



“Cholamandalam Investment & Finance Q3 FY16 Earnings Conference Call”

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MODERATOR: **MR. NISCHINT CHAWATHE – INSTITUTIONAL EQUITIES,
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Moderator: Ladies and Gentlemen, Good Morning, and Welcome to the Cholamandalam Investment and Finance Q3 FY16 Earnings Conference Call hosted by Kotak Institutional Equities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by entering '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Nischint Chawathe. Thank you and over to you, sir.

Nischint Chawathe: Hello everyone, welcome to Q3 FY16 Earnings Conference Call of Cholamandalam Investment and Finance Company to discuss the financial performance of Chola. And to address your queries we have with us Mr. Vellayan Subbiah – Managing Director, Mr. Arul Selvan – Executive President and CFO, Mr. Rohit Phadke – President and Business Head, CF, HE and HL, Mr. Ravindra Kundu – Senior Vice President and National Business Manager VF.

I would now like to hand over the call to Mr. Vellayan for his opening comments.

Vellayan Subbiah: Nischint, thanks a lot and good morning everybody. Just a quick overview of the highlights of the quarter. Our PAT for the quarter is at Rs. 146 crores, it is a growth of 31% over the same quarter last year and for the nine months period our PAT is at Rs. 376 crores which is a growth of 26% over the same period last year. Our disbursements for the quarter are at Rs. 4,260 crores which are 38% over the same quarter in the previous period and in this quarter our assets under management crossed 30,000 crores. We have seen a 17% growth in NIM during the quarter compared to the same quarter last year and GNPA on a four months' overdue basis marginally declined to 4.3% compared to 4.42% in September 2015. The company also declared an interim dividend of 25% which is about Rs.2.50 per equity share of CIF.

The couple of other things that we will just kind of talk through in terms of the market, vehicle finance we see good growth on the medium and heavy commercial vehicles front at about 25%. We have also seen pickup in LCVs which is actually quite frankly earlier than we predicted that it would come back, so we have seen 14% growth there, but the small commercial vehicles or the mini-lights, the TATA Ace's, that category continues to shrink, that has been down 6%.

On the HE side or the Home Equity side, SME cash flows continued to remain stressed, combined we are kind of expanding trade deficit, slowdown in exports and lower property and we are not seeing significantly cash flow come into the hands of SMEs. We are still waiting notification of the SARFAESI Act for NBFCs in that front.

Overall, disbursements like we said have been up and our NIM for the quarter was at 8.8 versus 8.2 for the same quarter last year. And the PBT ROTA has improved to 3.6% as against 3% in Q3 FY15, even after accounting for the early adoption. For the nine months' period ROTA was at 3.2%.

In the quarter we also made two investments, the Board approved a sum of Rs. 75 crores to the wholly owned subsidiary CDSL for setting up payment bank operation and Rs. 8 crores for taking a majority stake in White Data Systems which is a freight aggregator which we think will supplement our truck lending business.

The capital adequacy ratio for the company is at 20.1 against a regulatory requirement of 15% and the subsidiaries made PBT of Rs. 3.11 crores as against RS. 2.17 crores last year, so our consolidated PAT is at Rs. 148crores versus Rs. 113crores which is a growth of 31%.

So let me stop with that and I would be happy to turn it over for questions.

Moderator: Thank you. Ladies and Gentlemen, we will now begin the question-and-answer session. Our first question is from the line of Karthik Chellappa from Buena Vista Fund Management. Please go ahead.

Karthik Chellappa: Sir, a couple of questions, both pertaining to the vehicle finance portfolio. Can you give us a sense of which are the regions or the product where the NPL ratio is probably higher than your Group average and how are the collections tracking in these geographies? That is my question number one. And my second question is on our coverage ratio, at a consolidated level we are now at a coverage ratio of around 34% - 35%, what will this be for the vehicle finance business? And given the current resale prices and the macro environment, how would you assess the adequacy of this coverage ratio in the vehicle finance portfolio? Thank you very much.

Vellayan Subbiah: So let me just answer the question on coverage ratio and then Ravi Kundu will take the question that you had on regional NPA performance. 38.82% is the fourth bucket provision coverage ratio for vehicle finance, which is higher than the overall provision coverage ratio for the company which is at 35.92% at fourth bucket. Does that cover adequately for our losses in vehicle finance? Definitely, we have a fairly detailed tracking mechanism for that. And secondly, I think we had a discussion on the last quarterly conference call on provision ratio results, so the thing we wanted to kind of explain to you is that these are fairly deterministic once you set your policy in terms of how much cover you are going to provide. So as we go into a lower or lower buckets provision coverage ratio does end up coming down a bit and so that is really why this is happening. Let Ravi Kundu answer your question on NPA.

Ravindra Kundu: As far as regional performance with respect to the NPA is concerned, see as compared to the last year same period or last quarter, across the country there is an improvement in NPA. Obviously the region where NPA were high they are still high only, there are some states which are actually showing higher NPA but there is an improvement across the country whichever base they were actually in the last period. So region like UP, Kerala, West Bengal, central region like part of Vidharba, Madhya Pradesh, these are the regions that kind of were higher in NPA, but all are coming down. As far as product side is concerned, the small commercial vehicles like mini-LCVs we call it, product like Tata Ace or Maximo, those are

the products with sub-ton small commercial vehicles, those are not behaving that better as HCV is improving. But comparatively things are improving across all product lines.

Karthik Chellappa: Just one follow-up, if I look at our disbursement mix, the share of older vehicles and refinance is slightly higher than our overall portfolio. Can you give us a sense of the older vehicles portfolio, what is the nature of the vehicles that you are financing right now?

Ravindra Kundu: We actually focus on the vehicles which are five to 10 years old max, and the customers who are basically driver cum owner having residential stability in a town and having an experience of running the vehicle, so those customers taking the asset between five to 10 years old, mainly heavy commercial vehicle and light commercial vehicle or rather LCV and HCV which are 7.5 ton to 16.5 ton and then 25 ton TVW, those are the vehicle we are kind of focusing, these vehicles give direct income to the driver who manage the transportation on their own and sufficient cash flows comes because they are handling it and they are operating expense is comparatively low. So that is what something which we are focusing on.

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

Rahul Bhangadia: Sir, just a broad sense of if you could give us, you have given info from NPA side but is it fair to say that we are through with the worst as far as provisioning in absolute terms or in percentage terms is concerned or are we likely to see steady numbers as far as the provisioning is concerned?

Vellayan Subbiah: Yes, my belief is that we are at close to bottom.

Rahul Bhangadia: Sir this Q3 particularly saw your NIMs also get expanded and you got leverage on your expenses and provisioning, so the trend that you saw in Q3 you expected it to continue going ahead?

Vellayan Subbiah: Yes, so definitely we do see that obviously like you know January has seen a bit of volatility in the money market side, but broadly there is always a bit of a challenge running up to March on basically liquidity kind of gets affected like by overall market conditions. But coming into April we are more bullish, I mean in general I think as long as we have kind of intensified and continued to keep very intensive the effort on the collections front. So we are more bullish in terms of how things are going to be next year.

Rahul Bhangadia: And sir just one final question, last one or two years have been difficult and we have always mentioned that we have to take the expenses ratio down from the levels of 3.3%, 3.5% to below 3%, so does growth play a big part of it or are confident that in the next two years we can kind of take it below 3%?

Vellayan Subbiah: The expense ratio, yes growth definitely plays a part in it because traditionally we never started letting go off people. So we need growth and the productivity that comes with that growth to

basically drive expense ratios down. But we do believe that the growth is going to be there over the next two to three years.

Rahul Bhangadia: Any possibility of the expense ratio coming down because the NPAs are kind of stabilizing or going down, does that also incorporate kind of add up to the cost?

Vellayan Subbiah: The NPA is coming down, see obviously on the expense ratio side the biggest driver is whether we can reduce our collections cost and we have not basically got into, we do not have any intent to kind of significantly cut back on collections intensity in the near future or say over the next 12 months.

Rahul Bhangadia: So basically we are looking forward to growth in terms of leveraging our expenses basically?

Vellayan Subbiah: That is correct.

Vellayan Subbiah: Obviously there is still a strong productivity focus that will continue, but like we said if we get the productivity up and there is no growth then we may not get as much benefit from the productivity increases.

Moderator: Thank you. Our next question is from the line of Sunil Kothari from Unique Investment Consultants. Please go ahead.

Sunil Kothari: Sir just wanted to understand, as you last promised about this investment for payment bank and this new investment of data system, how this will be helpful over the next two, three years period, I mean what type of strategy and competition you see in terms of this payment banks? Broadly as an investor I would like to understand this investment and your strategy, whatever you can say.

Vellayan Subbiah: So on payments bank, obviously we see that as a significant opportunity for the country and for the company. Basically, from the company's perspective at a broad strategic level it gives us an opportunity to touch base with a lot more customers than we do in the NBFC today. We see levels of synergy with existing businesses in the Group but we also see a lot of opportunity and innovation in the payments bank itself. But it is still early days, you are asking how is it going to play out in the next two to three years? I do think that payments bank, to set up a new bank and kind of get it going itself takes a couple of years. So if you are asking we are going to be earnings accretive in the next two to three years, my answer would be no. But I think that if we do not focus on some of these new age opportunities that allow the company to be a bigger company in the future then we are not doing the right thing for investors either. So a lot of these initiatives whether it is a freight aggregator solution or whether it is payments bank, a much more focus on creating opportunities that are in the four to seven-year window for the company, but they are not going to generate short-term profitability, will not be earnings accretive in the next couple of years.

- Sunil Kothari:** But you feel that has to be done, I mean it is worth all this thing and good for always long-term future of the company?
- Vellayan Subbiah:** Absolutely Sunil and as you know we are also a large shareholder from the family perspective, so obviously if we did not think it was important for the long-term growth of the company we would not do it either.
- Moderator:** Thank you. Our next question is from the line of Shivkumar K from Purify Capital. Please go ahead.
- Shivkumar K:** Sir, can you just give us a sense of the home equity book, we have been running lower than historical run rate which we have seen in terms of disbursement and even growth in AUM, can you fairly give us some sense of how the loan book is growing, how the sector is behaving? Thank you.
- Rohit Phadke:** Disbursements have grown by 17% year-on-year and our asset growth is in line which is at about 24%, so we have always said that we will grow the book by about 20% to 25%, we are at about 8,400 crores now. So I think our asset growth is very much in line, we are just cautious on new disbursements that is why the growth is at about 17% and whenever we get this feeling the market is really good, we will definitely step up further....
- Shivkumar K:** And one more question on the NPA side, when I do a like-to-like comparison with Q2 and Q3, the six months' bucket has actually increased from 3.3%, of course overall there has actually been a decline in NPAs but this six months bucket has increased from 2.8 to 3.3, would you like to share your views on that, is there any clogging effect?
- Vellayan Subbiah:** See, there are two things and I will have to look into the data with a bit more detail on it, but one other thing that obviously happens is that collections team pay most attention to the bucket that is the current provisioning bucket, and so when that focus used to be on the 180 day a lot of that focus has now moved to the 120 day, and so that might have caused the 180 day to slip a bit but obviously I will take a look at the data to see if we can add any more color to that actual slip.
- Moderator:** Thank you. Our next question is from the line of Umang Shah from Emkay Global. Please go ahead.
- Umang Shah:** With regards to the vehicle finance portfolio, it appears that during the YTD period the repayment rate has gone up quite a bit, just wanted to check is that so, because I mean if you look at the quantum of disbursements that we are doing and if we look at the actual AUM growth, the AUM growth number seems to be lagging somewhere.
- Vellayan Subbiah:** So you are saying the runoffs?
- Umang Shah:** That is right.

- Vellayan Subbiah:** So the runoff is basically, obviously it is not just dependent this year, the runoff depends on the nature of the buildup of the book over the last three years.
- Umang Shah:** But even if I drag the repayment track record for past few quarters, I mean the numbers seem to be inching up.
- Vellayan Subbiah:** Yes.
- Umang Shah:** So just wanted to understand whether the tenures have gone shorter or has there been some kind of a change in the product offering that we are doing?
- Vellayan Subbiah:** There is no change in us, what is causing it is that the book built up significantly about three years ago.
- Umang Shah:** So higher growth then, so would it be fair to assume, so let's say for example if we see a very strong growth maybe in FY17, just hypothetically, we see a very higher run down probably two years hence then logically what you are saying?
- Vellayan Subbiah:** Obviously, you end up having a three-year lag on that, and obviously it is further exasperated by the fact that we took a very cautious view two years ago.
- Umang Shah:** The second question which I had was regarding the NPL classification, obviously we have seen very strong growth momentum and also the P&L momentum remains very strongly lead by a very sharp improvement in margins. So moving from 120 to 90 days past due NPL can we expect that you would migrate to that within this fiscal itself or you would do that in FY17?
- Vellayan Subbiah:** We do not want to comment on when we will move, we are already 18 months ahead of requirement.
- Umang Shah:** And just last question was relating to capital infusion into the subsidiary for payments bank, so we have already announced 75 crores, any other major capital infusion plans over next one year or so?
- Vellayan Subbiah:** So I would say obviously the payments bank we are developing a better understanding of how much capital the thing is actually going to take and when it will need it. But I would say that at the current time, beyond payments bank nothing of that order of magnitude.
- Moderator:** Thank you. Our next question is from the line of Adesh Mehta from Ambit Capital. Please go ahead.
- Adesh Mehta:** Sir, in terms of operating leverage just needed to know that how much growth do we need to do to see the operating efficiency kicking in in our vehicle financing business?

- Vellayan Subbiah:** In the vehicle finance business, obviously we have seen this 38% this year over comparable quarter last year, I would say anything above 22% to 25% will give us enough growth to start getting the operating expenses now.
- Adesh Mehta:** And sir in terms of used CVs, so sir how are we thinking in terms of market share, like where do we see ourselves in the broader scheme of things in the used CVs?
- Vellayan Subbiah:** So there is no effective market share data right, because nobody actually publishes any market share data, nor do we have any SIAM like data for used CVs. What we do know is that right now we are at about close to, basically we are about 20% to 25% of Sriram.
- Adesh Mehta:** Going forward, should we expect that to go up or remain where it is?
- Vellayan Subbiah:** Yes, we do think that that number will go up because we are seeing it to be a fairly effective product. Just to be clear, we do not see significant overlap in the Sriram and some of the Sriram segments but we are seeing a lot of opportunity for growth in that market, in the used market.
- Adesh Mehta:** So sir you mentioned we do not see significant overlap, so fir where are we differentiating ourselves then in this used CV?
- Vellayan Subbiah:** See, what is happening is that Sriram's strongest points have been the FTU and the FTB or the entrance level in the pyramid, there is a segment that is one segment above that which is people who have been in the business for a little while who are buying their second truck or have been in the business for a while for a longer period of time and we are seeing a lot of growth in that segment as well, and that is a segment that we have traditionally played in.
- Moderator:** Thank you. Our next question is from the line of Sanjay Shah from KSA Securities. Please go ahead.
- Sanjay Shah:** My question is again the same, repeat on the home equity, can you throw some more picture on that, how we would like to grow in that segment because our NIMs are coming down, PBT is coming down in that? And which are the focus area where we would like, as you said section B and C where we are focusing right now and what is the average ticket size of our loan disbursement in that?
- Rohit Phadke:** See, if you look at our yields, definitely as Vellayan mentioned that the yields are under pressure, but because of the reduction in cost of funds our NIMs are very good, our marginal NIM this year has been at about 3.8% which is pretty good. Then if you look at our growth also, our growth in disbursements is 17%, our growth in assets is 24%, so we have been able to hold the growth also. And as I said, that maybe today you know we are slightly cautious on disbursements but we definitely will step up disbursements when we are confident that the market is really, there is enough money in the market and then the cash flow problem we are

facing is resolved. But despite whatever the market conditions we will hold our growth in assets.

Sanjay Shah: So our focus is on self employed non-professionals, am I right?

Rohit Phadke: Yes, our focus has always been on self employed non-professionals, that will continue, our average ticket size as you wanted to know is about 50 lakhs.

Sanjay Shah: And tenure average?

Rohit Phadke: Tenure is 10 years.

Sanjay Shah: And how about SMEs, how do you see that segment?

Rohit Phadke: See, if you go the world over SMEs contribute about 55% to 60% of GDP in any developed country, for us those numbers are very-very low, so there is a huge opportunity, there is a very big market and we definitely see business growing both in terms of top-line numbers as well as in gross stability numbers.

Sanjay Shah: Do you plan any big foray into this SME segment that is LAP basis?

Rohit Phadke: We are already in LAP, we have the book that we are referring to is against property book, we are nine years into this business and we have 1,400 crores portfolio, we are in about 80 locations across the country. So definitely we have been expanding and we will continue to expand.

Moderator: Thank you. Our next question is from the line of Jayesh Parikh from JMP Advisors. Please go ahead.

Jayesh Parikh: I just wanted to know whether do we have any exposure to SME mortgage category of loans?

Vellayan Subbiah: No, we have very limited exposure on the SME mortgage side.

Jayesh Parikh: In terms of value?

Vellayan Subbiah: Value, unless we take our housing loans book which would have some, so value will be under 100 crores.

Jayesh Parikh: And in your revenue account you use word provisions and loans per say, apart from provision does this include any complete write-off for non-recovery?

Arul Selvan: You are talking about vehicle finance or home equity?

- Jayesh Parikh:** No, I am talking about overall provision in profit and loss account where we use word provision and losses.
- Arul Selvan:** I will explain that, wherever we have repossessed a vehicle in vehicle finance and sold it in the market and if there is a differential in the pricing that is recognized as losses, and also there could be some cases where there are waivers when a borrower comes for settlement and if there are waivers these are booked as losses, rest are provision.
- Jayesh Parikh:** And what is our exposure to two-wheelers and three wheeler funding and do you see any better growth in the coming years?
- Vellayan Subbiah:** So two wheeler has started growing if you see the SIAM data in the last five years, it has started showing good growth. But we have just started two wheeler, in this year only we started and we are cautiously kind of testing the market which market which products are good for us and we want to maintain the delinquency also much lower. So we are not just going for the number but definitely we will test it this year and then we will have the strategy. As far as the sales is concerned, two wheeler sales is growing, it is growing month-after-month and we see that there is opportunity.
- Jayesh Parikh:** And you think that in next three years we can cross our asset under management to around 50,000 crores?
- Vellayan Subbiah:** I think basically we have not given any forward-looking guidance like that, broadly we have given you numbers on what we think asset growth, I mean broadly kind of overall, we have said about 20% to 22% asset growth on average over the cycle and obviously kind of growth points in the cycle the number will be greater and other points in cycle that number will be smaller.
- Jayesh Parikh:** But do you think that are we moving in that direction?
- Vellayan Subbiah:** If you ask me if we are using, our AUM up or down, definitely the direction is up.
- Moderator:** Thank you. Our next question is from the line of Nidhesh Jain from Investech. Please go ahead.
- Nidhesh Jain:** My question is on incremental yields especially in the PV segment, how are the trends there and just wanted to understand the sustainability of the net interest margin expansion that we have seen in the last one year.
- Ravindra Kundu:** See, overall vehicle finance is a mix of light commercial vehicle, heavy commercial vehicle, used and even we do car a little bit in this. So used side we are increasing the disbursement so there is a product mix which is actually improving the yield and therefore the overall yield has gone up as compared to the same time last year. We see that if we can increase as MD said that we have opportunity to grow in used business. So there is an opportunity to further increase the

yield in the used side by mixing more from the used. But heavy commercial vehicle, light commercial vehicle if we grow in the same pace it may actually equalize. So what we are saying is that we will try to maintain this kind of yield what we are actually having as of now and therefore our NIM also we expect to have at the same level.

Nidhesh Jain: But on like-to-like basis how are the trends on yields, for example if we take heavy commercial vehicle as a segment, on YoY basis what is the trend on the yields?

Vellayan Subbiah: Yes, on the new vehicles it has slightly dropped a bit but as Ravi was saying we are trying to compensate that with improving the Shubh and high yield like tractors and used vehicles.

Vellayan Subbiah: So new vehicles has gone from 14.5 on average to 14.3, that is about 0.2% drop.

Nidhesh Jain: And secondly, can you share the breakup of net interest income and P&L interest or recovery from the previous provided portfolio?

Vellayan Subbiah: We do not have a split out like that, nor do we kind of introduce to shareholders that level of detail.

Nidhesh Jain: Just wanted to understand how this NIM is sustainable over next couple of years, whether we are getting some one-off kind of income from the previous portfolio in terms of P&L interest or...?

Vellayan Subbiah: NIMs are broadly sustainable at these levels, see if you can look at the swing, traditionally it has been between 7.7 and 8.7, so you can basically take an average over that, for modeling purposes you can take an average over that.

Moderator: Thank you. Our next question is from the line of Pradip Agarwal from Phillip Capital. Please go ahead.

Pradip Agarwal: Within vehicle finance if you can give some sense as to which are the segments which are driving the utilization levels in that space?

Ravindra Kundu: So the heavy commercial vehicle if you see that for the last 18 months it is actually growing, I am talking about the sales. So obviously people started with replacing the vehicle, the large fleet operators. So the replacement of large fleet operator actually driven by the requirement of the new vehicle, the latest vehicle, latest technology vehicle and then after that even a small road transporter which are SRT one to five vehicle customer also started adding their fleet. So the fleet utilization has improved a lot and lot of transport companies who have actually recently started their business are associated with the ecommerce business where demand of delivery has come down, I mean they want goods to be delivered within three to four days. So therefore the utilization level also vehicle they are actually deploying, it has gone up significantly. But at the same time what I see that the freight rates are actually not going up but then the diesel prices have come down. So put together the cash flow of the transporter has

improved in terms of heavy commercial vehicle and LCV which is a traditional 4.7 type of vehicle which is 4 ton to 7.5 ton vehicle, that also we see that from this quarter it will improve because the Rabi crops will start coming into the market and therefore those way utilization of the vehicle will also go up.

Pradip Agarwal: Secondly on the home equity side, you have made a remark in the beginning that SMEs cash flows remain stressed, but despite that we have grown our disbursements by 17% this quarter and even sequential growth is pretty decent, so does this not contradictory that despite cautious environment we are growing at 17%, I mean how do I read that?

Rohit Phadke: See, we could have grown much faster, we have grown at 17%, we could have grown at 20%, 25% but because the market is very large and we also have a huge base of existing customers we are able to do a good penetration in the market and choose good customers, but despite that we are just at 17% instead of being at maybe 20%, 25%, so that is how we look at it.

Pradip Agarwal: So are we putting in extra filters to chose these customers, any sense on that?

Rohit Phadke: Yes, definitely.

Pradip Agarwal: And thirdly on the GNP side, if you can provide the breakup of vehicle finance GNP and home equity?

Vellayan Subbiah: I think we did give you the vehicle number, but anyway, so vehicle is at 4.74%, home equity is 3.52%.

Pradip Agarwal: And what was it previous quarter, if you have that number.

Vellayan Subbiah: 5.05% for vehicle and 3.25% for home equity.

Moderator: Thank you. Our next question is from the line of Parag Jariwala from Religare Securities. Please go ahead.

Parag Jariwala: My question is that we are not increasing our branches probably since last four quarters, so at 534 branches do you think at what level we can take our vehicle AUM before we start?

Vellayan Subbiah: That is a good question, obviously we did not increase in the last four quarters because we were not comfortable with the growth, now we are getting comfortable that we are beginning to see opportunity coming back into the market, so this year we will increase our branch structure likely by at least about 100 this year.

Parag Jariwala: And can you give us, when your branch is matured what kind of business generally it can take purely on vehicle side?

Vellayan Subbiah: You are saying how much can a branch disburse?

- Parag Jariwala:** Yes, exactly.
- Vellayan Subbiah:** We break our branches down in five categories, A, B, C, D, E, obviously our branch in Tier-I city can disperse much more than a branch in a Tier-IV city, so we have five categories of branches and Ravi, I do know if you want to add anything more to that.
- Ravindra Kundu:** So in terms of volume, actually the lowest volume what we expect from any branch within 18 months since starting, the branch would do at least 1 crores per month, 12 crores per month disbursement and then the biggest branch which is basically in the metro city, those guys are actually kind of adding 60 crores per annum, so that is what is the top to bottom, in between there are three four category.
- Moderator:** Thank you. Our next question is from the line of Umang Shah from Emkay Global. Please go ahead.
- Umang Shah:** I just wanted one clarification on our data point, in your opening remarks you mentioned that your AUMs have crossed 30,000 crores and presentation mentions AUMs at 28,000 crores, what explains the difference?
- Arul Selvan:** So that is balance sheet assets, the rest are securitized.
- Umang Shah:** But the AUM also includes around 3000 crores of off balance sheet assets?
- Arul Selvan:** This includes the other balance sheet assets also.
- Moderator:** Thank you. Our next question is from the line of Mihir Ajmera from Enam Holdings. Please go ahead.
- Mihir Ajmera:** Just wanted your view on MHCV growth, do you expect the replacement demand to come down in the coming months or is there some structural trend that you are seeing in the demand pickup? And also, is growth across geographies or in select regions?
- Ravindra Kundu:** So heavy commercial vehicle growth in Q3 sales growth has come down over Q2, so it is now 24% as against the 35% which was there in Q2, overall sales growth I am talking about but in general this growth is across and the drop is also across. The Q2 higher growth was driven by the regulatory norm which actually applied by and then manufacturer actually tries to push the old vehicle at a discounted price, but this 24% sales growth is going to be there for some more time and it is going to be supported by the mining activity and road development which is great to actually speed up. So till such time we see that the growth will be stable.
- Mihir Ajmera:** So any feedback on the activity that you are seeing in certain, as you mentioned like mining and other road side related activity and also do you see there is a geographical mix, like growth is seen in certain geographies only or something like that?

- Ravindra Kundu:** No, growth is there across, we can see that AP Vijayawada hub, then Salem-Sankagiri-Namakkal hub, then Indore hub, I mean across, even Ludhiana Punjab side, Rajasthan side, everywhere there is activity going on and the truck sales are supported by those traditional hub as per the HCV is concerned. So there is no specific sign of one market is only picking up and other market is not. But traditionally like eastern side like West Bengal or North East, the HCV sales have not been very good, like for example in Kerala heavy commercial vehicle sales was not there in the past so today also it is not there. So there is no difference in behavior as far as the market is concerned, every market has a different dynamic and therefore the HCV sales of that market **improve** with respect to whatever history is.
- Moderator:** Thank you. Our next question is from the line of Amit Premchandani from UTI Mutual Fund. Please go ahead.
- Amit Premchandani:** I just had a question on the overall rural distress, can you give some comments on how deep is the rural slowdown and also when do you see any pickup in the tractor segment, you were also surprised by the LCV pickup so can we expect similar surprise on the tractor front?
- Vellayan Subbiah:** The point of surprise is that here you don't expect it and then it shows up, so obviously on the tractor front we are not expecting anything, so if it does show up and we get surprised we will let you know. The other side on the rural side, broadly we have to see, I mean it really depends, rural is kind of a bit of a mix story because there are areas in the west where rural has gotten hit but there are other markets where rural has not gotten hit. So I do not think that the uniform will slow down across the country and when it will pick back up again is not really something that we can predict. So it is just like when we see it slowing down we just get cautious and when we get more comfortable with the growth then we start opening up again. So I do not know if that gives you a good answer, it is not a uniform slowdown across the country.
- Amit Premchandani:** And sir on the tractor front, sometime the base of it kind of plays out, so are you seeing that kind of base effect playing out at least in the near-term, not a real growth but generally we call the base effect.
- Ravindra Kundu:** So tractor sales is now seeing three quarter continuously drop and even now the drop has actually come down, it is to be 20% - 25%, now it has come down to say 2% drop. So therefore the base went down, from that level we can see little bit stability or rather little bit growth, all depends on how Rabi will come out and then the next Kharif in the month of say August, September or November, after that only we can see whether the tractor sales is going to pick up or not, but definitely actually if we see that the level is actually the same level the agricultural development is not going on further, you can see that the tractor sales will be at the same level.

- Amit Premchandani:** And sir finally, how do you see if at all government comes out with the scrapping of vehicle policy in terms of overall demand for the segment that you operate in, both used as well as new CVs?
- Vellayan Subbiah:** That is a good thing for us.
- Amit Premchandani:** So even in the used segment it will be better but our understanding to some extent is that because you have to scrap it after 15 years the used vehicle prices go down because of that, or is it incorrect understanding?
- Ravindra Kundu:** Vehicle prices will go up actually because then demand goes up, demand of the vehicle which is new or the below 10 year vehicle, those vehicle will be on demand, there will be huge chunk of vehicle from 10+ to 15 get scrapped.
- Amit Premchandani:** So there is cascading effect of that scrapping in the 10 and below year vehicle?
- Ravindra Kundu:** All depends on government when they are going to decide, but whichever market they have done, for example Delhi, NCR or north, everywhere the sales have gone up, sales of new vehicle have gone up, the vehicle which we used to repurchase and used to keep it in the yard for 60 to 90 days, we can now actually dispose it off faster because there is a customer.
- Amit Premchandani:** So you are saying that basically used vehicle prices have started moving up, has had positive effect on that and reposition losses go down because of that?
- Ravindra Kundu:** Yes.
- Moderator:** Thank you. Our next question is from the line of Prakriti Banka from DHFL Pramerica Mutual Fund. Please go ahead.
- Prakriti Banka:** I just had two questions with respect to home equity, one is, what percentage of home equity loans are now being sourced through DSA and if there are any geographic trends that could be highlighted in the segment with respect to growth, stress or any other such aspect?
- Ravindra Kundu:** The distress that is sourced from DSAs and DSPs if you take numerically in numbers, it is 50%, so 50% is what we generate from our own in-house sales team.
- Prakriti Banka:** And in terms of, are you moving this higher lower or it is being stable at these levels now?
- Ravindra Kundu:** See, we intend to move this more towards our in-house team rather than the DSAs, so it is our continuous endeavor to ensure that we have a larger in-house team, we train them properly and we ensure that move this business to the in-house teams.
- Prakriti Banka:** And with respect to geographic trends or in the home equity business where are you seeing growth or stress, particular states or any region or anything of that sort?

- Rohit Phadke:** See, if you look at our geography, I mean the geography that this business generally in SMEs alone against property follows, business is high in places where GDP is high, so our country's GDP is more in the NCR region, so obviously it is slightly more there. So as far as stress is concerned, NPAs are concerned, we also see NPAs in NCR, otherwise rest we do not see great NPAs at all.
- Prakriti Banka:** NCR would be about what percentage right now of home equity for us?
- Rohit Phadke:** NCR would be about on the asset side it will be about 20% or so.
- Prakriti Banka:** And this is the only region where you are seeing some NPA stress, I mean is that more related to I mean apart from economic activity also to the real-estate price scenario there?
- Rohit Phadke:** No, see it is not related to real-estate prices because here in the loan against property book we are primarily funding a property that is within the city, inside the city. Also if you look at our stats, our average LTE is just about 50% and that too at origination. So we do not see anything on that part.
- Moderator:** Thank you. Our next question is from the line of Sunil Kothari from Unique Investment Consultants. Please go ahead.
- Sunil Kothari:** Sir one business origination outsourcing expenses are going up, disbursement to top-line, so just to understand how that is moving.
- Arul Selvan:** The origination expenses are linked to the disbursement because we charge off the entire origination cost on disbursement, the top-line will be a factor of asset book, earlier we spoke that asset is running off because of the previous three years of higher disbursements.
- Sunil Kothari:** So origination is a percentage of disbursement or...
- Arul Selvan:** it has remained stable as it was.
- Sunil Kothari:** And sir, second thing is, you said basically in any growth cycle we aspire to grow at between 20% to 22% something and during last three years we grew asset under management around 16%, so what I understood is right that our aim is always to cross 20% plus growth.
- Vellayan Subbiah:** Like I said, over the cycle we will average 20% to 22%, so the last three years have obviously been up and down in that.
- Sunil Kothari:** And sir this cycle you count what, six to seven years?
- Vellayan Subbiah:** Obviously the cycles vary, I mean if you take historically India has kind of seen two what we call V shape cycles where it drops very quick and grows very quickly and the last two, I mean

it has been a V then a U then a V then a U. Now we are in a U, so now we do not know whether the next one is going to be a V or a U, if you know tell me.

Moderator: Thank you. Our next question is from the line of Adesh Mehta from Ambit Capital. Please go ahead.

Adesh Mehta: Sir you indicated that you would be increasing your number of branches to around 100 branches this year, so sir putting that in to perspective how do we see our operating cost panning out going forward?

Vellayan Subbiah: That is a great question, so obviously the answer to that also depends on how much growth we can get. But just so you know, we keep both CAPEX and OPEX on new branches very small when we open them, so the average cost CAPEX per branch is at 10 lakhs and the average OPEX when the branches start running are in the range of about 7 lakhs a month.

Adesh Mehta: Including salaries?

Vellayan Subbiah: Yes, including salaries. So basically...

Adesh Mehta: The average cost should be around 1 crores per annum?

Vellayan Subbiah: Yes, so basically yes, like we said for the 100 the CAPEX required is only 10 crores.

Adesh Mehta: So let's say around 10 crores, but then your hit to the P&L could be around say something like around 70 crores?

Vellayan Subbiah: No, no, 7 lakhs per annum and not per month.

Moderator: Thank you. Our next question is from the line of Alok Shah from Centrum Broking. Please go ahead.

Alok Shah: I kind of joined in a bit late, so a couple of questions maybe repetitive. I would like to get your sense on this three wheeler and small commercial vehicles segment like you talked about tractor where we will probably wait for coming data to get a sense on growth, how are you looking at this pocket one, in terms of growth and two, in terms of asset quality? Is that getting improved?

Ravindra Kundu: So three wheeler and the sub-1 ton vehicle which is actually we call it mini LCV put together small commercial vehicles for us, as far as SIAMs sale report is concerned, if you see that there has been 10% drop in the sales, so same period last year. And coming down for last 18 months or last 18 months it has been coming down and the overall sales has come down to half of it what it was actually. The small commercial vehicles sales or utilization of the fleet is mainly depending on the rural development or the last mile transportation, last mile transportation is also depending on the agricultural growth. So all these things are linked and

tractor is also similarly linked with that. So tractor and last mile transportation if we think improves you can say that India has started growing, it is in the growth path which we actually are depending on one, that is the nature and second, how consumption goes up. It has come down, the drop has come down, it used to be 25% drop, it has come down to 10% drop as far as small commercial vehicles is concerned and traffic also used to come down at the rate of 10% QonQ which has come last quarter. So it is tapering down so therefore we can expect that it will get stabled down in the next two to three quarters.

Alok Shah: And I probably missed out on your comments on LCV, you have been saying for about last two three years YoY growth from SIAM, do we see FY17 to kind of end up with 0% to 5% growth?

Ravindra Kundu: So in LCV also there are three segments, one that is the traditional 4.7 type of vehicle, 4.5 ton and then you have ICV which is 7.5 ton to 12.5 ton. The ICV segment was doing better actually even in the Q2 and Q1 since it is mixed with the traditional LCV the sales were down, also is a part of the LCV only which is 2.5 tons to 4.5 tons. So there has been a stable growth in this 2.5 ton to 4.5 ton vehicle and the 7.5 ton to 12.5 ton, the issue was with 4.5 ton to 7.5 ton and which is basically deployed into the transportation of agricultural growth in both city which has started improving and therefore we have seen there has been a growth of 10% over the same period last year. And with the further improvement in agricultural growth it will further improve, ICV and pick-ups are doing well.

Moderator: Thank you. Ladies and Gentlemen, that was the last question. I would now like to hand the conference over to Mr. Nischint Chawathe for closing comments.

Nischint Chawathe: Thank you very much for joining us today, special thanks to the management of Cholamandalam for letting us host this call. Thank you very much.

Moderator: Thank you. Ladies and Gentlemen, on the behalf of Kotak Institutional Equities this concludes this conference. Thank you for joining us and you may now disconnect your lines.