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**Financial Services Ltd.**
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25th October 2024

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

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

Dear Sir/ Madam,

**Sub: Transcript of Earnings Conference Call for the second quarter and half year ended 30th September 2024, held on Tuesday 22nd October 2024**

Further to our letter(s) dated 11th October 2024, 16th October 2024, 18th October 2024 and 22nd October 2024, and in compliance with Regulation 46(2)(oa) and Regulation 30 read with Schedule III, Part A, Para A (15)(b) and other applicable provisions of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("Listing Regulations"), please find enclosed herewith the transcript of Earnings Conference Call for the second quarter and half year ended 30th September 2024, held on Tuesday, 22nd October 2024, which concluded at 6:51 p.m. (IST).

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

Kindly take the same on record.

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

**Brijbala Batwal**
**Company Secretary**
FCS: 5220
*Enclosure: As above*

“Mahindra & Mahindra Financial Services Limited

Q2 FY’25 Earnings Conference Call”

October 22, 2024

**Management:**

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

| | |
|---|---|
| **Moderator:** | **Mr. Praveen Agarwal**<br>**Axis Capital Limited** |

**Moderator:** Good evening, ladies and gentlemen. Please note this call is not for media representatives, investment bankers or commercial bankers including corporate and commercial forex. All such individuals are instructed to disconnect now. Ladies and gentlemen, good day, and welcome to the Mahindra Finance Q2 FY '25 Investors Conference Call hosted by Axis Capital Limited.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Praveen Agarwal from Axis Capital. Thank you, and over to you, sir.

**Praveen Agarwal:** Yes. Thank you, Del. And good evening, everyone and welcome to this Earnings Call of Mahindra Finance. From the management team, we have Mr. Raul Rebello, MD and CEO; Mr. Vivek Karve, Chief Financial Officer; Mr. Sandeep Mandrekar our Chief Business Officer. I would like to invite Mr. Rebello for his opening remarks, post which we'll open the floor for Q&A. Over to you, sir.

**Raul Rebello:** Yes. Good evening, everybody. Thank you, Praveen for hosting us. So as usual, I will go through the deck that we would have circulated a bit earlier. So I request you to keep the investor deck handy as I call out page numbers that I'm referring to for commentary. So let's go to Page number 4. And this Page number 4 basically is not specifically on Q2, but it's a reflection of what we had called out as our Mission '25 aspirations at the FY '22 closing. And these aspirations are around key metrics. So the Page 4 has them handy.

Now as we stand here at half year of FY '25 and reflecting on where we are at each of these Mission '25 metrics and what we see also as possible FY '25 exit numbers. On metric 1 asset quality where we stand today from travelling the last 2.5-odd years, we see we have steadily come down on the GS3 numbers which is at 3.8% which is below threshold levels and the credit cost numbers also have been declining. And though there's been seasonality that plays out in H1, we do foresee for FY '25 exit, the credit cost numbers in the range of 1.3% to 1.5%.

I will in the next slide, talk about specifically Q2. So this is more where we are standing on H1 and where we expect its exit on FY '25 total credit cost that's in the 1.3% to 1.5% range. Now over the last 2.5 years in pursuit of the asset quality goals, we did

make some conscious calls on the incremental prime customer segments that we have been acquiring and that has come at a cost and at maybe in this -- at lower -- the yields are lower.

And what's also worked in the last 2 years is the whole elevated interest cycle. And that's had a bearing on our original NIM aspirations. So, where we stand today and what we expect for the full year closing is in the range of 6.5% to 6.7%.

Moving to metric number 2 which is on the book growth aspirations. From the 60,000-odd levels that we were at the end of '22, we've seen some decent growth come through for the last 2.5 years. And on this metric specifically, I don't see any challenges in the 2x AUM that we are looking at for the full year, mostly running considering the very strong disbursement that we've had all across FY '23 and FY '24. I know FY '25 has been muted, but the disbursement of the past should hold us in good stead to deliver the book overall numbers.

Moving to metric number 3 on operational efficiency. The opex numbers have trended down and we have a page which talks about the overall progress on the operational muscle that we are building, and I'll give you detailed commentary on that. On metric 4 diversification, this is currently at -- I mean it's at 6% currently and will go up marginally for the rest of the year but admitting that this is trended below plan. The plan was quite aggressive at 15% of the overall mix. And this number on reflection is something which has not played out exactly as per plan.

But in full reflection, I think the MSME and leasing businesses, the building blocks have been put in place and we are seeing some trending numbers which are encouraging and the recent announcement on mortgages and the insurance agency license which we have taken in, have been in a sense, a good building block for us to build from here. Finally, all of this gets us to our ROA aspirations and where we are on ROA. And I know 2.5% was the aspiration.

We have looked at various metrics that have influenced this number at H1 exit that's 1.5%, but we do have a visibility for the full year to be clearly in 1.8 to the 2 range and I would still be more bullish on the 2 range for the FY '25 exit.

Moving to Slide number 5 on specifically GS3 and here, I'll get into Q2 commentary right now. So the GS3 number, while this Q2 has been 50 bps lower than last and it's at 3.8%, but it has climbed up from -- by 20 bps from the last quarter. When we diagnose what's really driving this spike, I'm sure the cash flow situation everyone has a sense of where the cash flows are in the rural markets, specifically the self-employed customer segment.

But for us, what's really 40% of the GS3 hike has come from the tractor segment. And we have seen and witnessed pain in certain states whether it is mostly the agrarian states where cash flows have been disrupted, MP, Maharashtra, Gujarat, AP, Telangana. These states have seen a slightly higher amount of pain. The cash flow is not just in the agri sector, but some of the LCV -- the CV customer segment has also seen a bit of elevated pain in Q2 which has had a bearing on our collection efficiency. And the intensity of our collection has had to go up.

The credit cost and provision numbers which is on the same page, if you look at it at the bottom of the page, there has been an uptick in provision again flowing from the slightly higher tractor GS3 numbers. But I think the sliver of good news there is that what we have seen over the last few years, the end losses have consistently come down. So, the provision uptick has caused the overall credit cost hike, but at the end loss level, we are not really seeing that stress and that's because the flow forward from -- to write-offs as well as the settlement losses have been consistently coming down.

I'd request you to move to Slide number 6 where we give more color on the GS3 and credit cost. What you'll notice over here is that the GS3 plus GS2 is at 10.3% presently. And I mentioned the seasonality which has played out in H1 and also some of the specific cash flow disruptions, but whatever levers we as the team think we have at our disposal, the GS3 plus GS2 numbers are expected to come down below 10% and we do see the credit cost numbers, which is currently at -- I mean, for the whole half year at 1.9% and more specifically at 2.3% for the quarter, we do see the full year numbers in the 1.3% to 1.5% range.

Again, if you -- I would like to draw your attention to the last row on the table, you would see that the kind of sequential drop in the end losses FY '22 from INR2,500 crores odd to INR2,200 crores to INR1,700 crores, we see this number sliding down further.

Moving to Slide number 7. I'm moving to commentary on disbursements now. You would have heard commentary from auto players and specifically the ones who play in auto tractor, CVs, etc. It's not been an overall a year which has seen too much of excitement. We have seen flattish growth. And from a financing standpoint, our outcomes were not too different. So, we have degrown quarter 2 versus quarter 2 of last year. H1 has seen a marginal growth of 2%.

Now what really is working in independent asset categories, the PV segment, I would request your attention on Slide number 7 on the last column. PV has been flat for the year minus 3 for the quarter. CV has been again minus 1 for the full year H1 versus H1. Our used vehicle business has grown 2%, tractor has degrown 3%, 3-wheeler 1%.

And the real growth, what we have seen as an outlier is the SME business, but again very small in the scheme of things. Overall, I would say the market -- we haven't really lost market share, our outcomes have been more in reflection of the underlying commerce that you're seeing in the wheels business. I must, at this point offer some commentary on what we have seen in October.

As you know, October, the all-important month of October, we started the Navaratri in 2nd, and we finished Dussehra, by 12th and we have the all-important Dhanteras and Diwali upcoming. I would say we've seen some marginal improvement to the same time last year for the festive season, but too early. We are still waiting for the Dhanteras, Diwali numbers to come out. But specifically, if I were to look at some kind of slivers of good hope, it's in the tractor segment where we are seeing a slightly high number compared to last year in the festive season.

And there are certain models which we are seeing some excitement. We are hoping to muster some of that growth in this festive season. But overall, for the rest of H2 I don't think we can have too much of excitement baked into the numbers. Request you to move to Slide number 8 on margins. There has been a -- I think you've been asking us questions on how incremental yields have been coming on. This is a slide that offers some commentary there. I would say, at a headline number the yields have gone up quarter-to-quarter by 30 bps, 20 bps on the loan income and 10 bps on the fee income and some of the fee income is coming in from the insurance corporate agency license, but cost of funds really not much relief here.

As you know, on a stock level though our incremental COF is okay, but there is a debt equity playing out. So, we have -- we are consuming more capital. So -- and overall stock level of COF doesn't move so rapidly even though we might have a one quarter of incremental cost of funds going down. I will move to Slide number 9 which is on operations, and I just want to kind of draw your attention to some of the talent augmentation that we have done.

As you know we have a very formidable team in the wheels business, but as we get more aspirational on the controls function and the new businesses, we do have to augment the team. Mahesh joined us as Chief Risk Officer from -- spending many years at HDFC and some years at Yes Bank. Jaspreet Chadha has spent a decade with Bajaj Finance and most of this time -- I mean, all of the time nearly in the housing side of it, a key member in the housing finance team, and he's joined us as our Chief Business Officer in mortgages.

Bijoy has joined as our Chief Business Officer in the leasing business, payments, fixed deposits, and partnership. Mod Singh joined us after spending 20 years with RBI.

Devendra joined in as our Chief Analytics Officer now close to a year back, but the other four have joined in the last few months.

On the tech and data side, we've gone live with the new LOS and LMS from sales force. We have seen, especially as the augmentation of the underwriting and the risk team has come in, we have developed new NTC scorecards and our BRE and LOS and LMS for the wheels business will be going live very shortly.

Overall, I think there's been a good amount of traction on the opex side as well as the GRC side and I do feel much more comfortable now that we have a very balanced leadership team to take care of both growths, the growth side, the risk side as well as making sure we grow in a profitable and sustainable manner. I'd request to move to Slide 10 and Slide 11 where I've given a snapshot of the quarter. So, highlight before I open it up for questions, is that our disbursements as I said have been flattish. Book has grown 20%, income grown 21%. Our overall NIMs have stayed flat at 6.5%.

Our opex has been coming down from 2.8% to 2.6%. PPOP levels have grown 27%. Credit cost yes this has been a pain. We have seen our overall credit cost numbers in rupee value term go up, but from a credit cost percentage as a percentage, it's come down by 10 bps and PAT has been up 57% for the quarter and 50% for the full -- for the H1 to H1. So the numbers are there for all of you all to see. I think I should spend more time and give you time to answer questions. So Praveen, request you to open up the floor for Q&A.

**Moderator:** Thank you. We will now begin the question-and-answer session. The first question is from the line of Marukh Adajaniya from Nuvama Wealth. Please go ahead.

**Marukh Adajaniya:** Hi, good evening. So I just wanted to focus a bit on the NPLs this quarter. You attributed them largely to tractors, but one other NBFC was quite upbeat about rural demand and tractors. So is it a state wide issue? Are you already seeing green shoots in tractors because they were very upbeat about rains and how that really helped their business? And that call was just two days ago. So I just wanted to delve a bit into that.

And then basically, growth has been slowed -- disbursal growth has been slow because of slowdown in demand or it's a cautious -- conscious decision? And also is there any spill over of MFI stress into your segments like maybe some of the family members also being MFI borrowers? Any such linkage that you may have found or you would -- you can guide us to?

**Raul Rebello:** Thanks, Marukh. I'll take both those questions. On the tractor side, let me split it up into both the -- you talked about growth as well as risk. First, I'll talk about risk. So

while we have seen as I said 40% of our incremental GS3 has come in from that segment. I would like to bring a distinction between delay and default.

What we see here is in the states which are very agrarian dependent and I called out Maharashtra, Gujarat, MP, Telangana and AP where they've also had an issue of the late rains which we have seen, which would have caused some amount of disruption in the cash flows, which -- instead of watching the kind of mandi activity which has been much slower this year because of the late rains continuing.

And this delay is not for us worrying as of now which will construe to a default. If you've seen last year also in Q2 we saw part of this play out, but in Q3 and Q4 the recovery was quite good. We have a half yearly tractor repayment, and we have a monthly for the states which are agrarian we have half yearly. So, the stress that we are seeing largely because that the half yearly portfolio typically gets impacted, this is the agrarian borrowers.

We do not see the same amount of stress for the states which are monthly where the tractor is used largely for haulage plus agri. So that's the risk commentary I have on the tractor side, for which the delay and not default has played out. On the growth side, you're right and I've also mentioned that while overall -- and this is the year-to-date numbers, this is the RTO numbers. Tractor has seen a H1-to-H1 degrowth, but the commentary now is the H2, because of the first 15 days of October itself we have seen a very strong uptick.

And we just hope that we'll also be able to ride some of the tailwind of that demand, which is coming now because overall, you're right it's been a good year in terms of monsoon. We just hope that these late monsoons don't disrupt the party, but overall, the rainfall has been good and we expect with the MSP being positive and the overall yields also being positive that the rural and agrarian outcomes for the next half of the year, we'll see tractor having a good patch and we should be able to ride that.

Coming to your second question on overall growth and why it's been muted. I don't see our outcomes very different from the commerce that has happened in the 3-wheelers, we don't play in 2-wheeler. 2-wheeler has had a good growth. It's had close to 10% growth, but 3-wheeler, passenger vehicle, tractor, CV business, used vehicle, I don't see our growth being too divergent from the underlying commerce. In some segments, yes, we have been about a couple of points lower.

We do realize that we've got to participate in segments which will not give us risk outcomes in the near future. On the MFI stress, we don't do MFI lending, but if you were talking about the customer segment, we really don't have an overlap. There could be a minor, minor overlap in the 3-wheeler segment where some borrowers, some

ladies, let's say in household, you would have some households taking micro finance, but our 3-wheeler customers, these assets while microfinance customers, there's a opaqueness between consumption and credit and what flows into real investment, our loans goes specifically for the 3-wheeler and we don't really do any consumption in that segment.

So, we are not seeing much stress from the microfinance customer segment which is a very different customer segment to the customer segment we have in our portfolio.

**Marukh Adajaniya:** Got it. Thank you.

**Moderator:** Thank you. The next question is from the line of Nischint Chawathe from Kotak Institutional Equities. Please go ahead.

**Raul Rebello:** Nischint, can you be a little louder. Can't hear you really clearly.

**Nischint Chawathe:** Yes. Just a couple of questions. First on some data keeping questions. What is the NPL versus gross stage 3, as you share the data every time in the call?

**Raul Rebello:** Yes, the GS3 number is for the quarter and half year 3.8% the GS3 number, that's your question, right?

**Nischint Chawathe:** No, the question is as per RBI definition...

**Vivek Karve:** Yes, just give us a minute. GNPA as per IRAC is INR6,000 crores versus stage 3 of INR4,309 crores in rupee value. So that would be roughly maybe another 1.5% you can add roughly to the number.

**Nischint Chawathe**: Got it. We saw a strong fee income this quarter. I believe you've been talking about initiatives like insurance, et cetera. So just curious, is it something which is sustainable? Was there a certain one-off this quarter? And is it fair to kind of annualize this?

**Raul Rebello:** Yes. Nischint some of the numbers are structural because we have tied up with 6 partners, as I mentioned across life, health and motor and there is a stated aspiration to grow that income along with other sources of income also which are non specifically loan income. So, yes, you can expect to see the income coming in and being at a level which should grow going forward.

**Nischint Chawathe:** Sure. And on ECL coverage. I know we said that somewhere during the year, we'll probably -- we may probably review the coverages on each of the buckets. But this quarter, you seem to have sort of maintained coverage on stage 1, 2 and 3 respectively. So, is there any particular thought process over here or would the multiples remain similar for the rest of the year as well?

**Vivek Karve:** So, Nischint Vivek here. You would recollect that we had guided that we will see some improvement in the overall LGD numbers and therefore coverage ratios in the second half of the current year. And we are maintaining that.

**Nischint Chawathe:** Got it. And just one qualitative question and this is really on growth. I know you discussed about tractors kind of seeing good demand, but what about other segments? What is the outlook over here for the second half and probably going into the medium term as well?

**Raul Rebello:** So, on the rest of the wheels category, Nischint, I mean I would still say it's going to be a conservative full year while the festive period, the first half of the festive period from Navaratri to Dussehra was okay, then you have, of course, a second build-up that happens before Dhanteras. So, I don't think basis the overall what's happened in the first half of the year, we will have something which is really going to be spectacular to have a full year outcome, which will be very positive.

There are certain green shoots, there are certain -- for example, you've seen in the Mahindra portfolio like a Thar which has had great numbers and we have got a good market share there. So, we will try to find growth opportunities within those pockets of opportunities that exist, but on a console basis I think after 2 years of great run in most of these categories we are going to see a little bit of a moderate year.

**Nischint Chawathe:** And what kind of growth are you kind of budgeting going forward in the next 2 years? How are you really capacitizing the business?

**Raul Rebello:** Yes. See, I can give you a 3-year -- I mean we are looking at with the choices available to us and now some of the new businesses added, the SME business, and we have stated our plans on the mortgage side. We are looking from a 3-year horizon to be in the 15% to 20% CAGR. I mean that's more like a directional 3-year aspiration.

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

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

**Abhijit Tibrewal:** Good evening, everyone. First things first, I mean, just kind of taking the last question again, you have guided for credit cost of 1.3% to 1.5%. I'm sure some of this is pencilling in recoveries from the tractor segment ones which have slipped in this quarter. And the other thing that you said is also that from the improvement in LGDs, you might see the release in ECL provisions coming through.

So, I mean the second part, the release in ECL provisions coming through, can you throw some more light on that versus where we are in terms of provision coverage

ratio? What could it trend at, and will it be more back ended in terms of more coming in 4Q or we will see it to be more gradual in 3Q and then in 4Q?

**Raul Rebello:** Yes. So, thanks, Abhijit. I'll take part of it and hand over part to Vivek. So the reason why we have a certain confidence in the credit cost, which, let's say, for H1 is at 1.9% which we say will come down from 1.3% to 1.5%. You would have seen something similar last year when we ended, let's say, credit cost at 2.3% and we brought it down to 1.7%. I mean I'm just getting your memory back to last year.

Why this number changes and why this number really moves is one because of real recovery that happens in the second half of the year where cash flows improve where some of the slippages as I called out as delays not default, the collections come back and the overall stock of GS3 usually moderates in the second half which definitely has, one is, it doesn't create any more incremental provision, two it kind of also make sure that we are able to get the credit cost back because there is no incremental flow forward. You're right, the second lever over there. I don't want to take away the play that the LGD will have.

We are still at a high level of 59.5% and we have a 42-month average. And we do see that basis the prediction of the model that this number will come down. Now I don't want to put -- get ahead of ourselves and give you exactly that 59.5% will come down to what number, but we have clear visibility that there will be kind of a reduction in that number which is more reflective of our current LGDs and hence both of these working together gives us confidence of the targeted credit cost number, which is, as I said at exit of H1 at 1.9% coming to a 1.3% to 1.5% level.

**Vivek Karve:** Yes, Abhijit I have nothing to add.

**Abhijit Tibrewal:** Got it. Got it. And then the other two questions that I had was, again, in terms of margins, H1, we closed at 6.5% and the full year, we have guided for 6.5% to 6.7%. We are essentially talking about margins to improve from here. So we're just trying to understand is part of this because of the trade advances, which typically were given in 2Q and will get converted into retail loans in Q3.

Does it have some bearing on this or how are we thinking about margin improvement coming in the second half? And the second thing is you also -- I mean, if you look at our disbursement mix, given that large proportion 40% comes from PVs, and PVs, I mean, among all segments, right, I mean it seems like it's slowing down now.

So I mean, while you've already commented on the outlook of 15% to 20% over the next 3 years that you're looking to grow at, including some of the newer business uses

that we are incubating, on vehicle alone, how are we thinking about growth for the next second half and the next couple of years?

**Raul Rebello:** Yes. So just remind me of your first question, I lost it in the -- the first 1 was regarding margin, okay. Yes. So margin and getting this number from 6.5% to 6.7%, Abhijit is a combination of what we think is we have been incrementally passing on -- the IRRs have been going up, and some of that will help us on the stock level.

Then there's the fee income, which also kind of augments the NIM number to go up from where it is currently. I do not look at trade advance being a big influencer in that trade advance has a Q2 impact because we gave it and the Q2 numbers go down a bit, but it's not going to be something which moves the needle in a large manner. That's on the margin front.

And I'll say these are all -- what's in our complete control is passing on interest rates doing, as you know the more tractor we do in the second half of the year gives us a lift. The more used we do which is now 18% of the mix that also improves the IRR and the fee-based income. So that's the broad influencing levers for the 10 bps to 15 bps increase in our overall NIM. And I mean I have not factored in any credit -- any kind of fund cost over here because we don't have any visibility of fund costs going down.

Coming to your second question on overall growth. See, for the rest of the year, you're right, PV is not going to have a very strong outing for the year from a disbursement standpoint. However, in PV, there is still a decent amount of NTC customer segments as well as close to prime customer segment now that we have got reasonable confidence in our NTC scorecards and the ability to underwrite NTC customers, we do see scope for us to further participation there.

It's not going to be -- the rest of the financial year is not going to be extremely bullish, and we are not extremely bullish. But since you also asked on a 3-year period, see, the vehicle businesses will have a certain growth trajectory for the next 3 years, PV, CV, tractor, etc. I don't think we will have very, very steeper acquisition compared to the rest of the pack. We will maintain, protect our market shares.

And maybe in some segments, especially as we have been saying on the used car, used tractor and now we have a used CV team also. We will try to increase our overall participation there, but in the next 3 years you will see our growth largely mirror the growth of the underlying commerce in the wheels business.

**Abhijit Tibrewal:** Got it. This is useful. Thank you so much and wish you and your team the very best.

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

**Raghav Garg:** Thanks for the opportunity. I have my first question on the net slippages. So it seems that the slippages have been quite high in this quarter about INR800 crores, INR820 crores. What I want to understands that for full year it was about INR1,500 crores of slippages on a net basis. This year, first half you're already clocking close to that number INR1,500 crores - in Q3, Q4 because that would essentially determine that you are able to...

**Moderator:** Sorry to interrupt, Mr. Raghav, please come a bit close to your handset, you sound a bit distant.

**Raghav Garg:** Sorry. Can you hear me now?

**Moderator:** Yes sir. You are audible.

**Raghav Garg:** Sir, my question was on net slippages. So last year, full year your slippages were around INR1,500 crores, and 1H FY '25 is a similar number. What gives you the confidence that despite slippages being higher in this year, you will be able to deliver a lower credit cost?

**Raul Rebello:** No, you're right. The slippages for the first half of the year have been higher than last year. And while the overall slippages in Q2 have been higher than Q1, as I mentioned, largely from the tractor and CV space. You can't, I think, map slippages and credit costs apple-to-apple because in credit cost, there are 2 variables: there is provision write-off and there is, of course, as we've mentioned in the provision, the LGD play.

So while slippages can be controlled in H2, which is mostly from recoveries of what's happened in Q1 and Q2, more specifically Q2. There is a credit cost outcome, which we have visibility of chasing, which is largely driven by both the recoveries in whatever has slipped as well as because, as I mentioned earlier, we have a certain relief coming in from the coverage ratios.

**Raghav Garg:** Okay. So you're essentially saying that even if the slippages are higher, there could be some bit of a reversal that you might say something similar that you did last year in third quarter. Is that understanding, correct?

**Raul Rebello:** No, what are you referring to in third quarter, what we did?

**Raghav Garg:** So there was some release of provisions, because of the reset of ECL assumption, which happened in third quarter FY '24.

**Raul Rebello:** No. We didn't do any manual. This was just -- we did a model refresh, which we did annually. So -- there was nothing that we artificially overlaid over the ECL model in

Q3 last year. I'll just invite Vivek to be more specific. But I just want to clarify, there was nothing that we did specifically on releasing provisions.

**Vivek Karve:** In fact, there was hardly any provision release, only about INR80-odd crores that was released and that too not intentional, it was an outcome of the model refresh that we did. And going back to your question on what will also drive a lower credit cost in H1 and therefore, for the full year is also the confidence that we have on the credit losses.

So you would have seen the way our credit losses have been trending over the last 2, 3 years and even in the H1, we expect the same performance to continue in the second half of the year as well.

**Raghav Garg:** Okay. Sure. My other question is that while you're pointing out that 40% of the slippages or pain has come from the tractor segment. I think this was true even in last year, majority of our – last year was also from...

**Moderator:** Sorry to interrupt Mr. Raghav.

**Raghav Garg:** Which is that segment where you are...

**Moderator:** Could you come a bit close to your handset.

**Raghav Garg:** It is better now.

**Moderator:** Yes sir.

**Raghav Garg:** Yes. Okay. Sir, my second question was on -- just trying to understand a little bit more granularity of the slippages. So this year, 40% has come from tractors. Last year, it was the same case a substantial part of the pain had come from tractor segment. But apart from that, which is -- or what are those other segments where you are seeing a pain because it seems that even excluding the tractor segment, the pain is higher versus what it was last year?

**Raul Rebello:** Yes. So I talked about the distinction between delay and default. I think the Q2 number, which we saw last year in tractor and some of it is we have also addressed -- we're addressing it while structuring our half yearly loan repayments and making sure that they mimic the harvest cycle so that we don't see this -- and we see a repayment schedule more reflective of the harvest cycle, especially for the agrarian customer segment.

Besides the 40%, let me first close the tractor, I do see that in Q3 and Q4 I don't expect everything to come back in the month of October. There might be October, November, December kind of a comeback because there is a rabi season, which plays out and the

late monsoons might lead to a little bit furthering the whole recovery of whatever slipped in, in Q2.

Other than the tractor segment, which we saw in Q2 specifically add to the GS3 sequential increase, there are segments -- 70%, 80% of our customers are self-employed non-professionals. Many of them are acquiring small commercial vehicles and ply these vehicles for specifically their commerce activities. We have seen some delays over there. And I don't think we can be insulated. You know that income levels for largely many parts of the self-employed and semi-urban customer segments have seen some disruptions in this year.

I'm sure you'd have heard commentary about overall leverage levels also being slightly high and income flows being a little muted. So there is going to be stated effort in a year like this to spend more to recover more and more kind of collection intensity to ensure that the collection numbers are up. But I don't want to shy away from the fact that this is not a year equivalent to maybe last year or the year before last, where underlying constraints or underlying kind of cash flows are as rosy as they were in the past.

So we have to make more efforts in collections. And the good thing is that all our loans are secured. So we don't see the reason why the customers who we have onboarded will not pay. They might pay with a little bit of a delay, but we don't see this as a weakness overall.

**Raghav Garg:** Okay. Thanks. That was all from my side. Thanks.

**Moderator:** Thank you. The next question is from the line of Kunal Shah from Citi Group. Please go ahead.

**Kunal Shah:** Thanks for taking the question. So firstly on the margin side. So if we look at it on the margins, you indicated that there have been some increase in the lending rate, but so -- but when we look at it last time you indicated that maybe there is some shift which is happening with respect to the prime customers and that almost seems to have been done and that negative impact would be lower. So are we equally confident that maybe that might not have the impact on the margins?

**Raul Rebello:** So, Kunal, thanks for your question. If you refer to Slide number 8, you would see that the loan income actually from last year to this year, has gone up by 20 bps. I did provide commentary that we have reached our targeted acquisition mix of Primex customers, we had a mix aspiration of 15% to 20% of our incremental sourcing to be from that super-prime or above-prime segment.

We have reached those thresholds. Do we kind of completely put a full-stop for that customer segment? No, we continue to acquire customers in that band of 15% to 20% and some of the product launches, which we are doing in partnership with OEMs helps us get some volumes.

In a year like this, it's always balancing between growth and margins. And we are aware of the fact that chasing a customer segment, which will give us -- let's say, which will give us a negative overall NIM is something that we take stock of for every business unit and every business unit has a stated incremental mix, which comes in. So you're right that this number has been, to a large extent, we have hit the ceiling on that.

**Kunal Shah:** Sure. And secondly, what you have been indicating in terms of bringing about the consistency and to lower the quarterly volatility as such. But again, in Q2, we have not really seen that with respect to maybe the additions to the slippage as well as the overall credit cost. So that consistency somehow with the change in the customer mix is also to an extent not visible.

So how should we go -- no doubt you indicated it is largely because of tractors, but how should we -- because that volatility continues to be towards the second half. And secondly, related to that, so is it like we have not reviewed the ECL model this time and hence, there is no change in the coverage ratios, or the only thing is maybe the kind of customers or the sourcing quality which you indicated last time that seems to have deteriorated and that's the reason it's like almost stable this quarter?

**Vivek Karve:** No, Kunal, Vivek here. We review our ECL model every quarter. So the PD and LGD refresh happens every quarter. So it's not that we haven't reviewed. What we have also indicated is that because it's a quarterly refresh, a new data comes in for the latest quarter and old data from the farthest quarter goes away.

We are expecting these coverage ratios to decline in the second half, which is reflective of the fact that the base which contained COVID-affected period will go away, but it's not that we have not reviewed, and we have not refreshed our ECL models. We have done it and we have been doing it consistently.

**Raul Rebello:** Yes. On the volatility part, Kunal, while -- you're right, Q2 for the last 2 years has seen an uptick and we've mentioned the reasons for that. It is a stated aspiration that we would like to level down the kind of inter quarter movements. In a business where you have a decent amount of mix on certain asset categories which are subject to inherent volatility like the tractor segment. We are constantly looking at ways and means to kind of iron out that volatility which would be one on customer segment, two on the kind of the way in which loan EMIs are structured in terms of, as I said, reflecting that the EMIs coincide with the harvest period.

But we already have a large book, and that book, you can't restructure a book, etc. So within a book which is quite large and an incremental book, there will be choices of playing that out. And in the medium to long term, it is our stated aspiration, we do not like this kind of inter-quarter volatility ourselves. But we do recognize the fact that some of the underlying asset categories, if we don't have a much more holistic approach towards the way in which we also decide the customer segment, how do you overall build resilience by making sure that the cash flows are, as I said, mirrored into the repayment cycles, etc.

So yes, it's a journey we are on. I think if you go back -- wind back the clock, 2 years, this inter-quarter volatility would have been much higher. It is -- it still exists, and it is, as I said, our stated aspiration to iron it down further.

**Kunal Shah:** Okay. Thank you. All the best.

**Moderator:** Thank you. The next question is from the line of Avinash Singh from Emkay Global. Please go ahead.

**Avinash Singh:** Good evening. A couple of questions. The first one, if I see your geographical breakout or the Kolkata region it seems is kind of slowing down in terms of AUM and disbursements. So is it just the impact of whatever happened in Mizoram and that leading to -- or are you seeing some challenges into kind of a wider geography including West Bengal? So that's in the first.

And second, I mean, you had I guess a month-or-so earlier filed around your co-lending arrangement with SBI. So if you can just throw some color on that, the co-lending arrangement, the idea any sort of medium-term target there? And what do you expect to achieve from that?

**Raul Rebello:** I'll take the East question first. You're right, we have reduced our disbursement acquisition by almost 200 bps. And it's a combination of both reasons, as you mentioned. One is we did have a complete review of the way in which some of the Northeast playbook of acquisitions and Northeast is not an easy terrain. So this incident, which happened last fiscal last quarter did nudge us to look at very inherent practices as well as some of the risk mitigation requirements for that location, which has had a bearing in the overall incremental acquisition.

At the same time, when we also look at the underlying disbursements that are happening in some of those markets, I would say that there has been some weaknesses in some markets. So, it's a combination of both factors. One, us consciously relooking at the aggressive levels of participation that we had in the past with what happened as

a onetime incident and also some states have seen some amount of drop in overall throughput.

Your second question on SBI, the thought process there, and I think Abhijit Tibrewal mentioned that PV is a big source of our segment. CV is also a big source of our incremental volumes. As the segments become incrementally more competitive from a rate standpoint, with some of the large banks who we don't see being a very active partner or active player in the acquisition, but still have a lot of cost of funds advantage like an SBI.

There could be segments in the PV segment or the CV fleet segment, where we do believe that instead of losing -- as I said earlier also, we have hit the ceiling on our prime customer segments, and hence, we may not be able to offer our balance sheet as a, put our balance sheet on the table for incremental volumes, but we can clearly put our distribution on the table for incremental volumes.

And hence, for this prime customer segment, either in the PV or the CV side fleet customer segment, the thinking behind the SBI and of course, not just SBI, we have with Bank of Baroda, and we have with some other banks, too. That's the logic of the partnerships and the co-lending arrangements.

**Avinash Singh:** Any sort of target there say over the next 1, 2 years not in quarters?

**Raul Rebello:** See, I mean I'll be consistent with what we have said to everybody that when we get into a partnership, we don't get into too many partnerships. We get into some meaningful ones. And the aspirations there is over a medium term to at least for our kind of size and scale to be doing close to at least INR25 crores to INR40 crores monthly throughput with any partner, I mean that's the aspiration when we sign our partnerships.

**Avinash Singh:** Okay. Thank you.

**Moderator:** Thank you. The next question is from the line of Ajit Kumar from Nomura. Please go ahead.

**Ajit Kumar:** Thanks for taking my question and good evening, everyone. I had two questions. First what is the reason of sudden steep decline in capital adequacy ratio. It is down 180 bps Q-on-Q. And any plans of capital raise when CAR looks to be very close to minimum regulatory requirement? So that is first question.

And second one, on growth again, while you have already given qualitative feedback, what would be your disbursement and loan growth target now for FY '25, especially?

You had earlier guided for low-teen disbursement growth in FY '25, which now looks difficult to achieve. So yes, I mean these two questions from my side.

**Raul Rebello:** I'll take the disbursement one first and I hand over to Vivek for the other one. So see, the disbursement for the year has been 2%. And clearly as pointed out in the chart which shows the segment-wise disbursement besides SME which has grown at 50-plus, the rest have been low.

And we -- if I just look at a simple extrapolation of the numbers, if we continue at the same rate of growth that we had for H1, the book growth for the year would be at 18% because -- and that's not happening because of any recent disbursement, but because of the strong disbursement over the last 2 years. I'm not saying that we will grow at the same rate as H1, but if we see some very strong number improvement or some late catch up, it could go up another 100, 200, 300 basis points, not more than that for the full year.

So, there is a disbursement number, which is going to be flattish or muted for the year, but the book number will still gain from the past disbursements, and I've given you my aspirations for the 3-year CAGR. So, by that time, we should have some other levers at our disposal with the new businesses to achieve that kind of a CAGR. Vivek, over to you.

**Vivek Karve:** Yes. So, on your first question on the capital adequacy ratio. In the second quarter, there has been a dividend payout to the shareholders, which is one of the reasons why our net owned funds have come down. The other reason is if you look at the sequential growth in the asset base, it has increased by about 5.7%. And that also increases the financial leverage, which brings the CRAR down.

However, our Tier 1 capital continues to be near the 15% mark against the regulatory floor which is 9%. So, we are very comfortable out there. So at least in the current financial year, I don't see a reason for raising any fresh equity.

**Ajit Kumar:** Sure. Thank you everyone. Thanks a lot.

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

**Gao Zhixuan:** Thank you for the opportunity. Just following up on the growth side if we still expect flattish to maybe single-digit growth for this year. What's your best guess when we will start to see revival of growth towards the, let's say, double-digit or even mid-teens level because if we sustain at single-digit level, the book growth by sometimes first half next year could come down quite rapidly. So I just wanted to understand, do you have any visibility on the growth revival?

**Raul Rebello:** Yes. So, see the H2 and I've mentioned this H2 growth for the wheels businesses are going to be -- I mean, not too bullish on a very strong recovery, just basis what's happening in the underlying demand side. We have seen demand side squeeze happening across different segments. So what we can anticipate is there could be some amount of traction in this festive period and in specific segments, which might see some recovery in tractors.

So, the whole year disbursements still would be -- would not be very aggressive and I've mentioned it, we are currently at two, we can possibly maximum if we buy more market share, grow up by another -- end the year, maximum about 200 bps more. When you look at the next year and the next 2, 3 years, by that time, we might have some more levers available to us.

I'm giving you not an FY '26 guidance or a '27 guidance, but a 3-year guidance, not guidance, but an aspiration is to clearly have disbursement CAGR in the corridor of mid-teens. And that would only be possible if we get some of our new businesses to also start firing and protect market share in the wheel's businesses.

**Gao Zhixuan:** Got it, sir. And next one is a bit of a medium-term question on the credit cost. I understand that in the interim, we have coverage reversals as reason of a good improvement on the loss ratio. But at some point, of time, the coverage ratio will normalize and the credit cost going forward should trend more similar to our net slippages, which obviously this year doesn't seem to be coming down versus last year, so how should we think about the medium-term credit costs?

And, do we expect the medium-term slippages to be much lower? And is there a better industry cycle or we have material plans or structural improvement on our end?

**Raul Rebello:** See, the overall credit cost, which is -- since you're looking at a more medium-term outlook, we are -- we have come down significantly from our peak level. So being at the 3.4%, 3.8% we were at the end of last fiscal at 3.4%, we are now 3.8%. So there is a certain amount of base which we have come to which is largely that looking at now making sure that the incremental flow forwards from the stage 2, stage 3 doesn't happen. And what was recently flown into stage 3 they recover as much from there.

So credit cost is a summation of provisions that would hit you if your stock levels of GS3 and GS2 goes up. And that's what I mentioned, in this environment, we are placing a lot of focus on our collection teams, equipping them more, using much more analytics to use which tool kits for which customers to just make sure that the incremental flow forwards don't happen so that the stock doesn't increase and invite more provisions.

When it comes to end losses, I've already given you a picture about, and end losses is basically a summation of what moves from the existing GS3 portfolio to write-off, which we do at 36 months. That number, we have reasonable confidence of it being trending down because the stock of flow forward itself is reducing.

And we are managing to have settlement losses when we -- since we are repossessing vehicles quicker and disposing them off quicker, the losses we incur from disposals are going down. So let's say we were incurring INR100 on a sale of an asset, now we're incurring INR100 loss, now we're incurring INR90.

So that reduction on both the side should see credit cost, for us if we are able to keep the incremental flow forward, at levels which are in that, as I said, for a business model like us, we should be able to keep credit costs in the 1.2% to 1.5% corridor, right, even in a cycle which is looking a little challenging.

**Gao Zhixuan:** Thank you so much.

**Moderator:** Thank you. The next question is from the line of Neeraj Toshniwal from UBS Securities. Please go ahead.

**Neeraj Toshniwal:** So I wanted to understand how much yields we've already passed on and how much space we have in this year and particularlyQ2…

**Raul Rebello:** Neeraj, your voice was a bit unclear. Could you just repeat that, please?

**Neeraj Toshniwal:** Is it better now?

**Neeraj Toshniwal:** So, my question is how much yields increase you've already passed on and there's further scope to pass on the yields passing on to customers?

**Raul Rebello:** Yes. So, we -- just to be fair to all the disclosures we have done so far, we don't give an asset-to-asset category. But all I could say is that in the last two -- I mean, in Q1 and Q2, there's been a steady increase passed on specifically in the PV segment. We have -- we are already, as you know, in certain segments like tractor, etc us versus banks versus other NBFCs, we have already been at a high level. So those segments were -- to be competitive, we have not increased. But in the PV segment, we do -- we have passed on.

One could say that some of the mix change also because our incremental sourcing in used has gone up. So, at an overall incremental yield, we have seen some benefits from that segment shift. And as our cost of funds are not going down, it makes sense for us to as and when we can pass on to pass on with the same amount of levels that we are

seeing in our cost of funds. So I could say, in Q1 and Q2, there's been a steady increase in incremental IRRs being passed on.

**Neeraj Toshniwal:** Can you quantify how much has the increase it has been?

**Raul Rebello:** Vivek, just to be sure, do we publish this data?

**Vivek Karve:** No, we don't.

**Raul Rebello:** But we can look at -- your input is taken; we can look at making this a disclosure for next time onwards.

**Neeraj Toshniwal:** And on cost to income, this quarter, obviously income is higher, so there will be...

**Vivek Karve:** Neeraj, I'm sorry, but while we can hear you, your voice is very muffled. So can you come closer.

**Raul Rebello:** Or just speak slower, maybe we'll be able to catch you.

**Neeraj Toshniwal:** So, cost to income, so overall -- as overall revenue has decreased due to income pool cost to income ratio for future, what is our guidance?

**Vivek Karve:** Are you talking about cost-to-income ratios?

**Neeraj Toshniwal:** Yes.

**Vivek Karve:** Okay. Cost to income has -- it's come down to, if I recollect, closer to 40%, you could recollect this number was what page number.

**Raul Rebello:** Yes, I remember seeing it is about 40%, at the peak it was closer to 43% cost to income.

**Neeraj Toshniwal:** Just wanted to understand, can you sustain or is there further improvement room available from here?

**Raul Rebello:** Yes. See, it is our -- we would like to increase the numerator more than the denominator -- sorry, the denominator more than the numerator. So, the kind of activities on the numerator side would be as we build out the mortgage business and some of the new businesses, they will invite cost, but we are just hoping that more of the revenue, and we have kind of seeded some new activities on fee-based income, etc which should keep this number in this range. I mean, ideally for a business like us being lower than 40% would be better, somewhere between 38% to 40%.

**Neeraj Toshniwal:** Thank you so much.

**Moderator:** Thank you. The next question is from the line of Gaurav Sharma from HSBC. Please go ahead.

**Gaurav Sharma:** Am I audible?

**Moderator:** Yes sir. You are.

**Gaurav Sharma:** Yes. Thank you for giving me an opportunity. Just one question on your rural housing book. Sir, the GNPAs has been higher since long, although it has decreased on a Y-o-Y basis, but it increased on sequentially. So, what are the action plans you are taking to improve the credit quality in those segments?

**Raul Rebello:** Yes, so the rural housing finance, if you look at the overall picture, while they have had a challenge, they have seen the GS3 numbers come down, I think now to close to 9. Same time last year was 12%. And it's been, I would say, from last Q1, it's been almost flattish to come down a bit. And let's also understand that the denominator is really not increasing a lot. We are focusing more on collections.

Another number that we are rationalizing the organization also, if you see from last quarter, same time from close to 10,000 employees about 3,500 employees have also reduced. So, we are rationalizing the organization by making sure most of the staff in the collection functions are since we have also exited most of the low-ticket housing loans. The overall theme at the subsidiary is to ensure that we are able to get the asset quality under control. There is no growth compulsion at the moment.

And when we look at the asset quality also, it is going to be largely from recoveries and settlements that we do, not by getting the GS3 percentage down by increasing the denominator or increasing the book. So, this is a patch of time wherein the management team is focused on getting the ship in order.

As I mentioned, we've got Jaspreet who's come in to head mortgages at Mahindra Finance, but we have currently seconded him to the rural housing finance company to also provide leadership guidance and leadership bench strength to get this organization at least in the next 2 quarters, the aspiration to get the GS3 numbers closer to the 5.5%, 6% levels.

**Gaurav Sharma:** Understood sir. Thank you so much sir. That was my only question.

**Moderator:** Ladies and gentlemen, that was the last question for today. We have reached the end of our Q&A session. I would now like to hand the conference over to the management for closing comments.

**Raul Rebello:** Thank you, Praveen, Axis team. So, it's -- and thank you everyone for joining us on this call. As we have mentioned, it's been a quarter which has had its challenges. We are cognizant of the external environment and for us in an environment where we've got to make sure that the asset quality is top priority. We are spending a lot of attention in the collection outfit in making sure like the similar collection warroom, which we brought into action post COVID.

That office is pretty much set up to make sure that we have all our initiatives running well for making sure that in this scenario, we are top of mind in ensuring that customers prioritize us for collections. At the same time, when there are growth constraints overall as the macros for the wheels business don't look extremely positive. We are making sure that we find our areas of growth within the -- we have our green shoots and we're able to identify and exploit them. So, it's a fine balance is always between growth margins and risk and the organization is prioritizing that.

We want to wish all of you all. We know we are in the -- right in the middle of the festive season. So, the upcoming Diwali is a very important period for us to get even some of the business volumes and wishing all of you and your families a very happy Diwali and a happy festive season going ahead. Thank you again, Praveen and team.

**Moderator:** Thank you. On behalf of Axis Capital Limited, that concludes this conference. Thanks for joining us. You may now disconnect your lines.