mahindra FINANCE

Mahindra & Mahindra
Financial Services Ltd.
Mahindra Towers, 3rd Floor,
Dr. G. M. Bhosale Marg,
Worli, Mumbai - 400 018, India.

Tel: +91 22 66526000

3rd February 2026

To,

BSE Limited (Scrip Code: 532720)	**National Stock Exchange of India Ltd. (Symbol: M&MFIN)**
Phiroze Jeejeebhoy Towers,	Exchange Plaza, 5th Floor, Plot No. C/1, "G" Block,
Dalal Street, Fort,	Bandra - Kurla Complex, Bandra (East),
Mumbai - 400 001	Mumbai - 400 051

Dear Sir/ Madam,

Sub: Transcript of Earnings Conference Call for the third quarter and nine months ended 31st December 2025, held on Wednesday, 28th January 2026

Further to our letter dated 22nd January 2026 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 (“SEBI Listing Regulations”), please find enclosed herewith the transcript of Earnings Conference Call for the third quarter and nine months ended 31st December 2025, held on Wednesday, 28th January 2026, which concluded at 7:11 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/financial-information#transcript-of-earnings-call .

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 Q3 FY26 Earnings Conference Call"

January 28, 2026

KINSITE

Management:

Mr. Raul Rebello:	Managing Director & CEO
Mr. Pradeep Agrawal:	Chief Financial Officer
Mr. Sandeep Mandrekar:	Chief Business Officer, Wheels

Moderator: Mr. Nischint Chawathe – Kotak Institutional Equities

Moderator: Ladies and gentlemen, good day, and welcome to Mahindra and Mahindra Financial Services Limited Q3 Earnings Conference Call hosted by Kotak Institutional Equities. As a reminder, all participants 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. Nischint Chawathe from Kotak Institutional Equities. Thank you, and over to you, sir.

Nischint Chawathe: Good evening, everyone. Welcome to the interaction with management of Mahindra & Mahindra Financial Services. We will discuss the 3Q FY '26 earnings today. Let me welcome the senior management of Mahindra Finance, represented by Mr. Raul Rebello, Managing Director and Chief Executive Officer; Mr. Pradeep Agrawal, Chief Financial Officer; and Mr. Sandeep Mandrekar, Chief Business Officer -Wheels.

I would now like to hand over the call to Raul for his opening comments, after which we'll take the Q&A.

Raul Rebello: Yes. Thank you, Nischint, for hosting us and the Kotak team. Good evening, everybody, and thank you for joining us on our Q3 earnings call. Apologies for a slightly delayed upload of the deck on the exchanges. I hope you've got access to it.

So as usual, I would request you to keep deck handy because I'll be referring to certain page numbers as we progress for updates on Q3. Starting up on Page number 4, I have broadly 4 key messages before I get into the details of financials.

Number one, we are happy to convey that a lot of the capability building that the management has been driving for the last couple of years through our business transformation project called Udaan. I'm happy to say that we have completed this, and this is now starting to bear very strong outcomes, whether it's on the customer front, on the dealer front, and just from pure efficiencies from our executives.

The second message is we are seeing and what we would think is a description of this quarter is a visible step-up in our profitability for Q3 and 9 months of the financial year. We are also seeing further stabilization in asset quality. Evidence that our gross Stage 3 has been sub-4% now for the last 8 quarters. And as we had also mentioned, we were keen to keep GS2 plus GS3 below 10%, and that's also playing out now for the last 8 quarters.

Finally, considering that we think and observe that with the capabilities built and with the operating metrics progressing in the right direction, it is the right time for us to pivot

to growth. We have been making investments largely on products, channel, systems, and earlier in the year, we had a rights issue. So this is the right time for us to pivot to growth, and I will, during the course of my presentation, share with you our plans on amplifying growth as we go ahead.

Moving on to Page number 5. As I mentioned, we believe that the business transformation now is complete. It is evidenced clearly that 95% of our channels have adopted the new stack. This is resulting in both acquisition and collections now at a very strong pace on the new stack. We have sunset all our old LOS, LMS tech infrastructure, which means our associates are now onboarding clients completely paperless. Our branches have now been kind of reequipped to do multiproduct and omnichannel journeys. And our 2 back offices, the CPCs have also got AI-friend in a way to use the best tools for improving on efficiency.

Moving to quarter 3 visible step-up that we have seen in profitability. If you look at the quarter 3 ROA, we have climbed to 2.5%. Now there have been onetime benefits in this quarter. If you look at 9 months of FY '26, our ROA is moved up to 1.9%. You would all recollect that as -- from the business model, kind of metrics that we were keen to get the movement, we said we are keen to hit a 2% ROA and then sequentially climb up from there. I do think we are moving in that direction quarter-on-quarter.

The PAT numbers for Q3, if you look at the sequential growth, it has come in at a 59% growth. 9 months for FY '26, PAT is up 76%. This is, of course, adjusting for what you are all aware, we do the model refresh in Q3 of every year. Last year, we saw kind of PCR cover fall from 60-odd to 50% coverage ratio. So it's not a comparable Y-o-Y and hence, we have done a Q-on-Q comparison, and PAT is up 59%.

The story on NIMs is also quite encouraging. If you look at quarter-on-quarter NIM expansion, we have seen a 50-bps expansion in NIM. 7.5% does have some onetime benefits. I would request you to read the 9-month FY'26 NIM, which has come up to 7.1%. All of you would be aware that this is one of the metrics we've been talking about that the NIMs which had bottomed out at 6.5%, we clearly said that we are looking at getting back to 7% and then from there on, inching up. So it's good to see NIMs for 9 months climb to 7.1%, which is comparable to 6.6% 9 months of last fiscal. Overall, what is structurally also improving is our fee income. Fee and other income has expanded Q-on-Q by 10 bps and 9 months for the financial year to 1.4% versus 1.1% for 9 months of last fiscal.

Moving to Page number 7, which talks about our further stabilization on asset quality. GS3 numbers for quarter 3 are at 3.8%. This is sequentially down 14 bps and Y-o-Y down 13 bps. As I mentioned in the opening comments, GS3 plus GS2 together is 101

bps lower than last year, same time at 9.2%. And credit cost for the quarter is 1.3%. 9 months credit cost is at 1.8%. You would all recollect that for the business model that we said, which requires us to get back to a 2% ROA, credit costs should be in the range of 1.5% to 1.7%. YTD, we are at 1.8%. We do see capability for us to live up to that commitment of being within that Zip code of 1.5% to 1.7%.

Finally, as every year in Q3, we do the ECL refresh. We did an ECL refresh this year itself -- this year too, and we have largely now in-house the model. While there has been LGD resets and -- which kind of caused us to have a slightly lower PCR, but we are not taking any PCR benefits from the ECL model into the P&L. We are keeping an overlay. The overlay details, I will spell out later. It's about INR 635-odd crores. On a high level, the PCR cover, which was in the ZIP of 53% in Q2 has been maintained at 53% for Q3 also.

Request you to move now to Page number 8. So what is pivoting to growth mean for us? While investments are in place, for a rural player like us and with the GST benefits, we did in our quarter call of Q2, talk about certain momentum that is building up with the GST cuts. From a disbursement standpoint, Q3 has been the highest, what we delivered in Q3 of this fiscal has been a highest ever Q3. So we did catch momentum of the GST benefits. Of course, most of these benefits for us has been, I would say, enjoyed with tractor disbursement growth, which is up 65%. We have had unit growth in PV, CV. But as you know, the ticket sizes had to get readjusted because of the price of the vehicles. So we couldn't see that translate to equal benefits in the disbursement numbers. While we saw reasonable growth in PV and CV, the real standout growth for the quarter was in tractors.

I don't know whether you guys got the update that in our diversification plan, we have been sharing this for a while now. Our subsidiary, our 100% sub MRHFL for the last year now, we have been focusing on streamlining the asset quality in that business. I'm happy to share that for last 2 quarters, that business is now shaping up well. We are holding the asset quality well. We did, of course, bring the GS3 below 3%. We have taken to both the boards today, a plan to look at what's the best way to do mortgages going ahead, which includes an evaluation of merging the 2 entities. We are going to do a full evaluation and take the final suggestion to the Boards in due course of time. So mortgage is going to be an important asset category for us to double click on and doing it in a manner which makes sense from a cost-efficient manner is also equally important for us to get to the ROA outcomes.

In line with our diversification, the MSME business now is also touching close to INR8,000-odd crores. We are seeing an AUM growth Y-o-Y, of course, because it is a small base. We have much, much more prolific plans for the SME business growth, and

its early days yet for us to see true potential of that playing out. As I mentioned in past calls, it's still capability building and channel investments that we're doing for the business right now.

To grow, of course capital is important, and we are extremely well capitalized. Our Tier 1 still at 17.4%, so all the growth plans that we have are supported by a very strong capital adequacy.

I'll now get into details about disbursement, spreads and risk. So moving to Page number 10. You might be interested to know where we got our disbursement growth from, on a Y-o-Y basis, tractor has been stand out. We have mentioned this in the past, while a lot of our peers claim to be number 1 in tractor finance, I request you to look at all everyone's book numbers and disbursement numbers. We are, by far, increased our leadership position. We are the number 1 tractor financiers in the country by a fair margin now. With this increase we've got in Q3, I think the jaw has even widened between us and the second best -- or the second financier on the leaderboard.

Used vehicle also grew, but we have been cautious in this growth considering the new vehicle numbers. Passenger vehicle growth, while quarter-on-quarter is higher 33% Y-o-Y is just 1%. As I mentioned, there's been a ticket size decrease there. We have got unit growth but not equally high disbursement growth because we have kept the LTVs at the previous level. PV growth by unit has grown, but a lot of our movement has been towards the ticket sizes where we were again conservative on LTV, so we haven't got disbursement growth, but unit growth has happened in the quarter. 3-wheelers, we continue to move towards more EV 3-wheeler business because we think that's the future in the 3-wheeler business. So we are a little more conservative on the other combustion engines and focusing on the electric 3-wheelers. And SME, while we had a Y-o-Y growth of 4%, overall Y-o-Y growth in AUM is much stronger. So highlight message on Page number 10 is we have grown disbursement 7%. I would say the Y-o-Y growth in unit is much higher than 7%. Quarter-on-quarter, you were saying that because, of course, Q2 was a bit weak. It's a 30% growth quarter-on-quarter.

Many of you have asked us this in the past, why is the quarter-on-quarter growth in book been only 1% if the disbursement growth has been high? I would like to clarify, in quarter 2, we have a very decent size of what we call a trade advance, which is to facilitate the season disbursement. That is not interest bearing. That also has a benefit as we go into the NIMs of Q3. But since that is not counted in disbursement, it's countered in book, so because that gets translated into adjusted into book growth, you see that 37% in the last column, you see a degrowth in the Q-o-Q book growth. Otherwise, adjusted for that, it's 5% book growth quarter-on-quarter.

Now coming to the overall ROA tree. This, in a sense, gives us what's moving, what are the levers that are -- that the management has been invested in to move the ROA tree. If you look right on top, on the total income by average assets, on the 9 months for FY '26, there's been a 20-bps growth. Fair to say in a declining interest environment, we are going to see intensified competition, which will mean as cost of funds go down, we'll have to pass on some benefits. The competition intensity is quite acute, so we will have to be competitive. And what we have seen so far, the 20-bps decline in the loan income, however, with our investments in augmenting fee-based income, we have been more than able to offset this loan income decrease of 20 bps by 30 bps increase in fee investment income, which has grown from 1.1% to 1.4%. As we also mentioned that some of our subs, especially MIBL, and many of you asked whether it's a onetime dividend payout that comes in through this fee income, we said, no, this is structural, that business is a cash-generating entity. We will continue to enjoy regular dividend payout from that entity, which will keep augmenting our fee-based income.

Our interest cost, yes, not comparable to last year exactly because the rights issue was done this year. So we do have some of the debt equity play at work here, but we are seeing incremental COF coming in at a good level, at a good interest level. So COF is also a metric and hence, if you look at -- I request you not to look at Q-on-Q, but 9 months of this year versus last year, we are still seeing a NIM expansion of 50 bps.

OpenX has been largely range bound. We are investing, as I said, in new businesses and growth. So we do believe our business franchise can absorb between 2.5%- 2.8% open to average assets.

I'd like to spend some time on credit cost but move to Page number -- I'll kind of cover my commentary on asset quality through Page number 12 and 13 together. The highlight on Page number 12, as you would see is our collection teams have done a phenomenal job. The GS3 numbers have reduced quarter-on-quarter by 14 bps same time last year, we actually increased by 10 bps. But there is a qualification here, we also enjoyed -- we have basically written off from our earlier fully provided portfolio of the Aizwal incident that happened we had 100% provided for that. As you know, it's in litigation and whatever recoveries are going into a court account, so we have decided to completely what we have provided for write that off. That's another 10 bps, so net-net, we have still seen a 4-bps reduction in GS3. The real positive story is in GS2, which has seen a 38-bps reduction Q-on-Q which means that GS2 plus GS3 has reduced by 52 bps sequentially quarter-on-quarter.

To the next page. I'm going to explain credit cost here, but I do acknowledge that the credit cost could be a little confusing because of the amount of PCR that happens. So maybe the better explanation is on Page 14. If you look at credit cost for the quarter,

credit cost is a combination of provisions and end losses. Provisions, because we wrote off the amount of INR146 crores, that's moved out from provisions. But yes, that gets added back into the write-off. So we have circled that the INR146 crores that you see interplay between A3 and B1. The real credit cost for the quarter would be the last row, which is reading as INR482 crores because that adjusts for all the movement in the PCR cover for the that happens in between the quarters as well as the offset between write-off and the onetime write-off and the subsequent provision. So in our mind, we have adjusting for this provision movement, the real credit costs, which one would read, which was INR623 crores for quarter 2 of FY '26 has reduced to INR482 crores for quarter 3. The same number was INR592 crores for quarter 3 of '25. I'm happy to take more questions of this during the Q&A session.

Quarter 3 usually gets a bit -- because we do the ECL refresh, you have movements in PCR. But just stock movement, there is, of course, stock movement and then there is coverage movement. The good news is for credit cost on stock movement, we have reduced the stock on GS2 and GS3 and hence, there's a benefit. But we have not taken any benefit of the PCR, which ideally with the ECL refresh has caused a reduction in PCR. We have created an overlay, as I mentioned earlier, which we can talk about in more details.

Finally, my last page on Page number 17. What is a constant for the management team that keeps us focused on to deliver very strong operating and financial metrics. These are the top 5 priorities that the company is chasing for now. We do understand our business moat is our wheels business. There is a leadership position that we enjoy in various categories in the wheels business. And that being our crown jewel, we are defending and growing our moat in this business. And we do understand that as competition intensity increases, we have to keep working on making sure our market shares hold.

As a growing franchise, clearly, the objective is not to be monoline, to make sure that we are meaningfully diversifying. We are growing our adjacent businesses, which we call as SME and the housing finance business. We do believe the turnaround in MRHFL is complete now and now it's time for us to look at unified approach in growing the mortgage business. So that will also be a continued focus for the company.

The growth in margins as we -- our NIMs did come under some challenge. We knew we had to balance between growth and margins. We have taken certain calls, even in the Wheels business on how we participate with the kind of mix now and tractor becoming a larger part of the portfolio mix and also us balancing our play in the passenger vehicle business. We are not just growing just to catch tailwinds of growth in the prime segment. We are making sure that any growth that we do in the Wheels business balances for our margins and growth objectives.

That's seeing a visible improvement in our NIMs. We do take courage from the way in which our GS3 numbers, GS2 numbers have been playing out, as I said, for the last 8 quarters. Our credit cost as well as asset quality in terms of GS2, GS3 is trending well and our fee-based income continues to be a focus.

All of these with the continued focus from an operating kind of playbook, which is today reset in a lot of our investments in tech and digital is going to help us have sustainable and resilient growth in the future. And this is very much part of the management focus for every quarter as we go forward.

So, I will pause here now and open up the questions for the call. Thank you very much.

Moderator: Our first question comes from the line of Mahrukh Adajania from Nuvama Wealth Management.

Mahrukh Adajania: Congratulations. I had a couple of questions. Firstly, that after the ECL model annual reset, now do you expect credit costs to hold on at current levels given the environment at 1.3 types over the next few or over the foreseeable quarters?

And my next question is what were the changes or could you highlight if there were any big or main changes in the ECL model that we should know about? So that's my first question. And my second question is on interest income. If you could spell out the exceptionals?

Raul Rebello: Yes. Thanks, thanks a lot, Mahrukh for the questions. The first one on what -- whether you think the sustainability of the credit cost. I just want to remind that the kind zip codes that we have conveyed that our business model can absorb is between 1.5% to 1.7%. And we're happy that 9 months of this year, we have come down to 1.8%, and we see a lot of confidence in operating within that zip code.

Now there will be -- quarter is when things move up and down. Broadly, we realize the handle on credit cost is to keep the stock of GS2 and GS3 range bound, and that's what we've seen in the last few quarters our GS3 and GS2 have been range bound. So, if that remains in line and what we've done in the ECL model refresh also is to make sure that our LGDs are very reflective. The model rightly reflects what should be our PCR cover. So, there are 2 variables that go into credit cost. Management has to ensure that the stock of GS2 and GS3 are on the same level. And the ECL model we believe is reflective of the PCR cover. Hence, the overall credit cost should be in that zone.

Now on your second question on the -- what kind of interest income is exception items. There is no exception items in our interest income. The real expansion that you're seeing, we called out the 2, 3 levers. One lever is it's been a year now since we got the corporate

agency license for insurance. Earlier on, there were some ways in getting insurance back, but it was a little bit of convoluted through the MIBL structure. But right now, the corporate agency is an in-house insurance corporate agency, so we're able to get fee income directly through the agency license, which we enjoy in the NBFC. Second big source of income is clearly, as we said, we have now -- MIBL is 100% sub. Earlier it was held between us and AXA. After becoming 100% sub, there is -- it's one of the top 5 insurance broking companies in the country. They are not dependent on only M&M. They have very, very prolific businesses. That business throws up good revenue. It's a very profitable enterprise. It is not capital intensive. So we are able to enjoy dividend payout. It's not a onetime. And by now, I'm sure you'll be able to bake it into your modelling. This is regular income coming in, into our fee-based income. There are other smaller incomes, which is in the form of prepayment penalties and late fees and all of that. But that's really small. The 2 big items in fee-based income is that. Now one more -- there would be kind of impact of, let's say, that is an overall income, right? I mean not in fee-based income?

Management: This is I think the loan income.

Raul Rebello: Okay. Loan income, I hope I've explained to you the fee-based income. In the loan income, Mahrukh the difference between Q3 and Q2, what we see is other variables at play. As I said in Q2, we have an X amount of trade advance, which is given to augment disbursements in the season. That x amount falls to half in the next quarter, right?

So that, let's say, x amount is not interest bearing. It converts to interest-bearing in the next quarter, half of that. And hence, that shows an augmentation in the overall loan income, not fee-based income. Loan income for Q3. And whatever -- because if we have a GS3 improvement, there's a write-back of income reversal that happens whenever we have a positive movement of GS3, GS2.

Mahrukh Adajania: Okay. Anything on ECL, I mean any major changes in ECL?

Raul Rebello: No, we have the ECL model basically -- it has been, as I said, the objective is to make it as a representative of our underlying business. So what we do in the refresh is and we've used a very, very prolific -- we have used -- the old consultant used to do it for us. And we have taken in new inputs. We have gone much more granular. So each product, let's say, in wheels, there were 7 products. Now we have gone much more granular in the number of products that are consumed. LGD is again much, much more reflective of the business. Yes, that's what we've done, Pradeep, if you have anything more to add on the ECL methodology, you want to add?

Pradeep Agrawal: Yes. So one of the major change which we have kind of done this quarter is with the ECL refresh is that we have moved away from the 42 months rolling LGD calculation to

a much larger, you can say, period stable calculation, which is aligned with the industry practice. That's one change we have reflected this quarter.

Raul Rebello: Yes, earlier it was a 42-month, Mahrukh. For every business, right now we are looking at actually the -- there's something called as the lookout period, where in a recovery period that we do. So we believe the ECL model now will be much more reflective of the underlying LGD.

Moderator: Next question comes from the line of Abhijit Tibrewal from Motilal Oswal Financial Service Limited.

Abhijit Tibrewal: First of all, congratulations on a good quarter. Raul Sir, just 2 questions. First, on the demand side, while giving the opening remarks, you suggested that tractors is the product which has seen the most benefit from the GST cut. Just trying to understand while we've all seen 3Q numbers and 4Q is supposedly the best quarter in terms of business. So how are you looking at demand? I mean, is the momentum that we saw after the GST rate cut still sustained because when we speak to other vehicle financials, most of them admit that we still see that sustaining, especially in passenger vehicles and tractors. So if you could just help us understand that.

And more importantly, how do you view this momentum sustaining when we get to the leaner first quarter after a couple of months from here? If you could just help us answer that question, then maybe I'll take the second.

Raul Rebello: Thanks, Abhijit. So we saw at least -- was a reasonable amount of demand augmentation during Q3. Thanks to the GST 2.0 enabler. What was clearly encouraging was, let's say, in passenger vehicle, we all know that there was only one story, right? The premiumization story was playing out. And while if you just check most of the OEM data, we've seen at least a bounce back of the entry-level vehicles has showed good promise and being a rural financer, financing also kind of self-employed customers, we were able to catch a decent amount of that demand, which came in thanks to GST.

Now has that continued unabated through, let's say, first month of the quarter? Clearly, post festive season and post GST, there has been a little bit of waning of that. It's not continued at the same pace. And I'm sure you would have heard the similar commentary from some of the OEMs and other financers.

Tractor, I mean, the rural economy is clearly chugging along much more promising than other segments. And I don't want to just repeat. But the big highlight for us is the favourable monsoon as well as price discovery from agri commodities through MSPs etcetera, has played reasonably well in getting a player like us who is so rural, semi-

urban, not just in tractor, but other vehicle categories to see some rural demand -- to ride that rural demand wave.

Now too early for me to comment on what will happen in Q1. Our job is to make sure that incremental market share, see our business teams track incremental market shares for every vehicle product. We are keen that whatever commerce is happening and where our business model is highly indexed on, whether it is EV, CV, tractor, 3-wheeler, in the rural, semi-urban, self-employed segments, we look at getting a higher clip of the incremental market share. And -- if he wants to add anything on that.

Sandeep Mandrekar: No, I think just to add to what Raul said, I think Q3, the growth of the industry was a combination of 2 things. One of course, the pent-up demand of September getting into Q3 because the availability of vehicles were not fulfilled in the month of September and part of it got fulfilled in quarter 3, which also means that quarter 4 may not show the same levels of growth as far as Q3 is concerned. But given the fact that we still have some amount of traction happening in the smaller vehicle segment plus the rural geographies, I think we are quite optimistic of how it will go in Q4 also.

Abhijit Tibrewal: Got it. The other question I had was around the provisioning bit, while you explained a fair bit of that during the opening remarks. So you also spoke about building some management overlay, which you've also given out in the notes of financial statements. So is my understanding correct that after this ECL model refresh, at least in this quarter, we have not taken any benefits in terms of the PCR and provisions. And whatever release we saw from this ECL model refresh has actually been parked as a management overlay.

Raul Rebello: Yes, that's right. Your understanding is right. We have quantified the management overlay also. I just also want to draw a comparison. If you recollect in our earlier model also, there was an 18-month plus we used to keep a certain cover, which is there in the notes of the -- in the presentation.

So if we just went purely by the ECL model, there would have been clearly a release in provision. But we thought it prudent also to make sure that there is a management overlay that is created which of course for a business model like ours, I'm sure the ECL tool is reflective enough. But there could be occasions when the management would need to look at outside the ECL, whether there will be circumstances to not really dip into it but instances to basically look at tugging the management overlay.

Abhijit Tibrewal: Got it. And just a follow-up on what you just answered. Basically, what I'm trying to understand is and make sure, during the last Q3 when we had done the ECL model, the first new stack, we saw a lot of volatility in our Stage 3 cover. It actually declined and then we increased the cover. After this, ECL model refresh, which I'm understanding is

much more exhaustive that you said would go on more granular -- so we're not expecting further volatility in provision covers from here. That's number one.

And I just wanted to squeeze in one last question. Also, I mean, today, I mean, when we look at NBFCs right, at least for a long time, RBI has been, I mean, saying that they don't want to give out one more HFC license to an NBFC or one more NBFC license to HFC. In our case, we already had one. So what was the rationale behind taking this proposal to the boards of -- then you thought of scheme of amalgamation or merger between parent and the subsidiary MRHFL?

Raul Rebello: Yes. It might be a little early to give you full detail because as you would see from the -- from what we have taken the board, we ourselves are going to do a full evaluation of the merits to do mortgages in one entity versus two. As you know, there is today a duplication sometimes in geographies, etcetera. And there has also been a lot of harmonizing of regulation amongst banks, NBFCs, HFCs, so we're going to completely evaluate whether incrementally is it more efficient to do mortgages along with some of the capital risk weights, etcetera, etcetera. They are going to do a complete evaluation and on balance, finally take a call whether mortgages is more efficiently done in one entity versus two. As you know, today, it's 100% sub really. We have 1,400 branches in the NBFC. We have about 500 branches in the HFC. There could be duplication. At the same time, there might be merits. So at this point of time, we are going to really make sure that we have a 100% evaluation of the merits. And then once that is established, we will, at the right time, come back to both the boards and take a decision.

Objective, I think the underlying objective is to play mortgages at scale. To be a scaled player in mortgages, what is the best playbook for participation is what we will evaluate, and the Boards will take a call post that evaluation.

Moderator: Our next question comes from the line of Suraj Das from Sundaram Mutual Fund.

Suraj Das: Just one question. I think on the tractors again. In terms of growth, probably if you can talk a bit more because you saw difference in the volume growth on the industry for a 9-month to 9-month basis...

Raul Rebello: Suraj, we lost you. Can -- moderator, can you hear him?

Moderator: No, sir. We can't hear.

Raul Rebello: So then maybe we can take the next one. But let me just answer. I think he was questioning on the tractor growth. I just want to -- for the benefit of everyone, I know it's a very strong growth, but I just want to give you what has gone behind that. We created 2 different organization structures for -- within the M&M group, as you will know that

there is a Mahindra tractor and a Swaraj tractor. In fact, most of our additional manpower and distribution for the year has gone to really equip us to further our moat in tractor finance. And this has played out well, whether it's on distribution, product as well incremental penetration in the rural geographies. This has not just happened overnight, we have been in the works of creating distribution for the last 12 months now, which we are now getting some benefits in the last couple of quarters. Moderator, you can maybe move to the next person in the queue.

Moderator: Our next question comes from the line of Avinash Singh from Emkay Global Financial Service.

Avinash Singh: Great set of numbers. Just asking a bit more on the NIM part. And you rightly kind of peel the layers of it. So, if you were to see from here and where the direction of business moving and also the competitive environment, there could be, I mean, as you incrementally go to some of the probably a low-yielding segment or even in the existing segment competition increases. So, the yields will come under pressure a bit. Can you also help here that if the fee, that entire interplay of different factors, including your loan-related fee and insurance fee, this 1.5% is it kind of at the kind of level that you're actually going to max out and you see this thing just to improve?

And then, of course, on the cost of borrowing side, of course, you will continue to get some benefits from the rate decline, but then again, increasingly kind of have its kind of own impact. So this 7.5% of basically NIM that is currently. Is it a sustainable level you are seeing? Or do you see that, okay, as scope for it to further expand or is it kind of a peaking out? So that's my question one.

Raul Rebello: Avinash, so a straight answer to 7.5%, no, this is a onetime -- I mean, there are certain structural benefits that we are seeing in the NIM expansion, but 7.5% has to be read in context of that because we've got a loan income delta from Q3 over Q2, as I explained earlier, with the trade advance, which was earlier not interest-bearing, but that has run off as well as some of the write-backs because of GS2, GS3.

I would look at 7.1% being a little more reflective, the 9 months, 7.1% being a number that can be -- when you look at when we gather at Q4 next quarter, we should see how we are on the 7.1%. I would like to remind everyone that we've had an overall ROA level said, we think the company has to first get to a 2% ROA and then climb up. Now there are various elements in the ROA tree to get to that 2%, right? I mean clearly, loan income is one, fee income is another, COF is another, opex is another, credit cost. So we have multiple agendas and levers that we as management and are working on making sure that the levers are as controllable as possible and there might be an interplay between them for us to get to that 2%.

Now are we happy with the way we are incrementally moving towards that with the levers that we've been working? Answer is clearly, yes. We believe we have worked on levers on the income side. We have worked on levers on the fee side, levers on the opex side, on the credit cost side and the cost of fund side. So these are calls we'll keep taking, but these are not tactical. These are in the longer objective of hitting the 2% ROA and then climbing up from there.

Avinash Singh: Okay. Okay. And on now slightly again on opex part, I mean, given that you are looking to slightly move away also from some productivity gain will be on the wheel side, but this new initiative might require some kind of expenses. This opex, do you see a scope for improvement in opex over the medium term? Or this is where you would be, I mean, over the foreseeable future?

Raul Rebello: If we look at both opex to average income and cost to income -- and as I mentioned earlier, with the business model and the overall ROA, we can operate within the ranges of 2.5%, 2.8%, I mean 2.5% clearly beyond us now, but we are in investment zone right now. So I do see with the new businesses, etcetera, we have to invest. We have a concept called an operating jaw wherein we are looking at revenue growth actually exceeding opex growth. So sometimes expenses are required upfront, which will deliver long-term, medium-term benefits. And hence, I won't be constrained only on overmanaging opex. For the time right now, for the new businesses, especially, it might be investment time, some of it will be -- we might be able to capitalize those expenses. Some of them will pass through the P&L. So really not looking at being penny wise pound foolish in the overall process.

Moderator: Our next question comes from the line of Shreya Shivani from Nomura Holdings.

Shreya Shivani: Congratulations on a good set of numbers. I have 2 questions. My first question is on the CV, CE book. While I understand your -- the reasoning for the volume growth of auto industry in the passenger vehicle book and the disbursal growth that we've had. I understand that their entry-level cars were sold. But what exactly happened CV, CE book? Why is there such a large gap between the kind of volume growth the industry is reporting and our disbursal growth in the quarter?

My second question is on the credit cost, rather on the provision coverage. The slide that you showed on Slide 14 that the reduction in provisions release coming from the Stage 2 PCR, right? That's at about 8% now. That has been on a continuous declining trend. The Stage 3 you have maintained at 53% range. So what is the thought process going on over there? And what kind of improvement can further continue in that book?

Raul Rebello: I'll take the two questions first on CV CE. See I think we've basically earlier articulated that in our balancing between the growth, margins and risk for the CV CE business, we

saw some structural changes happening in terms of the borrower segment. There is clearly an aggregation happening in that segment for the fleet operators, it is becoming from a unit economic standpoint, not very viable for small operators. And the cost of funds that the larger players enjoy maybe the NBFC balance sheets versus banks may not be as formidable, right? So we have decided to participate in the CV business in a certain customer segment as well as our new versus used CV choice framework to support our overall ROA aspiration.

Now for the new CV segment, I think there has been a reasonable rationalization post GST in the ticket sizes. And that's played out. As I said, we don't kind of display that, but maybe in the future, we will show the unit increase also. While we have seen a unit increase because of the ticket sizes, we have seen a sequential decline in the disbursement value.

We are again participating in certain segments. As I said, where part not the extreme fleet segment where we can't really price it well, now we're participating in the new to -- new borrower segment, we are generally retail in the retail base. And while I'm sure you would have seen some of the commentary of the other segments. Parts of the participants in the CV business are also going through asset quality stress right now. So we do -- we are not in a very aggressive buildup zone in this segment. Some of the state payments, etcetera, have also seen delays, and we have to be cognizant of the fact and play in balance over there. Before I go to the kind of credit cost question, I just invite my colleague, Sandeep, if he has anything to add on...

Sandeep Mandrekar: No. That's it, Raul.

Raul Rebello: Okay. On the credit cost, I didn't fully appreciate your question. You were asking whether the stock decrease in the GS2 would have created a release in provisioning. Is that your question?

Shreya Shivani: Yes. So if you see in Stage 2 ECL divided by gross Stage 2, that percentage is declining for you all, right? So your gross Stage 3 PCR, you've maintained at 53% by doing all the overlays that you've spoken about. But there is an improvement in your -- like you're providing less in the Stage 2 book?

Raul Rebello: I'll invite Pradeep to come and...

Pradeep Agrawal: So if you look at our Stage 2 book, the overall quantum itself has kind of come down. So that, of course, will give some relief. That's point number one. Point number 2 is that generally, your PCR coverage is a function of your PDs and LGDs. If your Stage 2 book gives you a trend which are better in PDs than both LGDs, then, of course, your overall PCR on the Stage 2 itself will keep on coming down. So that's a reflective of the ECL

model, which is working and giving us that benefit. But largely the benefit is if you look at the provision cover difference is hardly like a percentage point and all. So I think that's the kind of outcome of the ECL model. And if you look at the Stage 3 anyways, if you look at the overall provisioning, at a company level, last quarter, if my provision was total provision was INR4,034 crores, which has come down to INR3,876 crores. If you adjust it for the onetime write-off, then I think we have maintained the overall provision and there's no benefit taken into the P&L.

Shreya Shivani: Got it. So fair to say that in the Stage 2, your PCR, you can keep taking benefit of the PD, LGD trends throughout certain numbers, right? While you will maintain your Stage 3 PCR at a certain level, 53% or whatever range you want to maintain, in the Stage 2 book, you will keep taking the improvement.

Pradeep Agrawal: So it's -- so even in Stage 3, if you ask me, the PCR has to be a result of the -- your PD is like always Stage 2, one, I think LGDs, and accordingly Stage 2 also moves with the PDs and LGDs -- I think the provisions are generally -- by these 2 factors. That's why we have created an overlay. So overlay, it becomes a constant factor and balance amount is kind of derived by the model. So whatever you can look at this model.

Moderator: Our next question comes from the line of Umang Shah from Kotak Mutual Fund.

Umang Shah: And congratulation on the quarter. Just one question. To the proposal, which Raul mentioned about merging the housing finance subsidiary with the parent company, given that both the entities are engaged into a similar line of businesses of mortgages.

I mean just an extension to that thought, I mean, is the management also contemplating merging the MIBL subsidiary with the parent, right? Again, we are now doing insurance broking in the parent, excess capital sitting in the subsidiaries getting up streamed as dividend income anyways. If not immediately, in future, will that also be a possibility?

Raul Rebello: Umang, for the first question, I'd repeat that on MRHFL it is a proposal to evaluate the benefits. The objective of us going down this path is, one, we do believe that we want to be a diversified financial player, and we want to play in multiple asset categories, which are promising and adjacent. So mortgage, how do we kind of grow mortgages in a scalable manner? That's the proposal on hand.

Coming to your second question on MIBL, clearly not, let me just reinstate that we have an insurance broking license which has been maintained and the corporate agency license, these are not to fish in the same ocean. We do realize that the field of -- and the revenue pool for insurance distribution is very wide, and we didn't want to create a limiting factor of just exploiting the opportunity in the M&M ecosystem or the Mahindra Finance ecosystem. We did believe the corporate agency license gives us a good ability

to maximize revenue, which is there in the low-hanging fruit in the M&M ecosystem and the Mahindra Finance ecosystem. MIBL is looking at insurance distribution across opportunities, general health, life, not in the M&M ecosystem. Think about all the opportunities of insurance distribution, which is available, not limited to the M&M ecosystem is basically being harnessed by MIBL. And hence, there is no thought process. We do believe it's an independent -- it's governed by an independent board. It has its own management team.

Yes, we do derive benefits for it because it is a subsidiary. And right now, that entity at the scale it's operating, doesn't need capital and for us to retain too much of its profit, is going up. And hence, we felt that there is a clear ability for us to plowback dividend income from there. But we are definitely not having any inclination clearly, it's an insurance distribution business, and it will remain that way in the broking.

Moderator: Our next question comes from the line of Mayur Parkeria from Wealth Managers India Private Limited.

Mayur Parkeria: Am I audible?

Raul Rebello: Yes, yes. Please go ahead. Just check also, it's already 6:55. We can go on a little more. But let's have one question, please per -- if you can.

Mayur Parkeria: Yes. So again, you just mentioned about the time and pardon me for a slightly longish question, but this is more -- this is mainly in the context of your ROA comment from a slightly medium- to long-term perspective. I don't know if in the past, as management, you'll have alluded to anything beyond 2% as a number to anchor or guide over a medium to long term. So if there is any, please reiterate that, if any?

And -- but the question is more from a slightly longish perspective, historically, when we see, earlier we used to see swing of ROAs used to be very high, right from 3.5% to sub-1%. The credit cycles used to swing from 1.5% credit cost to 3.5% on the P&L, 3.5% to 4% also, and that is where the swing of ROA used to happen. Over these longish years, we understand that the interest rate cycle is lower, hence, our yields are now more in the region of 7% against 9%. So that is a structural thing, which is not going to undergo or change in the next 2 years. Having said that, 1.5%, as you mentioned, the credit cost band 1.5% to 1.7% is more reflective of a good credit cycle period. So we are sitting at the bottom of the credit cost cycle in terms of the good period. In that light, ability of the management to increase ROA, where does that come from? And I'm not talking about 10 basis points here and there, but from a slightly medium to large, what is it that one should look at as a structural business trend from the management side? That is first.

And secondly, what if there are external factors where the credit cost band goes out of hand. And that -- what are we doing to ensure that the external risk factors and credit costs do not play to our guidance -- to our targeted range of ROA?

Raul Rebello: Yes. Thanks, Mayur. Very long question. I won't have such a long answer, hopefully. See, one thing on the ROA, I'll maintain that our objective is to get to 2%. And then only after we hit that milestone will we share our plans to go up. But clearly, is 2% the gold standard? No. We do understand that any formidable NBFC from the stable of, let's say, the M&M Group should deliver a 15% ROE and our goal is to get to that 15% ROE. ROA is the biggest lever. And then since we are largely a secured book, the questions on debt equity, etcetera, we currently are even more capitalized than we required to. We can sweat the equity a little more. So do we intend to stay at 2%? I would say that our intention is to hit the 15% ROE also. We believe the way to go there is first get to a 2% ROA and then climb up with the levers which are there in the overall ROA tree.

Now your comment on volatility, I'm sure you answered the question also that the huge swings in volatility, I think are behind us. I've just opened up my commentary saying last 8 quarters, we have kept GS3, GS2 range bound. Yes, there was because, as Pradeep alluded to the fact that our ECL model had some periods of consideration, wherein, the COVID period went out, we saw the PCR moving up and down. But right now, we do think our -- if we keep the GS2, GS3 range bound and the ECL model is reflective, we shouldn't see such wide variations. We clearly think a business like us with the choices we have made in the last couple of years, should bring in more stability.

The other management levers are in making sure that the business is not so monoline, right? As in if you see, still we are a 90% wheels business. Part of the diversification plan, which I admit has not played out to the level it has. We do understand with a balance sheet of INR1,40,000-odd crores, loan book of INR1,20,000-odd crores, we need to become much more diversified. And that diversification will lead to less volatility also, because as long as we are subject to one industry, volatility is that much more. So part of the mortgage playbook expansion, which will happen out, SME playbook expansion will happen out is really to meet that long-term goals of not being so monoline and not being a subject to more intense volatility than a more diversified player is. So that's largely the objective of why the management is looking at diversification as well as the whole fee-based income, etcetera, that we talked about to avoid in down cycles, extreme volatility.

Mayur Parkeria: Sir, this is not a new question, just an understanding, please allow me.

Moderator: I'm really sorry to interrupt you, sir. But we are well over...

Mayur Parkeria: Clarification I'm trying to get. May I please?

Raul Rebello: Mayur, just in respect, I can see 7 more people on the list. I'm happy to engage outside this call also, I can give you for clarification.

Moderator: Our next question comes from the line of Nidhesh from Investec.

Nidhesh: Sir, my question is on loan growth that you alluded that you will diversify the loan book over a period of time. But -- so there, I think mortgage is definitely a large opportunity. How should we build the loan growth from a medium-term perspective? This year, I think it's a bit slow. But from a 3-year perspective, what is the aspiration in terms of loan growth that we are having?

And how the broadly loan books may look like, basically how the share of these can you -- in your view over a period of time?

Raul Rebello: Yes. So if you've seen -- thanks for the question, Nidhesh. The recent disbursement growth has been really I would say, if you look at the jaw, we're doing disbursement growth and book growth, of course, is holding up because of previous good disbursements in FY '23 and '24. We will have to make sure that we start seeing a loan book growth, which is in the mid-teens. Now clearly, this year is subpar. As we've seen some tailwinds in tractor, etcetera. But as we start getting more adjacencies from SME and mortgages, we do believe that a franchise like ours should look at CAGR growth in the mid-teens to high teens. Where we get that from will be a combination of wheels, mortgage and the SME business.

How is the growth going to look -- I mean, how is the mix of wheels, non-wheels going to look at, I'll kind of repeat what I said maybe in the last call that over the next 4 years by FY '30, we do believe across now I'm also talking about mortgages. In the mix, the loan book should read by FY '30 end our objective is to get wheels, which is currently in the combined businesses, let's say, MRHFL plus wheels today, wheels is at 88%. We want to get that down to 70%. That means the mix from the other asset categories will have to grow which is 12% to 30%.

Nidhesh: Sure. And this SME and mortgage will be ROA dilutive or ROA accretive in your view?

Raul Rebello: In the initial years, as you know, as you build businesses, they won't give you a very strong, but we have a plan in the mortgage business also with affordable housing being a big part of that. So we are not just going to mindlessly grow businesses without ROA, without the ROA attractiveness of the underlying consol that we are looking at achieving.

Initial years, could see, as you know, any business which grows in the initial years will take time for the full-blown ROA to play out. Our SME business, in fact, even right now is giving us encouraging signs on ROA.

Moderator: Our next question comes from the line of Viral Shah from IIFL Capital.

Viral Shah: Sir, just first, one clarification. You mentioned that now that we have had an ECL refresh and there's some management overlays also now with us. Do we kind of see a scenario where, say, to a very large degree and extent we are done with the first half, second half seasonality in terms of the P&L credit costs. Just one follow-up over here, and then I have one more.

Raul Rebello: Yes. So Viral, as you know, management overlays can't be used as per discretion. There are only certain occasions where we can dip into it. And we have, of course, had a very detailed discussion with Audit Committee, Board, etcetera. So, this is not to even out quarter 1, quarter 2. Management still has a high bar in making sure that the GS2, GS3 is range bound. We are basically going to exercise onus on the collection, underwriting business teams to make sure that we are not evening out in terms of earnings by creating the overlay. We will still be extremely focused on the operating metrics of GS2, GS3 being range bound, right? So as you would have seen in the past also, the volatility of quarter 1, quarter 2 also has been largely evened out in the last -- in this year and the last year. Yes. Let's go to the second question.

Viral Shah: Sure. And HFC piece with the reverse merger, I understand that this is under consideration. But the points that need to be considered are not just see the risk weight, which is kind of realignment but also, I understand there's consideration to be had with respect to access to SARFAESI you're getting, say, the ability to have and operate at effective lower tax rate. A couple of other benefits are also there access to NHB funding. So how do you anticipate doing this kind of the exercise?

Raul Rebello: See Viral, I mean, I won't go into the details, but there are merits, demerits on both sides. There is risk weight. There is -- I wouldn't say cost of fund is very different for somebody like us. There's very little arbitrage even today between cost of funds across both entities. SARFAESI is only INR20 lakhs, as you know, affordable housing, etcetera, today, most affordable housing starts at INR20 lakhs and above. There are other recovery tools. So on balance, in fact, we will bring this to the goals, we felt that there are merits, demerits on both sides. We will cross the bridge when we have 100% conviction that we will go in one direction. Right now, I would say there are both merits on both sides.

Our objective is to play mortgages at scale. And we do believe playing it at scale means that there needs to be some amount of evaluation of whether doing it in 2 outputs will give us that scale benefit.

Viral Shah: Got it. And one last...

Moderator: Our next question comes from the line of Rajamani from Nirmal Bang.

Rajamani: I just have one question. So this one is fee income jump on insurance, the commission was quite -- the growth is quite healthy. So now that your corporate agency license is now established across, say, 7 partners, what kind of run rate should you expect going forward? Is this like a structural margin lever? And how do you think about this going forward?

Raul Rebello: Yes, I just want to clarify whatever you're seeing in that 1.1% to 1.4% is not only insurance income. There are a couple of things. Yes, insurance is a meaningful part of it. Now we have a growing franchise and all the insurance that we do is a combination of whatever is basically good for the customer, right? I mean we do have customers which come from very deep geographies and our objective is that they are protected and the family doesn't go into bankruptcy if there is an eventuality. So all the products that we sell are very simple, not complicated, good for customer products.

With the corporate agency license that has come in, we have been able to have a very decent amount of penetration into the existing M&M ecosystem. I would also like to remind everyone, ever since we reorganized our branch structure, we now have 1,400 branches, which are also distributing under the corporate agency, life insurance, general insurance, vehicle, open market vehicle insurance, etcetera. So have we hit the headroom? There is still, I would believe, headroom for expansion. Are we moving in the right direction in terms of insurance income? Yes. Besides insurance, there are other incomes, which as I mentioned, dividend income from the subsidiary and a couple of other avenues. And we do believe that, yes, we came from a position which was suboptimal. We have climbed to a reasonably good. Have we hit the headroom? I would not say yet. We can still augment this. But this will definitely don't read this 1.4% as a onetime. We do believe that this is sustainable going forward.

Rajamani: Understood. Just one follow-up. So is this -- are you doing only individual? Or are you doing group also in this -- is it only individual fees or you're doing group as well?

Raul Rebello: What do you mean by group? In the insurance?

Rajamani: Yes, as in group insurance, like say, group credit, life, and so on.

Raul Rebello: Yes. Both group, individual. Branches do a lot of retail, so it's a combination. And we have set up just for everyone to know, we have a fee and we have a setup an organization structure, which basically supports this from a medium to long term. We are not looking at this being one-off. So there's a proper org structure to make sure that this fee-based income is a big theme and a priority.

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

Piran Engineer: Team, congrats on the quarter. I'll make this quick. Just getting back to the first question on loan income. Now you explained that it's gone from 11.6% to 12% because the 11.6% had the trade advances in the denominator. But if I go back 1 quarter, it was 11.7% in the first quarter. So over a 2-quarter period where we ignore the trade advances noise, it's still up 30 bps. So I'm just trying to reconcile how to think about this in the context of increasing competition, declining yields, etcetera?

Raul Rebello: Piran, thanks for the question. One needs to also look at the inter-quarter. What happens between the quarters in terms of GS2, GS3, so whenever the stock of GS2, GS3 improves, then you have a write-back also, right, in terms of interest income. So it's not only the festival period trade advance, it's also the inter-quarter. So we wouldn't have had between Q4 and Q1, such a GS2, GS3 improvement, which we saw, as you know, and I pointed out, our GS2, GS3 between Q2 and Q3 has seen a significant improvement, and that delta has been enjoyed in Q3 in terms of the loan income.

Moderator: Ladies and gentlemen, as there are no further questions from the participants, I would like to hand the conference over to Mr. Nischint Chawathe for closing comments. Thank you, and over to you, sir.

Nischint Chawathe: Thank you, everyone, for joining us today. We thank the management of Mahindra Finance for giving us an opportunity to host the call. Thank you very much. Good night.

Raul Rebello: Thank you.

Pradeep Agrawal: Thank you.

Raul Rebello: Thank you.

Moderator: Thank you so much. Ladies and gentlemen, on behalf of Kotak Institutional Securities, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.