



“Cholamandalam Investment and Finance Company Limited Conference Call”

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ANALYST: MR. AMEY SATHE

**MANAGEMENT: MR. VELLAYAN SUBBIAH
MR. KAUSHIK BANERJEE
MR. D. ARUL SELVAN**



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Moderator: Ladies and gentlemen good day and welcome to the CIFCL's Q3 FY'13 Earnings Conference Call hosted by JM Financial Institutional Securities Private Limited. As a reminder all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during this conference call, please signal an operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Amey Sathe from JM Financials. Thank you and over to you Sir.

Amey Sathe: Thanks Marina. Good afternoon everybody and welcome to the Cholamandalam Investment and Finance Earnings call to discuss Q3 FY'13 results. To discuss the results we have on the call Mr. Vellayan Subbiah, Managing Director of the company, Mr. Kaushik Banerjee, President, Asset Finance and Mr. Arul Selvan, Senior Vice President and the CFO. May I request Mr. Vellayan to take us through the financial highlights post, which we can open, the floor for questions? Thank you Sir.

Vellayan Subbiah: Thanks Amey. Thanks a lot. Good afternoon everybody. We just want to go through first the Q3 performance highlights and then year-to-date December performance highlights. Q3 has been a good quarter overall. Disbursements in vehicle finance has grown by 34% versus the same quarter last year and home equity we have grown by 43% and so overall vehicle finance disbursed Rs.2574 Crores, and home equity disbursed Rs.525 Crores. We also disbursed about Rs.14 Crores in gold loans and the company also launched its home loan business where we have just disbursed Rs.0.6 Crores in the last quarter. The total aggregate disbursements for the company were Rs.3114 Crores against Rs.2283 Crores in Q3 of 2011-12 for a growth of 36%.

Also the total income is Rs.666 Crores compared to Rs.471 Crores in Q3 of 2011-12. That is a growth of 41% and PBT is Rs.122 Crores against Rs.69, which is a growth of 77%. Finally PAT is Rs.81 Crores against Rs.41 Crores for a growth of 98%. PBT and PAT are not 100% like-to-like. So given up the personal loans but going forward quarters and years it will be like-to-like comparison. Finally for the quarter the company has obtained approval from the board to raise tier I capital to an extent of Rs.300 Crores on private placement basis by QIP and the postal ballot for seeking approval from the shareholders for the issues and progress. In terms of year-to-date performance the company has disbursed Rs.6742 Crores in vehicle finance and Rs.1523 crores in home equity, and gold loans have been Rs.45 crores to date. The total disbursements of the company are Rs.8311 Crores and that has been a growth of 38%. Total income is Rs.1830 Crores, which is a growth of 45%. PBT

at Rs.328 Crores, which is a growth of 65% and PAT Rs.221 Crores, which is a growth of 86%.

In terms of overall summary, the company expanded its branch presence to 506 branches as of December 31, 2012 compared to 375 on March 31 and almost all the additional branches are in tier III and tier IV locations. The company also raised tier II capital of Rs.593 Crores during the period ended December 31 by way of subordinate debt and PDI, Perpetual Debt Instruments. Our capital adequacy ratio is now at 18.12% compared to 17.78% in December 2011. In terms of our performance of subsidiaries, the wealth management business constituting Chola Securities and Chola Distribution made a loss of Rs.0.13 Crores compared to a loss of Rs.5 Crores in year-to-date December 2011 and Cholamandalam factory made a profit of Rs.1 Crore compared to a loss of Rs.57 Crores in year-to-date December 2011. Again, that loss related to personal loans book losses. Consequent to the approval of the boards of both company's amalgamation of Cholamandalam Factoring into the company, Cholamandalam Factoring has filed a scheme of amalgamation and other relevant applications with the honorable High Court at Chennai for necessary orders. Basically given that Cholamandalam Factoring was predominantly a vehicle for where we had kept some of our loss assets and that will have affected continuing operations. We felt that it is probably in the best interest to merge that entity with Cholamandalam, the parent itself. So, in terms of consolidated results, the consolidated PAT for the period ended December 31, 2012 was Rs.221 Crores as against a PAT of Rs.108 Crores in the previous year registering a growth of 104%.

The board has also recommended an interim dividend of Rs.2.50 per share or 25% of the face value of Rs.10 share to its equity shareholders. Amey, I will conclude with that. I will be happy to answer any questions from the floor.

Moderator: Thank you very much. Ladies and gentlemen we will now begin the question and answer session. The first question is from Sanjay Shah from KSA Securities. Please go ahead.

Sanjay Shah: Remarkably good performance. Can you throw us some light to which factors you would like to attribute this growth? In other words, I would like to say that if the performance was due to the extension of the festive season or you were able to control to bring down the operative expense ratio?

Vellayan Subbiah: Basically like we have been telling you in the previous quarters, obviously I can say that the festive season helped. Third quarter for us especially when all the holidays come in the third quarter, the festive season does help, but to go back to your question, you know as we have

been doing in the past few calls, our approach has been three thronged in terms of our areas of focus in both vehicle finance and home equity. I talked about the increased reach to increase our overall presence in the market and thereby improve our market share and that is obviously allowing us to grow at above market rates, so that is one factor that is helping us.

Sanjay Shah: Sir, how do you see the future?

Vellayan Subbiah: Future, we continue to guide like we have had in the past, which is we do see a good potential in both our vehicle and home equity segments.

Sanjay Shah: How do you see our gold loan growing from here?

Vellayan Subbiah: Gold loan as you know, KUB Rao draft report has come out now, the working committee report, we will not be growing that book till that actual report, till we have some clarity and whether that report is becoming guidelines from the RBI or not. We are yet to see that. Basically lending at 60%, which is lower than the rest of the market is lending at, at LTV of 60%, so we are not competitive at that business right now, but if the KUB Rao report thus comes out and is made actual guidelines by the RBI that will definitely help us.

Sanjay Shah: Thank you.

Moderator: Thank you. The next question is from Ritesh Nambiar from UTI Mutual Fund. Please go ahead.

Ritesh Nambiar: Good afternoon. If you could touch base upon your increase, which we see in the gross NPAs? What is it on account of actually for the past two or three quarters?

Arul Selvan : The gross NPAs are on two counts. One, as you know the gross NPAs of vehicle finance has also moved up a bit though well within the overall limits of the industry. This is because we had some stress in the Odisha portfolio though the portfolio size in there is only 3% of the overall portfolio and more importantly we also had gross NPA coming out of one particular loans against share exposure, which we have provided to a great extent by the end of this quarter. So, that is the other major thing at a company level, having an impact on the gross NPA otherwise the rest of the home equity is well within the norms and if you see the vehicle finance is at 0.79% gross NPA, which is again well within the industry norms.

Ritesh Nambiar: Sir, one thing within your portfolio mix, if I look into vehicle finance and home equity, in fact home equity mix is just about 20% to 25% odd of vehicle finance, but in profitability

terms it is one-third of vehicle finance, so if you could help me understand is the profitability of home equity quite high for you in fact?

Vellayan Subbiah: The ROA in home equity has moved up in the period further the ROA for home equity has gone above that of vehicle finance and you actually have that data in our investor presentation as well, but basically the ROA for home equity to answer your question is at 3.16% versus the ROA for vehicle finance which is at about 2.84%. So that is what basically they explain that difference Ritesh.

Ritesh Nambiar: This proportion or this ratio is sustainable by any chance?

Vellayan Subbiah: I think the good thing is that you actually have two businesses competing on the inside. So we do believe that vehicle finance also has opportunity to push up its ROA overtime and like we have discussed in the past, we have a fairly systematic plan on what we are doing to improve the other of ROA of each our businesses. Also vehicle finance being a fixed rate book in reducing interest rate scenario the yields on that will go up.

Ritesh Nambiar: Okay, and lastly if you could help us understand this uplift in your off book assets. What kind of securitization happened in this quarter and the revenue on account of same?

Arul Selvan : We have been done around Rs.800 Crores during Q3 and we have done on securitization transaction, which is the PTC transaction under the new guidelines. So there has been no up fronting of profit because the new guideline is very categorically put it. So this is a normal amortization only over the period of the asset loans and it is purely on priority sector assets. These are priority sector assets sold to bank.

Ritesh Nambiar: And the spread on the same if you could help me?

Vellayan Subbiah: We would not disclose specific on the spreads. We are obviously they are attractive enough for us to do them well.

Ritesh Nambiar: Thanks.

Moderator: Thank you. The next question is from Arvind Subramanian from IDFC Mutual Fund. Please go ahead.

Arvind Subramanian: This is just to in reference to the balance sheet, which is shown in your presentation page 40 in that your total current assets as on December 2012 is coming to Rs6371 Crores, but in your ALM if I add up all the assets in the one year bucket it comes to a number of Rs8288

Crores so I was wondering how is this difference and classification in the ALM and the balance sheet?

Arul Selvan: In the ALM we will have the NPAs and the debtor spread as per the RBI norms. So there will be some shift in the method, which is followed for ALM versus what is mentioned in the schedule fixed assets.

Arvind Subramanian: But just based on maturity both should be one year because even the asset classes?

Arul Selvan : There will be certain assets, which we will have to take it to five years on ALM, 3 years depending on the maturity of the assets up to one year just to add on that ALM.

Arvind Subramanian: If you basically added the ALM numbers up to one year it is coming to Rs.8288 crores.

Arul Selvan: Again in the ALM we would also be considering some sanction limits in hand.

Arvind Subramanian: No, but this is the asset side I am talking about?

Arul Selvan: For the inflows so wherever there are shortfalls and wherever we have got a committed line, we will consider.

Arvind Subramanian: But see actually I had some uncommitted lines. So it is not just with the ALM of your balance sheet?

Vellayan Subbiah: Let me will include committed line this allowed as the RBI. ALM format in RBI statement it allows you to consider working capital lines.

Arvind Subramanian: Okay, so wherever there is a shortfall in bucket you add up?

Vellayan Subbiah: We will consider the available limits or committed term loans or committed drawdown, which we have got complete sanctions in hand.

Arvind Subramanian: Okay, because again if I just see the balance sheet your current liabilities for December 2012 is 700 - 800.

Arul Selvan: Those, which have been considered as our drawdown, will be considered as payout in those respective periods. That is how we manage the mismatches in between buckets because we will always use working capital limits to sustain a shorter tenures gap. Now we have a Rs.3000 Crore working capital consumption limit, which we have not drawn more than Rs.600 – Rs.700 Crores. The rest of it is available to manage the bucket movements.

Arvind Subramanian: So even in your previous ALMs, which you used to show in the presentation there also you used to include here?

Arul Selvan: Everywhere it will be there. All periods it will be there. It will be ranging between Rs.1500 and Rs.2000 Crores, which we will have to consider over the tenure up to 3 years.

Arvind Subramanian: Just finally one more thing on the rationale behind the interim dividend keeping that you are also looking to raise capital and that your Tier 1 is already below 10% so the rationale behind the interim dividend?

Vellayan Subbiah: Actually there are two things. When you look it at, one is that we have benchmark to see what all the other financial services players do, including other NBFCs like Mahindra & Mahindra Financial Services and HDFC and Sundaram all the other guys in our space and so what we actually did was arrived at a payout ratio based on an average of what the other guys are doing it as a payout ratio. Actually seems very standard in this business to have payout ratios. Actually Mahindra & Mahindra and all so far are like 24% to 25%. It is not high, and HDFC, a lot of the other guys we look at are kind of real benchmarks in the space have higher payout ratios. So when we look at the other industry guys all of them have similar payouts. So basically we cannot weaken our total anomaly in that space. Second is obviously from a group perspective also we have payout norms but we stay well under that, basically this year for example we are looking at about a target of about an 18% payout which is well below kind of what we see the average of peers and the norms and other basically it is very below of those norms as well.

Arvind Subramanian: Great. That is it from my side. Thank you.

Moderator: Thank you. The next question is from Ketav Shah from Anand Rathi. Please go ahead.

Ketav Shah: Congratulations on a good set of numbers. I just had a couple of book keeping questions. So what would be the absolute level of gross NPAs during the quarter?

Arul Selvan: Absolute Rs.202 Crores.

Ketav Shah: What was it the similar number previous quarter?

Arul Selvan: Rs.180 Crores.

Ketav Shah: Sir my second question is on obviously the payouts that you are do the brokerage and sales. So that has remained flat despite us showing a decent amount of growth so any comments there?

- Vellayan Subbiah:** There are two things we continue to work on our operating expenses to see what opportunities we have to kind of keep these operating expenses under control so that definitely has helped us. So that is the kind of one of the driving factors and Kaushik I do not know if you want to add anything else on that front. So that would be the key.
- Kaushik Banerjee:** So here basically on the vehicle finance side the increase in our field head count has been about 15% over last year 15% to about 18% whereas the increase in numbers of units funded is up about 40% over last year 31% to 40% last year. So your cost for transaction has comedown quite dramatically. So the productivity if you talk about 35% over last year, which is one of the things that Mr. Vellayan is talking about earlier about one of the key initiatives, which we are undertaking new productivity enhancement.
- Ketav Shah:** Okay, so and the question was largely that are we paying out less payouts are less something like that, that is what I want?
- Vellayan Subbiah:** Payouts are more or less will be flat.
- Ketav Shah:** Thank you Sir. That is it from my side.
- Moderator:** Thank you. The next question is from Prashant Shah from Vantage Securities. Please go ahead.
- Prashant Shah:** Good afternoon. Thank you for the opportunity. Sir just one question on your plan for amalgamation of your factoring subsidiary with your parent company, so I just wanted to understand initially you all took assets of the share CIFCLs books and now you all are considering to, take it back on books. So I just wanted to understand your thought process behind this occurrence behind the strategy?
- Vellayan Subbiah:** The stressed assets right now are totally kind of a little bit provided for or written off in some cases or collected. We have no longer the assets that exist. Right now one of the things that we constantly get from investors is why we have three subsidiaries that are so small so the actual kind of operating complexities and having another subsidiary we just feel a kind of do not kind of really justify the existence of the subsidiary. So actually the factoring case was it has no operations as such today.
- Prashant Shah:** Okay, and so will you be getting tax benefit from that from the past NPAs that you have from the past delinquencies that have occurred in these books?
- Vellayan Subbiah:** It is still a provisions number in the subsidiaries book.

- Prashant Shah:** Okay, so we can expect to see your tax payout will lower in 2014 onwards?
- Arul Selvan :** Tax will not be lower. Cash flow will be lower, but deferred tax, in considering the deferred tax it will be the same.
- Prashant Shah:** Sir, just one data point your balance sheet in your presentation shows that your current investments are about Rs.450 Crores. Could you just throw some light on what were these investments?
- Arul Selvan:** We did securitization at the fag end of the month.
- Prashant Shah:** Okay, so it is just basically parked for the short-term?
- Vellayan Subbiah:** Liquid investments in mutual funds.
- Prashant Shah:** Thank you very much sir.
- Moderator:** Thank you. The next question is from Ashish Sharma from Enam Asset Management. Please go ahead.
- Ashish Sharma:** Good afternoon sir and congratulations on good set of numbers. Sir I just want to get some granularity on vehicle finance growth what are the sub-segments, which have done well, and also in terms of collection efficiency have you seen any decline in collection efficiency in any of the segments?
- Kaushik Banerjee:** We have actually seen a growth across manufacturing categories in light commercial vehicles, small commercial vehicles and there some extent of heavy commercial vehicles, which has actually given us the ability to kind of outgo the market slightly. So on a YTD basis last year we had about 8.6%-odd in the market share in the overall level, commercial of about 9.45% and we have seen an 80 basis points improvement in the market share over the last year same period that is one. This has largely happened because due to the fact that we have increased our branch network. So earlier the markets have been in the purview of advances and therefore access has gone up that is something that has happened and on the collection efficiency side the collection efficiency remained more or less constant as we had last year. The only two challenge that we have faced is because of book size is bigger even if we maintain the same efficiency of collection the flow, bucket of higher than last year's value. That is what I am saying. When our book was Rs.100 Crores last year we have 75% collection efficiency, closed to Rs.75 Crores. But when the book is Rs.150 this year and we maintain the same percentage of collection efficiency, the value and growth in the next quarter is higher. Also last year we had a fairly low impact of Odisha, which Arul had

pointed out earlier as added to our overall GNPs in the current year. Having said that the percentage of repossessions that we see in the current year is in line with what we have seen last year. So it is more of the higher percentage of situational results due to the overall macroeconomic situations and any behavior irregularity on the customer's part.

Ashish Sharma: Okay, and in terms of you mentioned about a higher ROAs for your home equity vis-à-vis vehicle finance and currently as on AUM I think it is around closer to 23% - 24%. Where do you see this ratio going forward sir?

Vellayan Subbiah: Can you repeat that which ratio again?

Ashish Sharma: Sir AUM mix in vehicle finance versus home equity I mean currently it is around 23% - 24%. Home equity is 23% to 24% and as you mentioned earlier that ROAs are higher in case of home equity. Do you see this ratio improving towards home equity or this is sort of an optimum mix as of now?

Vellayan Subbiah: I do think it can move. It is not going to be a significant swing on home equities favor. As you see from the disbursement growths in both, they are not very similar but obviously the advantage of the home equity the asset stay on the book for longer. As we see the home equity's growth to a certain extent so I think it can move a few bps but it is not going to be a massive swing. My point is that we are focused on improving the ROAs of both vehicle finance and home equity.

Ashish Sharma: And where do you think this vehicle finance ROA can move from 2.8%?

Vellayan Subbiah: Over three years it can potentially move and obviously it depends on interest rates as well given that as a fixed rate book. Over three years it can move in excess or closer to three years almost by 100% basis points.

Ashish Sharma: Closer to 3.75 sort of a number from 2.8 100 BPS if you are saying?

Vellayan Subbiah: That is correct.

Ashish Sharma: Just last question on the Tier 1 will you be able to do it before this year-end or will it be sort of next year?

Vellayan Subbiah: Actually that is something we are having internal discussions on right now. Our preference would be to do it sooner rather than later.

Ashish Sharma: Thank you and all the best for the next quarter.

- Moderator:** Thank you. The next question is from Abhishek Nair from L&T. Please go ahead.
- Vikas:** This is Vikas here. Just a follow up question on the previous question asked by a colleague of mine on ALM profile, which you just discussed and so as I understand that on the asset side you also include those lines, which have been sanctioned and utilized as of now by you from the banking sector. Just a clarification do you also include those gross disbursement, which you would be doing in a course of next time while calculate in this ALM profile?
- Arul Selvan:** No, that will come under the dynamic liquidity. This is liquidity statement.
- Vikas:** Okay, so just to put a things in perspective we are getting the benefit as of now of the unutilized bank client in the ALM profile but we do not actually engage some kind of a charge on the gross disbursements, which we would be doing going forward?
- Arul Selvan:** The format itself is completely different. For the dynamic liquidity you will also consider the interest earnings as well as any expenses over the next few quarters and you will also consider fresh borrowings that you are proposing to take that will come in the dynamic liquidity statement. If you could refer to the RBI format this is allowed and you can check both the structural liquidity format and the dynamic liquidity format. When a structural liquidity format has small variances, which between the time buckets we were allowed to use the lines of credit.
- Vikas:** Okay, sir can you please give me the number of that unutilized bank lines as of now that you may have with you?
- Vellayan Subbiah:** I do not think we share and I think a very few guys who have been share the ALM in public. So I do not think we share that data at that level in kind of public.
- Vikas:** I will take it offline. And second question is on your Tier 2 investment basically I think the number is on huge at Rs.2000 Crores or something in terms that you have to borrowing. So can you please give me some broad indication on what kind of investments are there? Is this retail or they would that institutional kind of a thing?
- Vellayan Subbiah:** It is a subordinated debt and perpetual debt. It is all institutional. Some of the perpetual debt can end up in retail hand because in the secondary it is getting straightened.
- Vikas:** Okay, so it is all listed and credits?
- Vellayan Subbiah:** It is listed and it was placed as private placement and subsequently it could have been rated.

- Vikas:** Last question on the capital fund so you have indicated that Rs.300 Crores are the forthcoming issuances coming from your side. I understand the timeline is not yet known, but in terms of the investors the question is basically the promoters would be holding their current stake holding in the company or there would be the dilution over there?
- Vellayan Subbiah:** The promoters will not be putting in additional funds so from that perspective there will be a dilution right but promoters are not going to be selling any of this because they do not subscribe proportionately there will be a dilution.
- Vikas:** Thank you very much Sir. That is it from my side.
- Moderator:** Thank you. The next question is from Anand Laddha from HDFC Mutual Fund. Please go ahead.
- Anand Laddha:** Sir could you just clarify in terms of how big you could be your Odisha exposure has that been fully recognized?
- Arul Selvan:** As far as Odisha has been fully recognized. Yes for the most part we do think it has flowed through to 180 days bucket and we think at this level it is beginning to stabilize. So that will be the quick answer for your question. Now obviously kind of if there is further deterioration at what happens in mining with that can affect that portfolio.
- Anand Laddha:** How big could be the exposure or how big is the mining exposure for us?
- Arul Selvan:** Basically it is the Odisha NPAs had gone up to almost 30% of that book.
- Vellayan Subbiah:** Basically the just for your sense the GNPA's on the Odisha book were at about Rs.43 Crores out of the gross assets were Rs.182 Crores but the balance of Rs.140 Crores remaining has continued to be performing and performing fairly well. So, we do not expect any kind of degradation in that performance. Just for you know also Anand the Odisha book is comprised of various product segments, there is heavy, there is light commercial vehicle, unique light commercial vehicle so on so forth and it is only the heavy that are the tippers that are really been affected by the mining slowdown. So do we think a lot more of our book can be exposed to it our current feeling at this point is no.
- Anand Laddha:** Sir second question is what sort of minimum tier 1 capital we would like to maintain all the time?
- Arul Selvan:** It depends now on what is happening on Usha Thorat. If it does come in then we will obviously kind of we will kind of use those norms as guidance for us in terms of how much

minimum will be maintained. In general what you see tier 1 plus tier 2 has been at about 18% is what we have.

Anand Laddha: Suppose in case if that comes into form of your current guidelines of 10% tier 1?

Arul Selvan: It should be maintained around 100 BPS beyond on the tier 1 side.

Anand Laddha: Sir, also of the total tier 1 this quarter how much could be perpetual tier 1 in that, and what could be the core tier 1?

Arul Selvan: Perpetual is 15% of the previous years network, which will be somewhere around Rs.212 Crores.

Anand Laddha: So what percentage it could be of the tier 1 capital in terms of like tier 1 is right now at 10% I believe?

Arul Selvan: Total tier 1 was around 13%% of the total tier 1.

Anand Laddha: Sir this tier 1 of 9.95% includes the nine-month profit or it is excluding that?

Arul Selvan: It includes.

Anand Laddha: That is from my side Sir. Thank you.

Moderator: Thank you. The next question is from Srinath Krishnan from Sundaram Mutual Fund. Please go ahead.

Srinath Krishnan: Congrats on a very good set of numbers. My query was on your net NPAs we have seen a sharp spike actually on the year-on-year basis and despite a very strong AUM growth even in percentage terms your net NPAs have gone up from 0.3% to 0.7%. I just wanted to know what kind of collection trends are you seeing especially towards the fourth quarter where lot of the collection intensity actually happens and what are you sensing in terms of the net NPA number by the end of the year?

Vellayan Subbiah: There are two fillers to that; kind of like we said there has been an increase in the vehicle finance business and then we have had one we have a couple of issues had come on from the loan against shares as well. Shares is really onetime event but if we did vehicle finance basically we have moved from about 0.3% to about 0.45% and last time when we were have 0.3%, we never said including our investor meetings was that we felt that it was at the low point of the cycle and we did not feel that we could sustain at such low level. So, we are

seeing a bit of a more of a move towards the norm and that is what we are effectively seeing over there and they moved to 0.46% and I do think that 0.46% level or perhaps even a base higher are to be expected over the cycle in vehicle finance. In terms of collections we are actually just beginning to see I would say a slight improvement definitely in the October timeframe we have to pay more visits to the customer on an average to basically to collect. But we are seeing a slight improvement in that norm right now.

Srinath Krishnan: Secondly in terms of product pricing what kind of competition are you seeing? Are you seeing new players also getting into the space primarily because the MHCV space does not seem to be growing and LCV profitability seems to be quite good? Are you seeing players were predominantly in the MHCV segments also get into the LCV segment?

Vellayan Subbiah: Kaushik do you want to take that you want to me to take it. Basically we are looking at overall pricing. Yes we are seeing new entrants jump in. Yes we will see pricing pressure because of that. I think one of the things we have always maintained in the past as well is that NIM calculations we basically assume about a 25 BPS leaning curve that we will lose every year because of increase competitive pressure in our segments. And we will see some of the pricing pressure come in. I will also say that we have seen a cycle in the past where basically in light commercial vehicles we see a lot of people jump in because things get bad in the M&HCV space but often it is not kind of a sustained entry into LCV. It is more than opportunistic jump in and often it is difficult for those players who come in and develop long-term relationships in the LCV space.

Srinath Krishnan: Thanks and all the best.

Moderator: Thank you. The next question is from Gurvinder Wasan from Principle Mutual Funds. Please go ahead.

Gurvinder Wasan: Most of my questions are already answered. One question Sir you seem be one of the few NBFCs who have two different rating from different rating agencies for long-term especially you do it for long-term rating from CRISIL as well?

Arul Selvan: CRISIL is not in the public domain. We have it in the private domain.

Gurvinder Wasan: Okay, so is there any chance or any probability in your view to get a single AA rating from all the rating agencies?

Arul Selvan: We are working on it. It will take some time; when the rating agencies are more worried about industry rather than the company's performance considering the volatility in the regulatory regime as well as the slower or a lower growth in the CV portfolio as a whole.

We have been talking to them and that seems to be a concern rather than the company's performance once they see a sustained performance from our end they will come out and they will come up out with their upgrade.

Gurvinder Wasan: Thank you.

Moderator: Thank you. The next question is from Nischint Chawathe from Kotak Securities. Please go ahead.

Nischint Chawathe: This pertains to the operating cost ratio and I believe that last quarter we discussed that the operating cost ratio should come down from around 3.6% odd levels to around 3% levels over the medium-term. In this quarter we see that the operating expenses have already improved quite significantly it is already down to around 3.4%. So I was just wondering whether it is something that just because it was the third quarter the volumes or the growth was very high this quarter the ratio has gone down so sharply or is it something that you will see the ratio just continuing to go down from your loan book.

Vellayan Subbiah: I would say that in the third and fourth quarters are obviously helped. I do not kind of majority of our assets in the third and fourth quarters but we are also beginning to see some evidence of the actions, which are starting to take, if you go back to Q3 of last year it was at 4.11%, and obviously we are seeing an improvement of 3.52%, right now. Year-to-date December that number is at 3.64%. Like I said we continue to maintain it is really a three year journey. The thing is that we do not expect kind of a radical drop in it but we do think we have to take a sustained effort to push it down for that three-year period.

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

Moderator: Thank you. The next question is from Ashwini Agarwal from Pioneer Mutual Fund. Please go ahead.

Ashwini Agarwal: Do you plan to enter into any new business segments?

Vellayan Subbiah: Like I articulated in the beginning, we have got into the home loan business. It is our intent to basically kind of grow that vertical. Right now we are targeting self-employed customers in the home loan business. So we not kind of going after the Standard, or HDFC kind of that and I do see that that vertical has offered enough opportunity for growth, and it is basically kind we just continued on the segment we talked about business finance and SME that business we basically been focused on launching and we are likely try adding a bit to that book in this current quarter, besides those businesses there is nothing else at this stage.

- Ashwini Agarwal:** And sir what is your total loan growth, which you are expecting for the system and for yourself for the FY'13 the remaining quarter and for the next year?
- Vellayan Subbiah:** We have not guided on the kind of loan growth predictions. Obviously as a sense all the numbers have done thus far and like you know the fourth quarter tends to be fairly good quarter for most NBFCs.
- Ashwini Agarwal:** I just asked this question because we have seen stress in the CVs across of the companies or whatever the companies have declared their results and most of them have toned down their expected loan growth so are you expecting the same?
- Vellayan Subbiah:** I think that question and I think perhaps Srinath from Sundaram asked the question in a very different way most of the people what they are seeing is stress in the medium and heavy commercial segment, which for us is a fairly small part of our mix and in the books that we are dealing we are not seeing any additional stress and the significant amount of additional stress crop up, if anything we are seeing the portfolio begin to improve a bit. Now some of that will obviously will depend upon the budget and how things kind of look going into the next year but we do not see that or we do not see any immediate need to kind of pullback significantly on growth on our book at this stage.
- Ashwini Agarwal:** Many people have touched upon your ALM so your assets, are you reprising faster than your liability so we expect your NIMs to go down from further?
- Vellayan Subbiah:** Your question is do we expect our NIMs to go down further. No, obviously we have got a fixed loan book. So if you take the difference of what you think is going to happen to the interest rates 70% of our book is fixed loan, which is our vehicle finance book and then in other 23% is variable, which is our home equity book, so obviously if interest rates drop a lot it benefits the fixed loan book. If the interest rate grows up a lot then it affects negatively our NIMs and the fixed loan book. So it depends on what you think is going to happen to interest rates.
- Ashwini Agarwal:** But your asset is reprising faster than falling interest scenario assets are reprising faster than your liabilities because you got to more inflows than outflows?
- Vellayan Subbiah:** The sanction limits are considered on both sides. I am confused with your question. Are you saying that there is a duration gap?
- Ashwini Agarwal:** That is it from my side.

Moderator: Thank you. The next question is from Praful Kumar from Birla SunLife Insurance. Please go ahead.

Praful Kumar: I just want to get a sense on your LTV ratios for the last two three quarters in your vehicle finance business? How they have moved?

Vellayan Subbiah: Our LTVs have stayed more or less constant in vehicle finance. Praful, we have not seen much of a movement there at all. Obviously our vehicle finance book is then broken down into new and then our used products, and in our used products, our LTV's tend to be more conservative than our new. So that mix also affects the overall LTV but each other segments the LTVs have stayed more or less the same. On the Tata Ace's and specific couple of companies especially one was that running a scheme where they were pushing the LTV a lot actually caused our Tata Ace volumes to drop because we did not push to those level.

Praful Kumar: So you think this kind of scenario since we are seeing a slowdown will hamper growth for the next three four quarters because industry is reeling under some pressure in terms of sales as well?

Vellayan Subbiah: Really it depends on what happens in a couple of segments, the two three segments are really being for us being light commercial vehicles, mini light commercial vehicles. The reason why we have been pushing more into the used product is to basically kind of diversify and therefore kind of reduce the impact of new vehicle production in the country taking a hit. That has begun to pay dividend already this year in terms of the mix. If you see this we have been able to grow at above market because of that. Now we have also successfully increased market share. I think Praful, when we started talking the first time, we had about 200 branches across the country or 250, we have significantly increased our geographic presence and then taken a fairly systematic process to how you develop relationships with dealers and started managing our relationship I think a lot more systematically that we had in the past and that kind of efforts have also helps us increase our market share and those two things in combination are helping us grow at a slightly above market rates. So now really it depends on whether lights and mini lights get hit very significantly next year and even in that scenario we have to continue our focus on new to offset some of their loans if it happens.

Praful Kumar: Thank you.

Moderator: The next question is from Kunal Agarwal from Franklin Templeton. Please go ahead.

- Kunal Agarwal:** Good afternoon everyone. My first question is about two asset classes, if you could give us some update on what is happening on the Shubh asset class? How much does it comprise of the vehicle finance segment and how has been the asset quality? Second is on the business loan segment. We see there has been a significant fall in the total AUM on the business loans so how do you see this going forward and if there has been any specific reason for this particular fall?
- Vellayan Subbiah:** Let me answer second one first and I will get into Shubh. In terms of business finance as you likely know Usha Thorat working committee has raised their liabilities and those assets to 150%, which will apply to us. So we basically have been degrowing that book and strategically kind of our intent is to continue to degrow that book because at least with 150% risk weighted coming in we do not see risk adequately being priced into assets and that asset class. So that as a strategy we will continue to kind of reduce overtime. Your second question on Shubh currently comprises about 13% of our overall assets in vehicle finance and the Shubh performance continues to be good and it continues to be very good and we see opportunity to improve the percentage overtime.
- Kunal Agarwal:** In terms of assets quality how are the Shubh assets performing?
- Vellayan Subbiah:** The assets are about 1.8% in terms of NPA in their asset class.
- Kunal Agarwal:** That is broadly in line with the other vehicle segment?
- Arul Selvan:** It is almost doubled, but it is compensated by a much higher yield.
- Kunal Agarwal:** In terms of the business loans do you see this portfolio-amortizing portfolio or you see it growing at a lesser pace.
- Vellayan Subbiah:** It is going to continue to decrease.
- Kunal Agarwal:** My other question is on capital adequacy ratio. I think in some form this question has been addressed. What I basically want to know is that from 18.1% what is the minimum capital adequacy you see going forward and of around 1800 Crore what is the composition how much is subordinate debt and how much is perpetual?
- Vellayan Subbiah:** Like we have said we basically intend to keep that at 18%, in terms of the perpetual subordinate debt Rs.700 is about Rs. 700 is perpetual and rest is subordinate debt.
- Kunal Agarwal:** On capital adequacy you said it will remain broadly at 18% and the split between tier 1 and tier 2 also are likely to be similar at 10 and 8?

Vellayan Subbiah: Yes, for now yes.

Kunal Agarwal: That is it from my side. Thank you.

Moderator: Thank you. The next question is from Chetan Thakkar from HSBC Invest. Please go ahead.

Chetan Thakkar: Thank you. Good afternoon Sir. I just had a question on the branch expansion front from a medium term perspective how many branches are we likely to add?

Vellayan Subbiah: I think basically if you look at it like Sriram Transport operates of about 750, so I think will slowdown our growth rate a bit but I do think over three to four years we should be hitting that 750 mark.

Chetan Thakkar: Sir what would be your sustainable cost to income ratio going forward from a medium term perspective?

Vellayan Subbiah: We showed it as a number and our focus was more on opex to average asset. That question was asked before. We are running at 3.64% year-to-date and we have given more a three year view on where we like to take it, but we are focused on kind of push that numbers down from 3.64%, how that kind of tears down over the next three years is really going to be the question.

Chetan Thakkar: Thank you so much.

Moderator: Thank you. As there are no further questions from the participants I now hand the conference over to Mr. Amey Sathe for closing comments.

Amey Sathe: On behalf of JM Financial I would like to thank Mr. Vellayan and other management team of Cholamandalam and all the participant for joining us for the call today. Thank you.

Moderator: Thank you very much. On behalf of JM Financial Institutional Securities Private Limited that concludes this conference call. Thank you for joining us. You may now disconnect your lines.