



**“Cholamandalam Investment & Finance Company
Limited Q1 FY-15 Earnings Conference Call”**

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Moderator

Ladies and gentlemen good day and welcome to the Cholamandalam Investment & Finance Limited Q1 FY15 Results Conference call hosted by JM Financial Institutional Securities Private Limited. As a reminder all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your Touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sanket Godha from JM Financial. Thank you and over to you, sir.

Sanket Godha

Good afternoon everyone and welcome to Cholamandalam Investment & Finance Earnings call to discuss the first quarter FY15 results. To discuss the results we have on the call Mr. Vellayan Subbiah – Managing Director of the company; Mr. Kaushik Banerjee – President - Strategy & Corporate Affairs 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 question and answers. Over to you, sir.

Vellayan Subbiah

Thanks Sanket. I think we have had a decent quarter given kind of the basic market conditions we have seen and broadly I say it kind of as a headline NPAs continue to be our primary concern. The company basically disbursed Rs. 2,300 crores in vehicle finance again it is about Rs. 2,600 crores in the same quarter last year and home equity grew a bit we disbursed Rs. 716 crores there again Rs. 662 crores. But basically we have taken a more cautious stand to disbursements at this stage. The aggregate disbursement for the company stood at Rs. 3188 crores as against Rs. 3278 crores in the same quarter last year.

Our income grew by about 14% to Rs. 869 crores. Like I said our primary concern is the continuous stress in the commercial vehicle segment. Our overall GNPA has risen to 2.4% and NNPA to 1.1% on 30th June 2014. We are taking a tightest stands and approach to credit and we do believe that that is resulting in lower disbursements but we do believe a combination of these actions plus hopefully an improvement in the overall market will basically help improve portfolio quality over time.

Our PBT for the quarter is at Rs. 141 crores versus Rs. 138 crores in the comparable quarter last year and PAT at Rs. 93 crores versus Rs. 91 crores. We have raised Tier-II capital of Rs. 270 crores and I will come to the equity bit we have just announced an equity raise as well. And Rs. 270 crores came as a combination of sub debt and perpetual debt and our capital adequacy were at 18.05%. Our subsidiaries given kind of a what's going on to the securities market have also started making money in this quarter and Chola Securities and distribution together made a profit of Rs. 2.5 crores for the quarter versus Rs. 0.87 crores in the same quarter last year.

Our consolidated PAT was at Rs. 96 crores against Rs. 92 crores for a growth of 4%. One other point I would like to talk about is our equity issuance where basically we had a board meeting on July 26th and we have approved an issuance of 50 million compulsorily convertible preference shares of 100 each for the total capital raised at Rs. 500 crores and this was fully subscribed by funds of APAC partners who will now then the CCPS is converted in to equity at the end of the year and then they will become an equity holder after that. This will basically help meet both business growth and augment our Tier-I capital.

So I would like to stop with that and then turn it over to questions from your end. Thank you.

Moderator	Thank you very much, sir. Ladies and gentlemen, we will now begin the question and answer session. We have the first question from the line of Rohit Shimpi from SBI Mutual Fund. Please go ahead.
Rohit Shimpi	My question is on the home equity book so any particular reason why we are seeing slower growth in that segment right now I mean is it that there is a competition or the risk that you are seeing on the asset quality there if you could elaborate please?
Vellayan Subbiah	<p>Rohit, thanks for the question. Basically it is not a challenge from an asset quality perspective though usually what we do in our home equity I mean usually the first quarter on home equity tends to be weaker and we have seen some of that kind of move in to the home equity business but it is actually seemed to be more a reflection on kind of the overall business that market predominant caters to SMEs. And SMEs willingness to kind of open up their pocket books appears to be kind of being hit a bit.</p> <p>Now what we are hoping is that this is temporary and kind of as some of the other it is bit of a trickledown effect Rohit where once the larger companies start to spend then kind of in general there is more of a mood to spend in the overall market. And we have seen the SMEs taking much more cautious stand especially in this quarter. That is one of the things. So that is part of what we will need to kind of watch for how that plays out in the next quarter as well.</p>
Rohit Shimpi	And on the vehicle finance just wanted to get your sense of when exactly do you see the NPA ratios peaking and then growth coming back and what are the things you are seeing on the ground in that segment?
Vellayan Subbiah	Yes, it is tough Rohit to predict when it is going to come back. The positive thing is that all of the vehicle manufacturers are extremely bullish but we have not seen any positive fronts play out in the market. When we look at most of the data that is coming out. So you did see small improvement in heavy commercial vehicles but that is about it. So the thing Rohit is one of the things where broadly if you take the mood the thing should be getting better. If you take some of the actions people are talking about things should be getting better. But it just does not seem to have hit the ground yet. So it is pretty difficult to say when we like to think that it is going to be in the next couple of quarters but I do not want to kind of I do not want to take a guess on when we think it is going to happen.
Rohit Shimpi	And just given the trends which we are seeing in your own buckets on this delinquent or overdue loans is it your sense that gross NPAs have still some room to go before they peak or you think that most of it has come in now?
Vellayan Subbiah	Yes, you could see it moving a little more up, yes.
Moderator	Thank you. We have the next question from the line of Rahul Bhangadia from Lucky Investment Managers. Please go ahead.
Rahul Bhangadia	Sir, I just wanted to know a little bit more on the capital raising front for how long do you think or for how long do you think this money that you have raised suffices your requirements depending upon whatever growth you foresee?
Vellayan Subbiah	Rahul, thank for the question. Our belief is that this will take a three years including obviously kind of the fact that we will continue to bulk up on Tier-II.
Rahul Bhangadia	And three years based on what growth assumption on the overall balance sheet side?
Vellayan Subbiah	In general we model somewhere between 20% and 25% asset growth.

- Rahul Bhangadia** And at the end of it what is the kind of we are trying to understand if the potential ROE of the company can be closer to 19% to 20% is that something that you are also looking forward to?
- Vellayan Subbiah** Yes absolutely. It is the number that we do track internally and we do believe that we can achieve those numbers. Predominately what is the pressing it right now is the fact that credit losses are much, much higher than they traditionally are. So cycle kind of revert to what we think is a mean we definitely see the ROE numbers moving back. Obviously we kind of right now in the short term we have got a bit of an injection that we will have to take because of the Rs. 500 crores. But by the time the NCLs normalize and we absorb this in to our capital structure we definitely see it going there.
- Rahul Bhangadia** So one of the functions of going back to the 19%, 20% kind of ROE mark would be the reduction in the provisions. Is there any further scope of reducing your cost levels or we have kind of reached the bare minimum that you can do on the cost side?
- Vellayan Subbiah** No, on the cost side rather we continue to believe that there is a lot of opportunity. We have got it down to about 3.3% now and like we said I believe in the medium term and we have to get that number to 2% to 2.5%. So basically on that side there will continue to be opportunity but it will obviously we are not get there immediately we have to kind of continue to chip away at it.
- Rahul Bhangadia** And besides the fact that the asset book itself will you are planning to grow it at 20% to 25%. What else will kind of take the cost down from a percentage of 3.3% levels to may be 2% to 2.5%?
- Vellayan Subbiah** The cost side there is a lot of opportunities that continues to remain it kind of almost 70% of our costs are people related and people means that is very fundamentally driven on the productivity of getting from the people. We have articulated some of the stands that things that we have started to do in terms of improving the sales side productivity. So basically we are looking at pretty much everything you should be looking at on the cost side.
- On the collection side we continue to see that there will be opportunity to improve productivity. We are moving to a two Tier-structure where the early stage collection is moving to call center base which is we were finding it a cheaper model to go to for early stage collections. There we are seeing that people have a general kind of intent to pay. So we are doing a lot in terms of early warning signals in terms of what profiles are going to pay automatically versus what profiles are not. And for profiles it have a higher propensity to pay.
- We are moving them to call centers and then we are moving medium and late stages to more people intensive collections. We are looking at that ACRs for the people part of it where the people go out and collect to see how many accounts one collection agent can collect. That is on the collection side.
- On the other side we are actually kind of looking at overall structures itself span of controls between our direct field force and the hierarchy above it. Most organizations tend to have a fairly standard and kind of what I will call a classic hierarchy if you have a branch manager then you have an area manager; regional manager; a zonal manager. So we need to look at the entire span of control through that chain so that the organizational implications which again have turn translate in to a lot of benefits over the medium term. The less hierarchy you have obviously the better off you are.

So there are several areas they were looking at on the operation side that we do believe that will translate in to more benefits over time. We are also moving our mobile platform in to a tablet which is going to do I say almost five times as much as what we were doing on the mobile platform. That is going to help reduce our turnaround time significantly which then again help to increase productivity on the sales front and actually we are looking at models in terms of how much of credit will remain centralized versus decentralized.

Well, we will remain decentralized versus centralized so pretty there at least about five initiatives going on. There are just totally focused on how we reduce our OPEX to assets. So we still believe that it is early days on that front.

Rahul Bhangadia The technology platforms that you have just talked about is that all in-house or outsource kind of stuff?

Vellayan Subbiah So lot of the thinking was lead so there being two areas kind of one is some of the design aspects McKinsey has been involved with the thinking and the actual development has been done by Cognizant.

Rahul Bhangadia Okay so the design bit is from your side; the requirement is from your side and Cognizant is doing the development work for you?

Vellayan Subbiah Even in the design aspects we have used outside help as well both internal and external on the design part.

Rahul Bhangadia Okay so basically the software that you use is basically kind of the IPs your own and it is pretty much kind of hosted in-house or you have actually kind of outsourced everything the whole process in to outside?

Vellayan Subbiah It is absolutely our IPs it is hosted in-house there is no question. It is totally our IP it is hosted in-house. What we are outsourcing is the development of it. Cognizant basically we did not develop.

Rahul Bhangadia Everything else is basically on your end itself?

Vellayan Subbiah Yes, it is for us they are doing the development.

Rahul Bhangadia And just one final question. Pardon my ignorance but any mention of the conversion price of the CCPS that you have issued?

Vellayan Subbiah Rs. 407.

Moderator Thank you. We have the next question from the line of Kunal Mehra from Visium. Please go ahead.

Kunal Mehra Couple of questions. Firstly, operationally some of your peers have talked about a significant negative impact in collections in the past quarter largely due to the election related activities. Did you witness or encounter anything that is similar that we should be cognizant of when we kind of look forward to the next quarter?

Second, given the capital raise I certainly agree with the timing of it. But when you are looking to pickup capital at this point your cautious statements on home equity CV how do you align them with the need to capitalize right now for growth and therefore what will be the timelines?

And finally, and I will throw this out there that this is more of a comment from institutional investor like us who want to be more involved in your stock. Issuance's of this type unfortunately do not aid liquidity in the near term which if I had to probably pick a little the only strikes against the stock that will probably rank at 1, 2, and 3. I mean I realized that there

is little to be done about that but just one for you and the senior management to be cognizant to that if we can do anything to improve liquidity it will make a lot of what you are doing also actionable for institutional investors like ourselves?

Vellayan Subbiah

No sure Kunal, thanks for turn for the questions. Let me kind of shoot in order. First, in terms of collections and where they affected by elections. Yes, definitely I think Mahindra reported there as in their quarterly review as well. The collections were affected by elections. The question obviously is that April as a result got hit for pretty much us and everybody else. The question is how much of an impact was elections versus otherwise and traditionally we have always seen April be a bad month because March tends to be the best month so some of that hangover basically comes in April.

So yes, we do attribute a certain amount of the performance to elections and so we do believe that that will not be there in this quarter.

The second question on capital infusion I think your question was predominantly one on timing. So first I just wanted to state that I did not imply that we are taking a more cautious stand to home equity we are not. I think the question was more why did not we kind of grow our disbursements so much in the first quarter and my response was more to that. We continue to see a lot of growth opportunity in home equity and I do not believe that we are going to take a cautious stand I mean we are going to take an increasingly cautious stand in that market. We are taking a more conservative view to vehicles finance.

The second question was why did we choose to raise capital when we are seeing cautious stands on both. I think lot of the people in the phone are far more experts in this than I am but obviously the prudent thing to do is raise capital when capitals available and when we think kind of the price justifies it. And we felt that from that perspective it was the prudent time capital was available and I always think it is better to bulk up when it is available versus trying to bulk up and timing it exactly when you need it.

So Kunal, I hope that answers the second question.

The third one is obviously kind of a tougher one to answer the point on liquidity. Obviously all I want to say is that as promoters the family used to own effectively 75% of the stock. Now we are down to 53% so we are hopefully kind of a bit better than it was in the past. Part of the challenge that you talked about on the institutional side is that even when we have given the institutions a lot of the institutional investors were given to continue to hold and not sold.

So we did go through the debate as to whatever we should go with a PE round and an institutional round but our belief is that hopefully some of the funding we did four, five years ago some of those investors I do not know at some point might choose to exit the market. But obviously it is another dimension that we have to try and kind of optimize on and at this stage we just felt that that PE was a kind of a quicker kind of a better route for us to go than basically taking a QIP or basically going down the institutional route.

Kunal Mehra

Fair point, agree. Can I just seek one clarification on the first question you referred to April being the month that was impacted. Would it be right to assume that the actual impact was restricted to arguably that month obviously woven in with the seasonality that April represents rather than being an impact that was across all three months, right?

Vellayan Subbiah

Yes, definitely Kunal. It was restricted to only that one month. What you are seeing in May and June is actually representative of where the market is at. And that is why we said that we do not see any significant improvements in terms of the actual market conditions on the ground yet. Yes, our moods getting better absolutely. So that gives us encouragement that it is going to get better but we have not seen on the ground translation in terms of more money in terms of our truck owner's pockets.

Kunal Mehra

One final question if I may. You always talked about your approach for the mortgage home product LAP SME oriented product and how it is a lot more granular and it involved then the peers and most notably the PSU Banks. If I had to reflect on lot of my conversations with the bank chairman this seems to be the new attractive product for a lot of them obviously on a backward looking basis. My hypothesis is that you are countering a lot of that increased competition by going further deeper in and probably trying to broader relationships with the existing customers.

It is what and I mean the systems and the processes that you have talked about in the prior calls point in that direction. Is that the right assumption; is there anything more to be built on in that direction?

Vellayan Subbiah

Yes Kunal, you are absolutely right I think NBFCs in this country are always going to be if we were to think kind of an in the early days we used to have this kind of classical game between Sony and Matsushita where the Sony was always the innovator and then Matsushita was kind of fast follower. Now people kind of talk about the Apple, Samsung battle in the same way and you know invariably what happens in this country in terms of financial markets is that a lot of that kind of innovation tends to come from the NBFCs and then the banks tends to be fast followers once they see that a market has been proven out by set of NBFCs.

So we obviously expect that and it is a constant game for us. So basically the way we need to look at it and we are looking at it kind of fairly actively in the home equity business right now is that what we

Used to do in perhaps like 40, 50 locations we have to think of how we are going to move it out to a 100. Now what is good for us is and that is one of the things we are actively looking at what is good for us is that because we already have a vehicle finance presence. Our cost to spread 80 to 100 locations is fairly minimal. It is basically if we are going to drop three people in to a location with just three computers and the cost of the people but we definitely do see both an increase in geographic depths that we need to go to as well as an increase in our general approach using the segmentation on some of the micro market area.

I do not know we are kind of talked in detail about how we are trying to use the industrial classification standards to kind of get more temporized in our approach but all of that is things that we have to start pushing in to the HE business to basically keep ahead of the game and continue to grow.

Moderator

Thank you. We have the next question from the line of Aditya Singhanian from Enam Holdings. Please go ahead.

Aditya Singhanian

I had two questions. One in the vehicle finance business I heard your comment that nothing much is changed on the ground but still like to understand whether the comments made last quarter still hold in that NPLs will peak in may be one or perhaps two quarters and any comments on competitive behavior there whether it is easing or how it is changing?

Vellayan Subbiah

Yes so Aditya; thanks for the question. Yes, I do continue to believe that our NPLs will perhaps peak in the first couple of quarters this year. In terms of competitive behavior obviously it is kind of whether NPLs peak or not also it depends on competitive behavior. What we are seeing is that people are getting more bullish on heavies and this is what interesting because we are not seeing the collections data at the back-end to support it but I think the heaviest market is just been so beaten up for so long that you are seeing people who basically want to start replacing older fleet.

The big question for us is that the small road transport operators the guys who we predominantly fund their economics fundamentally going to improve or not. So it is an ongoing discussion we are having with the manufacturers nowadays basically saying that do we actually want to act till we see real improvement on the ground? Our general bias is not to and that is the stand we are taking.

But we do see some people beginning to say like listen hey, heavies are improving let us start kind of opening up a bit on credit we are definitely not there yet.

Aditya Singhanian

So when you say people are getting more bullish are these the manufacturers or are these the fleet operators or the financiers?

Vellayan Subbiah

The manufacturers will always have an incentive to kind of get more bullish especially in that conversations with us. So that is what is kind of take or given Aditya. So what is encouraging is for the first quarter we actually seen some data they are pointing to at least now we are seeing in the last one or two months we are seeing some data point to heavy sales increasing. But I always think of this as you have got what George Soros used to call reflexivity or it still calls reflexivity in there, right?

Because some of this is how much of it is kind of supply side created, right and I do think that we have got to be cautious when we come out of this from the supply side and from that perspective it is important to see how the other financiers react as well. So I do believe that in general the market will get more bullish a bit ahead of time. It is always the nature of the market to kind of to forget the past and then kind of get a bit more bullish.

Aditya Singhanian

And the LCV will presumably be a year or year-and-half behind or is that not given?

Vellayan Subbiah

I do not think any of these things are given. It is very difficult to predict. The downturn came a year, year-and-half .

Aditya Singhanian

Yes, I mean that is why I was asking.

Vellayan Subbiah

But there is no guarantee for the other end. Always think of that disclosure is that all you guys put in kind of a tough results and no predictors of the future or whatever it is.

Aditya Singhanian

And just on the home equity I know you sort of indicated that there is somewhat slower demand. But I just like to understand last quarter we were sort of reasonably optimistic about the current year. So if you could just dig a little deeper in to what really changed between then and now and if there is some color around is there a customer segment or geography or where you see a slowdown?

Vellayan Subbiah

Yes Aditya, there see I want to kind of take one of that thing to be taken in context what we said is that we did see that guys have not started opening up their purse string as much especially in the first quarter of this year. Now there I do not see the home equity situation has kind of prolonged. And what the conscious we will be taken home equity is even if we cannot make the

disbursement number how do you ensure that we will hit the kind of the bottom line numbers and that is something that we constantly kind of look at in terms of how we are going to do. So that is part of what happens which is at some points you choose not to kind of push disbursements too much because you want to keep that focus on bottom-line a bit more.

But do I think that the SME market or kind of the HE market and predominantly the SMEs will end to. The spending is going to be suppressed for a prolonged period of time the answer is definitely not. All I am saying is we did see some tightening in the first quarter but I do not think it is going to be sustained.

Aditya Singhanian

And do you see any signs of yield or spread compression at all or any other issues on the market with regards to credit quality?

Vellayan Subbiah

Yield side we have not seen any challenges which is the yield side is held up pretty well. If anything what we hope to see is kind of cost of funds come off a bit that should actually help open up NIMs. So I would actually believe it is going the other way.

Aditya Singhanian

And on the credit quality side?

Vellayan Subbiah

The credit quality I think we have that discussion in the beginning I continue to believe that may be kind of Q2 is where we will see this thing peak.

Aditya Singhanian

Sorry I could not follow that this thing peak; no, not in vehicle finance I meant in home equity?

Vellayan Subbiah

You are talking about home equities, sorry. No, we are not seeing any significant stress in the home equity side. Sorry, Aditya.

Moderator

Thank you. We have the next question from the line of Balaji Vaidyanath from Sundaram Mutual Fund. Please go ahead.

Balaji Vaidyanath

I have couple of questions. One is in terms of the proportion between vehicle finance and home finance. Currently it is about 75:25 how do you see this moving in the next 18 to 24 months and what kind of proportion would you be comfortable with; number one? Number two, I know you were speaking about home finance to the earlier caller could you also give us some sense on what will be the top five markets for you in this Rs. 2,800 crores business and I know you have mentioned that the target market is the self employed guys and the middle income group.

Can there be more specifics in that in the sense will your typical customer be a second time home buyer or a first time home buyer or is there also some amount of cross selling which you may think of in the sense where you can target the well off fleet operators or fleet owners?

Vellayan Subbiah

In terms of the ratio we do see that ratio moving more towards home equity but it will be at a measured pace it is the same pace as it has been increasing at the last three years in terms of share. So may be kind of five points over a two, three years period is what I see the mix moving at.

Kaushik Banerjee

SV, one clarification. Last year it was 25:75 right but this year we are 73:27 the mix over last year this page 2 as 73:27 between VF and HE.

Vellayan Subbiah

So Kaushik, they are basically be about 5 points over a three year period,. Right?

Kaushik Banerjee

Yes, so we are already 2.7%.

Vellayan Subbiah

So in terms of your second question so there are couple of points you raised, right? The top five markets generally the metro tend to be larger markets for us because that is where most of the asset classes. So the larger metros will be kind of where our larger markets are. You asked the question in terms of whether these are people buying a second home.

So just to clarify Balaji, the home equity business is where we provide a loan against an unencumbered asset. So it is basically somebody who does not have a lean against a house today and we would take the first lean against it. So it is not for new house construction but it is much more against the existing real estate asset base in the country that does not have a lean against it and like you probably know almost 70% of the assets in the country is still do not have a lean against them.

There was a question on cross selling. We do see an opportunity but it is limited and also we look at it from the perspective of if we had already because effectively we were funding the free donors business so we generally do take a certain amount of caution as to how much leverage we want to kind of get in with that same person.

Moderator Thank you. We have the next question from the line of Umang Shah from CIMB. Please go ahead.

Umang Shah I just have two questions. One, on the vehicle finance asset quality the increase in gross NPLs that we have seen in this quarter if you could just give us some color in terms of which asset class is it coming from so is it mainly from LCVs, Heavies or is it across our products?

Vellayan Subbiah Yes, it is fairly broad across products.

Umang Shah And so broadly if you could also just give us some more color on the LCV market so heavies have had their fair bit of struggle over past two years and LCVs probably for past six months we are all seeing struggling both in terms of growth as well as for financial s in terms of the asset quality. So how is this market shaping up if you could just throw some light on that?

Vellayan Subbiah So I am not sure your question is when is the market is going to pick back up and like you know I am not the greatest predictor of that. All I say is that and this is kind of common thinking currently that heavies will come back first then lights will come back after that. But I do not think we are at a stage where we can predict when exactly this will happen.

Umang Shah In fact my question rather was on those lines itself that is it that we would see a may be some more pain in LCVs before the overall CV getting picked up or is it difficult to predict at this stage?

Vellayan Subbiah Like I think I responded to Aditya's question our belief is that Q2 should be kind of when things peak out, right? Given that we do believe the mood and sentiments getting better Q2 should be when things do bottom out.

Umang Shah Just secondly, on your home equity portfolio if you could just provide me the average ticket size and average yields?

Vellayan Subbiah The average ticket size is about 50 lakhs and average yield is just shy of 14%.

Umang Shah Just one last question. You earlier mentioned that going forward the ROEs or rather the improvement in ROTA would be mainly driven by normalization of credit cost and obviously our operating cost coming down. Assuming that incrementally over a period of time we see a 70:30 kind of a mix between vehicles finance and home equity.

What kind of impact do you see on margins or rather my question is that which will be the product segments which will actually give some kind of a kicker to margins at least from the yield perspective so cost is something which will obviously be market determinant but at least on the yield side what will give some kicker to margins?

Vellayan Subbiah

Yes, see our focus there is predominantly on our ROTA our return on the total asset base. And right now obviously home equity has much higher ROTAs in the vehicle finance business. I do believe that as the vehicle finance picks back up its ROTA can improve significantly as well. So I think the data is there on our investor presentation but where it about 3.7% for our home equity business today. So as a business we think 3.7% or kind of anything that begins to push you know that 4% number is pretty healthy.

And we do think that we have over the cycle can begin to deliver that. It may require some tweaking and mix because even within vehicle finance we have some products like tractor and Shubh which our used trucks business that competes against Shriram have a much higher effective ROTAs. So when we take the mix in vehicle finance we do believe that in both those businesses we can start pushing towards that 4% mark. Now some of the newer businesses we are looking at housing loans for example and what we are focused on is housing loans are less than Rs. 25 lakhs in are targeted towards the SMEs.

We believe that that business can get us pretty good yields as well. And so that is a business we are quite encouraged with in terms of early results. We are also looking at the rural space and we are seeing good results from that business as well. So some of the businesses that we are currently piloting we do believe will help boost the yields in the medium term. But obviously those are not the short term drivers but like I said in the short term our two existing businesses itself can get us to our yield targets.

So basically the yields like you know are higher in vehicle finance and we see opportunity to bring down operating expenses in vehicle finance. So the combination of higher yield; lower operating expenses when the losses normalize we believe that the ROTA in that business can get to the same levels as from my query.

Moderator

Thank you. We have the next question from the line of Digant Haria from Antique Finance. Please go ahead.

Digant Haria

Just wanted a clarification that you just said that as a response to someone else's question that the immediate recovery in M&HCVs could not actually materialize and even if it materialize you would like to stay away initially till there are signs of actual revival. So should we understand from this that may be for the next 6 months or 12 months even if there is say a mild recovery in MS series we do not see our portfolio growing meaningfully especially on the heavy side?

Vellayan Subbiah

Yes, I definitely say that it is the stand for the next three to six months I would not say for 23 months but for the next three to six months yes, definitely that is the stand.

Digant Haria

And what would be the individual NPAs for vehicle finance and the home equity?

Vellayan Subbiah

All of that data is there in our investor presentation. The individual NPAs and all?

Digant Haria

Yes, individual NPAs. I think you give it every quarter, right the GNPA's in vehicle finance and home equity individually?

Vellayan Subbiah

2.72% for vehicle finance and 0.04 for hedging.

Digant Haria

Lastly, I think just repeat of the capital raise which we did so what is the date and price of conversion I think Rs. 203 is what you mentioned before?

Vellayan Subbiah

Rs. 407. Money is yet to come to and it will come in September we are waiting for the postal ballot to get it cleared by the shareholders.

- Moderator** Thank you. We have the next question from the line of Sonal Gupta from UBS Securities. Please go ahead.
- Sonal Gupta** Just in terms of two things. One is given that you have a large LCV and small commercial portfolio and again you have exposure to achieve. So just wanted to understand like you mentioned or alluded to in the beginning that the economics is I mean you are very sure right now but have you seen any signs in terms of freight rates, etc., or utilization levels for your customers sort of improving and is your sort of collection sort of efficiency improving in that sense?
- Vellayan Subbiah** Sonal, so that is what I was saying which is we are not seeing a definite improvement on the ground yet.
- Sonal Gupta** No visible sign across the board?
- Vellayan Subbiah** See what we are saying is it is staying at the same levels. We are seeing their mood getting better. So that is why I want to segregate that the moods getting better there is no visible signs yet that actual income in to our truck operators is getting better.
- Sonal Gupta** And just the other question that I had was you seem to be growing I guess fairly in terms of the disbursement mix in tractors and cars and MUVs are the two areas which seem to be growing within the vehicle finance portfolio. So just any thoughts there in tractors because again we are seeing a very poor monsoon so are you seeing slower demand or because you have a fairly limited exposure to the segment you are gaining market share so how we should look about it?
- Vellayan Subbiah** Yes so, I think you have answered your question so it is kind of one is yes because we have had smaller market share we are expanding a bit and we are seeing slower demand because of the monsoon. So both factors are playing out. We are not growing as fast as we thought we would that is because of the monsoon. But we are expanding our market share. No performance from that sector now again performance in that sector also in particular markets, right Madhya Pradesh has got badly hit. So we want to basically kind of stay focused on markets where we are convinced that the performance will remain good over the cycle.
- Sonal Gupta** So which are the key markets for tractors for you?
- Vellayan Subbiah** We get a split but Rajasthan is a decent sized market.
- Sonal Gupta** And just again on the car side because I mean looking in to split it looks like again you have fairly large rural exposure so again this is coming largely from the rural side the car growth and the portfolio?
- Vellayan Subbiah** That is right so car MUV is kind of coming more from the rural side.
- Sonal Gupta** And again I mean just because in some of your competitors who are dominant in the rural side have actually been showing declining disbursement for the last four quarters. So again it is more you would say it is more like market share gains or do you think the underlying demand growth is fairly healthy in those markets?
- Vellayan Subbiah** Yes, it is definitely more than market share size on the car MUV.
- Moderator** Thank you. We have the next question from the line of Jigar Walia from OHM Group. Please go ahead.
- Jigar Walia** My first question is on if you can explain the refinance portfolio in terms of now what the product usually is and tenure and the yield?
- Vellayan Subbiah** Your question on the refinance portfolio was?

- Jigar Walia** No, typically what is the product profile and the tenure and yield?
- Vellayan Subbiah** Refinance in average gets will be in close to 15.5% to 16% in terms of yield. The tenure can vary it can be anywhere from 2 years is the low end to up to from 2 to 3 years I would say the average tenure and in terms of what kind of products it is traditionally kind of combination of a light commercial plus heavy commercial.
- Jigar Walia** Some color on the branch expansion in out of the existing branches how many branches do form equity?
- Vellayan Subbiah** So we have got 575 branches now of which about 67 do home equity.
- Jigar Walia** And you feel that eventually it can actually move to all the 575 home equity as a product?
- Vellayan Subbiah** Yes, do I think that it is going to get there over that is going to be a longer term. Basically we have to make a judgment on how many properties we see that have a value of Rs. 1 crores or more. So obviously in some of our smaller branches today they are not that many properties they have that kind of value. So we would not go in there.
- Jigar Walia** So basically as far as home equity is concerned I understand you target probably the semi-urban or the kind of Tier-III, Tier-IV market but high ticket size. So you will target the rich within the Tier-II, Tier-III segment is it?
- Vellayan Subbiah** Our primary target is the self-employed and so within the rich you would have salaried and self-employed but we predominately go after the self-employed.
- Jigar Walia** If I can put it other way the profile of the 67 branches are they more metro centric?
- Vellayan Subbiah** Obviously we do cover the metros and like this say kind of our mix if you take our base right now will come from the metros. Our growth is coming from the smaller locations.
- Jigar Walia** So when you go to smaller locations your ticket size probably if you can give a range for the home equity I mean the ticket size that you capture?
- Vellayan Subbiah** From Rs. 30 lakhs to probably about Rs. 3 crores.
- Jigar Walia** Sir, last question is on the collection so you said that you are going to be increasing your focuses on increasing collection efficiencies and you mentioned the collection per agent on the non-call center team. In this case does the distance become an issue because earlier your competitor has alluded to the fact that the typical 70 kilometer radius for the branch is little too large if one has to actively do collection?
- Vellayan Subbiah** Yes, you are fully right. I mean distance is a factor in terms of loan performance and in our current credit modeling now we are taking that in to account but we are seeing a degradation in terms of loan performance once we move beyond 50 kilometers away from our branch. So if you kind of take them in 25 kilometer increments clearly we are seeing loan degradation once it go beyond 50. And even between 0 to 25 and 25 to 50; 0 to 25 is significantly better. So in this environment where we are tightening credit significantly we are obviously kind of looking at that fairly strictly in terms of where we are originating our loans and we want them to be closer to the branches. So broader agreement with the statement which is basically yes, loan performance does degrade as it goes further away from the branch.
- Moderator** Thank you. We have the next question from the line of Kashyap Jhaveri from Emkay Global Financial Services. Please go ahead.
- Kashyap Jhaveri** Just one question. I do not know whether I missed out in the middle or not. In your CV portfolio how are you seeing the resale prices moving for the used vehicles?

Vellayan Subbiah The resale prices are now kind of I will say stabilized at very low levels. They have a loss rates it kind of vary anywhere and in the best vehicles losses kind of go up to as much as 55% or even closer to kind of 60% in some cases. But on average we are doing about 42% and the best are kind of doing 25% to 30%.

Kashyap Jhaveri And how would have they moved over let us say last about two, three quarters or so?

Vellayan Subbiah So they have gotten worse and I say if you take from.

Management 500 bps like it used to be around 38% now it is around 40%.

Kashyap Jhaveri So they have gotten a little worse than where they were about couple of quarters back?

Vellayan Subbiah Yes correct.

Kashyap Jhaveri So one of your competitors actually had a slightly different view to share but let us say if the loss rates have actually gone up and let us say second hand vehicle prices at least if not falling seem to have at least bottom at this point of time. In that scenario would it be actually safe to assume that probably recovery in some of our products could be down the line without any recovery in the second hand vehicle prices?

Vellayan Subbiah So your question was the new market will grow without the second hand vehicles?

Kashyap Jhaveri Sort of yes.

Vellayan Subbiah It can happen but traditionally I do not see that skew playing out because you are going to see the second hand prices recover as well and who is going to pick up second hand prices have to recover.

Kashyap Jhaveri So how do you then explain this dichotomy that we have seen at least some part of the CV sales is actually getting in to positive trend say for about couple of months now but nobody is actually ready to buy the second hand vehicle. I mean I would presume that one would like to keep the cap cost low when the economy is not doing as well. So how do you explain that?

Vellayan Subbiah The biggest thing we are hearing see here there is one challenge, right which is we do not fund fleets as much. What we are hearing from the manufacturers is that the larger fleets are basically kind of looking at their average age on their portfolio and saying that the average age has gone up to significantly and they basically kind of get more new vehicles as a result. So I mean so that could be the one factor that would explain why news beginning to pick up and as they kind of modernize their fleet or kind of reduce the age they are probably going to be dumping their old on the market as well. But I think that is a short run challenge it cannot sustain in the medium or long run economic environment.

Kashyap Jhaveri So if I understand this correctly what you meant to say from the last sentence was that unless we see any meaningful economic revival this kind of sales will not sustain? For them to sustain it needs the economic revival as well?

Vellayan Subbiah Absolutely I strongly believe so.

Moderator Thank you. We have the next question from the line of Kunal Mehra from Visium. Please go ahead.

Kunal Mehra Vellayan, I am going to impose once again. Is the long term investor looking at this sector if one looks at the RBI actions over the locals the last 12 to 15 months you can be forgiven for believing that RBI is trying to gradually nudge a lot of the NBFCs in to broader bank structures you see in the affordable housing side, you see the licenses, and you see on a specific banks it sort of key implication on the company. How you are thinking about that? Do you think it is a

real risk and a reality that you will need to confront very soon or do you think you actually have longer than we all perceive?

Vellayan Subbiah

I think Kunal, it is a great question especially with some of the differentiators licenses now where they have come out with both within the small banks license, and with the payments banks they do seem to be making nudges. I just do not think it is kind of fully thought through from the RBI's perspective as yet. But I definitely do see kind of nudges in that direction. I think I have always articulated that I know at least starting 2.5 years ago we articulated that in a 10-year horizon there will be no difference will be in the NBFCs and the banks especially the larger NBFCs and the banks. I do think that if RBI has that rather they would compress that time frame. The thing that there are still thing kind of needs to be fully thought through is that they are still same very similar the things and kind of putting such onerous conditions on kind of the bank requirements that it makes it tough for people to kind of get in, right? I mean even payment banks like in small banks for example you have to be kind of contiguous at the district level so it is almost like a kind of you guys ever played a ball game called risk right but every time you are going to try your troupes and need to kind of like you need to have a contiguous parts with them. And that is about the challenge with the small banks. The second is just the ownership criteria, right? Where they want the promoters to start diluting fairly significantly and fairly quickly. So we do have a kind of thinking hats on in terms of what we need to kind of do on this. We do see pressure and what I do think is the new bank options offer is the ability to run both where you could basically have a payment bank as a subsidiary of an NBFC for example. So I think that perhaps we do have to do. I am not saying we have an answer on it but clearly what we were thinking was we would have the liberty of kind of going longer to answer is something that we will have to answer in the more short or medium term.

Kunal Mehra

A probing question is the fund raised in any way linked to your hypothesis on what that answer would be?

Vellayan Subbiah

No, definitely not.

Moderator

Thank you. We have the next question from the line of Aditya Singhanian from Enam Holdings. Please go ahead.

Aditya Singhanian

Just sort of follow up question on the asset quality on the vehicle side, you know obviously your comments are clearly indicating that there is not any improvement on the ground so two questions. What indicators would you be watching for to sort of give an early signal that things are the worst is definitely behind? And related to that you know in a way what gives you then confidence that your NPLs will be sort of this quarter if there are not any improvements on the ground?

Vellayan Subbiah

I will answer the first question. The what indicators you will look at kind of the predominant what we predominately look at is kind of roll forward rates and what is happening to our roll forward rates in terms of how much is moving from each bucket to the next. So 0 to 30 to 31 to 60 it still hits NPA. And so for example sometimes you tend to see kind of roll forward risk getting better in particular buckets but to actually kind of say that a recovery or revival is on track. So the performance needs to move up and roll forward rates need to move down across all buckets over a period of three months. So that is on what will give us an indication that the market and the environment is getting better.

Aditya Singhanian

And is that something that you are not seeing at the moment?

Vellayan Subbiah No, we have not seen it definitely not yet.

Aditya Singhania So then what would give one confidence I mean is it just that you sort of wound down your bad portfolio you have tackled it and hence your NPLs will peak, how should we see that?

Vellayan Subbiah See Aditya, the confidence is always kind of a big challenging because this is a loop like you know a hate kind of making forward-looking statements but from an investor perspective you guys always demanding kind of forward-looking statements. So it is bit of a catch 22 if I do not give you an answer it is a bad I do give you an answer it would be like my feet to the fire. And as a result the kind of what we do have to make is kind of what I would call kind of like calculative kind of your swag. Swags are like the strategic wild guesses. So in the end we got to make it kind of a calculated guess as to what we think is going to happen. Even that nobody can be kind of a totally good predictor, right? So when you asked me kind of the patterns were one month is getting better so you do would you think it is going to bottom out yes but there is a challenge kind of bucket swell so much that there is a lot more sitting in kind of JV right now than we ever had in the past. So I am just giving our best estimate.

Moderator Thank you. As there are no further questions from the participants, I would now like to hand over the conference to Mr. Sanket Godha for his closing remarks. Over to you, sir.

Vellayan Subbiah Just to close I just like to say that we have also Kaushik Banerjee now he is in Mumbai and he is also on this call. So if anybody has any follow up questions, please feel free to reach out to Kaushik Banerjee who is on our Mumbai office and he will be happy to kind of interact with all of you and kind of get you more detail on anything that you might like.

Sanket Godha Thanks. On behalf of JM Financial I would like to thank Mr. Vellayan and other management team of Cholamandalam and all participants for attending the call. Thanks a lot.

Moderator Thank you all. On behalf of JM Financial Institutional Securities Private Limited that concludes today's conference. Thank you for joining us and you may now disconnect your lines.