



“Cholamandalam Investment and Finance Company  
Limited - Q1FY2013 Earnings Conference Call”

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**Moderator** Ladies and gentlemen good day and welcome to the Q1FY13 earning conference call of Cholamandalam Investment and Finance hosted by JM Financial Institutional Securities Private Limited. As a reminder for the duration of this conference, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference, please signal an operator by pressing \* and then 0 on your touchtone telephone. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr. Amey Sathe. Thank you and over to you sir.

**Amey Sathe** Thank you. Good morning everybody and welcome to Cholamandalam Investment and Finance earnings call to discuss the first quarter FY13 results. To discuss the results, we have on the call Mr. S. Vellayan – Managing Director, Mr. Kaushik Banerjee – President Asset Finance, Mr. Arul Selvan – Senior Vice President and CFO. May I request Mr. Vellayan to take us through the financial highlights subsequent to that, we can open the floor for the questions and answer. Over to you sir.

**Vellayan Subbiah** Good morning everyone. This is Vellayan just giving you a quick update on performance for the quarter. Overall, we had a good first quarter of 2012-13. Disbursements were up by 52% overall for the company and our PBT was up by 64%. The vehicle finance disbursements were up by 56% and home equity disbursements were up by 33% compared to same period last year. We disbursed Rs.2026 crores in vehicle finance and Rs.493 crores in home equity. The newly launch gold business, basically the book remained flat in that business and it's not grown. So basically the book is losing as much as we are adding onto the book that is predominantly due to the 60% LTV regulation from RBI that basically we are holding fairly strictly that is 60% LTV against the value of gold. The aggregate disbursements of the company for the quarter are Rs.2535 crores for the growth of 52%. Talking of quick milestone, the assets under management of vehicle finance crossed Rs.10000 crores and the total AUM for the company crossed Rs.15000 crores. The income from operations was Rs.558 crores, which is growth of 46%. The PAT for the company closed to Rs.69.65 crores as against Rs.37.88 crores for the same quarter last year and that was growth of 84%. PAT is grown slightly more than PBT because our tax rate has come more with normal. Our tax rate was a slightly higher tax rate last year.

A couple of highlights, the company has expanded its presence to 429 branches as on 30<sup>th</sup> June compared to 375 as on March 2012. So basically we go through our branch expansion once a year and branch expansion will take us to about 450 to 460 branches once complete and that will get complete in the current quarter. Most of the additional branches are all in Tier III, Tier IV cities and that's expanding our footprint into more rural areas where we are seeing most of our growth coming into our system today. We also raised Tier II capital of Rs.220 crores by way of subordinated debt, which has strengthened our capital adequacy ratio which stands now at 18.41%. In terms of our subsidiaries, the wealth management business is constituting of Chola Securities and Distribution. We have a loss of Rs.0.35 crores compared to a loss of Rs.0.49 crores in the same quarter last year. Chola Factoring made a profit of Rs.0.5 crores versus a loss of 57 crores. So consolidated profits for the company were Rs 69.81 crores. This is PAT as

against the PAT of Rs.32.4 crores in the last comparable quarter, and that's a growth of 116%. And we continue to retain our asset financing status which right now has about 60% in terms of assets and disbursements. We continue to regain our AFC from this year. So those were quick highlights from our side and we will be happy to take questions from the audience.

**Moderator**

Thank you very much sir. Ladies and gentleman, we will now begin the question and answer session. Anyone who wishes to ask a question, may press \* and 1 on their touchtone telephone. Participants are also requested to use only handset while asking a question. Anyone who has a question at this time, may press \* and 1. Our first question is from Kunal Shah of Edelweiss Securities, please go ahead.

**Kunal Shah**

The question is primarily on the CV side, so definitely we are doing more of LCV, almost like 32% of the portfolio today, but what is the scenario out there on say MHCV side and even since the used CV proportion for us is another 32% odd in terms of disbursements. Now what is the industry scenario out there and how do you see the asset quality trend panning out?

**Vellayan Subbiah**

Yeah, so overall Kunal, what we are seeing is I think what most of the market has also been saying that HCVs are slowed down a fair bit and HCV growth has shrunk, but basically we continue to see growth in LCVs and mini LCVs, which are the two segments we have traditionally been strong in and that growth continues to be fairly robust, atleast in the first quarter, it has been fairly robust. So we have to see that growth continues. But currently, there aren't significant signs of slow down, there aren't any signs of sales slowdown in LCVs and mini LCVs. And obviously on the HCV side, we have both the macroeconomic factors and the fact that certain pockets have just not picked up at all. We have to take macro factors, the other issues and things like the mining industry, for example, like Orissa is going through kind of a slump it's not picked up. Karnataka, some activities picking up, but we actually don't do a lot of business on the Karnataka mining side. So we have seen some macro, the services from policy side as well. But most of them seemed to be driving the HCV side of the state because where we see the regional roots and the more consumptive spending. For example, performance in mini LCVs is much more tied to consumptive spending, and so in those areas, we would not basically see too much negative activity at all. Obviously we see robustness in those sides. So that's basically what we are seeing, the used market is following a similar pattern where basically the used HCVs are slowing down a bit, but used lights continued to be robust. And used HCVs again are kind of pattern driven where the market for overall HCVs is dropping off and basically we are also seeing some decline in the used demand as well. So that's in terms of the overall numbers and I am sure you guys have seen the general market data and what that's predicting, but that's what we are kind of seeing at this stage.

**Kunal Shah**

And now looking at the competition in the LCV segment with MHCV also slowing down and banks also now focusing more on the high growth LCV segments, how are you seeing the competition or say in terms of pricing power, how is the pricing power out there in that space today?

**Vellayan Subbiah**

Right, Kunal, I think the competition has always been there and competitive intensity continues to be fairly significant in this space. There are two ways to look at that, Kunal, one, the way we look it is that every industry goes down and goes up depending on how you want to look at it in learning curve and that's also inherent in our space. So it was the same competitive intensity that was there in HCVs 8-9 years ago, appears to be coming to LCVs now. And we think that trend will exist. It will cause the used to drop a bit, so a lot of our focus is on two-three areas we are looking at, how we basically keep our way up. And there we really taking a three-pronged approach, one is we are looking at how we can decrease operating expenses and we take our operating expenses as the percentage of our average assets that's between 3.6 and 3.8. So we think that there is a room there, so that will be brought down predominantly by productivity. So we are focusing a lot on that. The second is by looking at our mix, so we continuously look at, for example, we were much more in HCVs if we take our portfolio seven or eight years ago in that space it is basically dropping. And the third area is basically looking at increasing our geographic presence, which also really helped bring up our overall ROA by leveraging scale more effectively. So we actually see our numbers on expense ratio which is at 4.1% last year that's actually dropped to 3.77% this year for vehicle finance.

**Kunal Shah**

In terms of collection efficiency, if you look at it over last one quarter or say one going forward as of today, how is the collection efficiency in this particular segment?

**Vellayan Subbiah**

The collection efficiency remains extremely high across product categories. Having said that, talking industry perse, we have seen a certain amount of stress in the mining sector, so as you would be aware that in Orissa, the mining segment remains slow even though there are certain indications of that sector opening up. See if I look at if I do a slice of our own portfolio and if I exclude Orissa over last year, our portfolio has actually shown an improvement across buckets 30, 60, 90, and 180. And again we also see an improvement in the behavioral pattern of the borrowers in Orissa in HCV segment, so once that kind of clears up, we don't see a significant delta over the kind of portfolio quality that we had last year. Having said that the IIP has kind of moderated and therefore the operators would find it slightly more difficult to generate the kind of margins that they had been enjoying over the last three years in terms of the number of trips that they make and the revenue for trips. The freight rate has converted it by about 11% to 12% on the primary sectors over last year.

**Moderator**

Our next question is from Gautam Chhaochharia of UBS securities, please go ahead.

**Gautam Chhaochharia**

So two-three questions, one is again you continue to grow higher than industry trend, so in this quarter is it primarily because of branch expansion or is it also because of more huge vehicles?

**Vellayan Subbiah**

I think that the combination of both in terms of growth in units and branch expansion. Basically what we discussed over the last three or four quarters now is we have focused on three things, one is on optimized mix, second is on increased reach, increased presence and the third is on improved productivity of the workforce. And we are likely known in some of the productivity initiatives we are planning, and we have launch them out across the entire country. As we speak, we are now launching them out across the next set of 125 branches. And some of those

are beginning to yield results as well and so that's basically kind of helping us push beyond. And I think it's just the productivity thing, it's not a very literal view on productivity, but it is looking at initiatives that can basically broadly help improve our overall market shares. So a lot of the activities focus on how we increase coverage. So new vehicles at the dealerships, we are not just focused on individual productivity, but a lot of technology that helps us get more efficient. So basically kind of, there are whole a lot of things that are active in 31 activities, we kind of send the entire call just focused on that in terms of what we are doing to improve our market share and improve our presence in the market. So basically a lot of that's beginning the yield to improve and the disbursement for employees have gone up fairly significantly as well.

**Gautam Chhaochharia** Any sense who was losing out in terms of market share?

**Vellayan Subbiah** Basically there are two ways, there are two ways on which you look at this, because if you see the guys who are predominantly loaded on heavy, they would naturally lose out in market share, because what you are seeing is a composite market share between HCVs, LCVs, mini LCVs and used. So if you have a portfolio that was predominantly heavy then you would naturally lose out on market share, whereas if you had a portfolio that was predominantly lights or mini lights like we do, you would naturally gain a bit of market share because those are the two guys that have been growing. We are kind of actually in LCVs and mini LCVs, we are seeing fairly significant growth as we have seen in used portfolio as well. So it's basically driven more on what is a starting position in terms of a players mix and we have been a bit fortunate in that we have been a bit more loaded towards the LCVs and mini LCVs in terms of our portfolio in our mix.

**Gautam Chhaochharia** Within used CVs even that's gone up a lot, so within used CVs, how much is LCV and how much is HCV?

**Vellayan Subbiah** First, the used CV comprises of two segments for us, so we have the Shubh segment and the refinance segment. The Shubh segment is much more akin to what Shriram will fund, which are the older vehicles and refinance is a vehicle that typically is coming off of its first three or four years. So to give you a sense, LCV is in the used, which is a refinance space, LCVs are about 40% and HCVs are about 55%, 5% is everything else. And that pattern is slightly more skewed towards HCVs, if you take the Shubh business, which is like the Shriram business.

**Gautam Chhaochharia** And what is the breakup between Shubh and refinance?

**Vellayan Subbiah** Right now, the refinance is actually close to 65% and the Shriram business is about 35%.

**Gautam Chhaochharia** And despite the used vehicles keep on going up, so the NIM continues to compress, so what would be your read on that outflow?

**Vellayan Subbiah** Yeah despite used, NIM continues to compress, so I think honestly you got the broader, you got two things driving it, one is the impact of kind of how much is the cost of funds increase can be passed onto the consumer. So cost of fund, we have compared it to last year, cost of fund is actually up, quarter on quarter is actually up by 50-54 bps, because cost of funds average asset

was 9.87% this quarter and last year it was 9.33%. Why is the cost of funds up by 57 bps, the marginal borrowing rate has not gone up, but obviously kind of last year, we still have the benefit of what we kind of have been borrowing for three years before that, so obviously the fixed rate book on the other side.

**Gautam Chhaochharia** What is the current marginal borrowing rate?

**Vellayan Subbiah** Currently, we are borrowing at around 10.8, see what I am talking is based on debt, this is what we are giving as 9.66% of the average assets..

**Gautam Chhaochharia** One last question, what is the current view and take on gold finance and do you want to continue doing that or still under review?

**Vellayan Subbiah** The gold finance, we are basically waiting for Rao Committee report, so at least at the end July that would be today, but we are expecting Rao Committee report from the RBI to come out in the next month or so. So it's basically a wait-and-watch game because if you look it we are still fairly strictly following the 60% LTV based on the value of gold, so that's made us slightly uncompetitive in the market against the guys who are following value of jewelry. So we have to wait till the Rao Committee report comes out and our thinking is that the Rao Committee report will have cleared that out for us.

**Gautam Chhaochharia** Okay, got it, thank you sir.

**Moderator** Our next question is from Mihir Ajmera of Enam Holdings, please go ahead.

**Aditya Singhanian** Thanks, it's Aditya Singhanian here. Good set of number, congratulations. I just had two questions, one on the operating expenses side, there has been a meaningful reduction on a quarter on quarter basis, any sort of sense on whether there is any one-off here, how sustainable it is? What can we expect for the rest of the year and perhaps for the next year as well?

**Vellayan Subbiah** Definitely, our intent is not to have this is one-off, actually Aditya like you know a significant amount of what our focus has been is to reduce operating expenses and we have got a fairly mapping initiative that we call Hyperdrive that is totally focused on this right now. Now I think for the whole effects of Hyperdrive, just so know we are doing Hyperdrive in ways and we have covered about 34 branches fully as of now. We are in the process of covering next 125. So the actual process itself will take the end of year to roll out, which means that the full benefit, we will only begin to see in the second or third quarter next year. So the whole initiative we believe over time, we can knock off. We will take a three-year part like we discussed with you which we actually think that we can knock off anywhere between 75 basis points and maybe even more over three years. So the objective, we set out for ourselves is that we get 25 bps per year in OPEX. And we really believe that we will track to that, but whether we can get more than that that's the question. But we definitely do think we can deliver on the 25 bps of reduction per year.

**Aditya Singhania** And just the second thing on the net interest margin following on what Gautam asked, could you quantify what exactly was a decline in margins quarter-over-quarter and is there any seasonality to it or isn't there any?

**Arul Selvan** See, primarily this is because of two major reason, one is if you look the quarter on quarter, the entire impact of the RBI increase in the rate what has happened over the period of last year that happened only in their book because when RBI increased the rate, base rates were changed and while the bulk of refinance book is fixed rate book, we couldn't pass it on, so that was one major reason. While the rate is stabilized now, it will start moving up in the coming quarter with what our expectation is, again because of two reasons, one is fixed rate book which is of the lower rate would run off and assets which have been sourcing in the subsequent period when they have increased the rate, will start adding to the margins. And it looks like while RBI may not reduce the rates immediately directly, there at least is no indication that it is going to increase it further. That puts a hold on further rate hikes and we will also be probably changing the mix slightly towards market borrowing which would reduce the rates a bit.

**Aditya Singhania** So what was the decline in margins in the vehicle finance business this quarter?

**Arul Selvan** Aditya, it will be somewhere around 48 bps.

**Aditya Singhania** And just the final question if I may, the comment you made on the cost of borrowings 54 basis points is first quarter or fourth quarter of full year?

**Arul Selvan** First quarter of last year.

**Aditya Singhania** What is it quarter over quarter in the sense first quarter or fourth quarter of last year? If I may also check you mentioned 9.78 is your borrowing cost on book for the first quarter.

**Arul Selvan** No, see this is like a borrowing cost on the asset, we have transfer pricing for the individual businesses which we take in the concentration the equity proportion also.

**Aditya Singhania** Okay, this is cost of funds.

**Arul Selvan** Cost of fund divided by average asset. Our cost of borrowing is flowing between 10.6% to 10.8%.

**Aditya Singhania** That is the incremental you mentioned?

**Arul Selvan** That's the incremental, and on the borrowing, if you look at it from the borrowing perspective.

**Aditya Singhania** Yeah so what is the on book cost of borrowing for the first quarter and if you could sort of compare that with the fourth quarter of last year?

**Vellayan Subbiah** Aditya, we have seen an increase in interest rate, and I think this addresses Gautam's question as well, kind of weighted average, interest rates have gone up by over 70 bps.

**Aditya Singhania** This is year over year?

**Arul Selvan** That's quarter one this year versus quarter one, the same quarter last year.

**Vellayan Subbiah** Aditya, let us get back to you on this. Once we get the answer, perhaps there is a response to the next question, I will make sure we will mention it.

**Aditya Singhania** Thank you so much.

**Moderator** Our next question is from Sourabh Kumar of JP Morgan, please go ahead.

**Sourabh Kumar** I have three questions. First is again on your margins, if I recall, you said your marginal borrowing cost is 10.8 and the average on book is about 9.8. Will it be fair to assume that even if rates stay where they are, margins will keep coming down even if I adjust for the fact that the share of old CVs will continue to move up? And just as a follow up to that how much of your liability is fixed right now, so I understand 100% asset is fixed, but how much your liability will be fixed?

**Vellayan Subbiah** Answer to your first question, I think that's slightly kind of apples and oranges comparison because one is our marginal borrowing rate which is 10.78 and the second is the cost of fund divided by average assets which includes the equity.

**Sourabh Kumar** Okay, so what was the cost of funds?

**Arul Selvan** The data we are hearing is a comparable data for the first quarter last year.

**Sourabh Kumar** How much of your liability will be fixed rate right now?

**Arul Selvan** The entire book is fixed includes the base rate as a fixed of what I am saying. We don't have any Libor linked or market linked borrowing, only the bank borrowings

**Sourabh Kumar** But that's base rate linked.

**Arul Selvan** Which are base rate linked, maybe if there is any change in the base rate. Concluding current scenario, there is not going to be any major shift in base rate. So it can be almost like you can consider the whole things else fixed. Even within the bank borrowing, almost 55% of our borrowings 1500 crores which is like one third of our borrowing is not even fixed with the base rate, it is completely fixed in nature. The rest 2/3<sup>rd</sup> of the bank borrowing is what is linked to base rate. And there I don't see any major movement happening in the immediate future considering that if at all it could be any positive, RBI reduces rates and banks trend to move it down.



- Sourabh Kumar** And my second question is basically on your Tier I capital which is about 11%, so Usha Thorat committee report comes, what are your thoughts? I mean you will definitely have to raise capital, so what do you think about that? And also as a follow up on your off balance sheet assets, which is about 10 million now, so any plans to increase another proportion of the book or you are happy to stay where it is?
- Vellayan Subbiah** So again two questions, one is obviously Usha Thorat, we have to wait till it does come out. What Usha Thorat has indicated is that they will go to 12% over three years, so that would anyway give us enough time, so that we can push up our Tier I capital, because you would have a tier window to do it. So I think obviously there we just have to wait to see when it comes out and if it's obviously 12% over three years then we will take that time to do it instead of bulking up right at the beginning.
- Sourabh Kumar** The off balance sheet assets which is about Rs.10 billion now, so do you plan to increase another proportion of your on-book lending or just keep it where it is?
- Vellayan Subbiah** Currently, if you look at it kind of securitize, I mean there are two things, one is that we are open to doing it to the extent that we continue to maintain AFC, which does give us some measure to securitize. But we will wait to see what happens, kind of usually the two big securitization windows are going to be in September and in February, March. And right now, as you know securitization transactions are kind of rocks to pretty much nothing. So we will have to see if the activity does pick up, we are open to securitizing a bit more, but we won't drop AFC status on it.
- Sourabh Kumar** But philosophically you will keep it around this level, at a percentage of the overall book.
- Management** Yeah I mean our intent is not to kind of, if you see the challenge is kind of so much if this stuff ends up being policy driven, so it's tough, there is a philosophy, a long term philosophy if policy pushes up another way. Directionally, you are absolutely right. We are comfortable with this level and this is the way we would like to keep it. Now I can't guarantee that, I can't set out a long term policy around it. I can't set a long term philosophy around there, because we don't know what long term policy will be around it.
- Moderator** Our next question is from Amit Ganatra of Religare Asset Management, please go ahead.
- Amit Ganatra** Just couple of questions, for this new CV basically loans and for the old vehicles loan, what is the incremental LTV basically that you do business on?
- Kaushik Banerjee** 70%.
- Amit Ganatra** 70 for the new?
- Kaushik Banerjee** 70 is median and it varies based on customer profile and product to product. If I take the book, the LTV is about 70% of the valuation of the asset.
- Amit Ganatra** But even for old, it's 70?

**Kaushik Banerjee** For old, it's 70. It could go down to 65, it could go down to 60 as well, but...

**Amit Ganatra** What about new?

**Kaushik Banerjee** New is about 82%.

**Amit Ganatra** So new vehicle is 82% LTV and old vehicles is around 70%?

**Kaushik Banerjee** That's right. Our weighted book LTV is about 78% overall. So if I take the asset finance versus the value of the other sources.

**Vellayan Subbiah** Between that too, I think it was Aditya's earlier question. Q4 is around 10.36% overall cost of borrowings and Q1 is 10.38%.

**Moderator** Our next question is from Ritesh Nambiar of UTI Mutual Fund, please go ahead.

**Ritesh Nambiar** I just wanted to know the IRR that you have booked this quarter on securitization, the IRR because we have stop the up-fronting part...

**Arul Selvan** Yeah it will be at around 8.5% which would be IRR purely coming out of securitization and also that is net of the fee income which we would have got.

**Ritesh Nambiar** But on the amount front, how much it is on the operating income?

**Vellayan Subbiah** We will look for the answer basically and we will get back to you in a couple of minutes. Ritesh, if you have any other questions, we will be happy to answer.

**Ritesh Nambiar** Yeah actually on the business finance side based on the experience of your peers on the last side, in fact your strategy of going slow there has actually worked, but in your existing book, is there any stress or likely stress that you see?

**Vellayan Subbiah** There was one share-point that kind of we hit in December and I think then there has not been any additional stress. I always said that portfolios are bit kind of bi-model and we tended to take the safer end of it, but safe is the relative thing you know.

**Ritesh Nambiar** Correct.

**Arul Selvan** Securitization income book for the quarter is Rs.7.84 crores. See there are aspects of it, one is we also carry some of the old book where we have done the up-fronting. There will be some amount of reversals on that also, so purely on the last year's transactions where we have amortized over the period of three years.

**Ritesh Nambiar** I wanted some clarity on the home equity side also, how is the market building up on that side?

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| <b>Vellayan Subbiah</b> | The market seems to be fairly robust there. Again we are increasing our reach a bit on that front. But we continue to see good growth, the thing with the interest rates is firming up is that we are not seeing interest rate based competition in that space as well. And actually we have had the overall ROA in that product as we go up when we compare it both the previous quarters and against the previous year. Actually, it's a business that's growing steadily and it's growing well. We also focus there in bringing down our expense ratio. So overall,ROTA it is actually very good for that business and it's got good legs right now and it's performing very well.                                                                                                                                                                                                                                                                                                                                                                                                                 |
| <b>Moderator</b>        | Our next question is from Jyoti Kumar of Spark Capital, please go ahead.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| <b>Jyoti Kumar</b>      | I just wanted a couple of data points. Can you give me the breakup of the loan book in terms of tractor HCV and LCV, MUV?                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| <b>Vellayan Subbiah</b> | Sure, one second we will get back to you on that.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| <b>Jyoti Kumar</b>      | Sure. In the meantime, there is couple of more questions. Is it the market is saying that you were looking to enter into affordable housing segment, could you elaborate a little more on the same?                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| <b>Vellayan Subbiah</b> | we are looking at a pilot in that area, and will likely launch in either this quarter or next quarter I would say. The idea is basically to go after, if you notice our whole LAP business in home equity with self-occupied residential property, where we go after a segment that is self-employed for the most part. And what we are finding is that there is also a self-employed segment that has demands for housing, more at, I mean affordable has become kind of clichéd word, so I am not talking necessarily about the sub-10 lakh affordable talking of that segment. But basically we are looking at people in the self-employed category that are not getting funding from banks because they are predominantly self-employed and we are looking at satisfying their housing needs. So it's a portfolio that could go up to about 30-35 lakhs per house and we are seeing good demand in that portfolio. Given that obviously, it is going to be something that we test out first before we see and that testing is going to start, I would say in about August to September timeframe. |
| <b>Jyoti Kumar</b>      | The other question was, you added fair bit branches in the current quarter, I mean obviously you told us so but could you give some sense, are most of them in vehicle finance or do you have any other specific branches that you have rolled out? Could you give me...?                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| <b>Vellayan Subbiah</b> | Branches, yes they all in vehicle finance. So Jyoti Kumar, the way we drive that strategy is that vehicle finance opens out all the branches and other drives like home equity will then follow into that branch. So all the branches, we added this quarter have been vehicle finance branches.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| <b>Jyoti Kumar</b>      | I think somebody else asked this question, in that context given the quantum of branch addition, your OPEX seems to be fairly low even on, if I look at QoQ terms, if you can give us some sense on why is it, so that would be great.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| <b>Vellayan Subbiah</b> | Why opex is low?                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |

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| <b>Jyoti Kumar</b>      | OPEX is lower on QOQ basis.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| <b>Vellayan Subbiah</b> | The branch additions basically go, I mean kind of the two things, the Capex basis,. Wherein operating expense basis, we start our branches at a fairly low cost. So like we said, a lot of these branches are in tier III, tier IV cities, and we start this branch with three people. Usually we start our branches with what we call Category E and then the branches have to grow their way up to become Category A branch and obviously some branches will never make it in Category A. For Category E, our operating expenses are kept very minimal at the branch. So we basically have couple of computers and fairly basic infrastructure and fairly small manpower in these branches when we start. Therefore, the incremental opex usually does not send up the operating expenses to average asset ratio given that these are small branches compared to the other branches that we have in our system. |
| <b>Jyoti Kumar</b>      | I think that answers my question. If you can give me the breakup?                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| <b>Vellayan Subbiah</b> | Tractor portfolio is around 420 crores.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| <b>Vellayan Subbiah</b> | Yeah so just directionally kind of, if we take tractors, it's about 3%-4% of the overall portfolio. The largest chunk tends to be LCVs, which is about 35% or a bit more which is the new stuff. And HCVs, which tend to be in the 15%-20% range. Small commercial vehicles are 14%-15% and then we got the used and shubh constitutes about 13%.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| <b>Moderator</b>        | Our next question is from Kapil Popat of First Rand Bank, please go ahead.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| <b>Kapil Popat</b>      | Congratulations for the great results. My questions revolve around home equity business. What would be the tenure on the loans that we have over there and what would be the general geographic mix of those loans? The third question is that it's mostly to self-employed people over there, so what would be the target employment that you would be looking at before giving those loans?                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| <b>Vellayan Subbiah</b> | First the tenure of the business, it's a ten year product. In terms of the geographic mix, right now our portfolio is basically north west, and being the largest, followed by south, followed by west. That was the second question. The profile is the self-employed non-professional. So over 80% of our portfolio is self-employed non-professional.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| <b>Vellayan Subbiah</b> | So is your question, how to decide the profile of the borrower?                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| <b>Kapil Popat</b>      | Yes sir, in which business are the customers generally that would like ...                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| <b>Vellayan Subbiah</b> | These are certain for nonprofessionals and there could be a across industry category, but the <b>what we</b> looked at stability of income, capability of the borrower before, so it is fairly robust assessment process before we actually go and acquire the customer. And the LTV here is about 50%, so the team has valuation, one is the discussed valuation and one is the market valuation and the team takes discussed valuation and 50% of that is the loan extended.                                                                                                                                                                                                                                                                                                                                                                                                                                    |

- Moderator** Our next question is from Ambrish Sukhani of Amansa Capital, please go ahead.
- Ambrish Sukhani** I have quick question on the tractor business. If I understand correctly like you mentioned 420 crores, almost 7%-8% of incremental disbursal, just like you discussed earlier, it's a pretty different collection cycle. So could you just give some qualitative color on what your experience has been and directionally, how should we look at this in terms of potential growth as a share of disbursal in total?
- Kaushik Banerjee** You are absolutely right, the product in the collecting cycle in tractor is very different from what it is in commercial vehicles and we have accordingly adopted a different collection mechanism for the tractor borrowers, because we have dedicated collection executives who follow up on the tractor receivables apart from the team that follows up for commercial vehicle receivables. There is a significant amount of onus also on the sales team and tractors to follow up with the customer on the payment. So the cycle here is quarterly and half yearly. What we do is we actually have a monthly contact with the customer to reassess whether he has got, a lot of the repayment of the borrower comes from the crop patterns that the farmers follow as well as the in the part today about 30%-40% of the entire application of the tractor is not commercial application, it's not directly agri based. So we are in touch with the customer on monthly basis to ensure that you know he is actually in productive activity as well as the fact that we keep reminding him of his due date in terms of his payment to us. And we try and collect, we have these fair tractors available, we are trying to collect the money from him on an ongoing basis to kind of sensitize to the requirement or in fact he was paying on time. Having said that, we just completed the first year of operation in tractors and as we go along, we are oncoming more and more about this particular profile of customers. I think when I am reminding to what I am saying is that we are aggressively growing this book at this point of time. We are maintaining a current level of volumes maybe slightly increased from that. And we will have to go through maybe another cycle before we are in a position or can take a decision in terms of the actual growth number that we want to follow in this particular segment.
- Moderator** Our next question is from Rahul Bhangadia of Lucky Securities, please go ahead.
- Rahul Bhangadia** Actually I just had a small query on the expenses side. You mentioned that operating expenses to income is relatively stable, but if I see it slightly from a different prospective the expenses to the NIMs have actually gone up from 48% to 50%, 52% or 53% odd. Is it just to a simple function of NIMs going down or how do you look at it and in the broad context, how do you see your ROEs going through over the next two to three years?
- Vellayan Subbiah** In terms of expenses, I explained broadly what is happening. I think like you said our objective as a management team is send expenses down faster and then NIMs will go up obviously. And so the expense to NIMs ratio also is a ratio that we have to send down and it is a ratio that we look at as well. Obviously the easiest way for us to drive our thinking if you use average assets as the denominator, which is why usually we kind of do that externally and internally. And the intent really is to look at how we can hit particular ROAs target over time. That's why we use that as a metric. So in terms of overall expenses, we do see an opportunity to bring that down

over time. And even if you see as a percentage of NIM, it comes down to 52.5% versus 53% last year, the same quarter last year. So that's with regard to expenses.

**Rahul Bhangadia** I was just trying to understand where do you see ROEs over a period of next two to three years just given all the cost initiatives and growth that you see?

**Vellayan Subbiah** Our ROE for the quarter hit 19.24%, obviously some of these things are dependent on policy for example, Usha Thorat might change our gearing. So if you look at it, one of the things that we have to do is to keep ROEs in the north 20s at least and our way to doing that over time would be to push up our post tax ROA and maintain a gearing that would then allow ROEs is to be in 20s.

**Rahul Bhangadia** So that's your thought process over the next two to three years?

**Vellayan Subbiah** Yeah, when you take a three-year view, ideally we like to bring up post tax ROA to 3%, but we are at 2.1% now, so the key areas we are focusing on that drive from 2.1% to 3%, like I said is on an optimized mix and then to reduce our opex to average assets. And like I said our internal plan is for opex average assets to drop 75 bps over three years, mix to ideally give up another 75 bps over three years. And I think in the same time period we will lose about 50-60 bps at least for the industry learning curve which is basically compression that comes up from competition. So that is 150-160 bps up and 50-60 bps down for a 100 bps increase, that's how we plan to get 3%. On Excel that sounds good, but obviously a tougher target to deliver, but if we get to our post tax ROA of 3% we definitely think that we can deliver in the low 20s, if not that.

**Moderator** Our next question is from Krudent Chheda of Value Quest Research, please go ahead.

**Krudent Chheda** What is the current yield on our vehicle finance book and home equity?

**Vellayan Subbiah** Vehicle finance, it is around 15% and home equity is 13.5%.

**Krudent Chheda** This is the current yield?

**Vellayan Subbiah** Over and above, this will get around 120 bps on the same,

**Krudent Chheda** Within vehicle finance, how much is for the used vehicle and the new vehicle?

**Vellayan Subbiah** 25% to 30% of the book is used, 3% is tractors and balanced is new vehicles.

**Krudent Chheda** And the yield on this book, used vehicle is?

**Vellayan Subbiah** To get it used on the specific product, the overall yield like we indicated is around 15.

**Krudent Chheda** And two to three years down the line, how do we see a mix between vehicle finance and home equity because now we are getting into a newer segment, affordable housing?

**Vellayan Subbiah** Right, the next two to three years, I don't see the mix changing significantly, predominantly because the vehicle finance disbursements are growing at a faster rate. The home equity has the advantage of a longer term book. So with slightly lower disbursements, they accumulate book more. The affordable housing side of it is the segment that will not significantly change. See couple of years in a business, we don't go crazy, so you can't expect that to basically drive a change in the overall ratio, even that these other books are already 11000:3000 crores. So I wouldn't expect any real shift in terms of our vehicle finance and home equity. What I do think will happen is that there will be a gradual shift after the next two to three years, downwards in these businesses, and up in the other businesses.

**Krudent Chheda** Fair enough. Vehicle finance, LCVs and HCVs small commercial vehicles are growing at 20-25%. A disbursement is growing at 45%-50%, so is it because the penetration of vehicle finance is increasing or we are gaining market share from other place?

**Vellayan Subbiah** It is both.

**Krudent Chheda** Penetration is also increasing?

**Vellayan Subbiah** Yes.

**Krudent Chheda** What would be the penetration currently?

**Vellayan Subbiah** One metric to look at is we have about 450 branches today and I think Shriram's number include kind of, it's about 750. Mahindra is over 600 plus one metric to look at, now that doesn't mean a percentage coverage because the incremental you get from the smaller branches, but that also shows that we have headroom for increased penetration for the next two to three years.

**Krudent Chheda** So you said this 35%-40% growth going forward in this segment, you expect that?

**Vellayan Subbiah** I don't want to commit 35%-40% growth. I do feel like a growth rate will be higher than the home equity segment and right now, for this year, it is all we can think and we do feel comfortable with 30% plus.

**Krudent Chheda** Okay thanks a lot.

**Vellayan Subbiah** Our next question is from Rohit Shimpi of SBI Mutual Fund, please go ahead

**Rohit Shimpi** In this, you said, is this more of LCV or HCV?

**Vellayan Subbiah** It's more due to heavy.

**Rohit Shimpi** And on the early delinquency parts also which you were saying in the portfolio, you said that performance is still holding up well?

**Kaushik Banerjee** Yeah it is. So the way we defined early delinquency is basically 60 DPD in an 18 months timeframe which still remains well within the kind of percentages we had last year. So one thing that is kind of becoming a bit of evident is the fact that the operating margins of the operators has come down, so this is bound to happen, but the efficiency remains high, meaning that the effort is growing, the collecting has gone up somewhat but the outcome remains the same, just now they are coming from.

**Rohit Shimpi** Okay alright thanks so much and all the best.

**Moderator** Our next question is from Anand Laddha of HDFC Mutual Fund, please go ahead.

**Anand Laddha** Most of my question are answered, just one data point sir. Of the Tier I, how much is the perpetual bond?

**Vellayan Subbiah** Tier I, it will be 130 crores.

**Anand Laddha** So our network will be 1500 crores odd?

**Vellayan Subbiah** Yes.

**Anand Laddha** So of that, 130 is a tier I, 130 crores is a perpetual bond?

**Vellayan Subbiah** What you said is our net worth without tier I **Vellayan Subbiah** But the perpetual debt is incremental to the net worth and it still counts in tier I. 1500 crores is net worth and 130 crores is the perpetual, 1630 is there

**Moderator** Our next question is from Ritesh Nambiar of UTI Mutual Fund, please go ahead.

**Ritesh Nambiar** Just a follow up. In fact, I was seeing your annual report and the other operating income, if I see on the revenue side, do you in fact upfront the service income with your debt on disbursement, the fee side?

**Arul Selvan** That does not put into the other operating income, the other operating income accounts to primarily the income around surplus trend investment in mutual funds.

**Ritesh Nambiar** No exactly, asset wise, there is another operating revenue which is mentioned.

**Vellayan Subbiah** Can you give us page number in the annual report?

**Ritesh Nambiar** Yeah, actually it's in note 17 revenue from operation. My question was whether the surplus...

**Arul Selvan** Yeah what is in that will include the fee income and the cross sale income, insurance cross sale income.



**Ritesh Nambiar** Because that would be an aid to the disbursement part because PAT is as high as 2.5% odd of the disbursement, so I just wanted color on that because...

**Arul Selvan** The other operating income, I think you are referring to page 93, right?

**Ritesh Nambiar** Yeah.

**Arul Selvan** Yeah that constitutes of two or three things, one is the fee income, the other one is the cross sale income, the third one will also be the charges we levy on various delayed payments for non-PDC customers, fee related charges etc.

**Vellayan Subbiah** Basically charges.

**Vellayan Subbiah** Charges that we levy on the customers.

**Ritesh Nambiar** Okay but this is a factor of disbursement, right?

**Vellayan Subbiah** This need not be a factor of disbursement. The fee income is the factor of disbursement. The other charges will be a factor, the charges on non-PDC, cheque bounce charges, payment charges etc.

**Ritesh Nambiar** But in general, if I ask you assets class wise, what's the kind of service fees do you charge in the processing fees?

**Vellayan Subbiah** It will range even in sub-segment, it is not necessarily within the.....and it is from 0.5 to 1 plus.

**Moderator** Due to time constraints, that was the last question. I would now like to hand the conference over to Mr. Amey Sathe for closing comments.

**Amey Sathe** On behalf of JM Financials, I would like to thank Mr. S Vellayan and the management team of Cholamandalam and all the participants for joining us for the call today. Thank you.

**Moderator** Thank you very much sir. Ladies and Gentlemen, on behalf of JM Financials Institutional Securities Pvt. Ltd. that concludes this conference call. Thank you for joining us.