"Cholamandalam Investment and Finance Q1FY14 Conference Call"

August 1, 2013

ANALYST: **MR. AMEY SATHE**

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

Moderator: Ladies and gentleman good day and welcome to the Cholamandalam Investments and Finance Q1-FY14 Earnings Conference Call hosted by JM Financial Institutional Securities. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing * followed by 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Amey Sathe from JM Financial Institutional Securities. Thank you and over to you Mr. Sathe.

Amey Sathe: Thanks Melissa. Good afternoon everyone and Welcome to Cholamandalam Investments and Finance Earnings Call to discuss Q1 FY 2014 results. To discuss the results we have on the call Mr. Vellayan Subbiah, Managing Director of the company, Mr. Kaushik Banerjee, President Asset Finance and Mr. Arul Selvan, CFO. May I request Mr. Vellayan to take us through the financial highlights post which we can open the floor for questions.

Vellayan Subbiah: Thank you. Good morning everybody. The quarter has been a good quarter for us, disbursements have been up by 29% and PAT has been up by 30%. The vehicle finance is grown by 29% and home equity loan has grown its disbursements by 34% compared to the same period last year. Company disbursed Rs.2609 Crores in Vehicle finance as against Rs.2026 Crores and Rs.662 Crores in Home Equity against Rs.493 Crores for comparable quarters last year and the disbursement for new business was at Rs.8 Crores for this quarter. That puts the aggregate disbursements of the company at Rs.3279 Crores versus Rs.2535 in Q1 0f FY -13. Total income went up to Rs.762 Crores compared to Rs.558 a growth of 37% and PAT went to Rs.91 Crores as against Rs.70 for a growth of 30%. The company also expanded its presence to 526 branches compared to 518 branches and our capital adequacy ratio is at 17.84%. The wealth management businesses (subsidiaries Chola Securities and Distribution) made a profit of Rs.0.87 Crores compared to a loss of Rs.0.35 crores in the same quarter last year and the consolidated PAT for the year was Rs.92 Crores as against the PAT of Rs.70 Crores for a growth of 32%.

In other areas the CARE ratings for sub debt have been upgraded from CARE AA- to CARE AA and CARE A+ to CARE AA- for our perpetual debt. Considering the current economic environment the company has maintained its GNPA at 1.12% and NNPA at 0.25% and we have increased our provision coverage to 78%. The Honorable High Court of Judicature at Madras also approved the scheme of amalgamation between the company's wholly owned subsidiary Chola Factoring with the company with effect from April 1, 2012 as the appointed date and the thing has been now effective May 24, 2013 all the formalities with regard to the merger been completed and the impact of the merger has been taken into consideration on the opening balance of April 1, 2013. Thank you. We will take questions.

Moderator: Thank you Sir. The first question is from the line of Digant Haria from Antique Stock. Please go ahead.

Digant Haria: Congratulations on a good set of numbers. I have two questions, what part of our vehicle disbursement growth would have come from the branches which we have opened in the last two years, that is one and second considering the slowdown and higher interest can probably further increase the slowdown in the SCV and the LCV segment as well, do we see growth rates similar to what we saw in this quarter for next six or seven quarters?

Vellayan Subbiah: I will answer the second question first which is what is the growth rates which we see playing out, obviously we have seen a slow down in growth rates, now everybody is kind of downward revising the data but honestly I don't think anybody has a good picture of how the second half of this year will work out, obviously there are two kind of governing factors, one is the overriding economic mood and the second is how good the monsoons have been and certain states and certain Tier-3, Tier-4 cities are much more driven by the monsoon side than the economic side and certain others which are more linked to productive end kind are more linked to the economic side versus the monsoon side. So you know the second half I don't think anybody knows how well it is going to play out so it doesn't make too much sense to be too predictive on that. I am sorry Digant can you repeat your first question.

Digant Haria: Yeah the first question was that 29% disbursement growth that we saw in the Vehicle finance how much have new branches started contributing, new branches may be the one opened in the last two to two-and-a-half years?

Vellayan Subbiah: We will get you that specific data in terms of what happen last two years. Will you take the next question and then I will answer this before the call is over.

Moderator: Thank you. Next question is from the line of Sanjay Shah from KSA Shares and Securities. Please go ahead.

Sanjay Shah: Good afternoon Sir and congratulations on a good set of numbers. Sir I want to ask with the frequent change in RBI policy how company is affected how do you see future of our company in this regard?

Vellayan Subbiah: The rate of change seems very frequent and probably too frequent at this stage, the thing is that it is going to cause companies to go more conservative in terms of the positions they take on ALM management right and that's effectively what we are doing as well. We are just going more conservative in the ALM because we don't have enough of a visibility in terms of what it would look like and so it will cause companies to go conservative on that which will then kind of slightly impact the cost of funds for companies.

Sanjay Shah: Sir this quarter we have grown very well in NIM has gone up can you make us understand from where actually the growth was, it is a combination of what?

Vellayan Subbiah; It is a combination of both the yield end and cost of funds end. At the cost of funds end like you know there are two things that happen, banks have started moving their base rates down second what has happened is that we securitize quite a bit it in the January, February, March quarter that will continue to give us benefit over the next two years.

Those two help to keep the cost of funds down and on the yield end basically you know what we have been doing also is getting a bit tighter with our lending, also getting a bit more conservative on it. So between that and the fact that our mix is also continuing to change with slightly higher yield products moved away from the classic new SCV kind of mix, both of those factors, predominantly the mix factor helps on the yield side for us. We have seen both benefits on the yield end and cost of funds there.

Sanjay Shah: Great sir. One more question this provisioning was higher up to 1.3% can throw some light on that?

Vellayan Subbiah: Actually if you see one of the things that we have always been doing is we have always had slightly stronger provisioning norms that is required by RBI regulation but we have also been accelerating our provisioning a bit based on the emerging trends that we are seeing kind of in the market so basically some of the accelerated provisioning has also resulted in a slightly higher number.

Moderator: Thank you. Next question is from the line of Rahul Bhangadia from Lucky Invest, please go ahead.

Rahul Bhangadia: Thank you for taking my question sir and Congratulations on a very good set of numbers given the scenario, Sir if you could just help me with the average durations on the asset and the liability side?

Arul Selvan: Asset side it is around 30 months; liability side 24 months.

Rahul Bhangadia: Sir what chunk of your liabilities come up for rollovers or repricing within the next one year and basically how much of it is short term six months, eight months one year?

Arul Selvan: Almost like 40% will come up in the next one year as at the end of June. The break up further down on that is not readily available I can give you.

Rahul Bhangadia: That is fine sir, 40% will come up for renewal in the next one year.

Vellayan Subbiah: That is right.

Rahul Bhangadia: Sir given the scenario if 40% of your liability side gets repriced whatever may be 100 basis points 150 basis points if the scenario continues are you comfortable passing it on to your customers and maintaining your growth and asset quality how do you look at it?

Vellayan Subbiah: There are two things, first off its highly unlikely that the 40% will get repriced at 100-150 basis points higher than where it is for two reasons, one is already kind of we had a relatively kind of high cost of funds compared to some of the others in the space, that is one because basically all that had happened is, you might see a couple of reversals, again it is questionable as to whether reversal will actually come or not in terms of only Yes Bank has gone now so we will have to see but even if the reversals come they just be reversing out to a position where they were last June, so that you would already have that high cost of funds last June itself. The second obviously like we said is the continued impact of securitization on the portfolio, that effect was not there to that extent last year, so those two will not kind of cause this thing to swing by 100 to 150 basis points. The other point on your repricing is that like you know our vehicle finance loans are fixed loans, you cannot reprice them during the tenure of the loan, we can do that with our home equity loan.

Rahul Bhangadia: Okay but you are suggesting that the liability side would not go up by that much in any case?

Arul Selvan: When we are saying 40% is coming up for repricing, these are also inclusive of the term loans which are already running at the base rate levels it is not like CP alone. It is not like moving from 8-8.5 rates to at least what is prevailing today around 11%.

Vellayan Subbiah: See you can already see that in our mix rate because we are still 50% plus bank terms loans right lot of that we are getting repriced, which will just continue to stick at base rates.

Rahul Bhangadia: Sir if you could just give us the color of how do you maintain the asset quality that you have been able to maintain given though overall economic scenario?

Vellayan Subbiah: See I think I have answered this question in couple of times where last time I think last three or four calls I have said that the asset quality we saw in 2011-2012 and 2012-2013 timeframe is the best that we have seen over a 10-year cycle, so we definitely see it moving more towards a mean now and the point I have always maintained is to have a mean you have numbers that are both below and above the mean right so we are definitely trending upwards, but here at this stage we do not see it to be kind of extremely alarming right, we are shifting our bias much more to ensuring portfolio quality versus heavy disbursements now but it is something that we have to continue to kind of strictly follow up over time. The things we are also getting a lot more intelligent about is kind of our credit process, how we originate loans and we are feeding back a lot of information into credit based on the performance in the loan itself and that is helping us in current and future origination. That is getting more scientific for us as a process and those are the two things that are really helping us.

Rahul Bhangadia: Sir my question is you were referring to the mean levels on the asset quality side in terms of NPAs, if you could just give us a sense if this 1.1, 1.2% gross NPA is the mean or slightly higher out there?

Vellayan Subbiah: No we think mean will be higher.

Rahul Bhangadia: 1.5

Vellayan Subbiah: I would say somewhere there 1.5 yes.

Rahul Bhangadia: Sir given the overall scenario are you reasonably confident of maintaining these ROCE given that the interest rates asset quality growth rates ROEs of around 17%-18% may be?

Vellayan Subbiah: Yes I would say we are.

Rahul Bhangadia: Would the growth rates would continue to be of the same range as we have shown in the first quarter?

Vellayan Subbiah: Growth rates are unlikely to I mean I shouldn't say unlikely but you know if you take current see the thing is that what we had longer term visibility now the visibility is going away. So our ability to predict growth rates for rest of the year I would definitely says is diminished, there will be growth but I feel uncomfortable kind of predicting what the growth rate will be.

Rahul Bhangadia: Sir if you could just give me a sense of how much securitization income have you booked in the quarter?

Arul Selvan Rs.33 Crores we have booked for the quarter.

Arul Selvan: You are referring to the EIS income on the securitization deals right?

Rahul Bhangadia: Yes, whatever you may have assigned or securitized and the proportionate income that you may have booked in the quarter.

Rahul Bhangadia: Okay just one final question had you ever given a thought to the banking license thing and if yes why did you kind of not go for it, its just for the information not exactly pressing for it?

Vellayan Subbiah: Yes obviously we did give it a thought; I think we would have been kind of absolving our responsibility if we did not give it a thought. We actually did a lot of work on it. There are two things right, one is that we actually found that the break even point between kind of running as a bank and running as an NBFC because of some other conditions kind of pushes out to kind of beyond eight to ten years, then that kind of links back to how patient basically will shareholders be in that process. Second challenge is that if the break even point is eight to ten years and there is an RBI ruling saying that promoter have to dilute to 10% within 10 years right then you begin to question kind of what are the real trade offs and benefit of actually going down that path right because most promoters like you not end up having 10% to 12% in their companies. Those were two of the concerns but the breakeven obviously takes into account some of the challenges the new banks will have which is like you know CRR, SLR and day one if you try and convert 20-25,000 Crores CRR, SLR on day one it is bit of a challenge.

Rahul Bhangadia: Sure I am assuming when you say break even you are basically saying that the quantum of earnings that the bank would have taken to catch up with the quantum of NBFCs would have been 8 to 10 years.

Vellayan Subbiah: That's right.

Moderator: Next question is from the line of Kunal Agarwal from Franklin Templeton. Please go ahead.

Sumit Gupta: Hi this is Sumit Gupta from Franklin Templeton. I have couple of questions on the growth, now we are looking at growth of around 35% to 40% CAGR this year also, this the first quarter we have grown up around 40% annualized now just want to understand the dynamics which are playing out here, are you sort of getting market share from other NBFCs or you think that the banks are slowing down in this particular market because bank credit growth to corporate definitely has slowed down but specifically to retail customers to these start of products commercial vehicles and cars we do not get that sort of granular data.

Vellayan Subbiah: There are two things right, one is we have also thought about reporting sequential versus reporting comparable quarters for the last year right because in effect what happens is if you kind of grow at small percentage for four quarter then your run rate entering the 5th quarter itself is going to be kind of fair bit higher than your run rate entering the same quarter the previous year, so the sequential growth has not been that huge but obviously when you compare it with the same quarter last year it is significantly bigger and that actually makes more of an impact for basically balance sheet driven companies like us where what accrues in the balance sheet in a growth scenario is what kind of affects the overall income, that is one factor. The second factor is that in this quarter we have not increased market share but we did gain market share if you compare the beginning of 2012-2013 to the beginning of 2013-2014 and your third question in terms of who is slowing down we basically see five or six guys consistently separating out and kind of growing in this space in vehicle finance and the shares of those five or six guys I think are beginning to have overtime is going up.

Sumit Gupta: So are these NBFCs, whole going down is NBFCs, banks are definitely going down?

Vellayan Subbiah: Mix of both in both categories.

Sumit Gupta: I am looking at that ALM statement that you have given as of June 2013, I see around Rs.600 Crores of outflows which was there between 15th July to 30th July which is when the real pain started in terms of money market rates striking up what has been your early experience with banks specifically because I know that capital markets nothing we have entirely borrowed in some time in the last 15 to 20 days but with banks have they started raising spreads over the base rate that they were offering earlier, have they sort of raised that in last 15 days?

Vellayan Subbiah: Even yesterday we were able to borrow at base rates, these are from public sector banks.

Sumit Gupta: You do not see the trend that banks may raise spreads for sometime; you do not see that risk?

Vellayan Subbiah: If banks have to borrow, if they run out and if they have to depend on the MSF level then they will suddenly raise the rates while at this juncture during the last fortnight we have been able to get bank term loans as base rates still managing to get it at the base rates which have been at the approved levels.

Moderator: Next question is from the line of Rohit Shimpi from SBI Mutual Fund. Please go ahead.

Rohit Shimpi: I just had a question in your AUM which is off balance sheet is there now a proportion where you don't have a first loss sharing there?

Vellayan Subbiah: Everything is backed by credit enhancement. We have not hived of any credit.

Rohit Shimpi: Sir we hear that there have been a few deals with banks on the sell down portion where the risk sharing is proportionate to what is sold on an individual loan, so you have not participated in any such deals

Arul Selvan: See ours is all PTC transactions only. What you may be referring to could be on the bilateral side.

Rohit Shimpi: Sir any reason we are not doing that as of yet?

Arul Selvan: No we have not done anything on the bilateral not that we are averse to it or anything but it is more like the investors who approached us and we could strike it better through the PTC route to be more transparent.

Moderator: The next question is from the line of Amit Ganatra from Religare Investco Asset Management Company, please go ahead.

Amit Ganatra: Just one question on this growth so you just mentioned that the growth visibility has diminished basically over second half of the year, basically uncertainty has gone up, just wanted to understand from a thought process perspective that in such a scenario what kind of message that you provide to your branches or to the guys who basically source business for you. Do you basically still give them some targets and then you basically just say okay take as it comes what is the strategy that you are adopting.

Vellayan Subbiah: It is a good question, basic thing is that you tighten credit norms and you still give them targets you cannot stop giving them targets, but you basically tighten credit norms and tighten your actual kind of traditions around the loan, quite honestly you obviously have to be cognizant of the fact that if somebody does not hit a target how you handle that you have to look at a bit differently.

Amit Ganatra: But when you say tighten credit could not basically means you reduce the LTV or something like that.

Vellayan Subbiah: That is right, both in terms of one is the LTV side the second is kind of actually looking at the number of deviations that you would accept.

Kaushik Bannerjee: Vellayan was saying that we have a self-regulating system where we have a series of triggers that we applied based on portfolio quality, so we kind of increase the margin required in a category of product and this is monitored at the branch by manufacturer, by product category, so depending upon what the portfolio condition is in that particular product in that particular branch we would apply certain sort of triggers in terms of as Vellayan said in terms of increasing the margin requirement changing the approval authority from branch level to the area level or the region level et cetra, so there are a set of self-regulating processes in place, which ensures that we focus on the portfolio as well as focus in terms of business underwriting by the team there.

Amit Ganatra: Other question is on the asset quality now most of the companies which have reported this quarter your asset quality trends, it is basically showing extremely strong trends both in terms of seasonality, even from a relative comparison perspective any specific reason that you can attribute to that.

Vellayan Subbiah: First thanks that you see us as extremely strong trend. See actually there are two things one is the GNPA has gone up and the second is that the actual credit losses we took in the quarter also have gone up.

Amit Ganatra: But then you improved your coverage right.

Vellayan Subbiah: Yes we have increased our provision coverage so basically what we are doing in an environment like this is basically increasing our coverage to be more cautious because we see based on the emerging trends we are seeing, we are being more cautious.

Amit Ganatra: I agree. I understand your numbers. What I have seen basically what happens in most of the NBFCs typically that I have covered for past many years is that first quarter tends to be seasonally very weak from an asset quality perspective and then over a period of time asset quality starts improving the fourth quarter is the best, in your case first quarter itself basically there is no indication of any weakness in that sense from an asset quality perspective whatever credit cost that you have taken in the P&L has also gone towards increasing your coverage as such, so those were also not required to that extent, it means that GNPA have been low.

Vellayan Subbiah: The point is if you look at any increase in GNPAs there are two things one is you have to kind of break down the GNPAs into its composite portfolios as well. Last year we had CMF losses which are not there this year and so when you take kind of the gross assets the vehicles contribution to them this year have been slightly higher than the contribution of the other businesses and so when you look at it from that perspective it is something that we continue to feel like we have to work on and improve and it is like it is something that we are very focused on right now from a portfolio perspective, but I do not know if that gives you a good answer. We have increased our provision coverage significantly, but we have also seen GNPA go up in vehicle finance.

Amit Ganatra: And then when you were also mentioning the means from our asset quality perspective should actually be higher does that mean it is the vehicle finance business were basically the gross NPA should ideally go up from a mean perspective or its even the home equity business?

Vellayan Subbiah: Ideally nothing should go up in the NPA but your question yes we would see it kind of more in the vehicle finance business and the home equity business.

Amit Ganatra: Last question is on this capital adequacy so this quarter 10.95% reported tier 1 does it include the current quarter's profit or does not include.

Arul Selvan: It will include current quarters.

Amit Ganatra: So does it mean that by the end of this year once again we will be raising capital to some extent because last time I think you reached capital once you went below 10 in terms of tier 1?

Vellayan Subbiah: Our sense is that we will do it in 2014-2015 our current belief is that we will be okay this year without raising capital.

Moderator: Next question is from the line of Digant Haria from Antique Stock. Please go ahead.

Digant Haria: Sir just a follow up question on the asset quality thing Sir you said the provision coverage have gone up sequentially it has come down so these provisions that we made close to 30 basis points of AUMs so how much of it would be just prudential provisioning and how much would be specific would you have that number?

Vellayan Subbiah: We will get you that answer, we have got the answer to the other question what Kaushik wanted it, so we will get you the answer.

Digant Haria: Sir how do you see the yields moving in the LCV and the MUV segment; in the last three to six months have there been a change in the yields that you can charge to your customers?

Vellayan Subbiah: Each segment has been flat.

Kaushik Banerjee: This is in response to your earlier question in terms of contribution of new branches to the overall disbursement for 2011-12 the contribution of new branches to the overall disbursement was 36% and in FY'12-13 it was 48% now when I define new branches I am talking about branches that we have opened for 2009-2010 onwards.

Arul Selvan: The RBI provisioning requirement would be to the extent of 45 basis points, **Digant Haria:** I got your point Sir but I am just asking that in this quarter of the total provisions we made, so again the proportion will be same for this quarter as well more or less.

Arul Selvan: I am talking about the closing provisions.

Digant Haria: Okay and for the quarter would you have that data?

Vellayan Subbiah: It might slightly more and it will be about in a worse case.

Arul Selvan: Yes it will be slightly more we get more provisioning this quarter.

Vellayan Subbiah: See where you basically have a 45:35 split there you might have a 40:40 split.

Digant Haria: Alright, my only point and question I asking that have some asset slipped from say substandard to a lower category that is what I was trying to infer from this?

Vellayan Subbiah: What we are saying is we are increasing our coverage on assets just because of our concern on the overall environment.

Moderator: Thank you. Next question is from the line of Ajay Khandelwal from BOI AXA Mutual Fund. Please go ahead.

Ajay Khandelwal: Hi Sir I want to understand what is the repeat business for us and I also want to understand that since our mix has been shifting from HCV to more of LCV and mini LCV, however have the number of customers has increased for us vis-à-vis operating cost, so if you can help me if whether the HCV customers itself are buying LCVs of this is LCV buyers who are buying more of LCVs which are our existing customers.

Kaushik Banerjee: We have traditionally been focused on the LCV as small commercial vehicle segment, we have traditionally been focused on the LCV as small commercial vehicle segment and about 13% of our overall portfolio was heavy whereas about 33% is light commercial vehicles and about 11% is small commercial vehicles, the balance is tractors and used commercial vehicles. To respond to your point on repeat business about 27% of our overall disbursement comes from existing customers.

Ajay Khandelwal: Sir I am trying to understand because incrementally disbursements were happening on LCV and mini LCV so this is category, which is different from HCV or there are HCV guys who are also buying LCVs more now so these are also customers which we have been dealing with so in terms of credit appraisal we are pretty fine with that.

Kaushik Banerjee: Valid question, the segment of customers that we fund are essentially single to five vehicle loaners the LCV customers typically buy LCVs and heavy commercial vehicle customers buy heavy commercial vehicles so segment you are referring to is logistic segment and we actually have a cross purchase across heavy to light based on their logistic applications.

Ajay Khandelwal: Sir in terms of number of customers I am sure must have increased with the mix shifting towards LCV and mini LCV, there how do you expect the operating cost took and shape up and also vis-à-vis how our employees on roll and off roll proportion how do you see that.

Vellayan Subbiah: Basically if you look at it we constantly see ways to decrease our opex to average assets which we report at a portfolio level. I think your question is as the mix is going towards smaller ticket loans will the opex go up and the answer to that is that our efficiency is improving more then, so let us say kind of you get a 30 bps increase in efficiency you might lose 5 bps to the fact that the guys are moving to smaller assets but overall you can see our opex to assets and we published that basically it has gone down every year, it used to be at 4.6% in FY'11 and now for this quarter it is down to 3.7% and we will continue to send it down. So my point is it will not go back up to 4.5%.

Moderator: Thank you. Next question is from the line of Ganesh Jayaraman from Spark Capital. Please go ahead.

Ganesh Jayaraman: Hi, I wanted to get your thoughts on the cash discounts being offered by the truck manufacturers and the effect it is having on effective LTVs especially in the SCV segment given the competition there you have seen some 100% plus LTVs also there so wanted to get your thoughts on that.

Vellayan Subbiah: I think clearly the market is beginning manufacturer to kind of push and are kind of looking at what they can do to push, what we need to and what we have done as a result and there is one of the things that caused us to market share, for example in SCV we lost market share in the first quarter, we have come from 12.6% to 12.1% predominantly because we have tended to say a bit conservative on kind of the areas of lending and I think it is something that we have to just be a bit more cautious off given the environment.

Kaushik Banerjee: And Chola has always looked net off discount, see Ganesh is that it is very difficult to understand what is the exact quantum of discount that is being offered to as transaction based and it is depending upon the customers ability to actually negotiate with the dealer. So there is no flat discount value, it depends on customer-to-customer but yes discounts have kind of reached very significant levels.

Ganesh Jayaraman: Got it. Specifically talking with regard to market share, do you see any further upside to this or you think it makes sense to kind of cap it here and focus more on quality especially in the SCV segment.

Vellayan Subbiah: HCV right now it is kind of a wait and see game right because we have got to wait to see what happens in the environment. So we do not want to go aggressive, we are not trying to go aggressive on market share at all in the current environment.

Kaushik Banerjee: One clarification Ganesh you are talking about Heavy's or you are talking about small.

Ganesh Jayaraman: Small, I did not say heavy.

Kaushik Banerjee: Well in small commercial vehicle the discount components are much lower the discounts were significantly higher in the heavy commercial vehicle category.

Moderator: Thank you. The next question is from the line of Sumit Agarwal from Franklin Templeton. Please go ahead. Mr. Sumit your voice not audible.

Sumit Agarwal: Sir, a follow up question. I was just looking at segmental ROA that you have given. It looks like that home equity from a returns perspective is definitely a more lucrative business than vehicle finance given the fact that opex is pretty low, ticket size being larger. On a long-term basis do you see this shift from CV financing to home equity on an AUM basis for you. Is it something that we should be looking at?

Vellayan Subbiah: I think the way to look at is it kind of gives more impetus to vehicle finance to reduce their opex. It is the nature of business, obviously like we take, HDFC they operate at kind of 0.5 to 0.6 expense ratio which on a comparable basis to us will be 1.5 to 1.6. But the point is that I do not think that is the reason for the move and each business has its own set of opportunities, you need to raise it in its own way, you need to kind of grow it in its own way. I do not see a huge shift because of that factor.

Sumit Agarwal: Should we assume that you would operate at 75:25 sort of ratio?

Vellayan Subbiah: The point that we have already articulated two things, one is I have articulated that I do not see a significant mix in the next couple of years. So we are modeling for the next two years, I do not see a difference, I do not see a significant shift. It could move a bit, but not a significant shift. Beyond that I do think that we will start seeing shifts because we will first have new businesses beginning to pick up a bit of the book, that is when we will start focusing on scaling out new business and we will also see shifts because of the potential to kind of gain market share in each of those two businesses in vehicle finance and home equity. It might be different at that point in that.

Moderator: Thank you. Next question is from the line of Uman Shah from CIMB. Please go ahead.

Uman Shah: Congratulations on a good set of numbers. Just a couple of questions, one as a policy or may be as a business practice, what kind of liquidity do we maintain on our balance sheet if at all?

Arul Selvan: We keep two months requirement available as sanction line or as per our working capital line. So that is available cash.

Uman Shah: These lines would be linked to the current lending rates of the banks right?

Arul Selvan: Correct and after the recent away move we have drawn out most of them and keeping them either in FDs or in mutual fund.

Uman Shah: Okay and secondly terms of business what portion of our business is outsourced through DSA if at all?

Vellayan Subbiah: In vehicle finance virtually nothing, I would say less than 1% we use our franchisees 1% to 2% may be, in home equity that number is much larger some most 60% of our business.

Uman Shah: Obviously currently the situation remains more volatile and fluid but more from a medium term perspective what could be our ROTA or ROE targets, we had initially indicated 3% kind of post tax ROTA. How sooner or later do you think you can achieve that number?

Vellayan Subbiah: We will continue to kind of maintain those targets and obviously like you said the volatility in the overall environment does affect it, but I would say that both ROTA and ROE targets we have articulated continue to be something that we can see or achievable between two to three years from now.

Uman Shah: Two more data points, one in FY 2014 what kind of branch expansion are we perceiving?

Vellayan Subbiah: 60 branches.

Uman Shah: In our overall CV portfolio what proportion of loans would be working capital loans?

Vellayan Subbiah: No working capital loans.

Uman Shah: So as a matter of policy, we do not with?

Vellayan Subbiah: Sorry, maybe I should ask what you mean by working capital loan?

Uman Shah: May be given to an existing borrower or may be like a tyre financing or for maintenance.

Vellayan Subbiah: We do not do tyre financing, what we do is we give a loan against an unencumbered asset that might not necessarily be used for the purchase of that new asset, so that could go against working capital.

Uman Shah: Okay, I got your point, but the proportion of that would be significant.

Vellayan Subbiah: 6 to 7% of the portfolio.

Moderator: Next question is from the line of Gautam Chhaochharia from UBS. Please go ahead.

Gautam Chhaochharia: Congratulation sir for good results. I wanted to have three quick questions, one is what is the current incremental borrowing cost which you have seen last few weeks if you have borrowed any trying to negotiate with banks?

Arul Selvan: Banks we have borrowed at base rate, recently yesterday also.

Gautam Chhaochharia: Okay, the second thing, I wanted to check, the securitization you mentioned Rs.35 Crores benefit in the first quarter?

Vellayan Subbiah: Rs.33 Crores.

Gautam Chhaochharia: Similar trend time which we should see throughout?

Vellayan Subbiah: Benefit is probably the wrong word to use.

Gautam Chhaochharia: Benefit is the wrong word. The other issue is, are you looking at incremental securitization from here and what is the outlook on that?

Vellayan Subbiah: We always look at securitization at two points in time in September and March. We will continue to look at securitization in both those periods.

Gautam Chhaochharia: Last thing is when you talked about growth in the beginning about very difficult to rate right now, which is the fair comment but in a philosophical way, you are obviously adding product lines, you are still adding branches and gaining market share to some extent on a medium term basis, but if you assume a scenario for example LCV stopped growing for example, then would you will looking at some delta of growth over the market growth or you would rely a lot more on bottom of credit process to look at growth in terms of targets.

Vellayan Subbiah: It is definitely the latter, we are not going to push for market share growth this year right now given the environment, no way.

Moderator: Thank you very much. Next question is from the line of Kaitav Shah from Anand Rathi. Please go ahead.

Kaitav Shah: Congratulations sir on your numbers. Most of my questions have been answered, just a couple of bookkeeping questions. What would be the gross NPA in absolute term at the end of this quarter?

Vellayan Subbiah: Just one minute, we will give you the data.

Kaitav Shah: Secondly, I wanted to check with you on LTV trends, from a year back to today, how has the LTVs behaved in the vehicle finance portfolio?

Vellayan Subbiah: In our portfolio it stayed flat at 79%.

Kaitav Shah: It is 79% at the end of this quarter?

Arul Selvan: The gross NPAs are Rs.228 Crores all products put together.

Kaitav Shah: Okay and net NPA would be?

Arul Selvan: Rs.50 Crores.

Kaitav Shah: Okay fine and you mentioned that your LTVs would be 79% in vehicle finance.

Vellayan Subbiah: That is right. That is aggregated.

Kaitav Shah: Last year same quarter would probably be a similar number.

Vellayan Subbiah: Yes, similar number.

Moderator: Next question is from the line of Vikas Garg from L&T Mutual Fund. Please go ahead.

Vikas Garg: Thanks very much sir for taking my question, a very quick one. On the sanctioned working capital lines from the bank and one of your statement in the conference earlier that you have already drawn down many of those sanctioned working capital lines from the banks and put them in the FDs or Mutual Funds, so is there any kind of concern given the tight liquidity which is there in the market and also given the fact that funding rates for these banks have gone up like 300, 400 basis point up, so is there a concern that the banks may not be able to honor the sanctioned lines and they may really say no to sanctioned working capital to the companies in a possibility of drawdown.

Vellayan Subbiah: At this stage there are still no indications of that and to prevent that part of it we have already drawn ahead, just to be on a conservative mode and kept it as empty that is what I was saying.

Vikas Garg: Okay, it is not there for Chola Investments, but what is your sense that other companies which may not have that kind of strong matrix as yours could they find some difficulty in terms of getting the sanctioned drawdown now?

Vellayan Subbiah: It is tougher for us to kind of answer that question.

Moderator: Next question is from the line of Uman Shah from CIMB. Please go ahead.

Uman Shah: Hai thanks, just a follow up for Kaushik. I just wanted to clarify something which was discussed on the call earlier, have we reduced LTV already on any of the product? My sense is a comment was made, it was said that to be prudent LTVs have been reduced.

Kaushik Bannerjee: I refer to my earlier point I made in terms of the triggers that we have not faced based on product behavior at branches by manufacturer, two things, one is given the current market condition we have taken a prudent approach towards LTVs and LTVs would differ branch to branch depending upon the portfolio quality of that particular branch in that product, which is a self regulating process. Let us for a moment say that, overdue in particular branches or in a particular product, the LTV is automatically reduced in the particular product to that branch.

Uman Shah: Okay, so if you could just give some more texture on this in terms of typically may be for a heavy customer, what could be a broad range of LTV or may be for a LCV customer what could be a broad range of LTV?

Kaushik Bannerjee: This will also depend upon the profile of the customer, it could be a registering customer, it could be a new customer but typically the industry practice is funding 100% of the charge rate, some finances also fund a significant component of the body which we do not do and we fund 100% of the chassis net of discount in terms of invoice disclosed to us. In terms of light commercial vehicles, our typical range of funding can range from 80% to 90% depending upon the profile of the customer. As for small commercial vehicle, the range is about the same.

Uman Shah: 80 to 90%.

Kaushik Bannerjee: It depends upon the profile of the customer and our level of comfort with that particular customer.

Uman Shah: If you could just give some rough estimate as to what would be the growth in the number of vehicles that you guys would have financed 1Q vis-à-vis 1Q of last year.

Vellayan Subbiah: Growing up about 10,000 vehicles a month. It is 15,000 more vehicles this quarter compared to that quarter, about 15,000 more.

Uman Shah: Okay, so going by the 10,000 run rate last year should have been like 15,000 to 16,000 odd vehicles.

Vellayan Subbiah: 10,000 includes the run off, so you will go in a quarter from about 45,000 vehicles to about 60,000 vehicles.

Uman Shah: Okay and one last question, in terms of assuming that RBI measures which have been announced assuming that they continue to remain in effect for slightly longer period assuming six months or even longer in such a scenario what kind of risks do you see to your margin or growth assumptions or what would be your choice if you were to make between growth in all margins?

Vellayan Subbiah: We would be more margin focus versus growth in this environment and beyond that it is very difficult to predict this way, the only thing is that if that did happen we would turn towards more securitization.

Uman Shah: That would obviously address on the liquidity concerns to an extent. Thanks a lot.

Moderator: Next question is from the line of Jyoti Kumar from Spark Capital. Please go ahead.

Jyoti Kumar: Just one question, at the current head count are you good for the year's growth or you are looking to add more people?

Vellayan Subbiah: We are more or less good, we will add a few more people but not a lot more.

Jyoti Kumar: Actually, I had one more question, few companies have taken credit backing from the manufacturers to fund their vehicles, do you sense some opportunity through that option?

Vellayan Subbiah: I think if you are talking about subventions everybody does that as part of business.**Moderator:** Next question is from the line of Rahul Bhangadia from Lucky Invest. Please ahead.

Ashish Kacholia: This is Ashish Kacholia here sir. I just wanted to check whether there is still substantial scope for reduction on the expense ratio side?

Vellayan Subbiah: It always is.

Ashish Kacholia: How would you see this trending over the next two to three years, could we see a number of something like 3%?

Vellayan Subbiah: 3% will be three to four year target.

Moderator: Next question is from the line of Prashant Shah from Vantage Securities. Please go ahead.

Prashant Shah: Thank you. Good afternoon sir. I just wanted to get a sense, you said that it is difficult to see growth for the balance of this year in this current environment, do you see any growth, where do you see it coming from in terms of geography and in terms of product mix?

Vellayan Subbiah: Just to correct that Prashant, I did not say difficult to see growth, I said difficult to predict what the growth number will be.

Prashant Shah: Okay, sorry I stand corrected. Where do you see the growth for this year coming from, because in your presentation, you have shown that on year-on-year basis HCV are also moderating, LCV is also moderating on an industry wide basis?

Vellayan Subbiah: What we are saying is we do not know what the second half is going to be like there, lot of our areas that are agriculturally based, the monsoon has been good, so there is a decent chance then the second half will pick up in those regions, because those regions are less worried like the metros.. Those sectors, the agriculture sector some of those sectors may pick up in the second half which is where are growth will come.

Moderator: Thank you. That was the last question. Now I hand the conference over to Mr. Amey Sathe for closing comments.

Amey Sathe: On behalf of JM financial, I would like to thank Mr. Vellayan and other management team of Cholamandalam and all the participants for joining us today for the call. Thanks a lot.

Vellayan Subbiah: Thank you very much.

Moderator: Thank you very much. On behalf of JM Financial Institutional Ssecurities that concludes this conference. Thank you for joining us and you may now disconnect your lines.