mahindra FINANCE

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5th May 2023

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 FY2023 Annual Analyst meet held on Friday, 28th April 2023

This is further to our letters dated 25th April 2023 and 26th April 2023, wherein the Company had given an advance intimation on upcoming Annual Analyst Meet for FY2023 ("Analyst meet"), in terms of Regulation 30(6) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("SEBI Listing Regulations").

The Company had virtually conducted the Analyst meet with several analysts/investors on 28th April 2023 and the presentation made thereat alongwith the weblink of presentation and audio recording of the Analyst meet were submitted vide our letters dated 28th April 2023 and 29th April 2023, in compliance with Regulation 30, Schedule III, Part A, Para A (15)(b)(ii) and other applicable provisions of EBI Listing Regulations.

The transcript of the aforesaid Analyst meet is enclosed herewith and is also available on the Company's website, which can be accessed at: https://mahindrafinance.com/media/394792/transcript-fy23-analyst-meet.pdf?_ga=2.89908891.1209849203.1683005008-751489796.1677744548

In compliance with Regulations 30(8) and 46(2)(oa)(ii) of the SEBI Listing Regulations, this intimation is also being uploaded on the website of the Company at: https://www.mahindrafinance.com/investors/disclosures-reg-46-62/investor-information#corporate-filings

Kindly take the same on record.

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

Brijbala Batwal
Company Secretary

Enclosure: As above

"Mahindra & Mahindra Financial Services Limited FY23 - Analyst Meet"

April 28, 2023

MANAGEMENT:

DR. ANISH SHAH:	**MANAGING DIRECTOR – M&M & CHAIRMAN – MMFSL**
MR. RAMESH IYER:	**VICE-CHAIRMAN & MANAGING DIRECTOR**
MR. RAUL REBELLO:	**MANAGIN DIRECTOR & CEO - DESIGNATE**
MR. VIVEK KARVE:	**CHIEF FINANCIAL OFFICER**

Vivek Karve: So, welcome to Mahindra Finance FY23 Post Results Analyst Meet. I welcome you all and thankful that you could make it to the event today. While there are physically present here, there are also people who have joined us online. So, I'll use this opportunity to even welcome all of them. On the dais today, we have Dr. Anish Shah who is the MD of M&M and Chairperson for MMFSL; Mr. Ramesh Iyer who is the VC and MD of Mahindra Finance; and Mr. Raul Rebello who is our CEO and MD designate. I'm Vivek Karve – CFO of the company.

So, without much ado, I would request Mr. Iyer to quickly give us a preamble and snapshot of F23 Results, followed by a very quick summary of the financial results which I will take over from him.

Ramesh Iyer: Hi. Good evening, and welcome everyone. So, I'll kind of briefly speak to you on what's happening out in the market that we represent, then quest Vivek to take you through the numbers and Raul will take you through the details of how we think about it and where are we headed.

So, for the last few quarters, we've been repeatedly speaking about the buoyancy in the rural market, the sentiments of rural market and we continue to believe that the sentiments remain positive even now. And the measurement for the sentiments being positive comes from the footfall at dealerships, the ask for loans for vehicles, tractors, preowned vehicle. It's also measured by the collections and the collection efficiencies, our ability to control and curtail NPAs, and in fact, even recover from our delinquent bad debt account, et cetera. So, this is truly the reflection of the cash flow. And I have said this before several times which is when you see buoyancy in buying of vehicles, which means customers are able to bring in margin money and take loans of 70%, 75%, 80%, we are reasonably sure and this has been tested several times in the past that even the collections should be good because that's the true reflection of the underlying cash flow in the market being good. And that's exactly what you're seeing for us at this stage. You're seeing growth in the business happening and you're also seeing collections improving and the overall asset quality improving.

With back-to-back good monsoons in the past and even expected monsoon this year, while there has been some talk about how good are otherwise, but it's definitely looking to be above average from various reports. And look at also coupled with the infra spend that's happening in the company, the rural cash flow will definitely hold up. And again, that's seen from the demand continuing, the

sentiments remaining positive, and the ask is very, very high. And this is without exception to any geography. At least in the past, we have seen some of the geographies don't perform as good as some others, but in this round, we have seen every state is doing well with no exception. So, a player like us who is nationally present, gets an additional benefit because when all states do well, then the growth comes from every state and that's the strength of this balance sheet that you are able to see them in the numbers.

Also, extremely important to note that the customers who are wanting to buy vehicle are bringing in 20%, 25% margin money. So, therefore, it's not driven by a very high LTV, right? It's not a push sale that's happening. So, you can choose as to how and what you really want to do.

For also a player like us who are so deep rooted and built multiple relationships across OEMs, across dealerships, we've been able to grow our market share in every product. And the reason that we've been able to do that is we are locally present, one. Two, we can design products and services that suits the needs of the consumer there, and on our own, are able to bring in at least about 15% to 18% or 20% of the business that we do are self-generated by us. And that's a true value proposition because when we talk to our dealers and say, we bring customers to you, and therefore, you also give us enough customers, I think the 2 together is what really pushes up volumes for us.

So, I would continue to believe with this infrastructure continuing to remain as robust as it is and with the farm cash flow expected to hold up, the rural cash flows will do very, very well. So, we think, at least the next 3 years, if you recall, last year, we put out our strategy up to 2025, I think we're doing well against those numbers, Raul and Vivek will show you that. And as we embark on this journey to be achieving the 2025 goals that we set for ourselves, we are very confident that the market would be very supportive.

During the same period, we also have looked at the prime customers from this market. And we are very conscious of the fact that the prime customers pricing will also be absolutely fine. But that's more than offset by a low cost of operating for these customers as well as the expected credit losses of these customers or the NPAs for these customers are expected to be next to nothing. And therefore, at the ROA level, we don't see a pressure.

Put all this together, we are confident to tell you that we would continue to focus on growth. We would continue to focus on asset quality controls. Additionally, and

we talked about it last time, we have brought in rigor to our cost, the OPEX. And there are some very conscious decisions that's being taken to relook at the process. We are taking very clear decisions to get rid of certain processes which may not be required, shifting some of the manual process to the technology platforms, use digital more sensibly and more correctly, embark on partnership journeys with various external partners who could provide us the desired service so that we don't do all of it by ourselves. And if all this as we complete as a journey, we would also see the OPEX climbing down from here to the period that we are talking of.

We are conscious of the fact that we are capitalized very, very well, and we need to consume capital in a more sensible manner. I want to assure you that just because we are sitting on high capital, we are not going to chase assets which don't make sense to us. We're not going to look at opportunities which are not strategic for us. But at the same time, within our strategic framework, if there are any opportunities, we're not going to let them go either.

We've also embarked on this journey of looking at the affluent customer in the rural market. And likewise, we have looked at customers even in the semi urban market. We are still not a metro player. And we want to stay clear that we would not come and compete in the metro markets where we don't see a huge value proposition for ourselves. But in every other market that we are represented, you would see us as a player end-to-end, where we would participate in the high segment, mid-segment, and the earn-and-pay segment that we have mastered over a period of time.

By using various underwriting rule engines by relooking at our process, by relooking at our customer assessments, et cetera, we have also been able to say no to a certain set of customers who in the past have brought in volatility. And that luxury is available clearly because today with various data points that's available both externally and internally, you are able to design for yourself what is the right thing to be done.

The collateral values are holding up. The preowned segment is doing extremely well. The demand for preowned vehicles are very high, and therefore, the collateral values protect the principle of the loans extremely well. So, every aspect of this business right from the inquiry to underwriting, to handling of the business to recovery and to final settlement and even if required, to repossess and settle, we see improvement in every aspect of it, both internally and well supported by the cash flows from the external market. Which is what gives us confidence to say that the 2025 goal that we set for ourselves is attainable, and we are working towards that very, very clearly and closely.

I would stop there and invite Vivek to take you through the financial number, after which, Raul will come and take you through the details. Thank you.

Vivek Karve: So, thank you, thank you, Mr. Iyer, for setting the context. I will now take you through a quick summary of our financial performance for the year FY '22, '23. So, as you can see on the slide, we have had a consistent improvement in the disbursement during the year. This is a momentum that started in Q2 FY '22, and we believe that we haven't looked back since then. So, we have had an 80% growth in disbursement on a Y-o-Y basis. In Q4, the disbursement growth was 50%. This has helped the company to have a smart growth of 27% in the assets under management or business assets from about Rs. 65,000 crores as at the beginning of the current last year to almost Rs. 83,000 crores by March 23.

Coupled with the disbursement growth, we also delivered a consistent improvement in the asset quality. So, we ended the last year with 7.7% gross Stage-3. And as you can see on the chart, we have had a consistent improvement in these ratios from 8% in Q1 to 4.5% by end of this year. And given a very comfortable provision coverage ratio of almost 60%, we have been able to bring down the net Stage-3 to now below 2% at 1.9%.

More heartening is the improvement in the Stage-2 ratios, which was at a high of 14.3% at the beginning of the year. But as you can again see on the chart, a consistent improvement over the quarters. And happy to report that by end of the year, we were able to bring the Stage-2 down to 6%, which is almost a 50% reduction in absolute terms from the level that we started the year with.

In October 2022, the new NPA norms, which are the IRAC norms, became effective. In fact, this was a circular that was rolled out in November last year, but then its implementation was deferred. And we had reported this number in Q3 last year. At that point in time, the level of IRAC NPAs was as high as Rs. 3,700 crores. And we were confident to bring this down, and we believe we have been able to do that successfully quarter-after-quarter. And as a result of which, the gross NPA, as per the IRAC norms, are also below the 6% mark at 5.9% by end of this year.

This is a quick snapshot of the key financials. So, as you can see, for the fourth quarter, the disbursements are up 50%. For the full year, the disbursements are up 80%. We almost reached a Rs. 2,000 crore mark in PAT, which grew almost more than 100% on a year-on-year basis. Total income was also up 24% for Q4 and 14% for the full year. Overall, I would believe satisfactory numbers.

This is a quick summary of how our financials look like. The NIM margins have been maintained at 7.6%, which is the same level as that of last year. Mr. Iyer alluded to the fact that the OPEX ratio has remained high. I would believe that consciously so because we have been investing in various legal toolkits as well as various IT developments in the company. Credit cost has been kept quite low at 1.2%, thanks to the reduction in both GS3 as well as GS2. All this has enabled us to post a healthy post-tax return on asset of 2.3%. And given that 80% has been the disbursement growth during the current year, on the back of which, the assets have grown 27%. We have been able to use the capital better, which has resulted in more than 10% ROE at 12.1%. And while doing this, we have been maintaining, I would say, very prudent capital adequacy norms as well as liquidity management norms. So, liquidity is about 3 months, and capital adequacy is more than 22%.

So, this is how the year was. And if you recollect last year, same time, we had put together our medium-term game plan, what we call as Mission 2025. And I would now invite Raul to talk us through how we have fared against that mission and how we have done that. So, over to you, Raul.

Raul Rebello: Thank you, Vivek. Good evening, everyone. Thank you for taking time to be here, including those joining us virtually. As Vivek said, this slide would be familiar because we put it up first time last year in the same forum.

In our path to '25, we specifically spelled out 6 very sharp key deliverables that we felt were going to be super critical for us to demonstrate sustainable and profitable growth. Right up there, #1 was for us to get to a level of stable asset quality. And what we defined as stable asset quality was to be range bound across economic cycles. I'll talk about how we have been putting specific actionables but at least what we have progressed in the year gone by, we see that there's been decent progress.

The second deliverable was on growth, and we've had distribution as well as product competencies for the longest period of time, but we were also building on them and making sure that our risk practices were going to be rock solid for us to aim to grow thereon. While the growth aspirations that we called out were quite steep, doubling the book in 3 years, but what we really called out was that building this book on really super solid risk practices.

The third priority was on the theme of diversification. And we have been a significant vehicle lender. The other businesses were materially small, but we did

believe that we need to grow them and grow them in a manner wherein by the end of 3 years, they would contribute to 15% of our overall AUM.

NIMs, which we've always held at a strong level, was earmarked consistently to be at a 7.5% level. And getting our cost to average assets down to 2.5%, it is elevated at the moment, but we would have specific agenda items to get them to about 2.5% range. All these actionable, we believe, will get us to an overall ROA of 2.5%. And as Vivek mentioned, the progress in the year gone by is encouraging sequentially to see that we're going in that direction.

So, I'll spend some time now talking about what are the real key agendas that we are working on and what we've tasked in what we call as our transformation office to get us to these 6 key outcomes. On the asset quality, the #1 priority was to make sure that our customer segment mix was in a manner wherein we, as Mr. Iyer also talked about, start acquiring a good amount of rural and semi-urban affluent customers. And what we see in our monthly volumes is a decent proportion of this adding up. It does come in at a lower price, but the OPEX for acquiring these customers is lower, and the credit cost also is much lower. You will know that today, Mahindra acquires a lot of customers on online digital. The last 3 super hit vehicles were all online bookings, and we've managed to get a good piece of that action, too.

The second part about our customer segment mix, and we talked about it, was really looking at the most vulnerable sections of these customer segments, which gave us a lot of grief during COVID. And what we see in the last year that we have acquired, the composition of that vulnerable customer segment, has started to come down. When we look at our risk practices and our underwriting tool kits, we have upgraded most of them. We have upgraded them to a manner which is commensurate to our risk appetite. And whether it is our scorecards, whether it is our risk policies, we have done a significant amount of work in terms of getting them to be primed up to a level to an appetite that we can stomach.

The collection war room and the legal toolkits that we've spoken about, I think, today are best in category. And it was put to the test when repossessions were stopped, but still we managed to, I guess, in quarter 2, quarter 3, quarter 4, demonstrate a very strong amount of collection from not just recent buckets, but from the deep buckets, too. One important component of keeping stable asset quality is also diversification. And there are certain asset categories that we had talked about, whether it's SME, LAP, the Digi Finco business, these businesses inherently come in at a lower credit cost, and we are growing those businesses.

On the agendas of recharging growth, Mr. Iyer spoke about in last financial year, in most asset categories, we have nibbled a higher market share. And going forward, we will nibble much more market share in those vehicle asset categories where we see are inherently more attractive. And what we have called out is the preowned vehicle category because that is, for us, a business which ticks all the boxes in terms of NIMs, in terms of our ability to actually distribute in those markets and overall, very high ROAs.

When it comes to distribution, we have 1,400 branches. And we have taken a target to add 200 more branches in locations which are deep rural, high pot, what we define as high pot rural locations. We are going to open 200 more branches. And that will again add to our growth aspirations that we have up to 2025.

We talked about partnerships. We have gone live with 2 big partnerships, one with Bank of Baroda and one with India Post Payment Bank, but we've also stitched together small partnerships, which will just be complementary to our growth, both in the vehicle and nonvehicle category.

Our cross-sell ratios are not great. We have got specific actionable whether it's in the personal loans, whether it is the consumer loans, whether it is in upgrading our own vehicle customers to other categories. And we have seen good amount of delta on our cross-sell ratios also in the last fiscal.

Now moving to tech and digital, and it's the biggest component in our transformation office. What we've prioritized here in positive time, I'll talk about a few. Number 1 is making sure that all the customer journeys are omnichannel, all our customer journeys are frictionless. Making sure that these customer journeys are built with the most sophisticated API tool kits so that we can offer customers same sophisticated experience, whether it's using VKYC, and at the same time, making sure that the risk upsides for us using account aggregator micro services, et cetera, all of that are now primed into our vehicle loan journeys. We're not looking at all of this unlocking at one point of time, but we are looking at this in an MVP manner so that we get benefits skinned out as we go ahead and many of these have been delivered.

When it comes to looking at how are we looking at AI and ML, both from a customer acquisition standpoint today, cross-sell is primed on looking at how we cross-sell, upsell to our customers using AI/ML tool kits. Even as I said, our risk tool kits are all built on the backdrop of these AI and ML tool kits. While we do this, we talked about our core tech stacks, which were built all in-house in the last

6 months. And going forward in the next 8 months, we are revamping most of our core tech stacks, whether it's our LOS, LMS. And we are also doing a lot of plumbing on our digital front ends, whether it's the customer app, our web journeys. Watch out, we will have the most sophisticated digital properties going ahead. So, digital and tech are priority for us. And while we are on this journey, we know it's a journey and we are committed on that path.

Last and not the least is our investments in human capital. We spoke about it last year. The culture is completely shifting to a very high performance-oriented culture. Along with the performance-oriented culture, what we are paying most importance to is a culture of compliance, is a culture of risk, is a culture of cost consciousness. We now getting our existing OPEX ratios down would mean that we look at saving costs not being penny-wise pound foolish, but really having a cost-conscious culture, and we reward a lot of those behaviours today in the organization.

Our teams today, we've got a 25,000 strong human capital who work out of 1,400 branches. We have largely been single-product focused. What we realize is going forward, we need to horizontally widen our skill sets to do multiproduct sale. Our HR team works overtime Fto make sure that the skill sets are now not just vertical but horizontal. And wherever we had skill sets which the organization didn't have, whether it's on the data science teams, whether it's on the new products that we have unlocked, we have added and we keep adding to that.

So, this is in a nutshell what we have done in the last year. And it's good to know that this has given us upsides. You've seen some of these figures here. We believe it's very early in the journey. But as I said, it's heartening to see that directionally, whether it's on asset quality, we have come down to the levels of 4.5% gross Stage-3, as Vivek said. What's also very encouraging is that the Stage-2 has come down 6%.

On growing our book, as I said, we're not obsessed on just growing the book, but we're growing the book on very sound risk practices. 27% is what we delivered last year, and we'll have to deliver in 20% to get to that 2x of AUM. Our new business contributions, which is 15%, they contribute 6% today. Our NIMs are again decent. Our operating costs where we have to bring them down. And the ROA, which we talked about 2.5%, it closed at 2.3% for last year.

So, this is nowhere in what we're saying. We are feeling accomplished. It's very early days in the journey. And what the team recognizes is that we've got to stay committed to the path. And we hold a very high bar for ourselves to deliver on and

people continue to hold a very high bar for us to deliver on. With that, I hand it over to Anish.

Anish Shah: Thank you, Raul. Let me talk about the vision for this company. But before I do that, we've talked about where this company was 2 years ago. And at that point, we'd come and committed various things. First, it was a commitment for the short term, which was to reverse 80% to 90% of provisions that were taken in the first quarter of F '21. And the company delivered on that. In fact, reversed 106% in that time frame in the next 3 quarters. And then last year, there were various commitments made to significantly improve the asset quality, and not just do that in the short run, but do that for the long run. And where we are today at 4.5% for Stage-3 as well as 1.9% net NPA is, I would say, far better than what we had expected when we started this journey a year ago.

And as I said, it's not only about this year, but it's also systematically looking at the loan book, cutting out certain segments, doing more with rural affluent, looking at growing certain products outside vehicle lending, that are all going to contribute to create a much more stable asset quality and a much stronger business going forward. The strength of the business was evident even through the challenges we've had because the provisions were short-term provisions. And we've got a very strong franchise in rural and semi-urban areas that continues to have that strength. In addition to that strength, we're now building stability. And that will really make for a very strong business going forward.

So, with that, as we go to the vision, there is a set of changes that we will highlight. Earlier, we were talking about the leading financial services player in rural and semi-urban area, which really, as I mentioned earlier, was the core strength for this business and a model that, even many others who have come in, have not really been able to penetrate. What we're adding now is be a leading and responsible, the word responsible is important here as well. That is a focus on asset quality. That's a focus on responsible lending. It brings in many of our values in play, a financial solutions partner. And this underlines the fact that we will not continue to be a vehicle-focused business. At one point, we had started as a captive company. We have gone far beyond that, but many would still look at us as a captive company, even though if you look at the automobile portfolio, only about 1/3 is M&M and the rest is non-M&M. But here, we're talking about getting beyond those vehicle products as well. And therefore, it's a financial solutions partner of choice.

Partner of choice is important as we ramp up digital, we ramp up our customer experience and the product set that we have. And for emerging India. And then

emerging India, maybe some in urban markets as well because as we look at some of the successes that Mahindra Finance has had on the back of successes that M&M hasn't had with Scorpio, with other vehicles in urban India, we started to see a new segment of customers come in as well. So, we're not going to give up our core. Of corer going to stay strong as it is. But we are looking at serving emerging India. And those are some of the important parts in terms of the change in the vision.

With that, we open it up for questions.

Vivek Karve: So, thank you. Thank you so much, Anish. Thank you, Raul. Thank you, Mr. Iyer. So, we will now start our Q&A session. So, questions, the participants who are physically with us can also ask. We also have a few online questions. Dr. Shah needs to leave at around 6. So, if any of you have any specific questions for Dr. Shah, I would request if you can ask so that he can leave at 6.

So, maybe I'll start with a few online questions. The first question is from Gautam Jain from GCJ Financial Advisors LLP. The question is how much leverage you are comfortable with that is loan to net worth? And when will you need to raise capital?

The second question from Gautam is since you highlighted your ROA target of 2.5%, can you also share targeted ROE, which is return on equity? Qualitative comments on rural India. And the last question from him is vehicle volume growth is 10% CAGR. How MMFS will grow more than that? So, I would request Mr. Iyer to take this question and try and provide an answer.

Ramesh Iyer: So, on the leverage, we are always -- even in the past, we have said this, 5.5% to 6% is what we would be comfortable, and we don't want to over leverage. And if we are at 2.5% and we go to 6%, I think the ROE is known to you.

And as far as growing is concerned, Raul touched on it on the multiproduct. So, please don't look at only the vehicle space as the space where we are going to look at. Preowned vehicle is a very, very aggressively growing market. And that's a priority growth engine for us. Comes with good yield, comes with excellent asset quality and therefore, a good return. So, the growth beyond new vehicle will also come from preowned vehicle as well from the other line items that we talked of in terms of SME growth, et cetera. And therefore, the overall growth will still be maintained while the growth in vehicle would be range bound as is put here.

Also, look at our penetration, look at our relationship and look at our customer base. And even in this year, in spite of all competition that we have seen around, we have

actually grown our market share. So, there is a premium for a company which has been there for more than 2 decades and built this relationship and have taken the dealership to deeper pockets. And with our ability to do self-marketing and generate business also helps us grow our market share. So, put the 3 things together to look at why we say that we would grow even better than what the range on growth that the industry is talking about.

Vivek Karve: So, thank you.

Nidhesh Jain: This is Nidhesh from Investec. Sir, when we are talking about financial services provider of choice, what all products do we have in mind which we plan to roll out over the next 2 to 3 years?

Ramesh Iyer: Yes. So, see, let me tell you what we already have. Besides vehicle loans which we've been doing, what we have started to grow was the SME business for the last few years. But in the SME business, we were more focused on the small and medium, right? And there, we were doing it in 3 categories of basically auto, engineering and food processing.

What we've started to do for the micro segment, and that segment really is where the banks don't play, but it's more the NBFC play. Our hero product over there is LAP. So, we have carved out a separate team for LAP, and we've got some of the best leadership from the industry, and we are growing the LAP portfolio. This is not the LAP in metros. This is again the lab in semi-urban, rural, some small towns, too. And the headroom for growth there is quite significant. That's on the lending side.

On the other products, we've had leasing, which we started 1.5 years back. And thankfully, that's kind of it's not a bank product. It's more an NBFC product. And we've got a good leadership there. We've got 250 corporates who we are working with. So, whether it's employees, plan, et cetera, we've built a little bit of a moat in that segment, too.

Then we talk about our Digi Finco, again, very early days. Our Digi Finco started with consumer loans. And personal loans, we started doing. We didn't want to do personal loans for completely, as they say, new-to-bank customers. It's largely in our existing customer base. And when you look at our existing customer base, we've got a very good wealth of insights on our existing customers, whether it's 2 million existing customers as well as the 4 million customers who have, at some point of time, been with the Mahindra Finance franchise.

So, these are the area of products that we are working with. We do believe that we don't want to kind of spread to narrow and flood with too many opportunities. It's good enough for us to now build from here. But any other adjacent products, which are complementary at some point of time, which makes sense, we will unlock.

Nidhesh Jain: So, secondly, sir, if you look at last 7, 8 years performance of the company, we have seen 2, 3 years, very good growth, very good asset quality. And then a couple of years of very bad asset quality, almost leading to very -- just cost of equity sort of ROE if you just do an average ROE of last 7, 8 years.

Now again, we are seeing a period where the growth is very strong. Asset quality is improving. What will give us confidence that, that cycle will not repeat? What are the actions we are taking? What data are we monitoring? And what will give us confidence that the same cycle that we have seen in the past will not recur?

Raul Rebello: A good question, and part of it is what we mentioned earlier. See, we have actually isolated. We did an analysis, and we looked at our customers who gave us the most amount of stress in the COVID period. It's a multi-variant analysis, wherein you kind of try to isolate which the delta between what we call as peacetime and wartimes, right? So, in a peacetime and wartime, the customers who really give you the most amount of stress, could we proactively look at minimizing that long tail, cutting off some of that most fragile customer segment? And we look at this portfolio very carefully every month as a part of our origination. And we're happy to see that, that's come down in the recent origination. So, for us, if there is a stress cycle, we do believe we'll be in a much better place. So, that's one aspect.

Number two is we spoke about a new category of customers in the vehicle space itself, right? So, the rural affluent customers inherently will come in. Of course, they come in at a lower pricing, but they come in with a much lower cost of acquisition and a much lower kind of credit cost even in stressed environment cycles. Today, even when we look at what's translated in the last 1.5 years, the new book which has come in is in pretty immaculate credit cost for us right now.

Adding to that, the 6% of the new category which is coming in the new product category, that, in fact, is at a credit cost, which is next to negligible because inherently, the LAP portfolio, as you would have seen in some other organizations, leasing as a customer segment and the PLN CD business, CD's very small right now, are lower credit cost businesses. So, we do believe that we have had a history of being a little bit volatile when cycles are perverse. We have stress tested our

portfolio. And we do believe that whenever if there is a stress cycle, we would be in a much better place than what we have seen in the past.

Anish Shah: Yes. This today is the #1 priority for the business. And when we talk about stable asset quality, it's not about being good today and hoping we will be better tomorrow. There are fundamental changes. And as Raul said, we've cut out certain customer segments, added high-quality customer segments, getting into products that will have historically lower NPAs and more stability. And finally, use of technology in terms of digital and data to be able to drive that. So, these are the fundamental changes being driven in the business so that whenever the next downturn comes, the asset quality should stay stable and very strong through that.

Nidhesh Jain: Just lastly, on the human capital because we have made a lot of changes on the culture of the organization in terms of performance-oriented focus. So, have you seen any changes in the employee behavior in terms of happiness and happiness with all those changes?

Ramesh Iyer: So, let me take this question since I've seen the behavior in the past and I'm seeing the behavior now. We just finished our travel ground across the country, and we have zonal meets all over the place. And I can tell you with all assurance that the energy levels are higher than it was before.

Because what do you mean by the performance culture change? it's not just that you do well, but we won't do anything good for you, right? So, that's not the performance culture. The performance culture is they will outperform. The management will also have to outperform when it comes to their compensation, their growth, their training and all of that. So, the real element of energy for everyone is when we look at how do we make them relevant for tomorrow, all this technology that we are introducing, they should be able to efficiently use them, right? And therefore, the training interventions for that.

The tools that give them the ability to do things more smoothly and much faster than before, that's the other introduction. The 3 is the compensation as a variability factor, which is linked to their outperformance, and therefore, their own earn ability even goes up, right? So, put all this together is where the energy comes from. And which is why we call it as transforming even the human capital to be just not future ready, but also bring in the relevant engagement and energy program to outperform.

Nidhesh Jain: You have not spoken about housing finance business at all.

Vivek Karve: Sorry, but we have many more questions.

Ramesh Iyer: We'll come back to you. You can come back.

Vivek Karve: Yes, you can come back later. There is a question from the table back out there. Yes, please go ahead.

Kaitav Shah: This is Kaitav Shah from Anand Rathi. So, first of all, congratulations on improving the predictability of numbers over the course of last 1 year. My question is to Dr. Anish Shah. Sir, you touched upon a very important point that MMFS is no longer a captive financial. So, if you can elaborate more on this point? And given the fact that probably when you're curtailing on the bottom rung of customers, do you see any impact on growth for M&M as a whole? I mean if you can shed some light on this from a promoter perspective.

Anish Shah: Great question. So, first, across all our businesses at M&M, the performance bar has been raised significantly. And we're looking at scaling up the businesses, delivering profitability, delivering both EPS growth and returns for our shareholders. You've seen that in the auto business. You've seen that in the farm business, and it's not just a minor change. It's a quantum leap in terms of where we've been.

Similarly, what we're doing is unlocking the value in Mahindra Finance. And that's been a journey for us over the last 2 years. It's not complete as yet. And we've been open about that saying this is part of what I call a turnaround journey in Mahindra Finance, and we've really got to unlock value. We started with understanding, at least for me, understanding the model a lot better, which is to say, what is the strength of it. And we have conviction that the model is very strong in terms of what Mahindra Finance has to offer to consumers in what we call emerging India. And that has been expanded from just rural markets in the past.

We also feel that we've really got to go beyond what we do right now because we can have a very strong model. But the model inherently will have certain volatility in NPAs. And that volatility in NPAs is why investors and analysts, and obviously, all of you have not liked this model a whole lot and haven't given it all the credit that it should have. So, part of that is first saying that, look, we will not be a captive. And as I said, we've never looked at it as a captive for the last many years, but we haven't articulated that as clearly as we are doing it now. And that means we need to get into other products. We need to get into other segments of customers and create a model that's not just strong but also very stable over time. That's the change that we see. And that's the reason we expect outperformance from this business as we go forward.

I will also address another question that's come up in a couple of areas that is linked to this on ROE expectations. The question that came up first, I see a few other online questions on that. For this business, 15% is fine. At the group level, we said 18%. But this business is growing at a much faster rate than many of our other businesses and will continue to grow. And therefore, as we balance the portfolio across the group, a 15% ROE is what we would expect here. Over time, it will get better. But for now, we want a much faster growth and a much more stable business.

Vivek Karve: Thank you. Thank you, Anish. When I look at some of the online questions, there 2 broad themes that are emerging. So, in the interest of time, Raul, what I would request you is there is one question on sustainability of growth and ability to pass on higher cost of borrowing into higher rates for the customers. So, if you can take that question, and then I'll try and address the question on the cost of borrowing.

Raul Rebello: Sure. Thanks. So, yes, it's kind of going to be a task to keep the NIMs at the level that we talked about, but that boils down to our product mix. And in our product mix, what we fashioned for is, going forward, a higher growth in the used vehicle business. We talked about it. It's a very attractive segment. We are, today, in a leadership position there. We are playing with multiple channels to increase, whether it's used vehicles in PV, used vehicles in CV, used vehicles in tractor. So, that's a big business for us to maintain good spreads.

When it comes to new vehicles also, you would have seen some of the banners up would say that we are the leader in tractor finance. And this is across banks and VFCs. So, it's a good place to be in because as a category, tractor gives you very good NIMs, very good yields. And the credit cost also has come down to a level which, at an ROA level, is very attractive.

New businesses, what we're doing is LAP. Now LAP, the kind of yields that we get again are 12% plus. The OPEX is low, but the credit costs are very low. So, overall, while we were, of course, in a heightened interest environment, we've been able to keep our pricing protected. Going forward, Vivek will talk about the cost of funds. But let's know that we, as an NBFC, most of the businesses that we do are priority sector. And priority sector lending, when you have these assets, it's very, very attractive for you to keep that -- I don't want to get into Vivek's answer because I'm taking away from him.

Vivek Karve: You can answer on my behalf. No problem.

Raul Rebello: Yes. But what I would like to say is that we had as an NBFC, have improved on our level to capture PSL. We're now capturing the granularity of PSL, which then becomes attractive to kind of position it as a securitized asset off or on lending into those minor ask of small marginal farmer, weaker section, et cetera. That's very important. So, the categories of used vehicle, the categories of tractor, et cetera, all of this, as we increase the pie of sourcing, it also improves our overall cost of funds, which protects us at a NIM level. Vivek, please take over.

Vivek Karve: Yes. Thanks, Raul. The specific question was how do we see the borrowing cost outlook for FY '24? I would say it's a difficult question to answer because it's very difficult to second guess what the U.S. Fed will do and what RBI, in turn, will do. But if the commentary has to be read thoroughly, I get a feeling that there could be a short-term pause in rate hike, which then also means that the current rate trajectory may continue at least for a longer period of the current year at least. That's one hypothesis with which we are working with, which means that the increase in the repo rate from 4 to 6.5, which led to an increase in the overall cost of borrowing, may sustain for some time, but there are early signs of some easing happening. We'll have to watch it very carefully. But as Raul very correctly said, PSL, as a means to reduce our cost of borrowing, is something that we are very, very aggressively working on. I'll move on. Yes, sure.

Ramesh Iyer: Just one quick clarification that I may want to give is and I don't know what was the expectation the question had in terms of likely increase in rate from hereon. We do believe that the rate started is already and fairly, we have covered for those rates. But let's say, another 25 basis point was to happen, right? I think with the PSL cover, with the AAA rating that we got, there are some borrowing benefit that we get, that should protect for those 20, 25 basis point likely increase even if it does happen.

But beyond that, we should all expect that the market will also respond to it, right? Everybody is not going to absorb. If there is another 50 basis point increase, is everyone going to absorb that? Of course, the answer is no. Therefore, there will be a pressure overall to say increase the lending rate, and therefore, it will naturally happen. So, you should look at how much is the increase expected from here on, to what extent are we protected through our various actions? Beyond which, will it get passed on? I think the market will drive that automatically.

Vivek Karve: Yes. There is a question from Shweta. Shweta, please go ahead.

Shweta Daptardar: Shweta from Elara Capital. So, Mr. Shah admittedly mentioned that there has been NPA volatility in the past. But what has not slightly gone down well historically is the unpredictability with the credit charge to P&L. So, the provisions movement have remained sort of erratic. And now given our vision statement, where we are expecting benign credit cost, so how do you see the movement ahead? What do we build in the model going forward now that even Stage-2 movements have sort of been restricted?

Anish Shah: So, in terms of numbers, I will leave it to Vivek, but I'm not sure at this point, we would give specific guidance on it. We are in the midst of a significant set of changes that I spoke about. And once they settle down, you'll get a sense of what those numbers are. All we can say at this point, it will be better than what it has been in the past because it's going to be a much stronger asset quality and a much more stable asset quality. Vivek, do you want to share anything on that one.

Ramesh Iyer: I'll just add one thing quickly. The volatility on the provisions will normally be there when the GNPA is very, very high, right? Because you may recover some very quickly, some you may have to write off, some of you may settle, et cetera, et cetera. You must look at it that if the GNP is already at such a low number and it's 60% covered for and your net is at 1.9, you don't expect volatility in these numbers to happen. Then look at it coupled with the Stage-2, which used to be at 14%, 15%, came down to 8%, 9%, has gone down to 6%, which means the forward flow is arrested. So, you don't see a GNPA go up substantially because the Stage-2 is arrested, right?

To that, you add the third element, which is the mix of the customer segment that we are talking of, and we don't expect them to be coming into this NPA program. If you add these 3, you should be able to predict as to what the stability is, right? Always look at it from where it was to where it has come down. And therefore, is there something more that's going to happen volatile? That's the way you must look at it.

Vivek Karve: I'd just add a couple of points here. As Dr. Shah rightly said, we would not tend to provide any guidance. But Shweta, you're also right in terms of the volatility in the provision numbers. But also, we need to realize that during COVID, when the restructuring took place, there was a restructured portfolio on which we had to make higher provision. There were also overlays in Stage-3. But if you see now, I think there is a lot of stability. We are not carrying any overlays. So, every entire provision in Stage-3 is a model provision. And we have been quite consistent in terms of the PCR on Stage-3, which is in and around 60%. The restructured book

also will reduce over a period of time. So, with that, you can expect a much better stability in terms of both the asset numbers as well as the provision numbers. But we can't, at this stage, provide any specific guidance.

Sameer Bhise: Sameer here from JM Financial. Sir, just curious about the new affluent customer strategy. So, in a way, probably it will have lower yields on your portfolio. To compensate that, we probably rebalance it through, say, a certain degree of higher unsecured loans. Does it probably change the risk profile of the book to a certain extent? And secondly, when you target these customers, how much would they have an overlap with a typical bank customer in these areas?

Anish Shah: So, I'll give you a sort of answer in terms of our objectives and then Raul or Ramesh can provide more details on that. Our objective is to have a lower risk portfolio and thereby, a stronger asset quality. And so, if I would look at it from an investor standpoint, which I would in representing M&M, I'm not worried as much about the yield part as overall. What we're looking for is stable asset quality, ROAs at a certain level and a result in ROE.

We would expect a lower yield. The question is, how do we attract these customers. And with the changes we are putting in with digital and data, we feel that we should be able to offer a much stronger customer experience. This is also where synergies with M&M come in. It's a Scorpio when we had 1 lakh bookings in 30 minutes, the majority of that went to Mahindra Finance.

Sameer Bhise: Sorry to interrupt you. It fits well into the new product booking of M&M, but just more curious about the unsecured bit.

Anish Shah: Yes. And unsecured also is being done in a manner that is really around customer experience. We're not looking at expanding the unsecured book dramatically. We were looking at enhancing the customer experience dramatically, which we'll expand that unsecured book but in a very measured way, where you can actually control the asset quality as it goes forward. So, none of these changes, as we talked about, the new businesses are going to be a dramatic growth. This is a long-term view.

In the short term, we've done what we need to, we've gotten to where we have to. What we're building for is a long term. So, we're not going to see those changes overnight because we want to do it the right way. And thereby, you will see the unsecured book growing slowly. As you know, any finance I can grow the unsecured book as quickly as they want. But our approach is to grow it slowly, and

the mandate for the unsecured team also is asset quality is most important. The customer experience is most important, create the best digital journey that there is and focus on better customers that can help deliver that. So, that's the mindset that we have going forward. Our mindset is long term. Our mindset is not short term. That's the difference. Ramesh, do you have anything to add to that?

Ramesh Iyer: Just on the Primex customer that you touched on. See, the approach is always bottom up, right? We say we want to make a 2.5% ROE even from that customer. What do we do about it? Those customers don't come at the same 2.5% OPEX. They are at 1% OPEX. Customer are even lower than that as an OPEX, right? They don't come at the same 1.5% provision or NPA requirement. They'll be at 0.25% or 0.5% kind of a number. And that is where we are able to compete. And the advantage that we are able to compete is these products are also sold from the same dealership from where even other products are sold.

So, our bargaining power, just look at our bargaining power. You asked a question against the bank. Now if we are sitting with the dealer, earlier, we were not wanting these customers and we were not asking for these customers. Today, having put all the service standards in place and having created a vertical to handle it well, we are positioning ourselves at the dealership to say, we are doing for you in so many locations around the area, tell us one financial who's available everywhere, right? Tell us one financial who's willing to do all product end-to-end, right? Tell us one financial who's been with you for 25 years in ups and downs?

This is our value proposition. And then we are also bringing on top of that 10%, 15% business by ourselves from the market against the vehicle competition, right? So, put this together and look at the value proposition and the bargaining power that we have when we negotiate with dealer and then look at it bottom up to say that at low cost, low credit cost, we can't be absolutely very high just because we have this bargaining power, our lending rates cannot be unreasonable. So, the lending rates would be competitive, but the volumes will come because of this value proposition. And then because of the low cost and low credit cost, the ROE will still be made. That's the reason we got into that.

Vivek Karve: I'll go back to online and then come back to you.

Anish Shah: Listen, folks here, I'll leave after that.

Vivek Karve: Is there any question for Dr. Shah?

Piran Engineer: So, Dr. Shah, you've done a good job at the parent in turning that around. But don't you think turning around the subsidiary would be more difficult simply because of excess competition, a? And b, because what we are trying to do in this kind of an extension to Sameer's question is that in the long term, we are entering the bank's territory, let's call it that way. So, our core proposition of lending to the kind of guy who gave us 16%, 18% yield and if we stop that, we are becoming a bank. And every lender in India today is doing retail lending and probably will continue to do that over the next 3, 4, 5 years. So, just your thoughts on how more challenging turning around MMFS would be versus the parent?

Anish Shah: So, let me give a view of two of our large businesses, auto and tractors. In auto, as all of you would know, having been consumers in this auto industry, all the global players are in India today. All of them are bringing their global models to India very often on the day they launch in global markets as well. And this question was asked many years ago, how are you going to compete with them? What we have achieved today is not just competing with them. We're beating them hands down. If you look at our last 3 model launches, the Thar had 50,000 bookings in 3 days. The XUV700 had 50,000 bookings in 3 hours. The Scorpio N had 100,000 bookings in 30 minutes. These are global automotive records, not just in India.

So, I would not say that the auto industry is easy by any standards. It is one of the toughest industries to compete in, especially with all the global players coming in and then competing in a very big way. Similarly, the tractor industry is all the global players in India. And despite that, we managed to compete with them, increase market share. So, both of those have been very challenging. In fact, auto, we were written off at one point in time and you will not succeed anymore. We were written off 20 years ago. We were written off again 5 years ago.

So, compared to that, in many ways, I would say, this is somewhat easier, right? But it requires a lot of effort. To your point on banks coming in, I think Mahindra Finance has a very unique proposition in rural and semi-urban. Banks have been trying to get in there for a very long time. There are many banks that have lots of branches in rural and semi-urban India as well. And despite that, Mahindra Finance has stood very strong. Where it hasn't is the asset volatility. And there again, I would say volatility, and I would not look at it if I look at credit losses over time. They're still very good, in fact, better than many of our competitors. But the volatility is because of the earn-and-pay segments that we were doing, where they would come back 3 to 6 quarters later. And we've seen in every time that we've got high GNPAs they have come back 3 to 6 quarters later. So, the business has always made money, but it understands the market much better and it has been able to create that brand,

create that trust in rural and semi-urban areas despite banks being there over a long period of time, right?

And in many ways, I would say competition has made us better across our industries. And in auto, we will not be at this level of quality if it had not been for competition. And similarly, in Mahindra Finance, we are halfway through this turnaround. We're not completely there as yet. But we've got to be able to get to better asset quality, a much better customer experience than we deliver right now, lower costs than we have right now as well. So, these are all the steps that will be taken as we go forward. And with that, I think we are a very strong franchise that can compete against anyone around here.

Piran Engineer: Just a conceptual question to Mr. Iyer. So, in a rural dealership, let's say you give 100 vehicles, you finance 100 vehicles and you pay them a commission to the dealer 1%. When you do 150, won't we ask for a higher commission? So, because when you talk about the extra 50 coming from the affluent segment and you will save on cost, wouldn't it be the other way around? Just a conceptual question.

Ramesh Iyer: Yes, I know. See, typically, what happens is the commission is fixed for whatever volume that you do because it's not always 150 that will happen, right? It will also go down. So, he also doesn't want this volatility in commission. So, he also fixes up the rate, first of all. I think the second thing is whenever somebody pays a higher commission, they expect the dealer to do a lot of your activity. And we are very clear that we have put our people, we have our branches. And therefore, we don't want anyone else to take any credit decision for us. We don't want them to do any documentation for us. We are putting all of that. So, this extra commission that anyone is asking for comes with some work that he has to deliver for you. And that's something we have always resisted, right? And we've been there for last so many years. So, therefore, that pressure is not there on us to say, oh, if I have to do more volume and therefore, give me higher commission. That pressure is not there.

Also look at it, the dealer always looks for some matching support in the form of working capital support for a mix, et cetera, et cetera. And that's what we provide. So, our entire model is we make sure that we control this inventory so that we can control the retail out there for ourselves. And that's how this model has worked. Just one quick addition to the previous question that you asked. Don't carry the impression that we're going to give up all of our past business and the entire book is going to be built on Prime X because you almost kind of made that statement to say that you will be competing with banks. I think this is a certain percentage of our business and everyone gets a share of that volume.

Anish Shah: Yes, I think that's an important point because even when we talk about cutting out certain segments, what we found was a small part of the book contributed very heavily to the GNPAs. That is a small part we're cutting out. But the majority will still be part of the core. The other parts are going to help control the asset quality or improve it, but the core is not going to go away.

Vivek Karve: So, Anish, how much more time do you have? Can you take one last question for you?

Anish Shah: I'll take one last question. There are actually 2 questions. There are 2 folks raising their hands behind. So, why don't we go to both of them?

Vivek Karve: Can I start?

Anish Shah: Yes. Go ahead, please.

Vivek Karve: Go ahead.

Abhijit Tibrewal: Anish, I had a question which you have already partly addressed, but I just wanted to understand this better. So, I mean, you rightly pointed out that we were looked upon as maybe a captive financial and which is why our performance was looked in a different way.

Vivek Karve: Can you be a bit louder if you don't mind?

Abhijit Tibrewal: But the fact also is that today, if you look at a whole host of unlisted captive financials that we have in India today, the asset quality has not really been as good as what is expected. And maybe one of the underlying reasons for this has been the kind of limitations that you have, the kind of underwriting decisions that you have to make as a captive financial to help the parent do volumes. So, I mean, fundamentally, what I wanted to understand is when you say that we don't want to be a captive financial anymore, the kind of underwriting decisions that we've used to make for the parent, is it going to be any different going forward?

Anish Shah: So, I'm glad you asked this question because I'll clarify this, and there was a part of a question earlier as well. Will it impact M&M if we don't have this arrangement? Actually, to be honest on this, for the last many years, M&M has never told Mahindra Finance that you must underwrite these customers. Mahindra Finance makes its own independent decisions, right?

So, we haven't clarified as much. In the past, it was different. But that model is not changing now. That model changed a few years ago. So, Mahindra Finance will make its own independent decisions as it does for the last many years on who to give loans to and who not to give loans to based on what's good for Mahindra Finance.

Will it impact M&M? No, because we've got a huge order book today. And our order book should not depend on asking Mahindra Finance to fund someone who would not be funded otherwise. Our order book is dependent on the product that we have and the price and the value proposition we have for the customer. Today, we are doubling capacity. We are halfway through that right now. And even after doubling capacity, we are not in a position to meet the demand that's out there in the marketplace today. And that's a function of the product and the value proposition. That has nothing to do with financing at all. Mahindra Finance will benefit from that because as I said earlier, when we got 1 lakh Scorpio of bookings, right, we had Mahindra Finance immediately after the booking paid saying here's a preapproved loan from Mahindra Finance, okay? So, the synergies will benefit Mahindra Finance, but it is never going to be that Mahindra Finance should do these things because you are captive. You're not a captive. What we want to see is returns as a shareholder. So, generate more returns as a shareholder, we'll be happier that way.

Abhijit Tibrewal: My last question is on the OPEX. So, FY '23 OPEX ratios are around that 3.2% kind of levels. If I look historically, we have always been a franchise, which has been OPEX-heavy. OPEX ratios have remained elevated. And even before we started this, I would say, investments in technology, risk analytics, even in the past, our OPEX ratios remained elevated. So, I mean, just wanted to understand in terms of that bridge from 3.2% to 2.5% that we guide for, how is it kind of going to moderate? How much of investments do you think is still left to be done in this fiscal year? And what kind of trajectory can you take as we move towards FY '25?

Anish Shah: Yes. I'll give a short answer to that, and then Ramesh can expand on that. We are still not through with that journey, so I wouldn't expect that in the next year. It will take a little longer than that to happen.

How do you really change that model for the long run? You change it, one, through less collections efforts. If you got better customers, you've got less collection efforts, through technology and through use of data. These are the investments that have been made right now. And as those investments are complete, that will then really cause that bridge.

Ramesh Iyer: I think one important data I must look at it is, in the past, it was high because 90% or 80% of the collection was physical cash. If you look at it today, that number has gone to below 50%, maybe 35%, 40% type numbers, right? So, that, by itself, will drive the overall cost of collections to come down.

Two is, in the past, you never had so many service provider outside who gave you enough of data or information for any credit, like, for example, KYC. All the KYC in the past had to be physically done. Go and collect the RCA books, insurances, right? All of that had to be physically done. Today, they are all online. You don't need to incur those costs.

So, if you look at each line item, what adds to this cost, and then see what of this is continued to be required to be done by us and what can be now available otherwise outside easily, that itself should bring down this cost, right?

The third is everyone had to be in a branch from branch, go to customer and et cetera, et cetera. The customer had to come to the branch. Today, many of these transactions can happen even digitally. And therefore, that conveyance cost, if you really look at our heavy cost on our OPEX, you'll find travel and conveyance is one of the largest costs, right? I think that, by itself, as it comes down due to various interventions, it will automatically mean that the cost will come down.

I mean earlier, when we have to appraise a customer, we have to do minimum 3 visit because the first visit you meet, understand, telling the required documents; second visit, you pick up the document; third visit, he says, okay, my guarantor available, come for signature. That's all crushed to one visit because the documents are available online, right? Interaction is happening online, then you go for a final round there. So, many of this, the number of steps required to complete something has come down. And that's the direction for the cost to really come down.

Anish Shah: Okay. Last question.

Abhishek: This is Abhishek from HSBC. My question was actually pretty similar to the previous one. So, in terms of a contribution to financing of the sales of M&M, is there a minimum contribution that is expected by the parent from Mahindra Finance? Or this 40% of vehicles which are M&M vehicles, this can be in a free fall, it doesn't matter because the decision ultimately is based on Mahindra Finance's underwriting and not a requirement by the parent?

Anish Shah: There is no minimum expectation. M&M deals with Mahindra Finance as it would deal with any other financier in an arrangement that it would make with the finance.

Mahindra Finance is expected to do everything it needs to protect its own interest. And that, we are very clear on.

Synergies will happen only when both benefit. So, we tell both you make your independent decisions. We will not ask you to do anything different. Similarly, M&M was not asked to do anything different. If you all both agree that you all will do something together that benefits both, then please do it, but do it in your own interest. So, that, I want to make very clear, there is no expectation of a captive. Whatever M&M and Mahindra Finance decides is similar to what any OEM and any financier would decide based on their own interest. If it is not in the interest of Mahindra Finance to do something, it should say no. If it's not the interest of M&M to do something, it would say no. So, that both businesses operate independently in their own way.

Ramesh Iyer: Can I just make a quick comment. I think you must look at from day 1, my reporting has never been to the sector, whether auto or tractor. It's always been to either Bharath then or to Anish now for a simple reason that I'm not measured by the strategic penetration that we offer to the vehicle or tractor, but the return that we provide on the investment that has been made. So, that's 1 very clear rule.

The first rule that was written when this business was set up, that we will not do more than x percentage of their vehicle. The rule was not written how much will your minimum do. The first rule that was written was we will not do more than 40% of what they said. So, there was a restriction rule and not a minimum achievement rule. And that's the reason that we never were operating like a captive while we started with Mahindra as the fundamental product.

The third is where we open a branch, which vehicle we do, which dealer we support, how much we do are all completely Mahindra Finance's decision, and that's the reason we never allowed or agreed to credit loss being picked up by them. If we operated like a captive and if we were driven to run a credit loss, someone said one part of the statement of the other OEM, but they didn't complete the sentence of saying that the loss is also picked up by the OEM in that captive.

If that was true for us, the loss would have been picked up by M&M and our balance sheet would not have gone through. So, let me be very clear, if there is an NPA, if there is a loss, management of Mahindra Finance is wholly responsible for it, and there is no drive from M&M or there is no ask from M&M on that. And we don't sign any credit loss agreement.

Vivek Karve: Anish, before you leave any concluding remarks?

Anish Shah: The one other thing I would add to that is as the Mahindra Finance Board, the KRAs that we hold, Ramesh and Raul and the teams accountable for, do not have anything with regard to say as a support for M&M. The KRSs are essentially around growth in disbursement, asset quality, technology, some element of data. What am I missing on the KRS? Returns for the business, cost. So, it's all around what's required for this business.

What you have seen or maybe it's not being as evident is more synergies that have come in across the businesses. And that is something that we will continue to see more because we are encouraging our business to really drive a lot more synergy. But the rule in synergy is very clear, 1 plus 1 has to be equal to greater than 2. So, both have to get 1 at least. And then if you get more than that, then that's the benefit of the synergy. And that both our independency will decide whether they do it or not. So, that part is clear.

So, I do have to run for a flight right now. So, I thank everyone for coming here in person and for joining online. Is there any more questions that you need my answers for, please send them to Vivek, and I can cover that by e-mail. The basic message I would give is I think we are, what I would say, halfway through the turnaround. There's a lot of great work done by the team, and I would thank them for their efforts.

I feel that we will continue to emphasize asset quality, technology, data. We've got a very strong leadership team in place, and the business is well poised to go forward. So, as a shareholder, at least if I were to talk about it from an M&M perspective and from a Mahindra Finance Board perspective, I think we're very pleased with where the business is and where it's going. Thank you.

Vivek Karve: Thank you, Anish. We will continue. I will take one online question and probably one last physical question. The online question is about rural focus consumption companies have been talking about rural stress and rural wages and cash flow being under stress. However, the commentary from some of the NBFCs like us, there is a divergence. So, why is the divergence? Either Raul or Mr. Iyer can take this question.

Ramesh Iyer: See, this question has been there for a few quarters. It's not only in this quarter this has come in. What we've seen on the ground clearly is there is a very clear difference between need-based and aspirational products. Need-based products like

a tractor or a vehicle, that's an earning product for them, and therefore, they are willing to invest in that, continue to earn from that and then repay out of that. And therefore, they are careful in allocating their cash flows. And therefore, you will find some of the aspirational product, maybe even consumer durables or whatever else, they don't see a hurry to be wanting to invest in those. And which is where you see this difference in commentary, if you may call. As otherwise, this is a product where they bring in 25% margin, which means on a Rs.10 lakh product, they bring Rs. 2.5 lakhs. Why will they want to? Unless if somebody is saying, oh, we are driving rural by giving 100% loan, then that's a different story. But we see 25% margin being brought in. So, there is a very clear distinction between need-based and aspirational, and that's very profound at this stage.

Vivek Karve: Thank you. Okay. We'll take 2 questions. No problem. Maybe you can go ahead. Okay, you start, and then I'll come back to you.

Shubhranshu Mishra: So, the first question is around Mahindra Housing finance. So, why are we running the housing finance business? It's barely profitable. It seems like a clear case of capital misallocation. I asked this question probably a year ago as well. Even today, the gross Stage-3 numbers are very sticky. In the last 5, 6 years, they have been fairly sticky. So, just want to understand why don't we exit this business? It seems like a clear case of capital misallocation. It doesn't make profit. That's first.

Second is, thank you for speaking about so many digital initiatives. But then to collect, we still need feet on street. So, how many people we have to collect? And how are they verticalized? According to buckets? According to businesses? If we can have those data points.

Ramesh Iyer: I'll take the housing question. You may want to add on the collection front. See, why are we still in housing business is a fundamental question you're asking. This was a model that we got into because there was no one out there. It was a requirement of the market. We did very, very well. I think the disruption of that geography taught us a lesson that these customers, if hit with this kind of a disruption, takes much longer. What we have done with that business now is with all that experience, I mean, why should one exit a business having been there for 10 years, understood the business, actually have lost some money in the business, you should now be able to rewrite a strategy to say what is the right thing to do there. And that's exactly what we've done. What we very clearly understood there is what is the segment of customer when hit with this kind of a disruption can't get up easily. Not that we're going to lose all that money. Yes, will they come so immediately? The answer is no. But that will come over a period of time. But

nevertheless, with various rules that have been put in place, very clearly, we've been able to identify which are the segments that we must actually eliminate and not be participating in. And therefore, that's one very clear decision that's taken.

Second is, we've got into the affordable space where we have a definite growth opportunity. And therefore, you will see this business in the next 3 years showing a very different color from where it is today. It has also gone through its own share of problem because it was a model experimented. We made good money in the initial years. If you're losing money today, it's only out of what we have made in the past. So, we're still getting some returns out there. But the first step is to clean the book. Second step is to cut the tail, which is creating this kind of a disruption, which is so well understood; underwrite the business in a manner which is the most appropriate way to do for that segment; and affordable as the piece of the business. The 4 things together is what you'll see is the change of color. And I think as we speak, we also have an aspiration to IPO this business in 3 years and that's the effort that we are putting in. And you will see all the actions that I'm talking of will be very clearly seen. I think at some stage, you all should also interact with the CEO of this business. I think Shantanu is here, I saw him. And maybe even during the break, you should interact with him to understand more about the strategy. But I will also request Vishal, if you can arrange for some specific meetings with him to take them through on what really is the strategy for this business and why are we remaining invested. But on a broader sense, I can tell you, we've rewritten the strategy, cutting the kind of the tail that has caused this problem and getting into the new segment, which is more stable and possible. On the collection and requests?

Vivek Karve: Just one request. There are some numbers which are not disclosed from our side. And there is a reason why we don't disclose it. So, my request for Raul is maybe you can answer this question more directionally?

Raul Rebello: Absolutely. Yes. So, on the collection side branch, you're right, if we are saying that our collection through noncash collections is reducing, Mr. Iyer said that number from pre-pandemic, 65, has come down to 35. That means more and more customers are playing through ACH mandates or through digital means, and that's increasing definitely. So, we have never given a manpower how many are in which division. All I can say in the last 18 months, we have not added a single headcount on collections. In fact, a lot of the collection folks, many of them have been moved to what we call as BD collections wherein you're collecting from bad debts or many of them have also moved into business. Going forward also, we see this as a team which will be stable. We do not, as I said, give specific headcount numbers to each

function. And even this 35% number, we are confident that cash collection will go down in the future.

Vivek Karve: Yes, we'll come to you for the last question for the day.

Himanshu Taluja: Just 1 question, extending your questions on the OPEX front. So, just need some clarification in your guidance, how we should see directionally. Given at one hand, we have some lever in terms of your collection costs, ideally what we have made in put in the efforts in FY '23 may not be required in FY '24 as the stress book has also come down. While on the other hand, your tech journey piece is still going to take some more longer time and your investments towards the human capital, your demand is strong to volume related. So, do we expect your OPEX growth to trend in line with the revenue growth? Or you expect slightly for some more time, it will be higher than the top line growth?

Vivek Karve: So, I feel what you have seen as the OPEX as a percentage of asset book in F '23, that may be a ratio that has peaked out. While it may not come down drastically, it will remain range bound for at least 1 year before it starts coming down. As you rightly pointed out, the continued investments in the transformation project that we have undertaken.

Yes. No, there are a few more questions, Vishal, but given the time, we may have to close the Q&A session today. But what we can assure you is if any of the online questions have remained unanswered, we, as management, will get back to you with our answers.

So, thank you all for your participation today. And for those who have come here physically, there is a high tea that is arranged in the adjacent room. Please join us there. Thank you.