



**“Cholamandalam Investment & Finance Company Ltd.
Q1 FY16 Earnings Conference Call Hosted By Kotak
Institutional Equities”**

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MODERATOR: **MR. NISCHINT CHAWATHE - INSTITUTIONAL EQUITIES,
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Moderator: Ladies and Gentlemen, Good Day and Welcome to the Cholamandalam Investment and Finance Company Ltd. Q1 FY16 Earnings Conference Call Hosted By Kotak Institutional Equities. As a reminder, all participant lines will be in the listen-only mode. 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 using '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nischint Chawathe from Kotak Institutional Equities. Thank you and over to you sir.

Nischint Chawathe: Thanks Margaret. Hello Everyone. We welcome you to the Q1 Fy16 Earnings Conference Call of Cholamandalam Investment and Finance Limited. This morning we have with us by Mr. Vellayan Subbiah – Managing Director; Mr. Arun Selvan – Executive Vice President and CFO; Mr. Rohit Phadke – President and Business Head—Corporate Finance, Home Equity and Home Loans; Mr. Ravindra Kundu – Senior Vice President and National Business Manager, Vehicle Finance. I now handing over the floor to Mr. Vellayan for his opening comments after which we will open the floor for Q&A.

Vellayan Subbiah: Nischint thanks a lot. We will just give you a quick overview of results for the quarter ended June 30th. The profit before tax in Rs. 171 crores a growth of 21% compared to Q1 last year. Profit after tax is at Rs. 110 crores for the quarter a growth of 18% over the Q1 last year. We have had a 25% growth in Net Income Margin. Our closing assets have grown by 13%. We had Rs. 3508 crores in disbursements which represents a growth of 10% .Our gross NPA is on 5 months' overdue basis have increased, they have gone from 3.12% in March 2015 to 3.33%. There I would just like to say that traditionally the first quarter tends to be tough but we have had a bit of an increase in there but it is not been significant. In the June 2015 CRISIL also has upgraded our rating on our long-term debt from –AA negative with a positive outlook to AA with stable outlook.

We disbursed Rs. 2588 crores in our Vehicle Finance business as against Rs. 2320 crores in Q1 of FY15. That is a growth of 12%. Home Equity grew by 16%; we grew that from Rs. 716 crores in Q1 FY15 to Rs. 831 crores in Q1 FY16. Our aggregate disbursements for the quarter as said were Rs. 3508 crores as against Rs. 3188 crores in the comparable quarter last year.

Our Net Income Margin was 8.5% for the quarter compared to 7.6% in the same quarter. There has been, we have had some advantage from a reduction in cost of funds on our borrowing side.

We continue to have a laser-sharp focus on collections. The company was able to ride out traditionally difficult first quarter with a small increase in GNPA and the GNPA is at 3.33% at 5 months overdue and NNPA is at 2.08%.

Our PBT-ROTA for the first quarter FY16 improved to 2.9% as against 2.7% in Q1 FY15.

Capital Adequacy Ratio of the company it is at 20.56% as against the regulatory requirement of 15%.

In terms of our subsidiaries the Chola Securities and Chola Distribution made a profit before tax of Rs.8.6 crore in Q1 FY16. So our consolidated profit after tax for Q1 is Rs. 111 crores as against Rs. 96 crores in Q1 of FY15.

So Nischint I will stop at that and we'll be happy to take questions from the audience.

Moderator: Thank you very much. We will now begin with the question and answer session. The first question is from the line of Prashant Shah from Vantage Security. Please go ahead

Prashant Shah: One thing was related to OPEX you're other OPEX. What is the reason for the sharp jump because it is up 50% almost year-on-year and 30% quarter on quarter?

Vellayan Subbiah: That's a good question I should have probably addressed in my opening comments. As you probably know there is an issue around VAT where the government has basically raised, actually different state governments have raised this issue around VAT on our REPO stock and so basically what we have done is we have provisioned 21 crores that show up in other operating expenses for this quarter against any potential liability that might arise. But let Arul talk a bit more about it and kind of give you a bit more detail on it but the reason for that is the 21 crore provision which is a one-time event against a possible payment of that, based on what the states do. We will talk about it in a bit more detail.

Arul Selvan: Actually this is an industry issue. Lot of demands have been raised across our industry players and we have got demand notices from various states Rajasthan, Karnataka, Tamil Nadu, Orissa and AP. As a matter of fact in AP we have got a favorable ruling that it need not be paid. However, in other states it has taken it up to the tribunal stage. So we thought it will be prudent to provide rather than wait for final hearing so legal counsel is fairly confident that it can be addressed.

Vellayan Subbiah: That point Prashant you're right in that the actual other operating expenses would have been lower by 21 crores which would have flowed to the profit line in ordinary circumstances but we believe that it is more prudent to take this in now and depending on how the other states basically demand notices have been received from Tamil Nadu, Karnataka, Rajasthan Orissa and AP and like Arul said AP has gone favorably for us right now..

Prashant Shah: This 21 crores has been fully provided for this and there is nothing else expected to come up?

Vellayan Subbiah: From these states you are correct.

Prashant Shah: No, from these states we have visibility right now?

- Vellayan Subbiah:** Yes that is correct.
- Prashant Shah:** Coming to your margins if I look at your Vehicle Finance NIMs your Vehicle Finance NIMs are up quite strongly so but your credit losses are also up I won't say sharply but they are also up during the quarter, could you throw some color on that what is impacting your VF NIMs?
- Arul Selvan:** Actually you have to read it from the context that in the Q4 we moved bulk of our provisioning to 5th bucket that is the point in term we had reversed the five months interest on all these loans which had moved on to gross NPA fully. Now we have provided at that time 10% the movement from 5th to 6th bucket is impacting us by 15% because we normally provide 25% or 40% depending on the category of asset. So the impact on provisioning seems to continue this month on those assets which moved into the 6th bucket without having any income reversal impact on it. Because already been taken care of in the March quarter in Q4 when we moved to the 5th bucket.
- Prashant Shah:** I'm not sure I got it exactly what I'm trying to understand is there has been a reversal in this quarter?
- Arul Selvan:** It is not a reversal of income reversal it is more a lower requirement happening because it has already been provided for.
- Prashant Shah:** So whatever was supposed to be when you moved from sixth bucket to fifth bucket in the last quarter from six months recognition to five months recognition in the last quarter you made most of the reversal last quarter itself.
- Arul Selvan:** Correct, because five months reversal has already happened when you have something in moving...earlier days when we are moving into sixth bucket your provision hit will also be fully in that month and income reversal will also be fully in that quarter.
- Prashant Shah:** So this month, quarter will be more of a normalization.
- Arul Selvan:** More of a normalization.
- Prashant Shah:** Can we continue to look at 8.5% or such kind of NIMs going ahead or it will moderate a little further?
- Arul Selvan:** Yes it will be, we expect to continue this depending of course on the asset performance. There has been no difference in the yield perspective.
- Prashant Shah:** Ok. Your yield also is up only by 10% I think before compared to March quarter.
- Vellayan Subbiah:** Margin neither it has dropped because you also had a small benefit on cost of funds.

Prashant Shah: Can you quantify that impact of cost of funds?

Arul Selvan: Cost of funds have come down by almost like 30 bps compared to Q1 of last year.

Prashant Shah: Compared to last quarter?

Arul Selvan: Compared to last quarter it has been fairly at the same level.

Prashant Shah: Ok. We see a large change in your branch mix where your North and West branches have been actually changed. What is the rationale behind in that change in mix?

Vellayan Subbiah: There is no significant change.

Prashant Shah: I was looking at more on the quarter on quarter basis. Last quarter you showed some...

Vellayan Subbiah: There was a mistake in the presentation, it was corrected and reloaded.

Prashant Shah: You entered in this commercial vehicle segment... commercial equipment segment in this quarter, sorry construction equipment. My question is pertaining to one of your competitors last quarter saw a large slippage in this particular portfolio, so what was your rationale in entering this segment at this time, how confident are you maintaining asset quality here?

Vellayan Subbiah: Actually the way we look at that it is better to enter bottom of the market than at the peak. Our portfolio is fairly small in that business right now and when the market is at a bottom we always tend to be more conservative.

Ravindra Kundu: We are also doing business in the select market and also focusing on the select product, basically the fast moving items. So we're not gung go for going for all the products line of construction equipment.

Prashant Shah: What would be the typical product that you are all financing in the construction equipment segment?

Ravindra Kundu: Back hole loader is basically the high resale value product and in the Back hole loader also the market leader we are focusing on 1 to 3 only so that you can actually avoid the loss on sale.

Prashant Shah: How much of your disbursements would you expect this to be going ahead?

Ravindra Kundu: We are not looking big numbers hardly 300 crores for this month.

Prashant Shah: No I'm talking in terms of medium-term perspective.

- Ravindra Kundu:** We are not very sure about expanding it in this year we will only think about it once when all mining activity improves and development goes up. This year we are focusing only on four states and only on the Back hole loader and very fast moving products.
- Prashant Shah:** Right now you are financing only in the four south states?
- Ravindra Kundu:** Not in the four south states, we are financing into Rajasthan, Maharashtra, AP and....
- Moderator:** Thank you. The next question is from the line of Rahul Bhangadia from Lucky Investment Managers. Please go ahead.
- Rahul Bhangadia:** Most of my questions already answered. If you could give us some sense and some color on post the change in norms on NPA recognition how do you see the provisioning requirement, is it going to be in line with what was there in Q1 if you can just give us some sense given the seasonality and all that you talked about?
- Vellayan Subbiah:** Given the what that we talked about?
- Rahul Bhangadia:** Seasonality in terms of recognition of NPAs, seasonality in the sense that some quarters are bad some quarters are better.
- Vellayan Subbiah:** Traditionally in our business the first half tends to be a bit slower in terms of performance and the second half tends to be better in terms of performance, so that is the seasonality issue. In terms of NPA recognition like we said last time, basically what will happen over time is as people move from 180 bucket to the 90 bucket the people's ability to keep the provisioning cover will go down, because basically you will not be able to keep the high levels of provisioning cover that people kept at 180 levels. But that is almost far from the course because you expect that to go down given that the risk on the 90+ portfolio is less in the risk on a 180. So we do see the trend beginning to play out and it will take time as people kind of make this adjustment. The important thing that we do not understand is what is going to be the impact on customer behavior because we do not want to put undue pressure or kind of changing customer behavior in this market because of accounting norms. So that we still need to see wait to see how that is going to play out. But I think it is too early to speculate on what's going to happen there?
- Rahul Bhangadia:** So the provisioning number that you had in Q1 your sense on that likely to continue in the same way or how would that workout?
- Vellayan Subbiah:** Provisioning will likely come down over time as the pool that is in the 150 plus and depending on what that pool is. The provisioning number will likely come down. Then also for us in Q1 our REPO losses were high. But you're asking quantitatively how much honestly..
- Rahul Bhangadia:** No not quantitatively trend wise I was asking.

- Moderator:** Thank you. The next question is from the line of Umang Shah from Emkay Global. Please go ahead
- Umang Shah:** I just had a related question to the expenses ratio obviously it has got partially answered in the first clarification which you gave. I just wanted to understand in Vehicle Finance business if I look on a longer trend basically. So from 4% plus levels of we dropped down to closer to 3.5% levels in terms of expense ratio but, for past 4-5 quarters we have again started inching back to current levels where we are. Going forward how do we see this line moving should this again trend down further or what explain this inch up actually?
- Vellayan Subbiah:** It will trend down. One of the things that has caused the inch up obviously is that as there is more pressure on the overall portfolio our collection costs goes up, because obviously we spend more effort on collections, both manpower and overall effort on collections. That is when combined with the fact that there has not been much growth on the portfolio. Definitely that number will trend back down because as collections performance improves then the collection intensity and therefore the requirement in terms of collection costs will go down and combined with that we have got sales capacity that is underutilized right now. Those two effects well cause the number to start going down as soon as good days are back.
- Umang Shah:** Basically now let us say if I look at the whole expense line item on the overall portfolio basis that is both VF and HE both put together obviously our trend line has been obviously southwards again 4% plus levels we are closer to like 3% OPEX to asset ratio. Where do you see that probably over next 2 to 3 years would you like to put down a number where this goes actually?
- Vellayan Subbiah:** You have to first tell me when good days are coming. Without that how can we give you. We have articulated that we can see up to 20% drop in expense ratios in an environment in good days environment. I guess the question for everyone is when that showing up. But when markets do get better I can see a 20bps year-on-year drop. I did not mean 20%, I mean 20 bps.
- Umang Shah:** Then in kind it flattens out.
- Vellayan Subbiah:** Yes 20 bps year-on-year we can see how long we can sustain in that you know is the question but I definitely do things that pushing it down to 2.5% is a possibility.
- Umang Shah:** The second question was if you could just help me with NPAs in the Vehicle Finance and Home Equity portfolio separately?
- Arul Selvan:** Vehicle Financing is 3.84% on 150 day basis and Home Equity is 2.28 gross NPAs.
- Umang Shah:** Ok, if you could just help us with comparable in Q4?
- Arul Selvan:** 3.67 and 1.94.

- Umang Shah:** One on the borrowing mix which is there in the presentation apparently doesn't kind of add up to the total borrowings number, so I do not know probably have we missed out on something I guess there is some 950 crore odd differential there?
- Arul Selvan:** It will not be 900 it should be around 600 because that'll be cheques in hand because that'll get into the current account normally cheques on disbursement which are lying on the month end will be shown as borrowings because it is treated as... but that we will not represent it here because that is not an interest-bearing borrowing.
- Umang Shah:** So then probably then the borrowing number of 20,000 odd crores is the number that we should be looking at. So 20,600 to be precise is our number, so that remains?
- Vellayan Subbiah:** Yes that remains.
- Umang Shah:** I just needed some clarification on the way we look at margin. If we look at our reported numbers our VF margins are 8.1, our HE margins are around 5.1 but our blended margin are 8.5. So just wanted to understand mathematically is there another piece which I am missing?
- Arul Selvan:** Treasury profits will be treated outside because what we do is we give the business as a transfer price. The pricing does not get changed due to the volatility in the treasury borrowings side of the market borrowing side.
- Moderator:** Thank you. The next question is from the line of Anita Rangan from HSBC Asset Management. Please go ahead
- Anita Rangan:** You spoke about repossessed assets, what is that kind of provision you have taken on repossessed assets in this quarter and if you can give some idea on the quantum of repossessed assets in this quarter versus the trends in the last few quarters?
- Vellayan Subbiah:** In terms of the provision on the repossessed assets... the provision on the assets based on the estimated sale price of kind of a loss on the sale of the assets. If we think we're going to lose a certain amount based on historically what that asset is done, that is how we determine the provision level on the asset. Our total provision if you take, we have got multiples, on repossessed vehicles we have provided 7.43 crores incrementally in the quarter. That is basically our incremental provision on the quarter for repossessed vehicles compared to 1.75 in the same quarter last year and we have 2000 vehicles in stock right now.
- Anita Rangan:** What is the value of the 2000 vehicles?.
- Vellayan Subbiah:** 70 crores.
- Anita Rangan:** Thank you. My second question is on the Home Equity side, what is the ticket size at this point and what markets are you targeting here?

- Rohit Phadke:** Average ticket size is 51 lakhs for the portfolio and we have 78 branches across the country.
- Anita Rangan:** So the branches will be fungible between the Vehicle Financing and the Home Equity?
- Rohit Phadke:** Yes very much all our branches are co-located.
- Moderator:** Thank you. The next question is from the line of Rohit Shimpi from SBI Mutual Fund. Please go ahead.
- Rohit Shimpi:** My question is on slide 12. If I look at the gross yield which you have shown in the asset ratios is that seems to be stable across all of these time period anything that is slightly improved even as cost of funds has moved down, is this more a function of your pricing having remained stable to improving or is it something else happening in the income recognition here that is causing this?
- Vellayan Subbiah:** Passing our gross sales remained stable.
- Rohit Shimpi:** I would have thought the say a quarter like Q1 where you have seen a sharp, you have seen some cost of funds benefit et cetera you still see gross yield is being stable so is it that the pricing is stable or is it improving or is it....?
- Vellayan Subbiah:** Gross yield is the pricing, so our cost of fund benefits would not show up in the growth field.
- Rohit Shimpi:** I meant that are you seeing anything on the income recognition side due to something happening underlying on cash collections or something like that or is it just that the pricing is stable?
- Vellayan Subbiah:** The pricing is stable there is nothing else to read into there. Basically what is happening on Vehicle Finance side is despite a decrease in costs of funds the pricing the customer is not changing.
- Rohit Shimpi:** But do you expect this to change? Do you expect to start dropping prices at some point to reflect the falling cost of funds or would you like to retain margins more at this point?
- Vellayan Subbiah:** What we are seeing right now is we have to still see the mix is and how it plays out because there are three or four players in this industry. One of the big reasons why we have seen a decrease in cost of funds is moving a shift in our mix from term loans to NCDs and CPs, the market instruments. So other people do not have that but have a shift if you see Sundaram they have always been very high on in NCDs and CPs, so what we are still trying to sense is that we are not saying much pressure in the market to drop yields and whatever the kind of sense is if that it may be because we are seeing the cost of funds effect more because of our cost of funds was traditionally higher than Sundaram and some of the others and that might be what is happening. Right now we are asking me Rohit there is not that much market pressure

obviously we will have to see. It really depends on what is going to happen in the overall market if things begin to pick up I don't think prices will drop. Things remains soft for a long time then people might get more ante for growth.

Rohit Shimpi: The related question on that yield is that actually when you seen a shift to 150 dpd you have seen gross yield holding stable or improving which even as we shifted to 150 dpd you have seen gross yield holding stable or improving, so that too has one would have thought logically that there would be some less income recognition that would have dropped your yield a small bit?

Vellayan Subbiah: Like Arul mentioned, basically you have seen less income recognition came last quarter when we made the shift.

Rohit Shimpi: Not even quarterly, I am just thinking just even last 2-3 years or because the numbers looks to be so stable.

Vellayan Subbiah: The number has been stable because it is predominantly market led. The effect of 150 days over move over a year is not significant. Just to give you a sense what also happens is that this number has kind of a challenge of kind being an average. For example as we moved up on our used product that helps increase the yield. So now even on certain products like mini LCV where the yields have dropped because this number is an average of all of those years you don't see that effect. We have got more tractor in the mix, compared to 3 years ago we have much more tractors in the mix. When you take this annual comparison what you're seeing is that you're seeing an average number which has a lot of underlying data in it. In the underlying data you will see variance. So we just took what has happened with mini LCVs over the last three years definitely our yield has gone down.. Tata Ace but we also have more used products which had a higher yield. So this overall growth yield number is very significant average of many-many data points underneath.

Rohit Shimpi: It is a statistical illusion. Thanks so much.

Moderator: Thank you. The next question is from the line of Anand Laddha from HDFC Mutual Fund. Please go ahead.

Anand Laddha: Now since you have seen the asset quality cycle or you halfway more than that could you explain us what could be the actual loss and default based on your experience and used CVs or the new CV and how much it differ?

Vellayan Subbiah: We will try and pull up some LGD data or even try and see if we can get it even before the end of the call so that we can give you an answer.

Anand Laddha: Can you throw some light on the collections may be Q4, Q3 and now Q1 what is the trend?

- Ravindra Kundu:** See, we are focusing on actually arresting the roll forward. So each and every bucket rolled forward has started coming down. If you see that each bucket rolled forward has come down significantly over last quarter Q1 FY15, so each and every bucket so we are now going by the product of bucket, so one bucket is the first bucket very mini to collect NPDC customer first EMI, for the current month EMI or the 30 or 90, so we are following rigorously each and every bucket and we see that the gold rates have come down significantly over the last Q1 2015. That is one good thing. Efficiency is going up. Efficiency we are in the first bucket we are getting 96% efficiency now and 96% efficiency which is actually in the Q1 is basically lean period we are expecting that this will further go up in the coming quarter.
- Anand Laddha:** You said 96% in the first bucket?
- Ravindra Kundu:** First bucket.
- Anand Laddha:** When you say first bucket it is what, 90 day dpd or 150 day dpd first bucket?
- Vellayan Subbiah:** First bucket is a fresh...the customer who has to pay only one EMI in a month. Our buckets are monthly buckets so it will be
- Anand Laddha:** So you mean to say of the Rs. 100 due 96 you are able to collect?
- Ravindra Kundu:** Yes.
- Anand Laddha:** And what we understand is bulk of your customer will be earn and pay customers, because all the asset you have financed will be an income earning asset for them.
- Ravindra Kundu:** Correct all are mostly commercial vehicle customers.
- Anand Laddha:** We are seeing very different behavior from different financiers, some of the financiers are also funding earn and pay customers still say that the cash level or the stress at account level has not changed.
- Ravindra Kundu:** Nothing has changed in the market. People are still struggling. The important thing which has been changed in Chola's perspective is for last two years we have been actually kind of strengthening our collection platform and thereby we have successfully reduced the roll forward and increase the collection efficiency. Otherwise if you see that number of visit which is required to collect this money 96% is 4 to 5 times which was there in Q4 which was there in Q3 as well.
- Anand Laddha:** So each of the customer has to be contacted 4 to 5 times to collect the EMI?
- Ravindra Kundu:** Yes.

- Anand Laddha:** On the LAP portfolio if you can say what is the sort of growth one can expect both in terms of disbursement and loan growth, are you seeing either competition increasing from NBFC side or from bank side or your customer is such that banks are not targeting those customers?
- Rohit Phadke:** See, we have always maintained that irrespective of the market how it moves we will go for a steady growth of 20-25%. We have always maintained that and if you look at the first quarter our assets have grown by 25% in **HE**. Our disbursements have grown at 16% which is what we have been saying. So we will maintain our steady and stable growth.
- Anand Laddha:** What's the outlook for FY16 probably in terms of disbursement growth and loan growth?
- Ravindra Kundu:** I think that you have to tell us, as Vellayan said we are waiting for 'ache din' so you only have to tell us how will the economic shape up and what should be the outlook.
- Vellayan Subbiah:** I think the challenge we have always had giving outlooks is that what we see from the manufacturers....tend to be kind of their best estimate and they have gone often kind of significantly wrong, so what we end up doing is kind of basically saying that when the market is ready for growth. Our key indicators are this side, which is we need to see improvements in collections performance, that guides us at kind of what we do with disbursements, but it's almost like I think the market is not in a situation where we can give annual outlooks. So it's almost like we are adjusting every quarter based on what we are seeing that performance to be. So in that environment all we can say is that we have capacity to take sales up, take disbursement up, but whether we are going to do it or not it really depends on how this market evolves every quarter. Just crystallized losses, crystallized losses are at about 0.26% in terms of portfolio terms.
- Arul Selvan:** REPO will be 0.26 and other waivers and settlements will be another 10 bps, so 0.36.
- Anand Laddha:** That is the loss you are in default.
- Vellayan Subbiah:** Correct. We will reconfirm this. We can give you data by segment over time, which might be more relevant, so in overall aggregate level.
- Moderator:** Thank you. The next question is from the line of Abhishek Kothari from Anand Rathi Shares & Stock Brokers. Please go ahead.
- Abhishek Kothari:** If you can throw more light on the Home Equity business asset quality that has deteriorated in the current quarter?
- Rohit Phadke:** If you look at the credit cycles of SMEs they are pretty stretched for the past one year and we have been able to keep a focus on collections and maintain contain NPAs. So that has been our focus and going forward also if you look at our credit cost they were unnaturally lower, credit

cost was 0.2% and we are at 0.38% now. I think 0.2% in the long run is very difficult to maintain. We should stabilize at 0.38% that is our view.

Abhishek Kothari: What would be your guidance for 2.28, would this increase as we translate into lower number of days in terms of NPA recognition or would we like to stabilize this at current levels?

Rohit Phadke: I think we like to stabilize this at current levels.

Abhishek Kothari: So is there a one-off in the slippages this quarter or is it because of transition?

Rohit Phadke: See, one is the transition to the 150 day bucket and secondly currently the situation is not so good on the ground, so this will definitely improve as the situation on the ground will improve.

Abhishek Kothari: One question would be on your tax rate in the current quarter is high at 35%, 35.4.

Arul Selvan: Yes I will tell you that when there is a surcharge starting from this year so actual tax rate is 34.6 and then what we have also done is on the CSR we have not considered the tax benefit for us if you look at it we have to spend around 11 crores, if you add back that it will work out to this number.

Abhishek Kothari: So where do we see tax rate somewhere....?

Arul Selvan: Same number, for the full year, we work out the full year tax rate and apply it on the quarter.

Abhishek Kothari: One question on your disbursement to AUM growth in the current quarter seems to be changing, so could you throw more light on why kind of missed in terms of disbursement to AUM growth, have we changed anything in terms of assets side duration or something?

Vellayan Subbiah: I don't know. I don't think I am understanding your question.

Abhishek Kothari: Disbursement to AUM growth.

Vellayan Subbiah: Disbursement as a percentage of assets under management, is that what you are saying?

Abhishek Kothari: No sir. Suppose you lend Rs. 100 during the quarter a part of it comes back to your AUM and a part of it is like repayment and then you again giving loans on that front?

Vellayan Subbiah: If I understand your question right, AUM is going to have growth that's contributed by the disbursement in this

Abhishek Kothari: That is the question.

- Vellayan Subbiah:** And it also has run off. So the point is the AUM run off is dictated by how much you lent over the past three years. So it's not the disbursement to AUM growth that is changing, its more the fact that run off is changing as a percentage of the portfolio that's what's causing the disbursement to AUM ratio to look slightly different because the run off is different.
- Abhishek Kothari:** Like for example in the current quarter if we take on a sequential basis we had 110 crores slowdown in terms of disbursement rate, correct? 109 crores.
- Vellayan Subbiah:** Okay.
- Abhishek Kothari:** Compared to last quarters disbursement and this quarter, while AUM has grown by 607 crores sequentially.
- Vellayan Subbiah:** That's right.
- Abhishek Kothari:** So I just wanted to understand what's the mix that has changed that is causing AUM to grow while disbursement had actually come down in the current quarter?
- Vellayan Subbiah:** So that's what I'm explaining. Just look at it this way that 3500 crores has gotten added this quarter most of which will show up in AUM because it's just gotten added. Now some amount is left also in the quarter. So what is swinging the AUM numbers, the amount that is left. So if 3500 has come in and 2300 has left so basically you are going to end up with 1200 net growth. So that's basically what has happened, so 3500 has come in, 2300 has left so one way to look at it is our run off every month is in the range of 700 crores.
- Arul Selvan:** This because three years back our book had grown much faster rate, so that book is running down faster now because in the third year the run down is faster, in an EMI driven book.
- Vellayan Subbiah:** In the third year you are predominantly paying off principal.
- Moderator:** Thank you. The next question is from the line of Vikesh Mehta from Religare Capital Market. Please go ahead.
- Parag:** Hi Sir Parag here. I just want to need some clarity on CRISIL LAP presentation which I'm sure you must have seen that. They have suggested that 30% of the LAP of book is getting churned among the players itself and they highlighted that this is kind of a camouflage the true a psycholatic picture. I agree that the risks are more on the side of where the ticket size is actually higher, LTVs are also higher but can you give me two things, one is that what proportion of our business in LAP comes from buyout portfolio from other NBFCs or bank. Secondly of course we must be even selling down our exposure or the loan accounts which we have to other NBFCs and what makes NBFCs in general also Chola is to buyout portfolio from other guys?

- Vellayan Subbiah:** So I will answer the second question and let Rohit answer the first. We do not sell portfolios or buy portfolios.
- Parag:** 100% of our business has been originated by our fresh exposures.
- Vellayan Subbiah:** Yes 100% of our business so securitization is a different business but we don't sell a portfolio to a third-party bank nor have we bought anybody on this portfolio. 100% of our portfolio originated by as serviced by us. First question was what percentage of our business comes from balance transfers.
- Rohit Phadke:** Say about 40% of our business comes from balance transfers, but unlike what CRISIL has said general view is that why do balance transfer will happen. Balance transfers don't happen to transfer the risks, major reason for balance transfers happening is because of the existence of DSAs who want to earn commission please understand that. Always have the choice of taking in a customized or not taking in a customer. You're not forced to do anything about it. So I don't see one - a risk about it, secondly we also let a lot of customers go where they demand additional loan amount so we do not force loan on a customer who has a high leverage. The third thing is we have internally a very high engagement level with our customers to retain our customers also. This is the scenario about 40% coming but these are good customers. Your question was why do customers come to us and why do customers leave us? Many a times what happens in the LAP of business is the customers are running a loan with a financier for a longer time and they have not got the advantage of a lower rate because the lending rates in the market have come down. So that is one reason. The second reason is that business need itself has changed. The third reason is he could be with CC or overdraft in one bank and he doesn't want the CC and overdraft because he is only paying interest there at a higher rate and he wants to convert that into a term loan. So there are genuine reasons why a customer would want to come to us and it is not necessarily that a customer who does a balance transfer is essentially over leveraged or we try to give him take undue risk and give him a higher loan amount. If you look at the CRISIL presentation they have said that the median ticket size for the industry is 1.02 crores whereas our median is only 32 lakhs. They have said that the average ticket size for us is only 51 lakhs, so we are quite conscious about proper risk for the portfolio.
- Parag:** You said 40% come in and may be what proportion generally goes out if you can have that number?
- Rohit Phadke:** Going out will obviously be much lower because then our yield will not grow if we do not retain customers. If you look at our AUM there is always been a healthy growth 25% growth even in the first quarter.
- Parag:** But it can also happened that new disbursement outpace the repayment plus the business loss to balance transfer to the other guys.

- Vellayan Subbiah:** our disbursement is grown 16% which means if our AUM is grown at 25% and disbursement is grown at 16% which means we obviously have retained more customers.
- Parag:** And last thing very quickly, so this 2.2 8% of GNPA is there any difference between what you got in the balance transfer and the fresh one. Is the GNPA is higher in the other part, etc.
- Vellayan Subbiah:** See there is no difference because whichever we acquire a customer the way we appraise the customer is the same. So we do not differentiate in the appraisal part which means we have to meet the customer and we have to appraise him as if the customer walked in to our office. So there is no differentiation at all.
- Moderator:** Thank you. The next question is from the line of Ajay Sharma from Advent Capital. Please go ahead.
- Ajay Sharma:** My question is what is the average Repo stock holding period in the quarter 1 of this financial year compared to the same period of last year and the related question is due to subdued realization has there been any change in the policy with reference to Repo stock in this year compare to the earlier year?
- Vellayan Subbiah:** So first we are holding it for about two months now versus 3.5 months last year. So that is your first question. Your second question was is there any change in strategy? definitely so I would say broadly we don't want to hold Repo stocks for as long that's the only broad change in strategy I would say because basically we continue to Repo where we feel it's necessary.
- Ajay Sharma:** so your Repo stock holding period is gone down in this financial year?
- Vellayan Subbiah:** That's correct.
- Moderator:** Thank you. The next question is from the line of Amit Premchandani from UTI Mutual Fund. Please go ahead.
- Amit Premchandani:** Just a broad view of yours on an overall rural and semi-urban market in India and are we seeing genuine slowdown there because of a very lower year base growth MSP hikes, just a broad sense.
- Vellayan Subbiah:** I don't think we are seeing any more slowdown. What we are not seeing obviously kind of great pick up and what we are seeing is everybody taking cautious view so we are not seeing any significant pick up in the market but the things I say kind of getting marginally better. But not enough to kind of make us happy.
- Amit Premchandani:** Between focusing on collection and growth you are still leaning on collection or you are moving towards growth now?

- Vellayan Subbiah:** We are still leaning on collection more.
- Amit Premchandani:** And sir when do you see the mining actually starting in some of the belts like Karnataka and Goa, Karnataka I think licenses have already been issued but any progress on the ground on that front?
- Vellayan Subbiah:** Karnataka we don't have much of an exposure.
- Ravindra Kundu:** Construction equipment manufacturers are saying that the good days will come only from the next year so although the contract has been given, people started setting up everything at the ground but after the December only things will start working so probably the Q4 you can see something happening in the field and the result will be better only from the next year.
- Amit Premchandani:** How is the discounts on vehicle moving, have the discounts come down over the last six months or they are more or less at the pace?
- Ravindra Kundu:** So manufactures are very cautious about it. now everybody understood that by giving discount more and keeping the inventory high in the dealership they are losing dealerships so therefore they started controlling in the inventories and they are also kind of advising them not to give discount. They themselves started actually losing the discount.
- Amit Premchandani:** How much of your vehicle finance exposure would be towards dealers if at all?
- Vellayan Subbiah:** Is your question exposure to dealers or exposure through dealers as a channel?
- Amit Premchandani:** Exposure to dealers, working capital, financing of dealers.
- Vellayan Subbiah:** So about 200 crores at any time our exposure and the end of the quarter it was 80 crores. It's a fairly small percentage I think. On your percentage point it's a fairly small percentage.
- Moderator:** Thank you. The next question is from the line of Saurabh Agarwal from E&R Advisor. Please go ahead.
- Saurabh Agarwal:** Just want to come back on discounts and inventory level. You are saying that manufacturers are discouraging dealers not to give more discounts but what is the situation on the ground as on date? Has it improved over the last one year?
- Ravindra Kundu:** It has significantly improved actually. Now the manufacturers whatever new model they have launched during last 1.5 years they are not at all giving any discount and the inventory level has come down so therefore there is no scope for dealers to give....the discount comes from the manufacturer only. So manufacturers are discouraging and dealers are not able to give.

- Saurabh Agarwal:** This is geography-wise phenomena or is it like urban discounts are decreasing in the rural area discounts are still there, is it same all across or different in different regions?
- Ravindra Kundu:** Rural definitely traditionally discounts at less so that is always be there but today customer's awareness is going up so people are coming in a group and they are kind of negotiating, that happens, so still there is a difference.
- Saurabh Agarwal:** As these entry norms are changing from 180 to 150 and 120 and 90, will there be any structural change in the way we have been dealing with this business, at the industry level how the things shaping up or more specifically for a company, will you be doing any change in the way you have been disbursing the loans or something?
- Vellayan Subbiah:** Not in the way we are disbursing the loans, we have to evaluate collection strategy though. Basically what we want to see is, for example, if we let something kind of slow on to 90, provision for it and so the biggest question is whether we should change our repossession strategy or not. To date we have not changed it. It does not mean that we would not have to look at whether we change it in the future or not but I think it's still too early to tell.
- Saurabh Agarwal:** At the industry level are there any symptoms, are there any discussions happening?
- Vellayan Subbiah:** Definitely not, I hope we are not discussing these kinds of things. But broadly we don't see any symptoms yet.
- Saurabh Agarwal:** Just two data queries, interest reversal in this quarter and last quarter Q4?
- Vellayan Subbiah:** Just give us one second; we will pull up that data.
- Saurabh Agarwal:** I missed on GNPA numbers for vehicle finance and home equity.
- Arul Selvan:** GNPA vehicle finance is 3.84% and home equity is 2.28%.
- Saurabh Agarwal:** One more question on interest reversal?
- Arul Selvan:** Income reversal in Q1 is 16 crores.
- Saurabh Agarwal:** What was it in the last quarter Q4 2015?
- Vellayan Subbiah:** 15.89, same level.
- Moderator:** Thank you. The next question is from the line of Dipen Sheth from HDFC Securities. Please go ahead.

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- Dipen Sheth:** I am looking a little closer at your Home Equity business given that the headline growth in vehicle finance is a little subdued, it's almost flat year-on-year. So on the Home Equity business the thing that strikes me is while the NIMs for the vehicle finance business look like 140 bps odd higher year-on-year, on the Home Equity front although there is strong growth in the portfolio but the headline NIMs are down some 15-20 bps or whatever it is, right?
- Rohit Phadke:** See, if you look at our marginal yields, we have been able to maintain a marginal yield of 3.9. What generally happens in a market where there is a slight slowdown is, there is tough competition to acquire good customers, and that is the reason why you will find that the yields are dipping slightly. Also the dip is related to the cost of funds because this is a price sensitive segment unlike the VF segment and we have a benefit of cost of funds over the Q1 last year, so obviously we are maintaining these trends.
- Dipen Sheth:** So how much have headline yields fallen? So the reported NIMs are down some 20 odd bps over the year but in terms of yield what is the difference?
- Vellayan Subbiah:** There is one factor you have got to take in there which is basically in this business also because as you saw, as the GNPA number moves up a bit, income reversal hits the interest income line because ticket sizes are much bigger.
- Dipen Sheth:** So there could be some lumpy impact also.
- Vellayan Subbiah:** Yes. Just to give you a sense that impact is 2.1 crores between Q4 and Q1, so income reversal was 4.8 in Q4 and 6.9 in Q1.
- Dipen Sheth:** So the broad thing that I am driving at is that there is strong competitive pressure in this business and much of that pressure is coming from banks. So who would be willing to price their offerings down, so definitely this is not a business where I can expect yield thrill in the future?
- Vellayan Subbiah:** See the thing is that yields are not going to go up but if you see the overall characteristics of the business OPEX has come down and it's a much lower OPEX business that run in the vehicle finance business. So what that allows us to do is basically get to a pre-tax target ROTA which is at least as good as if not better than the vehicle finance over the cycle.
- Dipen Sheth:** And it's growing much better right now so whatever 25% or 30% odd.
- Vellayan Subbiah:** Yes.
- Dipen Sheth:** Now the risk that I see here, if you will allow me this is that, what LTVs are you lending at and what if the real estate prices were to sharply reverse, how much of a buffer do you have in terms of the risk that you are carrying here?

- Rohit Phadke:** See the CRISIL presentation talked about average LTVs of 60% for the industry.
- Dipen Sheth:** I think that's safe enough. So I guess that is a metric that would apply to you?
- Rohit Phadke:** We are at 50%.
- Dipen Sheth:** Any sector or industry or region concentration which is worth pointing out in your portfolio?
- Rohit Phadke:** See, in the Home Equity portfolio wherever there is a large business, for instance, in India 7% of our GDP is in NCR.
- Dipen Sheth:** We would be heavy there.
- Rohit Phadke:** Absolutely. So wherever GDP is higher the portfolios will follow that.
- Vellayan Subbiah:** In terms of the sector we predominantly lend against self-occupied residential properties so that's almost (+90%) of our portfolio. We think that that is the safest of all of the products lend against residential property.
- Dipen Sheth:** That's more in terms of the assets which is backing the lending but ultimately the lending gets into an SME business.
- Vellayan Subbiah:** Yes, and all are SME businesses so what we are really testing is the quality of the business.
- Dipen Sheth:** So that's the sector or industry concentration that I would think about, not so much of whether there is residential property backing it. I am okay on that especially since you are telling me you are at around 50% LTV, so the asset which is backing the lending doesn't bug me, what I am worried about is, is there a particular industry that you are exposed to?
- Rohit Phadke:** No, there is no industry concentration.
- Dipen Sheth:** Finally if you will let me say this, you are still at below 8000 crores on this book so the world is your oyster I mean there are miles and miles to grow here despite whatever strong competition there is from the banks.
- Vellayan Subbiah:** Good you should tell Rohit that, you should call him here every week and tell him that.
- Dipen Sheth:** I will actually do it.
- Moderator:** Thank you. We will take our question is from the line of Pradeep Agarwal from PhilipCapital. Please go ahead.

- Pradeep Agarwal:** Mine is a related question, you touched upon re-position stock, so if you can also elaborate on what has been the movement in that stock as in what is the opening and how much we have added and sold, if you can get some color on that?
- Vellayan Subbiah:** I thought we gave you the movement in the stock but we will pull up that data again.
- Arul Selvan:** In terms of 1600 numbers to 1900.
- Vellayan Subbiah:** Yes, so the number of vehicles we had in stock was 1600 that's moved up to 1900, so that's an increase of about 300 vehicles and somewhere in the range of 10 crores increase in stock.
- Pradeep Agarwal:** Also in terms of repossession loss which historically has been in the last 3-4 quarters in the range of 38-40%, so what does that loss, in that range only this quarter?
- Vellayan Subbiah:** It will slightly come down. Still there.
- Pradeep Agarwal:** Just a data question related to your GNPA's, if you can share what has been the Vehicle Finance GNPA and Home Equity GNPA as per 180 DPD, so like-to-like number for 2.69 for vehicle and 1.73 for home equity in the last quarter.
- Arul Selvan:** 180 DPD was 3.22 end of June for Vehicle Finance and 1.96 for Home Equity.
- Pradeep Agarwal:** So even on a like-to-like basis if I look over March quarter that jump has been pretty significant from 2.69 to 3.22, right?
- Vellayan Subbiah:** There is one danger I always say in kind of looking at this which is basically because now we are more focused on the 150 day. What happens with a 180 day can swing a bit because the team's focus is now more on the 150 day.
- Pradeep Agarwal:** So we should not read anything into the swing which normally we see in this June quarter is slightly on the higher side in this quarter, so nothing related to higher stress on the asset quality, it's more of a change because of as you mentioned change in the buckets?
- Arul Selvan:** Even last year we had the swing between March '14 and June '14 it had moved from 1.97 to 2.72. Comparatively if you look at it this time it is lower, 50-60 bps.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question; I would now like to hand the floor over to Mr. Nischint Chawathe for closing comments.
- Nischint Chawathe:** Thank you everyone for joining us this morning. We particularly thank the management of Cholamandalam for providing us an opportunity to host this call. Thank you very much and have a good day.

Moderator: Thank you. On behalf of Kotak Institutional Equities that concludes this conference. Thank you for joining us and you may now disconnect your lines.