



“Cholamandalam Investment & Finance Q1 FY17 Earnings Conference Call”

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

Moderator: Ladies and Gentlemen, Good Day, and Welcome to the Cholamandalam Q1 FY17 Earnings Conference Call hosted by Kotak Securities Limited. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nischint Chawathe from Kotak Securities. Thank you and over to you, sir.

Nischint Chawathe: Thanks, Margret. Hello, everyone. And welcome to 1Q FY17 Earnings Conference Call of Cholamandalam Investment and Finance Company Limited. To discuss the financial performance of Chola and to address your queries, we have with us Mr. Vellayan Subbiah – Managing Director, Mr. Arun Selvan – Executive President and CFO, Mr. Rohit Phadke – President and Business Head, Corporate Finance, Home Equity and Home Loans and Mr. Ravindra Kundu – Executive Vice President & Business Head, Vehicle Finance.

I would now like to hand over the call to Vellayan for his opening comments.

Vellayan Subbiah: Thank, Nischint. Overall, it has been a good quarter. The PAT has been up 50% over the comparable quarter last year at Rs. 166 crores and NIM has been steady at about 8.4%. Basically, we finished with closing assets of Rs. 30,826 crores, a growth of 18% over the same quarter last year. We have had Rs. 4,561 crores of disbursement, representing a growth of 30% over the same quarter last year and GNPA are at 3.6%, actually they moved marginally in the second place of decimal, and this is on a four months’ overdue basis. Our net credit losses have actually come down to 1.2% from 1.8% which were quite encouraged by. And ICRA has revised our outlook from AA Stable to AA Positive, so that is hopefully indicative of potentially a rating upgrade in the future from ICRA, so we are quite encouraged by that.

As you know, we continue to kind of hold a onetime provision in our books that we have created in March 2016 and that is to meet the provisioning norms to be complied by March 18th and we have retained that within our standard assets that were kept as a standard asset today.

The Vehicle Finance business disbursed Rs. 3,326 crores as against Rs. 2,588 crores in Q1 of FY16, that is a 29% growth. Home Equity disbursements grew by 19% to Rs. 991 crores and the aggregate disbursements like we said are at Rs. 4,561 crores.

The NIM has been more or less flat, we were at 8.5% same quarter last year, we are 8.4% now. And our focus continues to be on the collection side and we have been able to retain GNPA at 3.6% and NNPA is now at 2.1%. PBT ROTA for the Company for the quarter was at 3.8% against 2.9% in the same quarter last year. Capital adequacy was at 18.73% as against

requirement of 15% and as a consolidated result, our consolidated PAT was at Rs. 167 crores as against Rs. 111 crores.

So overall, I would say that we continue to feel comfortable with the kind of growth and fairly bullish about the next 12 months, though we can see some of the growth in heavy commercial vehicle coming off, we do believe that we should be able to sustain the disbursement growth numbers we are talking about in vehicle finance, predominantly because of growth in the used and Shubh segments, but also for us car and MUV continue to grow at a fairly good clip as well.

The Home Equity business, like you know has seen slightly elevated levels of NPAs, but we believe that that will begin to correct in the second half of this year as well.

Cost of funds, we continue to keep a close focus on and we do believe that those numbers are going to reduce in the coming 9 to 12 months as well.

So overall, I would say a fairly good position as long as we can keep the net credit losses levels down, we should be able to sustain and push up our PBT ROTA numbers over last year. And obviously, the other areas that I think will start coming off when we get collections totally under control is our operating expenses to assets, which until this point have continued at the same levels that they have over the last year and a half.

So let me stop with that commentary and turn it over to all of you for questions.

Moderator:

Thank you very much. We will now begin with the question-and-answer session. Our first question is from the line of Ashwin Balasubramaniam from HSBC Asset Management. Please go ahead.

Ashwin Balasubramaniam: I just wanted to ask about the NIMS, if I am not wrong, on a sequential basis there seems to be a fairly material drop in terms of NIMs, both in the home equity and in the vehicle finance segment. So just wanted to understand that. And also, on your other operating expenses I think, again, sequentially we have seen some increase, so if you could throw some color on that as well. Thank.

Arul Selvan:

In case of NIM, what happened is, there are two aspects that we need to take on the NIMS. In Q4, we had reversal of income reversal because NPAs came down drastically, so there was an impact on account of this and that was a onetime benefit which will not continue in this quarter as well as in next coming quarters. The second aspect is with regard to securitization of assets, we had done a lot of securitization in the Q4 and even some in Q1. What happens in the case of these assets is that you need to knock out the, if you are not collecting EMIs even in the first bucket, second bucket, we need to knock it out of the income because as per the RBI regulation this needs to be taken out. These are very early buckets and they will generally be

collected. In Q1 there tend to be little bit of stress in the first few buckets. This is what is reflected both in the yield drop as well as in the NIM drop.

Ashwin Balasubramaniam: But this interest reversal, would it happen in both the VF and Home Equity segment?

Arul Selvan: Yes, in both the segments we have done the securitization, so there will be some amount of reductions on account of that.

Arul Selvan: So, whatever you securitize, that happens.

Vellayan Subbiah: With regard to the OPEX, you asked a question. The OPEX was slightly higher because we had gone through lot of training and travel expenses because we are in the mode of launching our Tab initiative, primarily this has been the reason for the increase in OPEX.

Ashwin Balasubramaniam: Just one last question, what would be the gross NPA segment wise in terms of Home Equity and VF?

Arul Selvan: In the case VF, it is 3.49 on a 120-day basis and 3.8 in the case of HE.

Ashwin Balasubramaniam: So LAP seems to have gone up sequentially, is it?

Vellayan Subbiah: Yes, LAP has gone up, VF has come down.

Ashwin Balasubramaniam: Any reason for the increase in the LAP segment or it is just seasonal image in terms of quarterly?

Rohit Phadke: It is seasonal. Secondly, the stress that the SMEs feel in the market, the SME segment continues to be under stress and that is reflected, and first quarter is generally difficult, it starts improving with the second quarter.

Moderator: Thank you. Our next question is from the line of Shweta Daptardar from KR Choksey. Please go ahead.

Shweta Daptardar: Sir, there has been significant jump in our assigned AUM, so is this the run rate which we are going to mention or are we looking at some number?

Vellayan Subbiah: So, broadly obviously kind of right now what is happening is the bank demand now because of the new regulations is happening every quarter, but traditionally what we would do is securitize towards the end of the year. But given that bank demand is now coming in every quarter, we are relooking at our basic assignment strategy, a securitization strategy both kind of through assignment and by LAP. So, I do not think we have any predicted or forecasts numbers that we want to give at this stage, but that is definitely a strategy we are relooking at because of the increased demand from the bank side.

- Shweta Daptardar:** And just another question, how is the asset quality in the tractor portfolio shaping up?
- Ravindra Kundu:** So, for us the tractor is actually under control, we have been maintaining the similar number of NPA or other default or non-startup what we have actually seen in the month of March, 2016. And we have not gone across the country and disbursed like other people have done it. So we have selectively done the business in the market and so go with selective manufacturer, because that is what is actually giving us benefit. But in terms of stretch in the market where margin was not good, our crops failed two-three times, like central Indian and some part of Maharashtra, the things are actually still the situation is not that great, but the impact is less in case of vehicle finance.
- Vellayan Subbiah:** And the GNPA for that segment is at 4.43%. So it is the same level as last quarter, last quarter we finished at 4.42%, this quarter we will finish at 4.43%.
- Moderator:** Thank you. Our next question is from the line of Piran Engineer from Motilal Oswal Securities. Please go ahead.
- Piran Engineer:** Firstly, on your second hand vehicle financing is 25% - 30% off book, can you just elaborate a little more on it, like what vintage vehicles do you finance, would they be single truck operators or small fleet? The reason I am asking is, because Shriram Transport in their earnings call spoke about incrementally getting more aggressive in that four to five year vintage vehicles. So do you see that impacting you on the ground? And what about competition from the banks like Indusland and Kotak who have big CV books, Indusland also in the past concall has spoken about financing small fleets. So just wanted to get a sense of the competitive dynamics in that segment, in the second hand financing segment.
- Vellayan Subbiah:** So, if you look at that segment, see broadly our book's half of it is what we call used, and that is basically when they are coming off their first loan. So typically those vehicles are in that three to four year range in terms of age. They have paid off their first loan and now the asset is free and people kind of look to then get that asset, leverage to a certain extent for working capital purposes or expansion cap. The rest of our book is slightly older, so I would say kind of between that five to seven year range. So when you take the 30%, it is split almost evenly between those two books, between a book that is just coming off its first loan and the book that is basically slightly older. So traditionally what we are beginning to see is that most of the players are going back into their own books when they come off first lease, when they would not do that before. But the opportunity clearly in the five to seven-year book is fairly significant because there traditionally the early organized player in town has been Shriram, so we see a significant growth opportunity in that segment. We still do not see a lot of these other guys you talked about whether it is Kotak or Indusland, penetrating heavily into that segment, and that segment is becoming quite a profitable segment for us.

- Piran Engineer:** And just another thing, one clarification, your expense ratio on the vehicle finance business is of 10 bps YoY and in the LAP segment it is down 10 bps, but for the Company has a whole it is down 30 bps, so what am I missing here exactly? In page 15 in your presentation.
- Arul Selvan:** That is because in the Q1 of last year we had a Rs. 21 crores VAT impact provided for, which is a onetime provision, because for the sale of repo vehicles. There was a demand from three or four states from 2007 onwards. So we provided Rs. 21 crores which was taken at a HO level because it pertains to past years.
- Piran Engineer:** So overall it is flat, apple-to-apples, roughly flat?
- Vellayan Subbiah:** That is right.
- Piran Engineer:** And you just spoke about bank demand increasing for off balance sheet asset, so are your spreads improving there or...? And if so, then by how much?
- Vellayan Subbiah:** No, the spreads there are more or less constant.
- Arul Selvan:** The securitization rates are constant but from a borrowing perspective it will be lower from a cost of borrowing versus securitization, the rate should be lower.
- Moderator:** Thank you. Our next question is from the line of Umang Shah from Emkay Global. Please go ahead.
- Umang Shah:** My question is, again, pertaining to the Home Equity business, although I understand that there is some seasonality in the business, but if I was to look at margins this quarter in Home Equity they appear to be significantly lower even compared to a long-term trend. So is it fair to assume that yield pressures are significantly higher or maybe is there some change in the asset mix within home equity or how should we decide for this?
- Vellayan Subbiah:** So right now there is yield pressure, undoubtedly there is yield pressure because we continually see a lot of people continue to jump in to this business. Like we have told you in the past, this is the third cycle we are going through. Traditionally what happens is, when corporate loans start dying down everybody starts jumping into the more retail segments like this. And then traditionally what happens is when corporates are picking up again you see a lot of exits and then the yield pressure goes away. So we are seeing one of those cycles and I do think that the yield pressure will continue till the rest of the market begins picking up again.
- Umang Shah:** And from the products standpoint, there is no material change or anything, right?

- Vellayan Subbiah:** No, we are not changing anything and I think that I actually something that has always helped us in the past. Us not changing our strategy too much just because we see a lot of supply side rush into the business.
- Umang Shah:** My second question was regarding your OPEX guidance, so if you could just briefly tell me as to what are our expansion plans this year, so we have remained more or less flat in terms of branches for a while now, what are our expansion plans for this year and how will it impact our OPEX?
- Vellayan Subbiah:** So, I think we should roughly add about 120 to 130 branches this year. We have actually already started adding them as of now, they started in July and we have got almost 30 open already. So that branch count will start going up, we will probably end the year in a significantly higher somewhere refinished at this time 34 level. Though, I do not think that that is in itself going to push up OPEX, like we have kind of discussed ad nauseam in the past, OPEX is a very big focus for us and so we have got to push that number down. When we add new branches, they tend to kind of come in at fairly low cost, so all the 130 even if we kind of go more than 130, those branches basically add about 10 lakhs in CAPEX and less than that in OPEX per branch. So it is not a huge number when we think of the incremental branches because they always open as very small branches, they are usually opened as three man branches. So they do not make a huge swing to that overall number. The biggest swing by far that we have seen to the OPEX numbers, and I think like you or the previous gentlemen mentioned, the number is higher on vehicle finance, so that is gone up to 3.8% And the reason for that, actually in the previous quarter there were two reasons, one was, basically like Arul mentioned the tab training, we have also got higher depreciation because of the tablets that we have rolled out. The second reason is also because we have got higher collections intensity and we are continuing that, till we get down NCLs to a very comfortable levels. Like you know, even at 1.2% NCLs are still higher than what we have traditionally dealt with, and so it is really imperative for us to push NCL down to this early point 7.8% we will really start getting comfortable with it and only at those levels will we then feel comfortable backing off on collections intensity. So that higher collections intensity means more collections manpower, more collections cost through our call centers and that has kept that number stubbornly high. So when we see that improvement on the actual overall portfolio in terms of asset quality, we start backing off on that number and then that will help the 3.8% start dropping down as well.
- Umang Shah:** So fair to assume that, assuming if we continue to expand our branches and grow our assets at 18% - 20% kind of a run rate, on an OPEX to asset basis we should be at worst remain flat on a YoY basis, if not improve?
- Vellayan Subbiah:** Yes, definitely. I do not think we will be that happy with remaining flat, so it has to. But honestly, like I said, it is couple of tradeoffs that we need to make and I think the collections intensity is very important for us. And this year is going to be a year where kind of the tablet

initiative is going to kind of bring in cost but not bring in the commensurate productivity. So the benefits of that we will begin to see kind of in the second half of this year as well.

Umang Shah: And my last question would be that, as you mentioned that a comfortable NCL ratio for you would be 70 to 80 basis points, so fair to assume that whatever NCLs we have seen in this quarter would be peakish and on a full year basis the average should be much lower than that?

Vellayan Subbiah: Well, peak in the sense it is already lower from last...

Umang Shah: Yes, I am talking for the year.

Vellayan Subbiah: For the year, yes, ideally we like to kind of see, I mean we like to see lower numbers.

Moderator: Thank you. Our next question is from the line of Kashyap Jhaveri from Capital 72 Advisor. Please go ahead.

Kashyap Jhaveri: Sir, first question is on the slide number 11, the ops book or let's say assigned AUMs have grown significantly faster than on-book. On-book FX have grown at just about 16% which is a significant disposition over last couple of years. So if you could highlight the rationale into having more assigned and little less of fund book?

Question number two is on overall growth, if I look at on the PE side the production in core industries or let's say bulk industries have decelerated meaningfully in the first month of this financial year, so what is your view on overall CV industry both in terms of HCV as well as probably LCV, if you could segregate that.

And third question is on OPEX side, despite whatever initiatives we have taken on lot of digitization, OPEX growth has still meaningfully been slower. So can that sustain on a longer-term basis?

Vellayan Subbiah: So on the first question on securitization, I think we answered that to somebody else.

Arul Selvan: See, you are comparing Q1 versus Q1. Last year Q1 we did not do anything, as a matter of fact, even it was done only in August, there were some delay from the investor side. So the whole of last year's accumulation of securitization, plus we did this year is showing a huge jump.

Ravindra Kundu: So, on the vehicle finance, I think we just mentioned that heavy commercial growth we are seeing coming off a bit because the growth was slightly significant, we almost had 30% growth last year. So we think those numbers declined a bit. But if you see most of the other segments, we are seeing very decent growth whether it is light. And in the huge segment we are seeing very good growth as well. Then on the car side, we are also expanding market share a bit, so

we are seeing better growth in that segment as well. So across the other segments, we are continuing to see growth and like I said, heavy may not see that growth. The third question on operating expenses, we have not begun to see the benefits of the tab yet, basically the tab, the full rollout is really going to happen now in that October timeframe, September to October timeframe. So I would say the benefits of tab have gotten delayed and we should see that begin to kick in in the JFM quarter, but if it does not happen in the last quarter this year then we will see that full impact coming in next year.

Kashyap Jhaveri: Our overall asset growth is trailing disbursement growth by far margin, so how should one read in terms of let's say disbursement growth versus loan growth over less than next about one or two years?

Vellayan Subbiah: So I do not think you can look at that number and aggregate. First off, the way those numbers pan out for each of our businesses is very different. A lower disbursement growth number in Home Equity can lead to higher asset growth because the assets stick on our book for much longer and it is a bit inverted in the vehicle finance business where longer or higher disbursement growth do not lead to as high asset growths. I think broadly, we have guided that about 20% asset growth number is a deliverable number, that is our belief. So that should give you an overall sense, but the mix is different based on the business.

Moderator: Thank you. Our next question is from the line of Rikesh Mehta from Religare. Please go ahead.

Parag Jariwala: One, that you said three to four-year vehicle in case of used, is around 50% and rest lies in five to seven-year bracket. So do we finance somewhere around 10-year-old vehicle or no? And secondly, what is your view on basically 10-year-old vehicle getting scrap, so it can also benefit our Company in terms of five to seven-year-old vehicle, we will see a higher demand, higher resale price, etc. So what is your view overall on that?

Vellayan Subbiah: So like you said, first off, we do not have 10 year in our portfolio, it is like 0.2% of our portfolio. And your second point is correct which is we do believe that the demand on the five to seven-year vehicle will start going up as a result of this.

Parag Jariwala: And sir, on MSME side you gave the GNPA figure for both the quarter fourth and this quarter, so can you just repeat them? And secondly, what is your view on overall asset quality in that segment, because lot of market participants believe that that has just started getting worrisome. So do you think that the GNPA will keep moving up in that segment?

Vellayan Subbiah: Yes, so in terms of GNPA number, we finished this quarter 3.82, we had finished the previous quarter, I believe the number was 3.65. So yes, it has gone up. Now the second thing is, when do we think it will correct? Like Rohit mentioned, basically the challenge is that the SME businesses in India are under a decent amount of stress, so our belief is that if the economy

continues on its current trajectory later this year, so I will say kind of do not know whether it is third quarter or fourth quarter but we will say one of those two quarters is when we believe we will begin to correct.

Moderator: Thank you. Our next question is from the line of Nilanjan Karfa from Jefferies. Please go ahead.

Nilanjan Karfa: Vellayan, you highlighted something about the securitization leading to a yield loss this quarter, is it related to the investment recognition on the PDCs has to be on the 90-day basis and which is why you are seeing some sort of income loss, is that the reason?

Vellayan Subbiah: See, in the case of securitization, as per RBI regulation any EMI which has not been collected has to be netted off against the income, even though it may be the zero bucket EMI. So the entire EMI gets reduced out of the EIS part of it, you are familiar with the EIS part. So the EIS gets reduced to the extent of the EMIs not collected. Normally in Q1 there will be some amount of backlog on the first two buckets of EMI collections.

Nilanjan Karfa: So basically, it should normalize within two quarters, max?

Vellayan Subbiah: Yes, definitely.

Nilanjan Karfa: And secondly on this, quite a few other companies have been highlighting about this SME stress, now is it something new or if you can just share where this is coming from, because that is what it seems like, suddenly something has somewhere gone wrong.

Vellayan Subbiah: No, if you were to look at this, one way of looking at it is like, especially in kind of these segments of vehicle finance we are in, when there is stress in the market immediately that stress kind of shows up in terms of our book performance or asset quality. The SMEs tend to have a little more holding power because they have other sources of income, so you tend to see a bit of a lag because they have other source of income, they try to cover up with that for a while. But then if it sustains then you begin to see it in their book as well. So I think we are seeing that sustained stress playing out now because they had a longer ability to kind of hold, we did not feel it but at the same time we felt it in the vehicle finance business. So now really depends in kind of whether the market is going to get better for these guys are not. Our belief is, things are getting better but we have to see that actually begin to play out. And like I said, I do not think we expect anything this quarter, but whether it begins to kind of kick back in the third quarter or the fourth quarter is unknown at this stage.

Nilanjan Karfa: And if you can clarify, which all sub-segments of SME you are saying in sector classification or is it very widespread?

- Vellayan Subbiah:** See, I will say that we tend to have more traders, distributors and retailers and then some small manufacturers as well. But definitely we will see this kind of pronounced across those segments, small manufacturers and to a certain extent on the trader and distributor category as well. So working capital management, actual end demand for the guys who expanded has gotten soft. So those of the things we are beginning to see in the market.
- Nilanjan Karfa:** So that will recover broadly, then you would have to hope that demand side recovers?
- Vellayan Subbiah:** That is right.
- Nilanjan Karfa:** So what is the signal we should look out for on the demand side therefore, which you also probably would be tracking?
- Vellayan Subbiah:** See, if you look at, very positive thing is that there has been an upturn in the CV side, the auto sector. And auto industry is one of the largest impactors in the economy, this sustains then obviously you shall definitely see a rub-off effect in other sectors, SMEs will start getting a positive impact from this sharp turn. And it has already been some time now, it is about six, eight months that we are seeing this, so obviously in the next six months we feel that **it will be better.**
- Moderator:** Thank you. Our next question is from the line of Shrey Loonker from Reliance Mutual Fund. Please go ahead.
- Shrey Loonker:** Just a couple of questions. One, Vellayan you did mention that this scrapping will have an implication on the five to seven-year bucket vehicles. Are you seeing already some signs of it or not just yet?
- Vellayan Subbiah:** No, we are not seeing any significant signs yet, but what has begun to happen is that and there is another impact on that whole segment as well which is... last year we saw the most repo vehicles come in to the market and that depressed the price of most used vehicles. But now with repo inventory kind of beginning to drop off a bit, we are seeing price recovery overall in the used portfolio of vehicles which is a good thing.
- Shrey Loonker:** But this is a pervasive feature that you are seeing where the repo stock is much lower than...
- Vellayan Subbiah:** It is not a pervasive feature. A lot of guys have still got a very high levels of repo stock. But what we are seeing is, we are not seeing kind of mad rush to go and dispose the inventory at whatever price you get, which is what causes the price crashes. So slightly more balanced disposition strategies, so that is what kind of affects this more than kind of the repo.

- Shrey Loonker:** And in the three to four-year bucket are you seeing more credit availability being better and that is why the second hand prices curve has moved up higher there, is that decent enough reason to attribute to?
- Vellayan Subbiah:** Not that much on the credit availability side, I think kind of overall what you tend to see in markets like this is that there is always a preference towards used vehicles because it gets more difficult to over a long period of time kind of sustain the returns, unless freight rates and everything start picking up. And we have not seen any evidence of significant pickup in freight rate, as a matter of fact this quarter there was some murmur that we have actually gone down a bit. Unfortunately, there is not a whole lot of good data on it and we are beginning to try and compile some of that. So that is a bigger driver than actually kind of what is happening on the service side.
- Shrey Loonker:** But Vellayan, we have seen vehicle consumption increase quite a lot last year, is there anything that you corroborate with the off-fleet operators where you see that they are applying a lot more?
- Vellayan Subbiah:** No, we look at it, right. We look at the data in terms of the average kilometerage that a truck does a month, that number has not move, though there are people at the fringe beginning to push that number significantly higher. But that number still remains around that 8,000 kilometers a month. What might have caused it obviously is it did not begin to see an increase in heavy commercial demand, so that could have helped it significantly as well.
- Shrey Loonker:** And anything, Vellayan, on the OEM discounts, first hand are you seeing any reason to believe that the discounts could reduce materially given that the monsoon has been fairly decent and widespread?
- Ravindra Kundu:** See, manufacturers who are leading in the industry have already reduced it, but there are four five newcomers like, I mean there are people who basically are trying to increase their market share. So some of them are doing it, but one good thing is that whosoever is doing it they are declaring their net up discount price because we saw that in the past finance companies have funded gross of funding discount, then it has actually created higher delinquency therefore everybody is getting it. So the discounts are between Rs. 2 lakh to Rs. 4 lakh in heavy commercial vehicle, depending on the manufacturers and the market also.
- Shrey Loonker:** But the incumbents have rolled back the discounts, is that what you are saying Ravi?
- Ravindra Kundu:** Yes.
- Shrey Loonker:** And this we have seen in the last three months or it has been there for some time?
- Ravindra Kundu:** Yes, now it has got established for last eight, nine months.

- Shrey Loonker:** And one data point question, what would be the differential between the three to four year old vintage truck versus a five to seven year old vintage?
- Ravindra Kundu:** 4% - 5%.
- Shrey Loonker:** And the last question from my side is, can you just offer your comments on the LCV segment, there seems to have been some pickup and what is happening there, how are the NPAs moving there?
- Ravindra Kundu:** So the last quarter also mentioned that light commercial vehicle started picking up and we have seen that little in this quarter, it has gone up to around 14% as against the last year closing of around 6%. So light commercial vehicle started selling across the country and because of the good monsoon what we firmly believe that it will further improve the light commercial vehicle sales. Not only the LCV, HCV, the smaller vehicle which is small commercial vehicles, 1 ton category of commercial vehicles also started picking up. So both put together, because of the consumption, demand and the rural development, it is going to improve, that is what we are hoping for. It is going to actually support the light commercial vehicle and small commercial vehicles sales.
- Shrey Loonker:** And in terms of numbers, so LCVs are down to 3.42% from 3.63% quarter-on-quarter?
- Ravindra Kundu:** Yes.
- Shrey Loonker:** And just one last question, how is the texture of the disbursements and actually different given that what we are experiencing on a stock portfolio?
- Vellayan Subbiah:** It is more or less the same, we have not changed kind of our underwriting, if anything we have tightened it a bit. So we are not seeing any huge difference in terms of disbursements in that portfolio.
- Shrey Loonker:** But geographically as well there is no difference in the cut of the disbursements versus the stock?
- Vellayan Subbiah:** I think that your question is, are we kind of... we have definitely tightened the credit in that NCR region and in PHC which is Punjab, Haryana and Chandigarh. So those are the two areas we are taking a slightly tighter chance on, rest of the country is more or less the same.
- Shrey Loonker:** But even on this particular geographical portfolio where we are experiencing a little unduly stress, you would believe that the NCL eventual credit losses would be sub 70 - 80 basis points?
- Vellayan Subbiah:** You are talking about provisioning?

- Shrey Loonker:** Yes, NCL, eventual credit losses, I mean once you take recovery.
- Rohit Phadke:** Crystallized losses will not be that high. Crystallized losses for us on that portfolio are very small, they are not even close to 70 - 80.
- Shrey Loonker:** No, in that relevant cohort which is experiencing a newly high stress?
- Rohit Phadke:** Even in that also it will not be as high as 70 - 80, actually as of now today we have no experience because we have not booked anything and we have been able to repossess properties also. So we feel that this is only a temporary phase where the market improves, we definitely will see a lot of realization and resolution.
- Moderator:** Thank you. Our next question is from the line of Manisha Porwal from Taurus Mutual Fund. Please go ahead.
- Manisha Porwal:** Sir, two questions. One is on the Home Equity, you mentioned about the competition pressure bringing down your yield. So just wanted to understand yield at present and exactly at what point would you pull off from this competition, in the sense what is that rate where you would not want to compromise any further?
- Vellayan Subbiah:** No, so I think basically right now we are not pushing too much lower than the current yield that we are going to. In terms of when do we expect kind of this to turnaround? It is one of the things that is difficult to predict, because it basically does depend on what is happening on the overall environment. Traditionally we have seen this kind of last anywhere between 12 to 18 months, so we have to say how long is it going to last, I would think something similar at this point in time. Because if you see what is happening is we are seeing the public sector banks kind of backing off significantly on the mid-size and the mid-corporate and the corporate lending side which will then put more pressure on the private sector guys to do it. And the private sector guys, if the private sector guys start moving there then it kind of allows this supply side rush to move away. So that is basically kind of the way we are looking at the business.
- Manisha Porwal:** And what would be the yield now there?
- Vellayan Subbiah:** So we do not discuss specific yields on that individual portfolio.
- Manisha Porwal:** Or even if you can just tell exactly like whether the yields have come off by 50 bps, 10 bps or 100 bps?
- Vellayan Subbiah:** We have come off by about 30 bps to 40 bps from last year.

- Manisha Porwal:** And one more question would be regarding your ICRA rating, now you have got an improved rating, what is the next trigger for our rating improvement and what kind of benefit has actually come to you or is likely to come to you in show up in NIMs?
- Vellayan Subbiah:** So broadly the next figure is they move us up one category which and if you question is what causes that happening, what we have seen is that they tend to move you to positive in six months and then kind of move you to the next level if there is no change or you continue to perform at the same level that they have seen you perform in the past. So that is basically usually how it plays out. What does it do for us? It helps us improve the pricing at which we raise our money market instrument. And, how much? It is kind of in question, but it depends on the environment at that time, but in general it does allow that to improve.
- Manisha Porwal:** So this rating improvement has given you any kind of cost improvement this quarter or is it likely to give in near future or we will have to wait for one more rating improvement to actually see that cost of fund benefit?
- Arul Selvan:** Frankly, when it moves to the next grade, that is AA+, it will give a significant cost difference. But of course, if market participants understand that you are in a better position comparatively, so there will be some amount of fresh benefits that will come. The bigger benefit when we move to the next grade will be to get in more investors like insurance companies, etc. so it expands your investor base as against simply right now relying on mutual funds.
- Manisha Porwal:** Sir, just a small question. Any view on the gold loans, is there any plan looking at the way the gold prices are moving up or the things are stabilizing? Is there any chance that we get back on that?
- Vellayan Subbiah:** No, we are not going to get back.
- Moderator:** Thank you. Our next question is from the line of Adesh Mehta from Ambit Capital. Please go ahead.
- Adesh Mehta:** So sir, just wanted to ask, in terms of Housing Finance where are we planning to take this book over the next three, four years in terms of scaling up where we are and where we would like to go?
- Rohit Phadke:** So, I think like I said in the past, I believe that that business offers the best growth potential for us as a business. Right now, we are dispersing in that kind of Rs. 40 crores range per month and our belief is that we can kind of take this up to the same levels as our LAP business, so over the next three to four years which is Rs. 300 crores to Rs. 400 crores a month in disbursement. Now how that plays out on the book, obviously is the book obviously takes a bit longer to grow but over that three to four year period we move it up to that Rs. 300 crores

to Rs. 400 crores number, you can definitely see how that can begin to have an impact on our overall book.

Adesh Mehta: And sir, so what kind of target ROAs are we budgeting from this book?

Vellayan Subbiah: Generally at this stage I would say about 3%. It could be higher, but we have to see how the yields play out and that again depends on the supply side a bit.

Adesh Mehta: And in terms of operating cost and credit costs, what are we building for this 3% ROA?

Vellayan Subbiah: So those numbers would be similar to our loan against property book, operating expenses will be a low 1% kind of numbers. And the loan losses again will add scale will be sub-1%.

Moderator: Thank you. Our next question is from the line of Cyrus Dadabhoy from Anand Rathi. Please go ahead.

Cyrus Dadabhoy: Projected funding mix, just want to understand what is the projected funding mix for next year and the likely funding cost? Secondly, also I see that CP funding has been fairly elevated throughout FY16 and the quarter, so you plan to keep the CP funding sort of high in the double-digit?

Arul Selvan: See, the CP funding we will be keeping anywhere in the range between 10% to 15% because that is the level at which our ALM can allow us to work on. But that will be both put together CP as well as the WCD loss which are both short-term funding side. On the long-term funding, today we are at 47% on bank term loans and debentures 27%. This progressively will be shifting from bank term loans to debentures as our rating improves as well as we are also working with banks to take debentures directly on to their tertiary book, both these options coming in, the debenture portfolio will increase trying to leverage the cost benefit out there. Because the banks have not reduced their lending rate, they are as good as base rate even though they move to MCLR.

Cyrus Dadabhoy: And my second question is, any guidance on overall credit cost number for the year?

Vellayan Subbiah: No, I think it is difficult number to predict at an overall level, but I think we have given you some, I think somebody asked a question in a different way, they said this quarter is the peak number for the year, so obviously kind of we would like to think that we would not go too much higher than what this quarter's numbers were.

Moderator: Thank you. Our next question is from the line of Umang Shah from Emkay Global. Please go ahead.

- Umang Shah:** I just had one question, in this quarter have we made any accelerated provisions like we did in the fourth quarter?
- Vellayan Subbiah:** So all we have done is, whatever is incrementally required for that 90 day number we have put in in this quarter. So we are keeping it, so when we actually kind of made that shift to 90 days we would not have anything incremental.
- Umang Shah:** And ideally when do we plan to make that move and what should be the target ROA sustainable under 90 DPD?
- Vellayan Subbiah:** So there are two things, right, one is, we do not think there the target ROAs are going to move because we have already been provisioning for that. So the ROAs would not move. The big question really is that we have been in touch with kind of a few of the analysts that we talk to as well, the basic question is this, what are the of takes, we are showing 90 day numbers and everybody asked us these kind of when we look at Mahindra And Shriram transport, they are seeing significantly different numbers. How do we show people that our book is kind of in slightly better shape because it is tougher to make the comparisons once we are at an any day number and the others are not. So obviously we are still going to do it ahead of the required time, there is no doubt about that. But obviously we have another 21 months to do it. And so when we do it, I would say it kind of depends on two things, one, how our overall portfolio continues to perform and second is that we would like to at least have everybody be consistent at 120, so it is only a 30 day kind of variance that you are looking at. And sometime we were looking, because even if we look at some of our competitor's guidance, they are reducing how much they are holding in certain provisions. So overall it is a bit confusing to try and understand if we projected a number how will that compare to what the others are doing. But, I do think that if we feel confident enough about our numbers and the fact that that you guys as analyst will make those adjustments for the fact that we have projected a 90-day number, we might move earlier.
- Moderator:** Thank you. Our next question is from the line of Sunil Kothari from Unique Investments. Please go ahead.
- Sunil Kothari:** Sir just one broad your thoughts on the business in which we are cyclical little bit, practically this vehicle finance, it has some three, five years cycle currently. So any thought process or any new segments we are entering, maybe same customers are getting asset finance, now you would think about consumer finance or maybe micro or anything, any thought process on adding some segments, like we added this home loan and all these things during last four, five years?
- Vellayan Subbiah:** So, I think there the two biggest growth opportunities we see right now are the home loan segment and the MSME segment which is basically we started bill discounting and both of those we see as very good growth opportunities. And like I have said before, I believe that

home loan can be bigger than our LAP segment, which means that the SME lending book will become kind of as larger, of if not larger than the vehicle finance book. So that is basically something that we are shifting towards overtime. And traditionally we have been more at the productive end of the segment which is why we have stayed away from consumer finance and things like that. I would say that that will continue to be the view currently.

Sunil Kothari:

And sir, what will be your focus area during current year and maybe for next year where you feel you should be watchful or careful about any disbursement or maybe credit loss or something?

Vellayan Subbiah:

So obviously the HE credit side continues to be a very key focus where we need to tighten credit more there because of what is happening on the overall portfolio, that is one area, the home equity credit. And then the second continues to be on vehicle finance collection, right. Like I articulated earlier, we have to bring down credit losses to that 7.8 range and we are not close to that yet.

Sunil Kothari:

And sir last question is this, because of this technological support with so many digitized supporting, you feel that is now very high scope for you to cover so many people or maybe so many areas, productivity, all these things because of this technological support we will make lot of difference over next two, three, four, five years?

Vellayan Subbiah:

Absolutely, I mean we continue to believe that technology is going to be the biggest game changer and we are going to invest heavily in that.

Moderator:

Thank you. Our next question is from the line of Nidhesh Jain from Investec. Please go ahead.

Nidhesh Jain:

First my question is on credit cost and the vehicle finance business, in this quarter the credit cost is around 1.3%, if I compare this credit cost across other players, this is will way is one of the lowest, only I think Sundaram Finance has a lower credit cost. So do you think this number could go down further from here onwards? And historically when we have seen lower credit costs, actually that lower credit cost was also driven by very strong growth in the AUMs.

Vellayan Subbiah:

So yes, to your question, yes credit cost will go down and GNPA's will go down, that is our continued focus, we are still at significantly elevated levels compared to where we have been in the past. So our focus in both businesses is to bring those numbers down.

Nidhesh Jain:

And secondly, can you share some tale from the MSME business, what are the ticket size, what are their yields?

Vellayan Subbiah:

Are you talking about the home equity, the loan against property business or the MSME?

Nidhesh Jain:

MSME business.

- Vellayan Subbiah:** So the MSME is more a bill discounting business predominantly now with some term loans. The yields are a bit over 13%, a bit north of 13% directionally. And so it is a decent book, I mean costs are not very high and hence we are recurring business as well.
- Nidhesh Jain:** And sir lastly on the impact of GST, so there are two competing thoughts on GST that GST will improve the productivity of vehicles that may reduce the demand, but on the other hand that will also increase the moment of goods which will increase the demand. So whatever your views on the GST, how it is going to impact our business?
- Vellayan Subbiah:** We are optimists, we believe that it is going to improve things and we definitely think that it will improve the amount of interstate transport and benefit the overall truck movement a lot.
- Moderator:** Thank you. Our next question is from the line of Vivek Shah from Valcore Capital Advisor. Please go ahead.
- Abhishek:** Hi, sir. This is Abhishek. Just wanted to understand more on the housing finance demand sir, is it that the whole industry is just scratching the surface, I mean are there specific pockets in terms of could be geographical or could be in terms of say affordable housing. So just wanted some views on that.
- Rohit Phadke:** Broadly the way to look at it is this which is, most of the housing finance demand to date has been targeted against salaried people. And the salaried class in India, whatever estimates you take is not more than 20% to 25% of the overall population. So now what we are beginning to get into is housing finance demand for self employed people and we are focused on self employed non-professionals. Now that is a huge segment of the Indian population, at least close to 60% of the Indian population and they have traditionally not had access to this. So yes, we are just scratching the surface.
- Participant:** Sir, and how different is it in terms of, say, could the provisioning as such, do you expect higher NPAs from this sort of segment compared to our traditional one?
- Vellayan Subbiah:** They could be a bit higher, we do not think they will be significantly higher but the yields are significantly higher.
- Participant:** So how much would it be in terms of yields?
- Vellayan Subbiah:** Yields are almost 3% to 3.5% higher.
- 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.



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Nischint Chawathe: Thank you all for joining the call today. We thank the management for giving us an opportunity to host the call.

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