



“Cholamandalam Investment and Finance Company Limited Q3 Financial year 2015 Conference Call”

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Moderator: Ladies and Gentlemen, good day and welcome to the Cholamandalam Investment and Finance Q3 FY 2015 Results Conference Call, hosted by JM Financial. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Amey Sathe from JM Financial. Thank you. Over to you Mr. Amey!

Amey Sathe: Thanks Margreth. Good afternoon to everyone, welcome to Cholamandalam Investment and Finance Earnings call to discuss third quarter FY15 results. To discuss the results, we have on the call Mr. Vellayan Subbiah, Managing Director, Mr. Arul Selvan, Executive Vice President and CFO and Mr. Rohit Phadke, President Business & Business Head CF, Home Equity. May I request Mr. Vellayan to take us through the financial highlights, post which we can open the floor for question-and-answer! Over to you Sir!

Vellayan Subbiah: Amey thanks a lot for the intro. In terms of quarter 3 the company registered a 21% growth in PBT, PBT finished at 169 Crores against 140 Crores in Q3 of 2013-2014. Our PAT was at 111 Crores against 92 Crores in Q3 and that is also a growth of 21%.

The company disbursed 2290 Crores in vehicle finance as against 2587 Crores in the same quarter last year, we continue to be cautious on disbursement and we can discuss that more in the call and in home equity we disbursed 754 Crores as against 688 Crores in the comparable quarters. So at an aggregate level our disbursements were at 3082 versus 3036 in Q3 of 2013-2014.

Income was up 14% at 965 Crores compared to 844 Crores in the same quarter last year. There appears to be improvement in the CV segment though improvement is slower than expected. Our overall GNPA is at 2.8% and NNPA is at 1.5% on December 31, 2014 and we continue to maintain a cautious approach towards disbursement. As a result disbursement was lower by 11% as compared to the same quarter in the previous year in the vehicle finance business.

In terms of capital adequacy ratio the company is at 20.92% against the regulatory requirement of 15%. The board has also declared an interim dividend at, we have some CCPS compulsorily convertible preference shares and the shares of Rs.100 each and we have paid a dividend of 1% per annum and that is from the period from September 3, 2014 up to March 31, 2015 and equity shares at the rate of 25% which is 2.50 per equity share of Rs.10 each.

The subsidiaries made a PBT of 2.17 Crores in the quarter as against 0.91 Crores therefore the consolidated PAT is 113 Crores as against 93 Crores for a growth of 22%.

Amey that is my quick introduction, I will be happy to take questions from the audience.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Sanjay Shah from KSA Securities. Please go ahead.

Sanjay Shah: Sir can you throw elaborate on the statement saying cautious on disbursement in CV segment, so how do you see the CV segment going ahead and why you feel that cautious approach to be taken.

Vellayan Subbiah: See broadly what is happening is there is a pickup in heavy commercial vehicles they still continue to be a decline in light commercial vehicles and mini lights or small commercial vehicles. Now what we also see in, so the heavy commercial vehicles are largest takers this part have been the fleets, which is traditionally a segment we do not serve. What we saying cautious is that we are seeing in some situations patterns where people are broaching what have now become kind of acceptable LTV levels or kind of levels that which to lend, basically that is getting more aggressive than that. We are seeing finally we are bringing in kind of nonstarters and early defaults under control so we do not want to go crazy again and then kind of have performance drop again. The biggest reason for performance improvement in this quarter has been improvement in collections performance. So we want to keep of that momentum till our buckets kind of get back to more respectable sizes. So we do not want to allow potential disruptions from new disbursements, so basically kind of allow that kind of go back to the old state.

Sanjay Shah: So right now we are talking about shining India and government is aggressively talking about reforms and all and everybody guidelines is improvement in GDP growth and seeing traction ahead. So do not you think it will go cautious we may even lose some market share or you feel that it is comfortable than what you are taking.

Vellayan Subbiah: Sanjay fortunately or unfortunately we are good South Indian's at the end of it. So I think the way we look at it is they tried like you have seen if you take our five year track record when we have seen good opportunity we have gone out and captured it, but we do not, I think a certain level of prudence is also important from our perspective and the way we see this I have always articulated that kind of to us the lead indicator of performance improving is three months of improved collections performance. Now the last two months of the last quarter were improved collections performance. We would like to see that sustain, so we just want to see the more sustained behavior before we start kind of opening up the tap too much and so that is generally the approach we have taken and we will continue to take that approach, so we are also looking forward to India shining and we also want to shine with that, but I think that kind of a certain amount of prudence and conservatives from our side is also important.

Sanjay Shah: And sir how about home equity, how do you see that growing.

Rohit Phadke: See we have done pretty well, if you look at home equity performance year to date our PBT is up 29%, assets are up 25%, cost is down from 1.67% to 1.34% and we are pretty study on our credit cost. So I think going ahead also it will be a good quarter.

Sanjay Shah: So same momentum can we expect ahead.

Rohit Phadke: Momentum I do not know because we are not seeing any rate demand pull at the ground level since then until whatever shining that you talk about percolates to the ground the customers and we do not see enough demand growth, it will be a study quarter.

Sanjay Shah: Thank you. Thanks for answering my questions.

Moderator: Thank you. The next question is from the line of Umang Shah from CIMB. Please go ahead.

Umang Shah: Congratulations for a good set of numbers. I just had two questions one was on the margin front, so I understand that the cost of fund has kind of come of sequentially, but what would have led to improvement in yields in this quarter especially in the vehicle finance.

Vellayan Subbiah: Basically you are talking about when we report margins we show net income margins which basically include both are you talking about just yields or you talking about the full margins which will include both interest and fee. I think the quick answer to your question is that it is come from improved collections performance, which were basically now we are able to kind of collect more effectively from our existing customer base and that is call to the overall kind of interest income for us to go up from that existing base.

Umang Shah: So please correct me if I am wrong so probably the interest income that we have seen there could be some income on some of the NPAs which we would have collected and probably that is the reason why the yields appear to be slightly higher right.

Vellayan Subbiah: Yes.

Umang Shah: So the second part of the margin is the cost part and that has also kind of come up on a quarter-on-quarter basis so just wanted to know what would be your incremental cost of borrowing and how do you see the cost of fund shaping up over next two three quarters.

Vellayan Subbiah: It is like cost of borrowings we are maintaining, I am talking about the overall cost of borrowings, cost as a percentage of the borrowings have dropped to 8.8% from 9.1% on the overall book and 130 bps improvements in the borrowing cost.

Umang Shah: And incrementally your borrowing cost would be lower than that or...

Vellayan Subbiah: We expected to hold it at that level and I think with some of the banks showing some base rate reductions though not all of them have come up with that and we

expect if the base rate reductions happen we will also see some benefits on that front.

Umang Shah: Just a second question was related to the disbursements in the vehicle finance business I am sorry that is the home loans and the MSME business I just wanted to reconcile the numbers because probably based on the numbers which are there in the presentation I believe there is some mismatch in the numbers. So I just wanted to have the quarterly disbursements for home loans and the MSME segment.

Vellayan Subbiah: Home loans are 19.7 Crores, MSME 17.6 Crores.

Umang Shah: And just from a trend standpoint if we were to look at the home loan disbursement from whatever numbers we have seen in the first half there is a considerable amount of slowdown in that even on the MSME front there is a marginal kind of a decline on a quarter-on-quarter basis so any trending that we expect in these segments or any comments that you would like to make.

Vellayan Subbiah: Actually you see an increase now particularly on the home loan front you will see an increase in the disbursement.

Umang Shah: So one should not kind of extrapolate the numbers that we are seeing in this quarter is it, I mean the slowdown that we are seeing in the quarter one should not be extrapolating that.

Vellayan Subbiah: Correct.

Umang Shah: Okay alright fair point, thank you so much and all the best.

Moderator: Thank you. The next question is from the line of Rahul Bhangadia from Lucky Investment Managers. Please go ahead.

Rahul Bhangadia: My question was regarding now the diesel prices have kind of settle down at a particular level have all the benefits of the diesel cost being passed on to the consumers by the freight guys or have they kept on a little bit to themselves and has that kind of improve their financial situation just a broad sense of what is happening in the freight market.

Vellayan Subbiah: Definitely there is benefit for the stocking community, whether it is being passed on or not is very varied and it is totally driven by circumstance in some cases it is being passed on and some cases it is not but overall there is a definite benefit and we do see some of that in terms of customers having more free cash flow and therefore servicing their accounts better.

Rahul Bhangadia: So, if I could ask supplementary question of that questions. One is that on an average or in terms of whatever index you might hitting is how much has the freight rate gone down by that is one and second is the improved collection efficiency that you saw in this quarter will we see a further improvement in next two quarters if the diesel prices remain where they are and the profitability kind of improves or remains good.

Vellayan Subbiah: I do not have a definite advance and in terms of we have often talked about indexes and freight rate indexes now most indexes only tend to have heavy routes heavy commercial vehicle routes so we do not kind of have one index that can be work across the country per se if you ask me kind of what is the benefit and will the benefit be sustained I think there is about kind of a 3% to 4% swing or 3% to 4% increase in cash flows as a result of this for our vehicle finance customers. In terms of the second question I always think it is like the challenge that because you guys having that you have to project the future regarding what we are always with cautious of doing is projecting the future. General belief is that we should be able to sustain the momentum but it depends on what is the market going to do.

Rahul Bhangadia: Let me put it the other way the better collection performance in this quarter which is Q2 would you say it is a fair function or it is a reasonable function of the reduced diesel prices or of course it is also function of your own efforts but I am saying is it also a function part function of the lower diesel prices.

Vellayan Subbiah: We have always got a belief that it is more driven by your efforts and it is our belief that it is more driven by our efforts but yes the diesel prices are helping there is no doubt about that.

Rahul Bhangadia: Okay thank you very much for answering sir, thank you.

Moderator: Thank you. The next question is from the line of Sunil Kothari from Unique Investments. Please go ahead.

Sunil Kothari: Sir just, I wanted to congratulate you for this very, very well managed your downturn during last two, three years, what I am trying to understand is you have been conservative we are also benefited as a shareholder. So how well you have prepared for sudden upturn in the economy or maybe demand in terms of the technological development or whatever manpower fund availability over next two four years whenever demand picks up or maybe in a three or six months. So are we ready for this expected up cycle.

Vellayan Subbiah: We are ready for chasing as what you are asking us.

Sunil Kothari: So what we are doing, how we are preparing our self for this possible positive story.

Vellayan Subbiah: Sunil that is a very good question and I say the sort answer is yes, we ready the short answer is yes. We have been very focused to be rightly have use the opportunity of the down cycle to invest a lot more on the things that we think will yield us the benefit in up cycle, lot of it has been focused on operations improvement looking at actual kind of evaluation of risk how we can improve our models so for example what I was think that we started developing investing on the process of developing is a lot of technology that can be used that takes effective pricing of risk down to the per loan level and allows for that to be put in the hands of our frontend sales force or our frontend collection force and for example the home loan business from equity business we have been working a lot of models trying to understand the risk profiles are off specific, the predominantly business loans so we kind of going by business profile and understanding the economics of their businesses so we can lend into their segments better, but a lot of our work over the last two years and some of it continues it will take another six months to get fully implemented has been on developing a deeper understanding of risk in our business and developing technology to put that understanding in the hands of our frontend force which just and allows for a more empowered sales force to scale more effectively when there is an up cycle.

Sunil Kothari: Sir just my last question is the gross NPA absolute numbers you feel now should stabilize or any trend if you want to just say something.

Vellayan Subbiah: See basically and again I do not meant to doge the question now what I am saying is that we are much closer to peaks, whether we are aortic or not kind of depends

on how this quarter goes but obviously we are kind of closure to peaks and to trust kind of direction, I do not think we have to be a rocket standards to say that, but I do not want to give a more specific answer in that.

Sunil Kothari: Okay thank you Sir.

Moderator: Thank you. The next question is from the line of Sangameswar Iyer from Subhkam Ventures. Please go ahead.

Sangameswar Iyer: Sir just wanted to understand again the current scenario wherein we are cautious any reduction in the base rate how much would be we planning to retain and how much we would be planning to pass it onto the customers to get the demand back.

Vellayan Subbiah: See the answer different for both our businesses.

Sangameswar Iyer: Yes, so for the vehicle finance first.

Vellayan Subbiah: For vehicle finance in general we are able to kind of keep more in home equity we are able to keep less. Now you are asking how much is more, how much is less?

Sangameswar Iyer: Yes, how much.

Vellayan Subbiah: I am go by your moral, I think that is the terms number to give that I think as it directionally you have to think about it I am just say that we are in vehicle finance we are only kind of it, the marginal book is affected because it is a fixed rate loan, so home equity or the other situation where it is variable. So all you have on your book sticks. So till that runs of you have that benefit and transmission tends to be much, much more quick in the home equity business just because of the nature of competition in that business.

Sangameswar Iyer: Sir I am just new to this company just trying to understand a bit more. On the home equity front could you give me a breakup of the AUM between for individuals and for loan against properties et cetera the breakup of that.

Vellayan Subbiah: It is 100%, could you elaborate.

Sangameswar Iyer: For example when I am looking at your home equity the total AUM currently is around 6833 odd Crores so if you could break it up between how much of that

goes per se could be under loan against properties, how much could be under for individual buyers et cetera, home buyers et cetera.

Vellayan Subbiah: Entire thing is loan against property.

Sangameswar Iyer: Okay thank you Sir.

Moderator: Thank you. The next question is from the line of Sandeep Jain from Sundaram Mutual Fund. Please go ahead.

Sandeep Jain: Sir just a couple of questions. First your other Opex is now again in this quarter has also increased because of the high collection cost or not your other Opex is somewhere around 94 odd Crores which is slightly on a higher side if I look at the trend.

Vellayan Subbiah: Sandeep it's driven by higher collections cost as the collection scenario gets better that number will begin to come down.

Sandeep Jain: So if I look at that from the last two quarters our collection things are getting better so going ahead this cost would come down slightly is the assumption is right.

Vellayan Subbiah: Well I would say that right now you will have to hold with the same levels because we continue to have that level of collections intensity, but as the portfolio begin to improve that number will start running off so this quarter or will happen next year we cannot tell at this stage.

Sandeep Jain: What is your view on the total cost to income ratio how it will look somewhere around and by the end of FY16 and all? There is any guidance on that front.

Vellayan Subbiah: Again if you ask me, our guidance will be lower but you have how much lower is the question and I think how much lower will depend on what the environment, how quickly the environment improves we driver there obviously a kind of how much it cost has to collect, but we are working a fair but at the operational and efficiency as well so the sales productivity is the big driver there the markets pickup from the sales perspective and collections kind of get better as well obviously that number will come down significantly.

- Sandeep Jain:** Since you have mentioned that from the last two months the collection efficiencies are getting better and what can be the trend in the month of January I think it would be a better, no need to further so what kind of disbursement, see if I look at your explanation that you will see a three quarters of better collection efficiency months of better collection efficiency and all and just develop with the your disbursement growth and all this thing so it is a easy to assume that the disbursement growth would pickup in a FY15-16 probably, so next quarter can be seen a higher disbursement growth per se.
- Vellayan Subbiah:** It is like I said, if the collections improvement is sustain through this quarter the answer is yes.
- Sandeep Jain:** But you do not want to quantify further.
- Vellayan Subbiah:** I think it is a bit premature to let these things.
- Sandeep Jain:** Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Saravanan Viswanathan Unifi Capital. Please go ahead.
- Saravanan V:** Our capital adequacy ratio remains very comfortable at 20.92% so considering your business plans for the next two to three years, both in the vehicle finance and the home equity segment, where do you see the next round of fund raising happening and the second question the borrowing profile is now 58% in bank term loans and debentures were comes at only 20% do you see this mix at the current levels or would you be in the debenture market more than what you would borrow from the banks.
- Vellayan Subbiah:** We do not see any fund raising for the next foreseeable future 24 to 36 months we do not see any fund raising and your second question yes we do want to make move we will increase kind of our presence in the debenture market.
- Saravanan V:** But the fund raising you also meant the perpetual instruments or...
- Vellayan Subbiah:** Well we want to keep ourselves open I do not see any immediate needs to for perpetual but obviously we will use perpetual before we use equity.

- Saravanan V:** Thank you all the best.
- Moderator:** Thank you. The next question is from the line of Sameer Bhise from IDFC Securities. Please go ahead.
- Sameer Bhise:** Just a couple of questions one is the employee base seems to have gone up relatively sharply this time so just wanted some sense on that.
- Vellayan Subbiah:** Obviously kind of collections intensity has increased.
- Sameer Bhise:** So most of the hiring has been on that side.
- Vellayan Subbiah:** Yes, and it has been on the front end collections force it is on a frontend force more than kind of, it is a feet on street more than bulking up on management.
- Sameer Bhise:** And secondly the off balance sheet book seems to be running of so what is the outlook there going forward.
- Vellayan Subbiah:** Actually what happened this year is obviously there is slightly reduced demand for securitization because of the RBI saying, but we see that changing next year because then again the demand we see coming back, we might do one or two more transactions this year actually were in the middle of kind of discussions on one or two more transactions but we will like to keep it as at least at 20% number and next year we will see the opportunity gets to push it more than that we will push it more than that, but not too much more.
- Sameer Bhise:** And on the long-term are you guiding to a certain proportion of your loan book towards the MSME peace where disbursements have picked up over the last few quarters except for this one.
- Vellayan Subbiah:** Actually this entire home equity is running by the SME.
- Sameer Bhise:** Yes but the classification, in terms of classification.
- Vellayan Subbiah:** But I think your question broadly the answer is yes we do see both the home loan and the MSME segments as good growth segments for the company.
- Sameer Bhise:** Thank you Sir.

Moderator: Thank you. The next question is from the line of Dipen Sheth from HDFC Securities. Please go ahead.

Dipen Sheth: Just one quick question and I think it was partly in your answer to a question that somebody else asked but I would still be happy for a little more granularity or witness of information and that is, but I look at the standalone numbers and I see the other expenditure item of 86 Crores, that to my mind is disturbing for management of you clause especially when assets under management have gone up year-on-year by only 12% how come this particular cost item is up a solid 53% and obviously there are sub items under this and some of those sub items would have contributed disproportionately. So some insight there would be very useful.

Vellayan Subbiah: Yes, I am just trying to get to that number are you on the investor presentation.

Dipen Sheth: No I am on our PDF financial statement for the quarter has disclosed under the SEBI requirements. So this is the standalone financials and the other expenditure items. How much of it was driven by collection and that is what you had answered.

Vellayan Subbiah: It is driven by collections, we just want to get a, you are looking for more granularities I am going to see I can give you a breakdown of that number.

Dipen Sheth: So is collections the only big sub item which has moved there or is there other head spends.

Vellayan Subbiah: Predominantly collections.

Dipen Sheth: Because if you look at this particular cost ahead as we can say it as investors whatever other expenditure is composed of a year ago it was about a third of your total cost and today it is close to 44%, so it is moving out of VAC with the rest of your cost structure and that is what is worrying me.

Vellayan Subbiah: You are right, and I think just to give you a view, if I basically one way to look at it, is just our collections buckets are over 3.5 times whatever 18 months ago, so which means the number of NPA accounts we are collecting against a 3.5 times there. Now one classic kind of linear way of looking at it is we put in kind of 3.5 times the amount of effort you will definitely see that kind of a swing in cost to

income, but obviously there is an optimal point of effort that we are going to kind of put in for us we have increased significantly the intensity on the collections front, that as the cost to go up quite a bit but basically it is also a cost that is fully variable for us, so we can kind of bring it down in an environment where collections get better and we will.

Dipen Sheth: So that is very heartening. I repeat my understanding of this situation is that you are looking at it from a prospective of what is the raise in this cost ahead versus the NPA bucket or pool that we have and for investors we are looking at it in terms of what is it in relation to the overall AUM that you have in the company, because that is the view that we have. So may be what you suggested is a more genuine way of looking at this cost ahead.

Vellayan Subbiah: Absolutely see Dipen that was important for us from a business perspective I do not want to just keep it as a cost of AUM and not add pragmatically as it is required by the situation and I think that is the number down as the portfolio improves.

Dipen Sheth: So as pain in the portfolio reduces this should come off.

Vellayan Subbiah: Absolutely hundred percent.

Dipen Sheth: Because if the largest story with you as an investment idea is that as you scale up and now the tail winds in the macro economy are going to help you scale up it is not now over the next two quarters then surely over the next six quarters. So we will see a whole lot of these costs coming down disproportionately with respect to your AUMs which will be growing much faster than these costs. To my mind that is the reason to invest in your company.

Vellayan Subbiah: It is a denominator affect.

Dipen Sheth: So I hope this “*ache din of*” “*good days*” denominator or “*acha*” “*good*” denominator whatever it is works out soon enough?

Vellayan Subbiah: Do not worry everybody is got a year like the amount of the hope the two words if we had at one sentence is created for the nation has been amazing so I think like definitely the sentiments prove out we are headed in that direction.

- Dipen Sheth:** Thank you that is most heartening. Thanks.
- Moderator:** Thank you. The next question is from the line of Pradeep Agarwal from Phillip Capital. Please go ahead.
- Pradeep Agarwal:** My question is on the reposition side last quarter you booked a reposition loss of about 21 Crores so what has been the number this quarter?
- Vellayan Subbiah:** Today it has been you are saying for the OND quarter right?
- Pradeep Agarwal:** Yes, last quarter means September 2014 quarter it was 21 Crores which you mentioned in the conference call last time.
- Vellayan Subbiah:** We re-put more aggressively and we have got more vehicles in stock we have a stock position of I think about 2100 we have a total repo for the quarter Pradeep we will just get you that numbers.
- Pradeep Agarwal:** Okay, my second question is if you can give me the split of GNPA separately for vehicle finance and home equity.
- Vellayan Subbiah:** GNPA for vehicle finance is at 3.1% up from 2.95% and for home equities at 1.5%.
- Pradeep Agarwal:** And what was the number same quarter last year.
- Vellayan Subbiah:** Same quarter last year is 1.79 for vehicle and 1 for home equity.
- Pradeep Agarwal:** And if you can give some color on your customer overlap in terms of your product buckets like what proportion of your customers have vehicle finance as well as home equity or other product segments.
- Vellayan Subbiah:** Pradeep it is not meaningful I think we have less than 0.1% customer overlap.
- Pradeep Agarwal:** So if I am not wrong about 93% to 94% of your customer base was into vehicle finance.
- Vellayan Subbiah:** In terms of numbers yes and your previous question was on can you just repeat your previous question on repo.

- Pradeep Agarwal:** What was the repossession loss for the quarter, see last quarter it was 21 Crores which was about 38% of the overall dues you mentioned.
- Vellayan Subbiah:** Again, when the repo I just trying to think of do we report repo losses on the three buckets, so I am just think about where you got the 21 Crores number from.
- Pradeep Agarwal:** In your conference call last time you mentioned that repossession loss was about 21 Crores and that repossession as a percentage has come down to 38% from about 40% to 43% at the peak of the asset quality cycle.
- Vellayan Subbiah:** See the repo loss percent when we sell our vehicle we kind of think of where we get a comparable number for the 21 Crores.
- Pradeep Agarwal:** And it was 30 Crores in June quarter if I am not wrong.
- Vellayan Subbiah:** That number for this quarter the 21 Crores number for this quarter is 48 Crores. It will be much more aggressive on repo on the last quarter.
- Pradeep Agarwal:** And how would you classify does a percentage of overall due so what has been a number, in terms of percentage if you classify of the overall dues which was due on those accounts.
- Vellayan Subbiah:** Those accounts which have been repo since you are asking.
- Pradeep Agarwal:** Yes, the last quarter it was 38% so has that this has gone down or gone up.
- Vellayan Subbiah:** That is a loss paid on vehicles is currently at about 40%.
- Pradeep Agarwal:** So why there has been an increase in this number because has the prices of the vehicle in the secondhand market to gone down or how would you see that.
- Vellayan Subbiah:** Year-on-year effect also the year change, price was changed, there are prices in the secondhand market have gone down.
- Pradeep Agarwal:** Okay it has gone down further, because if I look at the prices of new vehicles that have kind of increased if I see kind of last quarter numbers.
- Vellayan Subbiah:** Secondhand vehicle prices have gone down.

- Pradeep Agarwal:** How do you see that panning out going forward is there any significant stress in particular pockets or is it the phenomena across India?
- Vellayan Subbiah:** The most stress is in the south followed by west, most stress is in light commercial vehicles and then mini light commercial vehicles.
- Pradeep Agarwal:** And if we have to kind of split this reposition pool into LCV and HCV how that breakup looks like.
- Vellayan Subbiah:** Actually that data I do not have it of the top of my head.
- Pradeep Agarwal:** Not, just a ballpark idea is it largely driven by HCV vehicles or LCV.
- Vellayan Subbiah:** More lights and mini lights.
- Pradeep Agarwal:** That is it from my side. Thank you.
- Moderator:** Thank you. The next question is from the line of Siddharth Purohit from Sushil Finance. Please go ahead.
- Siddharth Purohit:** Sir most of the question has been answered just one thing I wanted to understand sir as it is known like the yield on the used vehicle would be on a higher side compared to the fresh vehicle that you finance so when things are turning around and a lot of their freight operators tend to some people might tend to exit and sell up their CV. So would you be in a position of would you be interested to finance more of the used vehicles going ahead to improve yield and NIM instead or would you still maintain your stand on your financing the new vehicles.
- Vellayan Subbiah:** Broadly our stand has move more towards used and our vehicles so traditionally we use to be almost 80% new and 20% used, but that stand is change now where we started moving more towards used I think that trend will broadly continue.
- Siddharth Purohit:** So that percentage it would be fair to assume that percentage would be maintained and that ratio.
- Vellayan Subbiah:** That is right.
- Siddharth Purohit:** Okay thank you.

Moderator: Thank you. The next question is from the line of Umang Shah from CIMB. Please go ahead.

Umang Shah: I just have two questions one was on the asset quality that as we migrate from 180 day pass due to 90 day by FY18 could you just give some sense how our gross NPAs and our credit cost would look like.

Vellayan Subbiah: We have those numbers I think we should be able to give you a sense, we will get them to you in a second Umang do you have a second question.

Umang Shah: Yes, the related question to that was that in terms of the ROE improvement that we have been talking over a period of next three years, so where do you see our ROTAs from 1.8% or 1.9% levels currently to scale up to in next three years and what will drive the improvement basically.

Vellayan Subbiah: It is obviously it is a related question because if you go to higher levels of provisioning then that kind of pushes the ROTA down a bit. So obviously kind of what we can do what I can say is that our plans are to basically improve ROEs by about 20 bps a year that is in the study state scenario. Your second question was on how much the incremental impact would be of higher levels of provisioning, but that those numbers are obviously kind of dependent on the performance of the portfolio at the time, at the end of FY16, 2017, 2018, so the most conservative view well our issuance at a most conservative but a conservative view would be if the current portfolio stuck for those periods of time, which means that GNPA's are current level performs at current levels that would basically mean a incremental provisions of 40 Crores for next year, 50 Crores a year after that, that is basically what is the number would be.

Umang Shah: And obviously the incremental NPLs would be based on the new classifications.

Vellayan Subbiah: Yes, it is a new classification you will have 40 Crores more then you will have in the whole classification next year, 350 Crores a year after that.

Umang Shah: And just to reconfirm you have mentioned the ROA improvement of 20 basis points a year would be after factoring in this incremental cost.

- Vellayan Subbiah:** Your question is would the 20 basis points ROA be offset by this incremental cost the answer is yes but to a certain extent but obviously kind of our belief is that we should be able to improve the portfolio so we do not get it by this full cost.
- Umang Shah:** So would it be a fair assessment to make that over next three years despite all the incremental cost that we would have due to the change in regulation or ROTAs could be anything in the region of 2.5% or slightly higher than that by FY18 does that seem reasonable or is it a bit aggressive.
- Vellayan Subbiah:** Yes I believe that is reasonable obviously get off we need some help from Mr. Modi also.
- Umang Shah:** And just last question was in terms of the branch network for past four quarters we are more or less steady at closer to 570 odd branches and do we plan to add branches aggressively as we see recovery or how would that work.
- Vellayan Subbiah:** Umang our belief at this stage is that our density is pretty good do not think that we have a density problem what we do see the opportunity to do is kind of take a branch that is like a CAT-E branch for us now which is the lowest category branch and then move them up to change into our CAT-B and C and D branch that is the first point the second obviously like you know is that though the physical branch networks of vehicle finance in our expanding home equity and home loan are expanding, but they going into the same locations at vehicle finance such so you do not see a total increase in branch counts in aggregate.
- Umang Shah:** So today out of how many branches do we operate the home equity business.
- Vellayan Subbiah:** 78.
- Umang Shah:** Okay alright fair, thank you so much and all the best.
- Moderator:** Thank you. The next question is from the line of Manish Shukla from Deutsche Bank. Please go ahead.
- Manish Shukla:** Just going back to the question on repossessed vehicles typically what is the timeline between repossession and disposal of the vehicle.

Vellayan Subbiah: Manish we would like the timeline, typically the timeline that we are holding in inventory now is about 45 days like to see that compressed a bit for a 45 days.

Manish Shukla: I was just wanted to understand that as you rightly said that secondhand vehicle prices are under pressure for some time now and in such as environment here yet you continue to repossess at a faster phase and book losses do you expect that the prices will fall more or what is driving the higher phase of repo rating. Just trying to understand why repossess and book a loss when the market prices are low.

Vellayan Subbiah: That is a very good question. First is the map hence are being fairly complex in terms of what we look at but we look at a lot of data before we go out and touch a vehicle. The first is that over 50% of our repositions are coming from vehicles that are already in NPA so when I take a vehicle into NPA if it is a new vehicle at provision 25% for it if it is a used vehicle or an issued vehicle our provision is 40% for it. What happens is that when some of these vehicles are in NPA then these guys have not even paid us for the past like 5, 6, 7 in some cases eight months. The guys not paid us for eight months have got 40% as a vehicle provision then my best answer is directly kind of to take the vehicle back and sell it for whatever we can get because the changes of the guys not, especially the guys are not operating it, this truck is depreciating like crazy and what is even worse is that you are lucky we are just depreciating the guys probably kind of selling the tires selling kind of emerging that has any value in the truck as well. So at that point we are much better kind of touching the as it bringing it back and kind of selling it for whatever you can get for repo. So we actually have a fairly complex model that kind of tells us when we can go out and touch an asset, but that model is help and kind of suggest that we should be going out and picking up close to 10000 assets interim half of which we have about 2000 in stock we have been picking up about 1000 a month and keeping that stock study. Now the thing obviously is that of the 10000 a significant chunk of over 12 months old in which case that for old assets that are 100% prevailing already. So it is not like it creates more of a provision or a concern around that it is just looking at kind of what is the right thing to do with the particular asset at a point in its life cycle. Based on your ability to believe that you will get value from the assets there are only two ways we can get value as well the guys are repaying or you can get the asset back and sell it, even account has gone beyond 12 months then the probability of our guys

starting to repay for us is currently less than 4%, it is that point and I am better to try and pickup the asset and resell it.

Manish Shukla: So just to continue on that as you rightly said that the ability to repay is a very big factor and as you will have mentioned in your opening comments things are slower than what you would have expected and we are hearing the same feedback from most of the financiers and does that mean that this trend of repossession would probably continue for at least couple of quarters more given that the activity level on the grounds are still much lower.

Vellayan Subbiah: Yes.

Manish Shukla: So that is the fair assessment going ahead. Secondly on your vehicle finance book the provision for loan losses has been ranging at 1.8%, 1.9% now which is obviously higher than the recent historical levels do this start coming of anytime soon or it is still too early in the day to. I am not asking you to put a number to it I am just asking it.

Vellayan Subbiah: I think maybe I answer this slightly different which earlier which is I believe that we are close to peak you see what you do with this number like what you do with the NCL number affect the NPA number what you do with the NPA number affecting NCL number, that is why I say I go out and take a lot of losses by repoing a lot of inventory and selling it at a huge loss I can actually bring my NPAs down. So in a sense how we approach NCL is actually kind of based on the way we look at it is that like I said there is an asset that we think it is best to repo at a point in time we are better repoing it now because it is being out of the customers only going to cost it and depreciate and value more. So that cost is also take a slightly more aggressive view to NCL. Now hopefully what that should result in is the NPAs coming down quicker than others, but that is still needs to be kind of proven so that is a forward looking of future statement that kind of we have to see how that plays out, rather keep my NCL slightly elevated in an effort to bring down both NPA and therefore NCL down in the future other than kind of push for a lower NCL that might kind of prolong the pain in our books.

Manish Shukla: Then as you move towards the 90 day norm you intent to keep your NPL coverage levels at where they are today or you expect that to drip downwards.

- Vellayan Subbiah:** We will have to drip downwards, we will be crazy for anybody to keep it at this level and then be at 90 days.
- Manish Shukla:** Any number you want to put there in what range it could be.
- Vellayan Subbiah:** It is too early and most guys asking me over next year's planning you are asking me for four years down the line.
- Manish Shukla:** One last question from me, on the home equity portfolio how is the competitive intensity is the pressure to bring down asset yields, because more guys chasing this kind of asset.
- Vellayan Subbiah:** Competition is there many more people have entered this market that we are one of the early players so we have been able to kind of competition very well and hold afford so that is why you have seen the growth in our sales, the growth in PBT the downward spiral in cost so we have been on track.
- Manish Shukla:** So you are confident the margins you will be able to hold on to the margins in this business better in this margins.
- Vellayan Subbiah:** It is too early to tell but going by what we see it does seems study state.
- Manish Shukla:** Alright those are my questions, thank you.
- Moderator:** Thank you. The next question is from the line of Adesh Mehta from Ambit Capital. Please go ahead.
- Adesh Mehta:** Sir my questions have been answered. Thank you very much.
- Moderator:** Thank you. The next question is from the line of Nischint Chawathe from Kotak Securities. Please go ahead.
- Nischint Chawathe:** Hi and congratulations for a great set of numbers. Just trying to understand on the collections front is there any specific segment of asset class where you would have fair better which is why the collections are better this quarter.
- Vellayan Subbiah:** Actually what we have done Nischint is pretty much kind of our entire field force is how collecting now we have got kind of all sales, all credit, all collections kind

of collecting where we are seeing kind of improves is actually kind of there are few strategies that have yielded better collections for us another thing is that where we see we are basically started doing a lot of data segmentation so we started pushing on cases for example where we have high cost comfort and that segment is yielding good results. So these are basically can be anywhere from the third to the ninth buckets where you have high cost comfort especially third to sixth bucket where we have high cost comfort we are pushing on those cases and that is beginning to yield a lot of good results. Then the second is that we are seeing on the early buckets we have been doing a lot of calling and calling plus a field force, calling is basically generating more promise to pays and then kind of a following that our both field force visits predominantly for pick up and that is brining to see good results as well. And then the third is that lot of the legal works that we had started earlier that is beginning to generate some results as well which is also kind of helping on our portfolio. So those are the three kind of being helping a most.

Nischint Chawathe: But is there any asset class let's say HCV versus LCV which is reacting a little faster to these strategies.

Vellayan Subbiah: In term of asset clause HCV is beginning to react faster now.

Nischint Chawathe: And if you could give and second question is if you could give any color in the trend in slippages how was that last quarter versus this quarter.

Vellayan Subbiah: Talking about the in terms of collections the performance.

Nischint Chawathe: No, the slippages in NPLs, slippages into gross NPLs.

Vellayan Subbiah: You are saying what is move into gross NPL.

Nischint Chawathe: Yes.

Vellayan Subbiah: Your question on trend I am trying to understand what would be useful to under current trend. Are you asking what kinds of vehicles are moving now?

Nischint Chawathe: No the quantum out of any color as to how what is the proportion of loans which slipped this quarter versus last quarter.

- Vellayan Subbiah:** It is obviously right now we have 695 Crores in GNPA versus last quarter that number was 649 again company wise for vehicle finance basically we have an increase of 27 Crores and for home equity we have an increase of 17 Crores.
- Nischint Chawathe:** But this is the net increase which is essentially new accounts slipping into the NPL category minus recoveries.
- Vellayan Subbiah:** Yes.
- Nischint Chawathe:** But I am just looking at the gross number of accounts or the quantum of loans slipping into that category is there any notable change per se.
- Vellayan Subbiah:** That number immediately off hand but Nischint we will be happy to supply that number kind of I think, anyway you can reach us we will be happy to give you that numbers.
- Nischint Chawathe:** Sure, and on the repossessed prices any specific reasons why the repossessed prices of repossessed vehicles are down because this is something that all the financials are trying to kind of sell their stock or whatever that has resulted in that what repos to our vehicle prices.
- Vellayan Subbiah:** Nischint I think you answered the question now.
- Nischint Chawathe:** Okay thank you very much and all the best.
- Moderator:** Thank you. The next question is from the line of Jyoti Kumar from Spark Capital. Please go ahead.
- Jyoti Kumar:** Congratulations on good set of numbers, most of my questions have been answered. Just a couple of left one in disbursements that you disclosed in the data on looking it's like 24 in your presentation there are two Karnataka's one with 5% and other with 4% is there are different circuits that is operating or...
- Vellayan Subbiah:** You do not know about the new states.
- Jyoti Kumar:** No I am saying Karnataka.

Vellayan Subbiah: I know there is two Karnataka's here. So it is a mistake at our end. There are two Karnataka's that is the mistake, if holidays for it, we will get the revised chart loaded onto the website.

Jyoti Kumar: The other question that I had was how many E category branches that would we have now compared to the last year.

Vellayan Subbiah: At the branch categorization I think it is about 194, but we can get you that number.

Jyoti Kumar: Okay thanks a lot.

Moderator: Thank you. The next question is from the line of Saravanan Viswanathan from Unifi Capital. Please go ahead.

Saravanan V: Thanks for taking my follow up question, in the home equity MSME segment we considering or would we in the future consider any inorganic opportunity or we would like to grow the business only in the organic way.

Vellayan Subbiah: See as of now we always lapped on pure organic growth but we are not immune to for some inorganic growth should has good opportunity present itself.

Saravanan V: You are already having more than 6000 Crores in the segment so what kind of price would interest you and what kind of valuations would interest.

Vellayan Subbiah: If I would answer that question Saravanan here I am not sure that we would go out and buy another lapped portfolio, our interest would be more on the housing loan side and if the interesting housing loans portfolios come up then we might have an interest in buying that.

Saravanan V: Okay got it thank you.

Moderator: Thank you. The next question is from the line of Dipen Sheth from HDFC Securities. Please go ahead.

Dipen Sheth: I am going through relatively simpler page in your presentation which is #17 and wherein which there is a comment that about which sales that you apply to registering rates which are higher than the RBI stipulated rates and as at December

31, 2014 if you would have use the RBI provisioning norms or rates the provision would fall to 0.6% versus the 1.3% that you are getting right now.

Vellayan Subbiah: Yes.

Dipen Sheth: So my question is if it were to really fall to 0.6% versus the GNPA's of 2.8% you mean to tell me that RBI stipulates provisioning norms which would bring down your provision coverage to less than 25%.

Vellayan Subbiah: No it is fairly new as such.

Dipen Sheth: Okay that is because of the aging or whatever and to my mind that is also perhaps if you will pardon might saying this and unnecessarily optimistic way of interpreting this data because if I were really to apply RBI norms then I would also apply the 90 day norm and then look at what the 2.8 would go to. So my question is what would 2.8 become would you to apply 90 day recognition for NPAs.

Vellayan Subbiah: Well this is as of date.

Company Speaker: Yes there is debenture there are two things that one is the reason we were ask a state like this because on previous conference calls people wanted to understand what was the difference between RBI provisioning requirement and our level of provisioning that is why we state like this people understand the, if you are trying to compare ask to somebody else that is currently at 180 days and follows RBI to the team whatever they be at, now your number if you look at right now you are looking at a situation where 90 days is the highest we have never seen it so in that scenario obviously if you took 10% that number would be kind of would be kind of exaggerated significantly the second reason you cannot do that is because if we chose to do that then I would have to change everything in terms of how I collect so I think...

Vellayan Subbiah: You would run the business differently if that was the way in which you were to recognize NPAs.

Company Speaker: So that is why I am saying it is kind of it is a bit of a morphs number to discuss because till you at least not running the business with that objective the number in a chunk could be kind of a bit irrelevant.



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- Dipen Sheth:** And to my mind the NPA liver is a very, very significant liver especially as we move forward and you get like I said the macroeconomic tailwinds but I also would be grateful to understand how does the typical NPA lifecycle play out would you so in some cases you are repossessing vehicles and taking a hit and you sell them off what is the other option are there significant upgrades also which play out during the life cycle of an NPA.
- Vellayan Subbiah:** Yes, basically there is this rollback to us so anything I get from opening NPA that kind of comes back into understates rollback. And our data and on rollback between rollbacks and repos we are pushing almost 8% of the fixed return of bucket right now over the last couple...
- Dipen Sheth:** So offline of course we will attempt to connect with you and get this kind of more granular data o how NPAs are behaving over the last six, seven, eight, ten quarters and whether we can spot a trend there.
- Vellayan Subbiah:** Yes Dipen.
- Dipen Sheth:** That would be great thank you so much.
- Moderator:** Thank you. As there are no further questions I would now like to hand the floor over to Mr. Amey Sathe for closing comments.
- Amey Sathe:** Thanks a lot Margaret. On behalf of JM Financial, I would like to thank Mr. Vellayan as well as the management team of Cholamandalam and all participants for attending the call. Thanks a lot.
- Moderator:** Thank you. On behalf of JM Financial that concludes this conference. Thank you for joining us. You may now disconnect your lines.