conference Call can also be accessed on the following link:

https://mahindrafinance.com/media/394118/transcript_earnings-call_q2fy23.pdf?_ga=2.83314579.466637679.1667807611-1299188443.1660060666

This intimation is also being uploaded on the Company's website :
<https://www.mahindrafinance.com/>

Kindly take the same on record.

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

Brijbala Batwal
Company Secretary & Compliance Officer

Enclosure: As above

mahindra FINANCE

“Mahindra & Mahindra Financial Services Limited Q2 FY2023 Earnings Conference Call”

November 03, 2022

mahindra FINANCE



ANALYST: MR. ANUJ SINGLA – BANK OF AMERICA SECURITIES

MANAGEMENT:

MR. RAMESH IYER: VICE-CHAIRMAN & MANAGING DIRECTOR

MR. VIVEK KARVE: CHIEF FINANCIAL OFFICER

MR. RAUL REBELLO: CHIEF OPERATING OFFICER, CORE BUSINESS

MR. DINESH PRAJAPATI: HEAD - ACCOUNTS, TREASURY & CORPORATE AFFAIRS

Moderator: Ladies and gentlemen this call is not for media representatives or Bank of America investment bankers or commercial bankers including corporate and commercial effects. All such individuals are instructed to disconnect now. A replay will be available for Bank of America investment bankers and commercial bankers including corporate and commercial effects. The replay is not available to the media. Good day and welcome to Mahindra & Mahindra Financial Services Limited Q2 FY2023 Earnings Conference Call hosted by Bank of America Securities. 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 '*' then '0' on your touchtone phone. I now hand the conference over to Mr. Anuj Singla. Thank you and over to you Sir!

Anuj Singla: Thank you Faizan. Good afternoon, everyone. This is Anuj Singla from Bank of America Securities. Thank you very much for joining us for the Mahindra finance call to discuss Q2 FY2023 earnings. To discuss the results, I am pleased to welcome Mr. Ramesh Iyer, Vice Chairman and Managing Director; Mr. Vivek Karve, CFO; Mr. Raul Rebello, Chief Operating Officer Core Business; Mr. Dinesh Prajapati, Head – Accounts, Treasury & Corporate Affairs; and Vishal from the IR Team. Thank you very much for giving us the opportunity to host you. I now invite Mr. Iyer to take us through the key financial highlights for the quarter post which we will open the floor for Q&A. With that over to you Mr. Iyer!

Ramesh Iyer: Thank you everyone. Thank you for joining the call. Welcome to this conference call. So let me first begin with the company before I really go to the marketplace. After very long time and true to our belief the way we had projected that it would we are seeing the asset growth coming back and we are witnessing asset growth beginning to happen and it is not happening through just any single product, or it is not happening through any single geography and therefore it is an outcome across the country across the product growth that we have seen. We are happy to say that we are gaining market share in our core products whether it is in the utility vehicle segment, it is in the tractor segment for that matter even in the car segment. We continue to be plagued by nonavailability of certain products as otherwise we could even have seen better disbursement growth from where we are already. I think the other important feature for us to kind of state right upfront is the asset quality has also kept pace with the growth. We have always believed that the segment of customer that we work with are circumstantially under pressure whenever the earnings for them drop, but they are not the ones who would not discharge their liability and this we have said several times in the past whenever we have had pressure from the quality front and we have witnessed right from the second quarter of last year after the first quarter of pandemic impact every quarter after that we have seen continuous improvement on asset quality as well as maintenance of our

collection efficiency, so it is very, very important to note that the growth is back, we are seeing good disbursement growth, we are seeing asset growth happening parallelly along with it. While the growth is happening, we are also witnessing asset quality correction and some of you would definitely recall that we have always said in the rural market both the growth and the collections go hand-in-hand which is nothing but a reflection of the market place doing well in terms of its economic activity and that is how you will see an overall improvement in both fronts. There are definitely, you would have witnessed in our results some pressure from the NIMs that you would have seen and let me deal with it upfront. Certain pressures on the NIMs are very conscious decision by the company and certain is caused by the changing environment. The conscious decisions are we have gone into finance certain affluent customer or high end customer from this market and we believe that they bring stability to the asset quality and we had put this out in our three-year strategy which was laid out post March 2022 results where we said that we would get into this segment, though this will not be a game changing segment for us in the sense of it will not be a larger percentage of our disbursements and balance sheet but they would contribute to this balance sheet which brings in stability of asset quality. All of us know they come with a little lower yield and therefore this does build pressure on the NIMs when you look at it dependently, but if you look at it on an overall basis they are also expected to bring in lower cost to operate as well as a lower delinquency because there are customers with good CIBIL scores, there are customers with good stable cash flow and therefore their ability to repay and ability to repay through certain organized methods and not through physical means will always be very, very high so that is a conscious decision as to why we are in that segment and that brings some.

The second conscious decision to some extent driven by market but also to the way we budget ourselves is a product mix. Whenever there is high product mix, whether high disbursement come from tractor or pre-owned vehicle it will always be a high yield product and therefore the NIMs will show a different number but when the growth is also driven by products like cars or commercial vehicle or SME kind of segment you would always see a little lower yield coming from them but again important to note that their delinquencies operated at very different level and therefore on an overall basis on a grown book over a period of time this should get adjusted for and the returns would hold up so that is the other reason for that.

The third reason for the NIMs pressure that you would see comes from the cost of borrowing. We had for sure budgeted for the year that there would be an increase in cost maybe 75 basis points during the year or so but all of us know that all this cost increase happened in a hurry and we have said that also in our first quarter call that the passing on of rates would happen only with a lag and will not happen with a hurry and I do remember having mentioned that we may not want to push up the rates during the festival times when it is the right time to actually acquire good assets and not unnecessarily build pressure by pushing rate so therefore we did delay passing on the rate but we have now commenced pushing up the rate back to the market and on a product basis we have started increasing the rates. The rate increase

always happens with a lag and you will see this in the next couple of quarters the yields starts to improve with the increasing rate that we will pass on to consumer so that is one decision which is now put to action and therefore you will see the NIMs improvement over a period of time.

The fourth reason for why you see some pressure at the NIMs level is looking at the liquidity situation we as a company has resorted back to holding four months chest. We did not want to run a situation where money becomes dearer and then we pay a much higher price than one needs to pay normally so it is a conscious call again to store some money and take some holding cost on that and that holding cost definitely is something that we will have to observe. We believe that through up to March this position is likely to continue and we will not reverse this position of holding extra funds until we see easing of the liquidity situation but whatever the 25, 30 basis points impact that it will bring in is something that we are willing to live to and that again is very consciously taken decision so that is on the NIMs front that the pressure is and some of this will get handled and controlled and we also believe very strongly that as the pre-owned vehicle becomes available, today what is typically happening is because of the new vehicle availability is low people are not exchanging their old vehicles and therefore the stock of old vehicles are low. Also because finance companies and banks are doing well on recovery repossession by itself is not a very aggressive activity and therefore the availability of stock from that front is also low and which is why the demand for pre-owned is high but availability is low, but once the availability starts to improve as well our own pre-owned vehicle business will also start seeing growth and that would start also pushing up the yield over a period of time. Put all this together we do believe that if we were at 7.5% NIMs level maybe it will come down to 7.25 kind of number with the holding cost we will still hold but the other things over a period of time will get corrected we are confident and comfortable about it.

The other thing to look at from our P&L and the balance sheet angle is our cost of operation. It is at an elevated level, and we are very conscious of this and we had made a commitment in March that we will try and bring this down to 2.5 but again here there are certain conscious decisions that we have taken. The first in the line is last two years the pandemic year the increments to people were very, very muted and given the activity level which has gone up both on the disbursements as well as from the collection front the only thought it is prudent that the employee should also be compensated and we have introduced certain variable component as well as certain fixed component increase to offset for some of the past and that has pushed up a little cost but that will get better handled as the productivity starts to improve and which are very clearly visible for us.

I think the other investments that we have made are in the technology, digital and the data front. We are very conscious and clear of this fact that not all activity that we have pursued so far needs to be continued to be done in the same manner as the past. There are lot of partnerships possible you must have seen one of the announcement with the India Post that

we have done, all of this as well as working with OEMs do call for a good investment on the digital front as well as on the data front and we believe that while it is a cost to incur now but they will all yield substantial results as we go along and that is where we will start seeing the corrections beginning to happen. Nevertheless there are very conscious attempts to look at line-by-line item and see what can be done in these rounds to even bring down certain cost but there are certain costs which are very variable to the overall business like for example traveling cost, the reward programmes for dealers or for employees these are all variable cost and as the business keeps growing you will see that cost keeps coming in, but on an overall balance sheet basis we would start seeing the rate getting corrected. We are on the path moving towards that but as we said in three years' time we will bring it down to 2.5, we continue to believe that is the direction that we will maintain, but from a 3.2 level will come to 3 and go to 2.75 in the next three to four quarters you will see visibility of this but in the two years that we are talking of we do believe that it would come down. Currently even for the same number of people and for the same number of times traveled as the cost is high because the fuel price is high so therefore there is this cost impact which is coming in. Some of this also gets corrected by the market corrections that would happen, but these are some of the kinds of area for us to really focus on. I think we are very correctly and substantially fixed the growth possibility as well as the asset quality possibility. We are very clear that we are investing in the future readiness of both people training capability as well as on the digital and data front and we are willing to live with that little cost but surely you will see a downward trend as the balance sheet starts to grow beyond from where we are and as I said on the borrowing cost and passing on of the front to yield and maintain NIMs we have explained as to how do we see all of this.

There are two additional things which are outside of these balance sheet numbers. One is the provisions that we are made for our joint venture in Sri Lanka. We looked at what was the projections we have made when we got in, we looked at the behavior of the currency and all of that and we thought it is appropriate to make the provision and we have taken 50, 55 Crores of provision in this P&L. They are one time and not repeatable in nature but nevertheless that business independently is profitable even now and the size of the business obviously is being relooked and that is the reason that we have taken this conscious call to make the provision. No further capital needs to be allocated to the business, the business is adequately capitalized, and we are comfortable on that front but nevertheless this provision has come in as a onetime event here. We are also buying out the stake in MIBL from the partner AXA who had invested there, and we have a very strong belief in that business. There are some regulatory changes which are coming in which will make it even more attractive for the business and we think that it is a great value creation that this business will do and therefore with due approvals we have gone ahead with wanting to buy the stakes of the partner. It will go for an IRDA approval and as and when the IRDA approval does come in it will become 100% subsidiary of Mahindra Finance, but it is a great value creating business. It does not consume capital, but

it has phenomenal ability to provide various insurance products to the customers we worked with and beyond customers that we worked within that geography.

On the last bit of the repossession orders that all of you must be aware of by now through one incident that happened at Hazaribagh in Jharkhand which made the regulator to look at that very closely and give us a direction to not indulge into repossessions by using external agency. The first and foremost I want to lay out to you that there has been no breach of process from our side we have followed the process that is required. In our opinion this has been a very unfortunate incident caused by an accident while a tractor was being driven and the investigation is on from the police side and therefore, we can only probably share as much information that we are aware of, but I myself have travelled to the location to understand it more. Our COO Raul is today there, and he is taking stock of the situation and we are confident to believe that we would come out clean and we believe that it was an accident it was not an act done wrongly by any of the people that we are engaged with. We also want to tell you that the agencies that we use are not exclusive agents they are agents who provide the service to the industry and therefore we are confident that finally when the facts are out from the investigation and the courts look at it, this order from RBI will also be looked at in that fashion positively and we would get the benefit, but does it impact us severely because of this I think the fortunate thing is that it has happened at a time when the market conditions are good, customers are earning are able to repay and therefore repossession by itself would have been a low end activity. I also want to let you know that repossession has never been the first act for recovery it is always the last act for recovery and settlement, and it is done with some extremely defaulting customer. Nevertheless, we were doing about 4000 odd vehicle a month and some of them used to get released back. The portion that we would get impacted by is above 2000 to 3000 vehicle where we take back and the customer settles and we release it back to the same customer that is where the impact of this is likely to be for us, but in the current scenario with the collections being extremely good and customer earnings being good we do believe that it will have a very minimal impact but parallelly we have also launched some programmes for such customers for a settlement rather than repossession as an act. The fact of how that works is yet to be tested and seen but we are active on that, and we are also engaging with RBI very regularly on this to make sure that they understand our position and we are able to get this reversed as the facts come out.

So much of the company but through the questions many things will get further answered, but on an overall macro I think all fronts doing well whether it is the Agri front where the monsoon was good, expected cash flow is likely to be good, the support price announced seems to be attractive and therefore farm cash flows will hold up. As we always said the infra is opening up, road projects are being allotted already, mining is opening up in many segments, our construction activities are doing well and we believe that even the infra cash flow should show very, very positive trend. Clearly there has been no new impact coming from the COVID situation, all activities almost back to normal, the tourism is at its best,

people moment are extremely, extremely aggressive, the temple tourism is high, schools are operating normal so I think every segment that we are working with is doing well but are all the segments adding more assets I think the taxi segments especially the aggregator models, etc., have gone substantially slow and we do not see growth coming from that area they are relooking at their model but as otherwise in every segment that we are operating we are very happy and comfortable to look at growth come back leading to good cash flows in the market and therefore the collections to hold up. I think I would stop here. This covers the overall situation of where we are and how we were and what we think going from here. We are very, very positive in the trends that we see in the market, and I have said this before that the 2025 strategy is to be put out in 2022 is an achievable strategy and we are not relooking at those numbers from any angle. Thank you so much for joining this call. I will open it up for Q&A.

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

Mahruk Adajania: Hello Sir. Sir just a couple of questions. Now how do we think about the transition of course the impact has been much lower than peers it has just been 9 billion but how does it progress from here, where does it peak in terms of the difference and what is the max level of net GS3 that you would be comfortable with like anything below 6 or do you have a target lower than that and also how credit cost would plan out in the second half because we have seen a good write-back this quarter does that continue given that coverage is good, recoveries are good?

Ramesh Iyer: So clearly right at the upfront I said we are very positive, collections are good, people are earning, they are available, can be met and can be collected so what will give us comfort say 6 or below 6, I mean as a company we would always aim for as low as that we can be but for a business model like this and you will recall several discussions in the past we have said in the best of time anywhere between 5 and 6 should be a happy number because it has got its seasonality impact, tractors do not earn every month, trucks do not earn every month we have factored that in our own excitement and we do believe anything between 5 to 6 should be a good number and carrying a coverage of 58% if we are at 5.5 gross I think 2.5% net will be a very, very happy situation to be in so that is on the comfort level of where we think and where we want to be and what will give us happiness. So far as the IRAC provision things are concerned currently it is 900 and with such a provision that we already carry even if it was to become 1500 as a number I can tell you that we may not require to make any provision through P&L we are very, very comfortable and this is the reason we had said even when this rule got announced and we had said that since we have time up to October we are seeing things improving therefore we do not want to rush into making any additional provision in any quarter and then struggling to reverse it in future, etc., we were always comfortable and confident to believe that it will even out in the market place and we may not have required to make any provision I think we have taken the right decision and we can confirm to you that would be the situation.

- Mahruk Adajania:** Sure and when does this impact peak out?
- Ramesh Iyer:** Three months we should know, in this quarter you will know it. Dinesh will give you a little more insight.
- Vivek Karve :** So Mahruk what happens is it has started on October 1, 2022 so there would be cases which go beyond 90 but then they normalize. So these guys who have already become NPA would not add further in the subsequent month. There could be other set of customers who may join this group in November and December but at the same time those who have entered this group will also make all the efforts to bring them completely out of it by collecting all the overdues, so that is how the mathematics will work and that is where we believe that if 900 Crores has got added in October we are not expecting a significant addition to happen in November and in December so it is a flow and that is how it will always be.
- Mahruk Adajania:** So there is no peak number that you could share?
- Ramesh Iyer:** Let us say 900 becomes 1500 for a minute okay even then P&L would not take any provision will not require to take any provision, until such time P&L takes a provision if you are looking for a number then you have to take some 3000 and something of that type which will never happen.
- Vivek Karve :** So Mahruk the biggest comfort we have today is our net stage 3 number is very comfortable and around 3% and so the headroom that is available for us to remain below net 6% on net NPA as per IRAC is significant.
- Mahruk Adajania:** Okay. Thank you. Thanks a lot.
- Moderator:** The next question is from the line of Rikin Shah from Credit Suisse. Please go ahead.
- Rikin Shah:** Good afternoon and thanks for the opportunity. I had a few questions. First one is on the SME and other components of the businesses in your AUM so those segments have grown very rapidly right so even on sequential basis we have seen anywhere between 35 to 75% Q-o-Q growth so just wanted a better understanding of what exactly or what kind of customers we are lending to A, B what would be secured versus unsecured component and C what proportion of this loans would be to the existing customers versus new customers so that is the first question, the second question is relating to margins so in the opening remarks Iyer Sir did allude to certain mix changes which is directionally leading to lower yields but if I look at the pre-owned segment the loan book has grown at 9% Q-o-Q the highest among all the segments barring SME and others sequentially so if that segment is your higher yielding segment then why is the overall yield still declining and how do we think about yield incrementally from here in the near to medium that is the second question, thirdly on the cost side on the employee head counts given that you have converted some of the third party agents

into the contractual or on payroll employees how do we think about the overall remuneration or employee cost going ahead from the current levels and fourthly is on asset quality just trying to understand this more conceptually if the collection efficiencies have never crossed 100% and I do understand that we had gross NPA of around 7% to 8% but even with that if your collections have never crossed 100% how the gap between Ind AS gross stage 3 versus IRAC which used to be 570 basis points three quarters ago has gone down to only 1.2% so that is all from my end?

Ramesh Iyer: We will answer one after the other but if we miss some questions remind us because you loaded four. So first is on the SME front let me tell you that the growth percentages that you see also has a very low base asset so therefore you have to look at it as a component of the overall asset book rather than standalone they are growing at 35 and whatever because if we were doing not much and then if we have now started doing it will kind of move up.

Rikin Shah: Sorry to interrupt but even on the overall contribution basis it has moved up from 7% to 13% to 14% of the much bigger asset size as well right.

Ramesh Iyer: That is right, so I am coming to that. Now what constitutes this SME as a segment one is we have always said that we will play in the area of auto, engineering and Agri as an industry that we understand well and we look at the suppliers of Mahindra or any other such auto manufacturers and their suppliers is something that we look at for the purpose of extending their requirements of expansion or their working capital, loan support, etc., etc. The other segment where we were present couple of years back which is lending to smaller NBFCs where we have had strong relationships in the past who are in similar areas of operations of lending for vehicles or tractors or whatever but on a smaller scale out there are the ones that with whom we had worked, we have reengaged with them and that is one segment where we are adding some volumes as well and the third element of this is a very important component which you should understand that we provide trade advance to the dealer for retail vehicle financing now pre-festival this amount substantially goes up. Now what you will see in this quarter suppose the TA amount is not same as September 30, 2022 balance and they get converted to retail you will suddenly see that retail asset whether auto or tractor that number will go up and this SME number will come down so this has a component of the trade advance which is given because it has been provided to the dealer for vehicles to be provided to customer it is classified under the SME segment and not classified under each of the product segment I mean one way to truly see this is that if there is TA of 3000 to 4000 Crores you break it up into provided to which product dealer and you add it to that respective product and you will see the percentage of those products going up and the SME as a percentage will come down so that is the way to really say that product.

Vivek Karve: Rikin we have also mentioned in our deck rather in our press release that SME as a percentage of the business is around 5% in fact it is mentioned on slide number 10.

- Ramesh Iyer:** So therefore this has to be understood in this manner.
- Rikin Shah:** On the first one if you could provide any color on secured versus unsecured nature and what proportion of this goes to existing customers?
- Ramesh Iyer:** So barring trade advance nothing goes to our existing kind of customer because existing customer profile is very different from the SME segment that we operate with.
- Vivek Karve:** Rikin to you question of secured and unsecured. See whether we do retail enterprises, business enterprises under SME all these are secured. They are either secured by the underlying working capital or they are secured by the fixed assets which are getting financed using the funds we provide.
- Rikin Shah:** Understood Sir that answers the first question clearly. Thank you.
- Ramesh Iyer:** Now your second question was on the yield and as I explained to you, and you did point out saying that your pre-owned vehicle growth rate is higher than the other vehicle growth rate but again you have to look at it as the overall composition of the mix. So the auto still constitutes to be 31% of our total, tractor is 14% it has come down from 17% it has come down to 14% if you see on year-on-year basis. In the next round we believe that the retail tractor business will now commence because this is the season now so if the 14% becomes 15% in the overall constitution and the other segments start to grow a little less like for example car is now 20% of our book and as you know car is at a competitive pricing so if the pre-owned and tractor starts to pick up which we do believe will happen based on the season of tractor and based on pre-owned availability you will see the yield shifting so in our business it may not fully correct to look at just for the quarter what would have happened you will see this happening but if you see it on a yearly basis or so it is possibility of adjustment that it would happen but please do not discount what I said that we are carrying some extra funds for our own requirement. The liquidity situation that we read the market and that will have a little impact on our NIMs which we are conscious and we are living with that and the third comment I made right at the upfront is we have started pushing up our lending rates and it will bring its benefit on a lag basis not immediate basis so we must consider all of this when we kind of look at how the NIMs are likely to pan out going from here that was your second question. The third question that you asked was on the NPA where you said that earlier the gap between stage 3 versus IRAC was higher and your collection efficiencies are not that high and why are we seeing this happen more technical but the way I understand is if we are able to collect from stage 2 and stage 3 account which has got a better collection efficiency and the zero bucket is the ones where we have a little lower collection efficiency. The overall collection efficiency may look low but the forward flow gets arrested so if you look at our stage 2 is also continuously coming down right so therefore it does not go to become a NPA and similarly in stage 3 we are seeing a reversal happening and it is going to stage 2 so the efficiency of the collections are also doing very well in stage 2 and stage 3 while the overall

efficiency remains at 91 and 92 but also do not look at just 1 month look at the whole quarter and if you see 97 or 98 it is holding out well.

Vivek Karve: Rikin you are right because you are talking about a period of January 2022 when we had talked about this gap between GS3 and gross NPA. Those were very different times also where the customer cash flows were far more under stress so that period of COVID is now behind us so that is another factor which would impact narrowing of the gap and the other thing according to me is the way we are managing collections today is slightly different and more focused where we are not allowing the lower bucket guys to get into the higher bucket and this is definitely the result of the need to move to an IRAC NPA scenario so that also helps to keep a very, very tight leash on movement from lower bucket to higher bucket

Dinesh Prajapati: Settlement value collection which is over and above the monthly collection is not factored in the collection efficiency so effectively what happens is that contracts where the settlement takes place that cash flow is over and above the collection efficiency data point.

Ramesh Iyer: That brings down the overall NPA and that happens in a NPA account so therefore automatically it brings down further.

Vivek Karve: In fact same period last year when we talked about this gap our gross stage 3 my memory it was 11.3% it has now come down to 6.7% so that also has an impact together with better cash flows for the customer. We have answered the earlier question, Rikin.

Rikin Shah: Yes Sir I will probably have some more clarifications but I will take that offline and before we just move to the employee. Okay fair enough so we will just take the employee one then.

Ramesh Iyer: So your question on the employee was when we have moved them from off roll to on roll will it have a cost impact was that your question?

Rikin Shah: I do note that you have mentioned in the presentation that it would be cost neutral but just wanted to understand from the employee cost perspective whether it will reduce your other operating expense and will move into employee cost?

Ramesh Iyer: It is a contract at this stage, you are right. Earlier they were categorized in other expense they will now move towards the employee cost.

Rikin Shah: Perfect sounds good. Thank you, Sir.

Moderator: Thank you. The next question is from the line of Manish Ostwal from Nirmal Bang Securities. Please go ahead.

Manish Ostwal: Sir my question on our monthly October update which is where we mentioned that collection efficiency at 91% and I saw your interview on CNBC where you mentioned that it is a festive-related impact, any impact of third-party restriction because of that collection is down?

Ramesh Iyer: No, we do not use third party for our collections we only use third party for repossessions and therefore there is no impact on account of third party from a collection perspective. It is typically in the festival month we do see collections go down and it is nothing new even last October if you see the collection efficiency it would have been a similar number because one the activity levels are pretty low, people are not available, holidays for even employees, all of that but it immediately gets caught up in the next following month so when you wait for the next month announcement you wait for the quarter closing you will see the efficiency go back to its normal level so it is nothing new and nothing unusual.

Manish Ostwal: The second question in June presentation we mentioned that the management overlay provision of 1060 Crores this time we did not mention that thing so did we use anything from that figure?

Ramesh Iyer: So, if you look at our coverage it's remains the same. We have just brought in the overlay also into the ECL formula. It has been consumed into that because you see overlay was created for COVID. Typically, could we have reversed and taken the full benefit view could be anyway but we did not want to do that we said having made a provision let it stay within so we have kept the coverage as it is and we have factored that into the formula that is all we have done.

Manish Ostwal: Thank you.

Moderator: Thank you. The next question is from the line of Abhijit Tibrewal from Motilal Oswal. Please go ahead.

Abhijit Tibrewal: So while we already talked about some of the developments that have had post this RBI ban on usage of third party for repossessions the two things I wanted to understand in this context one is the 6000 employees that we have on boarded from man power agencies which have worked from off road to on road are these predominantly repossession and collection personnel who will help offset some of the impact on repossession that you could have had otherwise?

Ramesh Iyer: No, staffing was provided by outside company like Team Lease or anybody and exclusively working for us under our managers doing collections so the activity that they were doing will continue and instead of remaining as an outsource employee they have now become on roll employee. Will some of them will also repossess they were past also doing they will currently also do so there is no change in activity for them.

Abhijit Tibrewal: What is the engagement that you have had with the RBI is there core correction that the RBI has suggested are they giving you some sense around when this ban could get revoked?

Ramesh Iyer: As I again said right upfront one is we were following the process of repossession as was required but the incident was of a nature where everyone had to take a note of why did this happen. We as a corporate are very conscious and therefore have gone into depth of why and what happened and as I said the police investigation is still on our on-ground belief is it was an accident, and it was nothing beyond that and therefore once we have a clarity from that investigating officers we will engage even more deeper with RBI on the specific incidence and give more information on that. The requirement is that we should revisit our entire process of repossession of using of agency, appointment of agency and all of that. We have gone through all of that once more internally and we do not find major gaps; however, there is always scope for improvement we have looked at what others do, we have looked at what else we can do and I also want to confirm that many times or almost many times the agencies that we use are not exclusive agents, they are all agents used by everyone else therefore we do not see a process failure in appointing an agent or engaging with an agent but incidents do happen. We have to go back to RBI and when we say we are engaging with them. We are giving them feedback on what our Board things, the discussion we had with the Board on this subject, our internal deep dive into our own process and revisiting and providing to them where we saw if there was any gap at all and how are we fulfilling and all of that. I am very, very confident that once this is seen in totality and seen along with the incident which caused an order. We are sure that there will be a revisit and we would get relief out of that. Am I in a position to put a timeframe to that saying this will happen now, tomorrow, day after I would not want to stretch myself to that but we will definitely keep coming back to you as we see any development on that front and our belief at this stage and the confidence at this stage is that anything that happens from hereon should be in our favor.

Raul Rebello: I will just provide one clarification because the gentlemen mentioned all 6000 of collection executives they are not only collection the 6000 also includes some business executives who moved to on roll.

Moderator: Thank you. We will take the next question from the line of Abhishek Murarka from HSBC. Please go ahead.

Abhishek Murarka: Hi good afternoon my question is going back to this gap of NPA that you have successfully reduced, and you said settlement does not get captured in collection efficiency so should we assume that this 3600 Crores gap in December last year which is now 900 that entire gap is basically come down due to settlement?

Ramesh Iyer: Not all cannot come down due to that What Dinesh mentioned was the question that was asked was when your collection efficiency is not crossing 100 how is that the number is bridging so he said it will cross 100 if you were to add back the settlement as well so it cannot

be the entire 3000 a portion of the 3000 would definitely be through settlement but it is a mix of both.

Abhishek Murarka: This new settlement programme.

Ramesh Iyer: I think all of you should get also this clarity. Our overall numbers of stage 3 and stage 2 are continuously and substantially reduced and that has bridged the gap by itself.

Vivek Karve: On top of that I think the focus that we have on early bucket collection have ensured that the gap which was earlier 6% has now narrowed down to maybe about a couple of percent. Do not get confused with that clarification on settlement in a way it has nothing to do with gap.

Abhishek Murarka: Understood so basically it is a mix of settlement, upgrade, and recovery. The other thing is you have mentioned that you have launched some settlement programme also. I think this may be outside of this daily stamping issue can you share if what kind of settlement programme?

Ramesh Iyer: It has launched only now, since we have not recommenced repossession. We have got a list of customers whose vehicle we would have preferred to repossess. All the customers whom we are reaching out and telling them that okay we can give you a concessional settlement because if we repossess and sell, we get X amount and if we are able to through settlement get even a rupee better than that we are actually a better off.

Abhishek Murarka: So, this is sort of targeted to those customers who you are defaulting customers.

Ramesh Iyer: Yes please understand it is not some amnesty scheme for people to come and pay low amount and get out of the loan it is purely for those defaulting customers.

Abhishek Murarka: Understood and in terms of this ban on repossession I know you have given the clarification and all but just wanted to understand from a timeline perspective when would you be able to institute all the correctional steps that you have to and go back to the RBI saying okay, we are done and now it is up to you to approve when does that happen?

Ramesh Iyer: Again, to reclarify there were no major gaps in what we were required to do versus what was being practiced but having gone through this incident I think it is mandatory for us to revisit our process and reassure that there is no gap and if there is a scope to further tighten it wherever possible so that is what is being done. We have also gone back to RBI provided them the information as required, etc., and we will seek meetings with them and we will impress upon them as to what we have done, how we have done, but at the end of the day they may want to take their time to understand and then come back so I am not able to put a timeline to how their response would be but from our side we are continuously on that move.

Abhishek Murarka: Sure. Finally just one quick question on NIM you said it should increase in the next few quarters and you pointed that tractor should pick up, pre-owned should pick up, but on the cost side also rates are going up and you would still see the impact of any further repo hikes, etc.,. So when do you think NIM improvement sets in you think a couple of quarters later or just from a timing perspective how do you see this playing out?

Ramesh Iyer: I think you should add one more thing which I said which is we have started pushing our own lending rates for all products already from this month. So all three will happen and which is why we are taking few quarters maybe two maybe three and there is a fourth element of the NIMs remaining little under pressure is the chest that we carry the excess fund that we carry for liquidity protection so to that extent there will be this 25, 30 whatever that basis point impact on the chest will continue to happen but passing on of the lending rate increase, mix of product changing all that is continuously happening and I believe in every quarter you will not see a dip you will either see a stability or an improvement, the dip will be arrested for sure.

Moderator: Thank you. We will take the next question from the line of Shubhranshu Mishra from Philip Capital. Please go ahead.

Shubhranshu Mishra: Hi Sir good afternoon thank you for the opportunity. The first question is around the opex. If you can split the opex into cost of acquisition, cost of collection and business as usual expense either on a quarterly basis or on annual basis that will be very helpful the first, second is when does the term gets over Sir and what is the succession plan if you get reappointed by the Board, will the Board look outside the firm or will it be from the Mahindra group or will it be a total outsider if we can speak on that Sir? Thanks.

Ramesh Iyer: Whose appointment you said? Sorry your voice was cracking.

Shubhranshu Mishra: When does your term get over that is the first question, what is the succession planning will it be from MMFL or from Mahindra group or a total outsider?

Ramesh Iyer: So, the second one is easy to handle. My terms end in 2024 I think April or June and the NRC will engage on this with the Chairman and with the group. At this stage I might not be expose to who will that be will it be within Mahindra, outside Mahindra, totally from outside somewhere else I think it is little premature to comment on all of this but be rest assured that an appropriate decision will be taken much well in advance when that has to be taken and that communication for sure would be available. As a group we have seen many, many CEOs you saw it even when Dr. Pawan Goenka retired well on time there was a new CEO who came in and took over, so the rest assured that something which is in the highest agenda list of the NRC Chair, and it would be done appropriately. So far as the split of cost is concerned between collection, business, etc., I am afraid not be able to provide you straight across here but if you can engage with Dinesh or Vishal, they would for surely try and work out what is

possible but except the employee cost it will be too much of breaking up of expenses at that level. We can do some approximation and allocation, Vivek will add something to this but that is my view.

Vivek Karve: Also, Abhishek something which we do not publish in the public domain. We do not share in the public domain to share selectively would not be possible so I am sorry but what we do not share in the public domain we may not be able to share selectively.

Ramesh Iyer: If we are able to give you any information it will be commonly given to many and any but I still think that the splitting beyond employee cost because employee cost is the largest cost of the total everything else is a variable cost of their activity and we can definitely put some approximation to it, but employee cost is something which we know who is who.

Moderator: Thank you. We will take the next question from the line of Umang Shah from Kotak Mahindra AMC. Please go ahead.

Umang Shah: Thanks for taking my question and congratulations to the team on a good quarter. I have got two questions one is typically second half for us has been fairly strong on recoveries and bad asset resolution given the bandwidth we have this time around and post the kind of corrective actions that you have already taken should we assume that there will probably be no letup in terms of NPL resolution in the second half and credit cost should remain benign in the second half or this time around it could be a different trend?

Ramesh Iyer: So at least the market is not changing to first half being better than second half so therefore like you said we continue to believe that the second half should hold up especially with the monsoon ending decently well, expectation is high, the support price is also seeming to be good and I said all of that, the infra has opened up, all other activities are in place so we do not see unless an unknown comes to hit us. We do not believe that there is going to be any let down as we see it.

Umang Shah: But my question was more from the perspective of the RBI bank that does not really impact much let us say the markets are conducive?

Ramesh Iyer: I explained this over and over. Repossession is the last resort of recovery, and it is not the first step of recovery and since the market is doing well, cash flows are good, we have already seen how the gap between IRAC and GS3 has bridged which means people are able to even pay more than one installment in many cases all of that is very clearly visible. So will it have no impact I think it will be a wrong on my part to say it will have no impact I said 3000 to 4000 vehicles which would have normally tried to take and even release back to customer is one of the repo activity and that is where the termination settlement programme has been launched, but at the same time if we do everything right on the ground we also think that it may not take a very long of 6 months for RBI not to respond to our ask, so in this quarter

whether the order gets reversed or not I do not have an answer to but with every correct step that we are taking we believe that for the fourth quarter that activity should be available to us.

Moderator: Thank you. The next question is from the line of Piran Engineer from CLSA. Please go ahead.

Piran Engineer: Congrats on the quarter. Sir just a couple of questions most of them have been answered. Firstly in terms of yield hikes on different products post Diwali how much have you increased of the competition and this is over and above the 40 BPS hike that we took a couple of months back right I will just tell all the questions together, the next one is on your funding mix so we are noticing that your share of deposits is going down, share of bank borrowing is going up in the last few quarters and this is probably a bit counter intuitive because banks are now much more expensive than deposits if you could just clarify on that and lastly if Mr. Kapoor is on the call can he talk a bit more, like elaborate a bit more on the digital and data-related investments you all are talking about? That's it from my end.

Ramesh Iyer: Mohit Kapoor is not on this call so maybe we will try and see how do we create some input on the digital spent and circulate some note or whatever else to all of you so that everyone is available to be knowing that may be Vivek or Dinesh will take the funding mix question.

Vivek Karve: Piran your observation is correct but what has happened is the FD flows during the COVID period were exceptionally higher because there was a flight to safety and that is what exactly happened and when you look at all in cost of FD versus all in cost of bank borrowing you will realize that there is not much of a difference between the two because in case of banks while we do not have to pay any third party charges like brokerages, but in case of FD we end up paying those brokerages all in cost there is not too much of a difference. Having said that we have been taking calls on progressively increasing our FD rate so as we speak our 5 year deposit carries the rate of 7.25 and probably we may take up the rates even higher depending on what action RBI takes going ahead and your observation on bank borrowing yes the salience of bank borrowing in the total borrowing mix has certainly gone up because during this volatile period the market borrowings which are bonds and NCDs that market has remained slightly volatile and that has necessitated us to take up the share of bank borrowings in overall borrowing mix. Does that answer your question?

Piran Engineer: It does so are these incremental bank sanctions MCLR linked, or do they continue to be repo linked?

Vivek Karve: So, I would not like to be very specific but there is a movement from external benchmark to MCLR.

Piran Engineer: How much have you all increased?

Ramesh Iyer: About 40 basis points is what has been done on certain auto products, we have not broad based it to all the products yet but sequentially we will be doing it for different products at different points of time depending upon the needs, the geography, the availability of vehicle all that will get factored.

Piran Engineer: Okay thanks a lot and all the best.

Raul Rebello: I will just provide some quick updates on where the interests are so largely these investments are around customer acquisition and two on convenience for customer services and three for repayments so on customer acquisition front our mobile app has been significantly spruced up for lot of self-service journey so for example customers can themselves apply, if they have got a pre-approved loan they can complete it on the mobile app itself. Two is on the service front customers would have to come to a branch we will try to clean up some of those services again on a self-service either using the call center or the app and largely digital also includes making UPI payments, etc., I talked about partnerships the latest partnership with India Post Payment Bank, so we are leveraging a lot of the touch points of these partners to do both acquisition, service as well as collection so this is on digital. On the core tech platform, we are again making a lot of significant investments to ensure that our core system known as LOS, LMS functionalities are improved and made much more versatile.

Piran Engineer: Okay thanks for the answer. Thank you so much.

Moderator: Ladies and gentlemen we will take the last question from the line of Nischint Chawathe from Kotak. Please go ahead.

Nischint Chawathe: Critically this quarter has been quite good for banks and for NBFCs and I guess it has to be kind of grown quite well. In case we are growing at 9% on quarter-on-quarter basis which is obviously very high number given the fact that rural economy tends to be more volatile would it be little more prudent to push growth towards the second half where you probably have much more visibility on cash flows and if your view on macro remains strong can we kind of expect better growth rate or growth trajectory in the second half of the year?

Ramesh Iyer: When we lend in a particular month that is not the period to worry about is the cash flow is good or otherwise because it is a vehicle somebody will buy only if he sees a visibility. It is a three year to four-year product so it does not matter you lend in August, or you lend in October and the season is good in October and the season was not as good in August. The real fact is if somebody is acquiring a vehicle for a three-year period the three-year cash flow for the customer should be good and that is the volatility which actually impacts the rural cash flow sometimes seasonally. So honestly it does not matter by pushing it between first to second quarters will it arrest the future volatility the answer is no. So for us how is the second quarter look like we just put out our October number and it is highest ever disbursement demand but definitely we should recognize this fact that both the festivals are in the same

month, so in a way one should look at October, November last year versus October, November this year clubbed together and not see an isolation and then you will see okay it is kind of getting adjusted for that and we do not want to over celebrate that October was very good and therefore with this quarter we will have some 15000 Crores disbursement kind of number the answer is no, but clearly second half for rural historically has been good and we do not see that trend changing either.

Nischint Chawathe: Sure, and just one data point which I missed out How much rate hike have you done did you say 40 or 60 basis points?

Ramesh Iyer: No, I said about 50 basis points not on all products some selected product, but we will continuously look at different product and different points of time and keep increasing it, somewhere it could be 25 basis somewhere it may even be higher.

Nischint Chawathe: Perfect that answers my question. Thank you very much and all the best.

Moderator: Thank you. Ladies and gentlemen that was the last question for today. I would now like to hand the conference over to Mr. Anuj Singla for closing comments.

Anuj Singla: Thank you very much Faizan. Mr. Iyer any closing comment before we conclude.

Ramesh Iyer: Nothing but I think we covered it right at the front and then very interesting questions and detailed questions from everyone has captured all that I would have otherwise said in the closing, but the only remark I can say is that after few years of patience and perseverance and explanation true to our belief I think rural is going the direction that we believed it will go and we do think that the next three years rural growth will be a potential to watch and in our business model I have said this several, several times that the segment of customer we work with they could be circumstantially hit and therefore you will see some volatility but they are never intentional defaulters and therefore they always do get corrected and that has been even demonstrated in the last at least five or six quarters continuously as to what built up as a very high NPA in the first quarter of last year, how every quarter they have demonstrated repayment that proves enough of the customers intention and the pressure they go through when circumstances change. I do not think I have anything beyond that we are adequately capitalized. We do not have liquidity pressure at all as a Mahindra Finance, as a Mahindra group company, as a relationship with every lender to us we have been able to raise money at one of the best rates and sufficiently enough from everyone. Our people are contributing very, very positively; we are also investing in them for their training, etc., to be ready. Raul just talked about how we are investing in digital to be future ready. I think on an overall basis we are ready on all fronts to embark on this growth journey, and we do believe that it probably is a turnaround story for us and that is our transformation agenda which we put out in March 2022 to say how we almost double our balance sheet in three years space. So, thank you so much everyone for joining this call and I thank you for all your questions.

Anuj Singla: Thank you Sir for giving us the opportunity to host you. Thanks everyone for joining this concludes call for today. Faizan over to you!

Moderator: Thank you. Ladies and gentlemen on behalf of Bank of America Securities that concludes this conference call. Thank you for joining us. You may now disconnect your lines.