"Cholamandalam Investment and Finance Company Limited Q3 FY'19 Earnings Conference Call"

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MODERATOR: **MR. NISCHINT CHAWATHE – KOTAK SECURITIES LIMITED**

Moderator: Good morning, ladies and gentlemen, welcome to the Cholamandalam Investment and Finance Company Limited Q3 FY'19 Earnings Conference Call hosted by Kotak Securities Limited. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nischint Chawathe from Kotak Securities. Thank you and over to you, sir.

Nischint Chawathe: Thank you. Hello, everyone and welcome to the 3Q FY'19 Earnings Conference Call for Cholamandalam Investment and Finance Company Limited. To discuss the financial performance of Chola and to address your queries, we have with us today Mr. Arun Alagappan -- Executive Director; Mr. Arul Selvan -- Executive Vice President and CFO, Mr. Ravindra Kundu -- President and Business Head, Vehicle Finance; Mr. Rohit Phadke -- President and Business Head, Housing Finance and Mr. Rupinder Singh -- Senior Vice President and Business Head, Home Equity. I would now like to hand over the call to Arun for his opening comments.

Arun Alagappan: Good morning, friends. I have great pleasure in presenting you the Q3 and YTD December performance of our company for the financial year FY'19. At the outset, I am happy to state that the company ended the year with its highest ever quarterly disbursements and profits in Q3 and YTD. The company continued to register a great performance in all critical parameters, which is disbursement growth PBT, ROTA, ROE and asset quality in its drive to meet and surpass stakeholders expectations. The financial performance reported will be in IndAS along with its year-on-year comparison over the last year. The company's performance Q3 and YTD performance, aggregate disbursement for the period ended December '18 were at Rs.21,558 crores as against Rs.17,106 crores in the same period in the previous year, registering a growth of 26%. The disbursements of the quarter-ended December '18 were at Rs.7,644 crores as against Rs.6,761 crores in Q3 of FY'18, registering growth of 13%. PBT for the period ended December '18 was at Rs.1,362 crores as against Rs.972 crores last year, registering a growth of 40% and PBT for the quarter was at Rs.464 crores as against Rs.338 crores in Q3 FY18, registering a growth of 37%.

Business assets under management grew by 29% at Rs.50,393 crores compared to Rs.39,005 crores in Q3 FY18. Assets under management including investment grew by 32% from Rs.39,985 crores to Rs.52, 868 crores. PAT grew 41% and was at Rs.894 crores for the period ended December '18. For Q3, the PAT stood at Rs.304 crores registering a growth of 39%. The PBT-ROTA for YTD in FY19 improved to 3.8% as against 3.5% in YTD December of FY18. This improvement in ROTA can be attributed to do drivers in reduction in expected trade loss by HE and HL verticals and reduction in operating cost for the VF vertical. ROE moved up to 21.43% as of December '18 against 18.34% in December '17. We operate 891 branches across 27 states and union territories, six new branches have been added in Q3 and we continue our drive to expand our geographical presence this year.

Reduction in non-performing assets under IndAS, stage-III assets at the end of December 2018 was at Rs.1,639 crores as compared to Rs.1,668 crores as on December 2017, a reduction of Rs.29 crores. Stage-III percentage to total gross assets improved to 3.3% in December 2018 from 4.3% in December 2017. Coverage ratio for stage-3 improved to 36.9% as of December 2018 from 35.85% in December 2017.

We will also present the GNPA position as per iGAAP. The GNPA as end of Q3 FY19 declined to 2.7% compared to 3.7% at the end of Q3 FY18, in absolute terms, the GNPA as of December '18 were at Rs.1,375 crores as compared to Rs.1,467 crores as on December 2017, reduction of Rs.92 crores. Provision coverage ratio improved to 45.2% in Q3FY19 as compared to 36.8% in Q3FY18.

Vehicle Finance delivered spectacular performance with an all-round improvement in disbursements, asset growth and profits. The Vehicle Finance business grew by 27% in terms of disbursement and 35% in terms of PBT year-on-year. The business recorded PBT of Rs.915 crores as against Rs.679 crores last year. Despite drop in NIM level, the company has been able to maintain ROA at 3.5% levels.

Home Equity: The Home Equity grew disbursements by 18% and PBT by 59% year-on-year. The business recorded a PBT of Rs.221 crores for the period ended December '18 compared to Rs.139 crores last year. Higher recoveries in NPA supported in the growth of the company, has been able to improve the ROA levels to over 2.75% for the period-ended December '18 as against 1.9% last year. Recoveries continue to be good, leveraging third-party and this quarter also the division recorded higher recoveries than the charge on loan losses.

The capital adequacy ratio at the end of Q3 FY19 was comfortable at 17.83%, tier-1 being 13.09%. The ALM position in spite of the pressure in the market on account of certain defaults payments by other entities, our ALM position remain comfortable throughout Q3. We continue to keep higher liquid cash position to avert any tightness in money market. Thanks to Chola and Murugappa Group reputation, we did not have to have any constraints in accessing funds and we expect the situation to continue in the future also.

We expect the growth to continue riding on the BS-VI pre-buying implementation, so we expect the growth to continue there. On the HL front we will be growing and moving into a new company which is Cholamandalam Home Finance and the home equity will continue to grow with all the problems there out of the way.

With this, we would be happy to answer your any questions and my colleagues and I are available to do so.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Digant Haria from Antique Stock Broking. Please go ahead.

Digant Haria: My question was on these entire margins and OPEX trade-off. So, is it because the last nine months when MHCVs were doing very well, that is a slight increase in MHCV portfolio, has resulted in maybe lower margin but that will eventually show in terms of lower OPEX in the coming quarters also?

Ravindra Kundu: You are right. What has happened is over the past four quarters our heavy commercial vehicles volumes have been on the higher side, except for Q3 which is the current quarter wherein the industry also has dropped heavy volumes and we have also dropped on the heavy volumes. So, this as we spoke earlier also will result in lower OPEX and lower NCL, but the NIM will look slightly lower because the yield on the portfolio is lesser. But we have been shifting now more towards the high yield products because one end heavies have come down as the industry growth slowed down, so our growth in light and other segments which are of higher yield has moved up. So you will see this progressively the yields picking up and may be to some extent OPEX may also go up, but overall ROTA will be maintained and improved as we consciously keep our focus on ROTA.

Digant Haria: Sir, second question is what is the incremental yield and the incremental borrowing? Incremental yield mainly on the entire CV portfolio and the incremental borrowing cost at the entire company level?

Arul Selvan: We have increased the yields even within the sub-products almost by around 40 to 50 basis points depending on various sub-products in the vehicle finance portfolio, but that is on the marginal disbursements, while the borrowing cost has actually been increased when you get reset of bank term loans where there is annual reset coming in on some of the earlier loans. So we do have little bit of higher hit on the borrowing cost. But the good part is on the home equity portfolio, we were able to take up the yield on the total portfolio because it is a floating rate book. This week we have done in December of Q3, while we did one in August and one now in December, so December increase is the higher compared to August and so we expect a better result on the home equity portfolio yield improving in the coming quarters. Of course as I said earlier the vehicle finance portfolio mix change as well as the rate increases will also help in taking up the yield in the vehicle finance portfolio.

Digant Haria: This 40-50 bps yield like and your mix change will probably result in maybe a slightly higher overall yield on the new portfolio, right, the old portfolio will take its own time?

Arul Selvan: That is what we are working on. We are also working on various other avenues to keep the cost of funds down.

Digant Haria: Last data point question is, what will be the quantum of one-time income from assignment this quarter?

Arul Selvan: We have around Rs.30 crores assignment income in this quarter.

Moderator: Thank you. The next question is from the line of Jignesh Shial from Emkay Global. Please go ahead.

Jignesh Shial: Just had a quick question on this vehicle finance growth. So overall disbursement numbers growth of around 11% sort of a number if I compare it Q3-to-Q3 FY'19. How much was it because of the overall industry slowdown or also it has impacted because of the liquidity crunch as such, any particular portfolio that you have slowed down or this is more of an industry thing?

Arul Selvan: Primarily, the industry slowdown. Actually, we personally in Chola, we did not have any liquidity crunch, at the branch level teams does not even know that there is constraint on liquidity, so we had mentioned that funds are available. What we are doing is we are doing conscious selection on the credit side. The growth per se is primarily because of the industry slowdown. If you see the industry also assuming to be lower because last year third quarter was a big number for the industry and for us.

Jignesh Shial: So, any ballpark number that what kind of growth you will be seeing for full year FY'19 and for the next year, any estimate?

Arul Selvan: Overall asset growth we have been saying that for the full year we will retain 25%, I think we stick to that stand. It may be in the same range of around 10% to 12% on the vehicle finance, but overall growth should be in the range of around 25%. You have to also take into cognizance that last year Q3 and Q4 were extremely good quarters because these quarters were resultant of the pent-up demand on account of the lowest loan in Q2 of last year.

Jignesh Shial: When you are saying that you will be getting it to the high yield segments, so any further clarity over this which areas you are planning to get into when you say high margin or better yield segments in coming quarters?

Ravindra Kundu: We have all the products in our market, used we have tractor, we have two-wheeler, we have three-wheeler, we have small commercial vehicle, all are high yield products. So what we are saying is that since heavy commercial vehicle is actually de-growing and it is not also good to fund HCV more because the yield in HCV is lower. It is better to reduce the HCV funding automatically towards the high and our yield will go off and our overall growth will be coming towards more from these products which are giving higher yield. We have all the products. It is not that we are venturing in the new products.

Jignesh Shial: Lastly, data keeping question, what was the total securitization as well as assignment you did for this Q3?

Arul Selvan: Total securitization we did Rs.1,300 crores, of which assignment is around Rs.750 crores.

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

Umang Shah: On the Home Equity front, clearly some of our competitors, private banks, NBFCs have kind of sounded a word of caution. However, I wanted to understand what are our thoughts based on our portfolio which is clearly in this business we have slowed down quite a bit, I mean, past 12-18-months growth has been fairly slow, we are recovering from NPLs. How do we see this book kind of growing over next 12-18-months and what would be our target NPL ratio in this particular business?

Rupinder Singh: Actually for this financially you can see in the result, there is a growth of 13% compared to the last year-on-year and we want to be bit selective wise choosing the customer as of now because of dearth in market of financial, most of the HFC, NBFC, they are not able to fund, we are getting lot of proposals in market but we are bit choosy about it. We feel that we will be able to maintain the same growth of between 12% to 15% in couple of quarters. Our focus is still in reduction on the MCL piece and reduction of GNPA which is the prime focus. So, this year if you can see among the results, there is a lot of resolution which has happened because of SARFAESI as well as the other actions which we have taken to recover the money. So that is obviously prime focus. On the business side, definitely we are looking for, there is a lot of business opportunity which is at market because of this frivolous player which are moving out now. So it is an opportunity, but we will be cautiously funding it. So credit will be always in the top priority, so we expect 12% to 15% growth.

Umang Shah: My next question is to Mr. Alagappan or Arul. If I look past 5-7-years clearly, we have had cycles where our Home Equity business did well and when Home Equity slowed down, clearly the CV cycle was at play and our Vehicle Finance business did extremely well. It appears that probably in the near-to-medium-term, clearly the vehicle finance business might see some sort of slowdown. Where do you think our hurdle rates in terms of growth at the combined portfolio level? So assuming that, we keep on shifting between 75:25 or 70:30 between Home Equity and Vehicle, what is the bare minimum growth rate at the portfolio level we think we can maintain and what would be our bare minimum ROTA levels that we would aspire to sustain?

Arun Alagappan: On the growth, I think we should be able to stick to about 20%. So that is something that the combined portfolio you should see about 20% is what I feel. As far as ROTA is concerned, 3.9 to about 4% is what I would think.

Ravindra Kundu: One thing I want to add. You can see that every time when cycle comes down in terms of vehicle finance, we have also gone through a problem in terms of portfolio quality, but touchwood at this time our portfolio quality is maintained, any portfolio cycle is going down, then still there is opportunity capability by the vehicle finance to continue to grow better than the industry, and at the same time home equity is also coming back. So together we can do better first time.

Arul Selvan: Also to add, the home equity actually was suffering because assets were not growing because lot of balance transfer is happening because of this frivolous players coming, burrowing short and lending long at very ridiculous rates. Now there were stopped to a great extent and we were able to not only take up the rates on the book but even our marginal yield has improved almost by 100 bps and balance transfers have come down drastically. If you see last two years the book has not grown in spite of disbursement happening, it is primarily because there was erosion on account of balance transfer. We see that being more stable and yielding better yield. So I think in the coming years we will see better NIM levels on the home equity. Also, the NPA resolutions have started happening, in the second quarter in continuation that we are having positive credit loss as being in the sense we are having reversals coming through. That is also adding to the bottom line.

Moderator: Thank you. The next question from the line of Nidhesh Jain from Investec. Please go ahead.

Nidhesh Jain: On the home equity, we have seen your ROTA level improving quite well over a period of time from 2% to around 3%. Do you see further improvement in ROTA in home equity?

Rupinder Singh: What we are doing is we are focused on the NIM side now and fortunately since most of the players are away from market, route is clear, so we do not feel much of the competition happening around. Secondly, on the other side, NPL resolution is happening quarter-on-quarter. So there is a definitely scope of improvement and what we see that in couple of quarters there will be improvement in ROTA also from the current level of 2.75% to maybe up to the 3%.

Nidhesh Jain: In terms of growth, as we are entering more of our vehicle finance branches over a period of time, do you not think 15% growth is sort of on the lower side, we should be aiming on a higher side in terms of growth in home equity? And a similar question on the housing finance. What are the plans on housing finance in terms of using the existing branch network of vehicle finance and what are the ROTA level we are expecting in housing finance?

Rupinder Singh: When you talk about growth, we cautiously are controlling to go to the level of 13% to 15% and the purpose is we are improving much more on the credit side and this is only helpful, and other side our book is the foreclosure are not happening the way it was happening in the two quarters back. So that is even consistent robust growth, that is the focus around.

Rohit Phadke: You asked about housing finance. We have currently 115 active branches, actually we opened 145 branches, and by the end of next year I think we will be in 200 branches. The idea definitely is to use the existing branch network of vehicle finance; however, as you know that the company is growing, all the businesses are growing and we might have to in some locations have separate branches or relocate our existing branch. Definitely, the idea does stay that we will use our existing branch network. On the ROTA front it is early days, we just started, we will you have to yet get into the HFC, we have to get a license, and I think we will stick to our home loan standard industry, ROTA loans of about 2%, that is what we will aim for, but ROE is slightly higher than.

Nidhesh Jain: Any color on the segment wise asset quality in home equity, vehicle finance and housing finance?

Arul Selvan: Normally we do not share segmental profitability. I think we restrict at business level.

Moderator: Thank you. The next question is from the line of Sunil Tirumalai from Credit Suisse. Please go ahead.

Sunil Tirumalai: If I remember right, the September quarter there were no assignments done and hence no upfront gains, is it correct?

Arul Selvan: In September quarter, you are right. In the first quarter we had an assignment and in the third quarter.

Sunil Tirumalai: If I adjust for the Rs.30 crores gain that you mentioned and we seem to have had 25-30 basis points QoQ drop in NIM, is it correct?

Arul Selvan: Yes, you are right in a way. That is again because of the temporary cost of funds increase, etc., What is happening is if you recall we had almost like Rs.5,000 crores cash in hand to be kept as reserves because of the liquidity crunch. So that has taken a little bit of the higher hit on the cost of funds. Normally we used to have 1/5 of that as investment in hand. So throughout the third quarter we had almost like 4,000 to 5,000 crores of cash kept in liquid fund or MFD which has earned very poor returns, that is taken away, almost 30 to 40 crores. If you take 4% difference in my burrowing cost and the yield I am getting on FD, so that is just like 40 crores hit. So that is when incrementally we had to absolve and over the period, we will be stabilizing this and we will see some amount of correction happening here.

Sunil Tirumalai: So, if I could get your use on both, how long do you expect as a strategy to keep the excess liquidity on your balance sheet, and secondly, on assignment what is the target in terms of, are you looking at it as opportunistically or is there a target on percentage of your book being off and between securitization and assignment, how should we look at it going forward?

Arul Selvan: Both securitization and assignment we do it when it is for priority sector and that is a significant yield benefit arising out of it. We still have not crossed the target we have kept for this year, which is around Rs.4,000 crores of assignment or securitization to be done during this year which is what we will work towards, but if it gives me a considerable cost benefit from a rising perspective, we will do it. We have not done assignment or securitization purely for any liquidity concern or at rates which are not acceptable to us.

Sunil Tirumalai: So, what is the spread you typically get on securitization or assignment?

Arul Selvan: We get almost like 100 to 150 basis points differentials. My borrowing cost will be lower if the discounting rate will be lesser by 100 to 150 basis points.

Moderator: Thank you. The next question is from the line of Abhishek Murarka from India Infoline. Please go ahead.

Abhishek Murarka: Sir, can you share a few details about the recovery, how much you have recovered and what is the write-back in the HE and what quantum of assets still remain under SARFAESI, what kind of recovery you are expecting in the next couple of quarters, so just some update on that front?

Rupinder Singh: Look, SARFAESI started around one-and-a-half to two years back and the results start getting delivered from the second quarter itself. And when we talk about, there is two ways basically -- One is the position of property and selling in market, and the Second is when you initiate this process most of the customers they come forward and try to settle the loan. So, if you are giving the details there is almost 85 to 90 crores of resolution which happened in last eight to nine months and out of this 85 to 90 crores of resolution 75 to 76 crores of resolution happened by just initiating the process because there are two levels 13/2, as per the law. So when we initiate that process most of the customers crack down at those levels, remaining cases which is around Rs.8 to 10 crores where we have to reprocess in market which we are able to do. So reasons behind it because most of the time LTVs are in control, that is that talks about the portfolio quality, LTVs in control. So people feel that there is always better to settle the account and sell the market when they are not able to pay back. So almost 85 to 90 which have been recovered and going forward this quarter we are positive that the spread is going to continue and next year again we understand there is a good resolution which is in pipeline.

Abhishek Murarka: In the second quarter, I think your resolution was about Rs.50 crores. So, basically by inference about Rs.35-40 crores came through in this quarter, is that right?

Rupinder Singh: It was 35-40 crores in both the quarters.

Arul Selvan: Actually the Rs.50 crores what you are referring to for the first half. We had around 58 to 60 cases in first half accounting to Rs.150 crores. This quarter we have done 36 resolutions to the extent of around Rs.30 crores.

Abhishek Murarka: In your home equity, considering maybe you will have another two quarters or so of recoveries from the SARFAESI action. But o a more normalized basis, once the credit cost start normalizing, your ROTA would go down and that would also normalize. So I just wanted to understand when you said you want to increase your ROTA from 2.75 to 3, it was you were just talking about the quarters where you are seeing recovery or the more normalized basis?

Arul Selvan: The question was about coming quarter, so I was talking about that quarter, but in general trend what we are focusing on we are entering into tier-3, tier-4 market where this product always get a high ROTA. So we will livid the branches which we already are there and that way OPEX is very well in control, and on basis of that we feel that NIMs are generally high in those markets, the ROTA will be maintained to 2.6, 2.7, which should be generally trend and focus for us.

Moderator: Thank you. The next question is from the line of Amit Rane from Quantum Securities. Please go ahead.

Amit Rane: For this quarter, how much is our incremental cost of funds?

Arul Selvan: On the asset, it is around 0.3%, it is 30 basis points, actually on burrowing it has not gone up because it is almost flat that is because as I told earlier we had to take a higher borrowing to keep the cash in hand, but as a percentage of borrowing which is almost flat, but as a percentage of assets, because if you add to the assets and these are earning only 4% or 4.5% on the FD, so there is the cost involved on it.

Amit Rane: So going forward, with redeploying this excess liquidity, we can see some benefit?

Arul Selvan: We have to see. Everyday there is news which does not seem to let the things settle. So we have to keep higher liquidity for some more time before things are settled down.

Amit Rane: Sir, on the yield front, we are seeing flat yield. So, have we taken any increases on the pricing?

Arul Selvan: We spoke earlier when we answered on another question on the yield, we are changing the mix because one end HCV industry volume itself has come down and they are moving to other products, and we have also taken up the price, but this price increases on the new book, so only when they mix of the new books becomes larger in overall book we will see the implication of the higher yield coming through on the total yield. So it may take a quarter in the vehicle finance to see this; however, in the home equity we see it more immediate because we were able to take upon the total book, the yield has been taken up by around 50 basis points.

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

Nischint Chawathe: Just one or two questions: Arun, you mentioned that you are looking at overall loan growth of around 20% for next year and the growth rate in the home equity business would be around 12, 15% or so. So does it really mean that vehicle finance would grow by around 23, 25% next year and is this kind of more of the BS-VI prebuying or is it that the high yield focus will continue and in that case what it really means for margins?

Arun Alagappan: Definitively, what we are expecting is we expect the HE business to grow by about 15%. We are looking and definitely because of the BS-VI which is coming in April 2020, we definitively see some buying. So that is why we are looking at pre-buying which will happen, so we are looking at over 20% growth in the business and that is why you can see 75% in the book anyway and the average growth will be about 20%.

Arul Selvan: Currently, we expect FY21 will be a slow year because lot of pre-buying will happen in FY20 because of the BS-VI, so ‘21 can be a little bit of slower, but actually we would not want to go too much into the forward-looking statement, there are too many variable parts, elections are around the corner, results of election, monsoon, so many things play on the volume. So it is more like a very broad this thing.

Nischint Chawathe: No, that is fair. If you are doing more of CVs towards the next couple of months, then does it mean that again you could see some pressure on margins because again that is kind of sort of relatively low yield segment?

Ravindra Kundu: That is the reason if you see that we have been increasing our yield and our marginal yield has already raised to 15% plus. So that means what you know book will also start increasing. So prebuying will happen for all HCV, LCV, small commercial vehicles, altogether and we will continue to maintain our market share in HCV and also do better job in light commercial vehicles as we have been doing it, but at the same time what we are going to do, we have started doing it from Q3 itself to focus more on the high, we will continue and therefore the product mix and the yield for the overall business when the pre-buying happened and therefore we are able to maintain NIM and we have been focusing ROTA more. If you move towards the HCV, OPEX comes down, NPL comes down, ROTA is maintained. If you move towards the high yield product, then OPEX slightly goes up and there is a possibility that slightly NPL will go up, but still ROTA is maintained. So we have been doing that and maintaining our growth. What we are saying is that next financial year we are quite confident that there will be pre-buying happening in Q3 and Q4. Since the Q1 and Q2 for this financial year was very high and next year our Q1 and Q2 pre-buying will not happen and therefore Q1 and Q2 will start with slow disbursement, but then we will make it up in Q3 and Q4 and therefore we are quite confident of next financial year as well.

Nischint Chawathe: You have done quite well as far as expense reduction is concerned and I think that was one of the strategies that you highlighted or articulated in the beginning of the year. Do you think that you can continue this in the next financial year as well?

Ravindra Kundu: That is the biggest task actually Arul has given to me and even Arun is driving the OPEX to go down, every day they talk actually. We have been working on to increase the productivity and productivity will improve only when there is a manual intervention, production happening. We have been automating our processes and we have again started one project to automate many other processes to reduce our turn on time and increase efficiency and hopefully it will definitely give us the result and we are working on it.

Nischint Chawathe: Of the total loans of around Rs.1500 crores outside the balance sheet, what would be assignment and what would be securitization?

Arul Selvan: The whole Rs.1500 crores is assignment because this is reported as IndAS securitization part of the book.

Nischint Chawathe: You mentioned that you did some securitization also, right, last quarter?

Arul Selvan: Yes, what I am talking is the Rs.1500 crores, assignment over the period. You want the breakup what we did in Q3 or breakup of balanced sheet reported?

Nischint Chawathe: As I understand you have done some securitization last quarter but you have reported it at loans on balance sheet itself and whatever was assignment on an outstanding basis, you have reported outside balance sheet?

Arul Selvan: Yes, that is how I am supposed to report

Moderator: Thank you. We move on to the next question is from the line of Shweta Daptardar from Prabhudas Lilladher Private Limited. Please go ahead.

Shweta Daptardar: Sir, just a couple of questions. You clearly articulated the strategy last time on product mix, mentioning that lowering the share on HCVs and slightly moving towards LCVs and higher yielding business have not only helped you on cost of funds as well as on the OPEX front. And with the growth in place, do you not think right in the FY'19 end itself we might cross ROTA of 3.5% for the vehicle finance business?

Arul Selvan: Yes, we are 3.5% already actually in Q3 itself, and this 3.5% ROTA has come because we got the benefit into OPEX line and that OPEX line is showing 2.9 against 3.6 because HCV we have done in last four quarters other than Q3 and now we are moving towards the high yield business, it is going to increase our yield and we got hit on the NIM side; our NIM has come down by 70 basis points, our target is to improve that NIM as well. The question is that, will we able to maintain the OPEX by increasing the yield or not? We are working that. If we move towards the light commercial vehicles and used tractors, two-wheeler, three-wheeler, other products which are giving higher yield, can we maintain the OPEX or not? We are saying that we will definitely try to improve our productivity efficiency and therefore even OPEX side also we will continue to do better job. Therefore there is an opportunity on possibility side our ROTA will further go up from 3.5%.

Shweta Daptardar: Secondly, you used to give GNPAs for both HE and Vehicle Finance separately. So is it possible to give away that data point?

Arul Selvan: Gross NPA on vehicle finance is 1.9% and the home equity is around 4.47%.

Moderator: Thank you. The next question is from the line of Anirban Sarkar from Principal Asset Management. Please go ahead.

Anirban Sarkar: Just one data keeping question that I have is if you could provide the split of gross stage-III assets between vehicle finance and home equity loans, that would be great?

Arul Selvan: 822 for VF and 650 for HE.

Moderator: Thank you. The next question is from the line of Rohan Mandora from Equirus Securities. Please go ahead.

Rohan Mandora: One of the competitors had indicated that they have made changes in the LCV policy during 3Q. So just wanted to check if we have made any changes on the lending policy during 3Q on the vehicle finance?

Arul Selvan: No, we have not seen anything.

Rohan Mandora: Sir, secondly, like in the quarter like, many of the larger peers have reported strong growth in the disbursements. Just want you to mention like who are losing market share during this quarter, if you could throw some color on that in the vehicle finance side?

Ravindra Kundu: No, I have not compared with any other player. What we are continuously saying that this quarter has been an area wherein we were focusing other than the HCV because HCV was giving lower yield and our target was to improve our yield. Therefore, other than HCV, each and every product in our basket we have done very well and therefore we have not lost market share other than heavy commercial vehicles.

Arul Selvan: We can tell whether we gained market share or not. We do not know who lost, that is difficult for us to assess it.

Rohan Mandora: On refinancing, same borrower is closing an existing loan and taking a new loan with us, how is the trend in the cases and how is that moving in terms of the new disbursements in the last two to three quarters?

Arul Selvan: If he is completing his old loan, we are always willing to give him a new loan, but we do not do the scheduling.

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

Darpin Shah: If you can just highlight how has been the early bucket movement in the vehicle finance business?

Ravindra Kundu: Early bucket movement has been very good, debt-equity has come down from 9.09% to 7.12% YoY and it has been consistently coming down for every month, so 7% is all-time low and the previous lower 6.79% was in March. So this coming March I think we will be lower than that. In addition to this debt-equity, our early default also has come down from 2.21% to 1.47% and this early default is actually two months overdue of last 18-months books. So therefore last 18-months book whatever we have acquired is also behaving very good and our early default is actually almost all-time low; the lower was 1.42% last and now 1.47%.

Darpin Shah: Vehicle finance stage-III last quarter I guess was roughly around Rs.730-odd crores which has gone down to Rs.650-odd crores in this quarter, am I right? Still provisions have gone up sequentially. Any specific reason for it?

Arul Selvan: I think you are referring to the NCL number. NCL provisioning as well as losses on account of repossessed sale, etc., To some extent we have to do more repossession this quarter because certain categories where we have to do repossess while the loss percentage on the repossessed asset has been same as what has been in the previous quarter because the numbers have been fractionally higher, we had a higher NCL hit.

Ravindra Kundu: Another point is when GNPA, comes down significantly, then there is a provision release also. So now we have reached to the level wherein like 2.0 is 2.94, GNPA reduction is not significant but loss on sale which is a regular feature every quarter it is happening. So now that is what, we will be at 1% or 0.9%, at that level.

Arul Selvan: It is very difficult to relate because has not the GNPA moved from one bucket to another, you will have to do additional or incremental provisioning. So that also will come into play.

Moderator: Thank you. The next question is from the line of Anand Singh from Unify Capital. Please go ahead.

Anand Singh: Sir, earlier in the call you guided that H1 '20 could be a bit subdued due to higher base. Can you give us a sense of ballpark growth that we are targeting?

Arul Selvan: I think generally we do not talk about any forward-looking statement. I think in this call we talked enough and more on the next year. I think at this juncture we will restrict ourselves to say what we quoted so far.

Anand Singh: Secondly, on the BS-VI norms, lot of buying of fresh vehicles in the second half of FY'20 and there is some apprehension that this could lead to selling out older vehicles and older vehicles So do you think for used vehicles you would have to change your loan to value levels in order to avoid any such risk?

Ravindra Kundu: That is not required. LTV is actually on the cost of the vehicle. So, LTV as a percentage, suppose cost of vehicle is going up, used vehicles prices are going up, but LTVs remain the same as it is. So there is no problem in terms of customers equity for small ticket size or big ticket size. We maintain both sustain level.

Moderator: Thank you. The next question is from the line of Nishant Shah from Macquarie Group. Please go ahead.

Nishant Shah: You just mentioned no forward-looking statements, but I am going to press you for one. After the pre-buying in FY'20, FY'21 a lot of the rating agencies are saying that it could be a flat to negative growth kind of a year. So, how are we now preparing let us say for in terms of the business mix or whatever else format for the growth aspect for FY'21?

Ravindra Kundu: We are there in multiple products. So, it is not like a single product we are focused on. I am talking within the vehicle finance book. We can move to use that. Someone told right now, once the BS-VI comes in, there will be huge market open up. We have got in passenger cars and vehicles, we have been growing decently. We are in tractors, we are in construction equipment. And that has actually been our strength that we could quickly move from one product to another because we have the capability to not only get volume but also handle collections across product groups. So that is going to sustain us. And completely away from the auto segment, we have the home equity to take care of if in case it is referenced in auto segment, the home equity which was done in the previous cycle when vehicle finance was on a slowdown. So, I think to that extent we are much more diversified and much more protected. But then we have to see as it comes.

Nishant Shah: The reason I ask is because LCVs, HCVs combined is about 40, 45% of our vehicle book. The thought was that probably some growth slowdown happens, but a fair point I think.

Arul Selvan: I think compared to others, our proportion is fairly a decent mix and so to that extent we should be better off but it is too far away to sort of predict exactly what will happen.

Ravindra Kundu: Just to add that, we have six, seven more products wherein our market share is much lower, wherein we have been consistently improving market share over the years by having the product, while learning the geography to do those products much better way. So tractors, two wheelers, three wheelers, cars and UV, construction equipment are those products and there are six, seven products which we are doing, our market share is lower than for 5%.

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

Nischint Chawathe: Thank you very much for joining us this morning on the call. We thank the management for providing us an opportunity to host the call.

Moderator: Thank you. Ladies and gentlemen, on behalf of Kotak Securities Limited that concludes today's conference. Thank you for joint us and you may now disconnect your lines.