



“Cholamandalam Investment and Finance Company Limited Q1 FY19 Earnings Conference Call”

July 27, 2018



MANAGEMENT: MR. ARUL ALAGAPPAN – EXECUTIVE DIRECTOR, CHOLAMANDALAM INVESTMENT AND FINANCE COMPANY LIMITED

MR. ARUL SELVAN – EXECUTIVE VICE PRESIDENT AND CHIEF FINANCIAL OFFICER, CHOLAMANDALAM INVESTMENT AND FINANCE COMPANY LIMITED

MR. RAVINDRA KUNDU – PRESIDENT AND BUSINESS HEAD (VEHICLE FINANCE), CHOLAMANDALAM INVESTMENT AND FINANCE COMPANY LIMITED

MR. ROHIT PHADKE – PRESIDENT AND BUSINESS HEAD (CORPORATE FINANCE AND HOME LOANS), CHOLAMANDALAM INVESTMENT AND FINANCE COMPANY LIMITED

MR. RUPINDER SINGH – SENIOR VP & BUSINESS HEAD – HOME EQUITY, CHOLAMANDALAM INVESTMENT AND FINANCE COMPANY LIMITED

MODERATOR: MR. NISCHINT CHAWATHE -- KOTAK SECURITIES

Moderator: Ladies and Gentlemen, Good day and welcome to the Cholamandalam Investment in Finance Company Limited Q1 FY9 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, please signal an operator by pressing '*' and 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: Hello everyone. Welcome to Q1 FY19 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 today Mr. Arul Alagappan -- Executive Director; Mr. Arul Selvan -- Executive Vice President and Chief Financial Officer; Mr. Ravindra Kundu -- President and Business Head (Vehicle Finance); Mr. Rupinder Singh -- Senior VP & Business Head (Home Equity) and Mr. Rohit Phadke -- President and Business Head (Home Loans). I would now like to hand over the call to Arun Alagappan for his opening comments.

Arun Alagappan: Good morning friends. My name is Arun Alagappan and I am the executive director of the company. Along with me today, we have got Arul Selvan -- the CFO of the company, Ravindra Kundu -- the President of Vehicle Finance, Rupinder Singh -- the Head of Home Equity Business and we have got Rohit Phadke -- the President of our Home Loan Business.

I have great pleasure in presenting to you the Q1 FY19 performance of our company. At the outset, I am happy to state that the company ended the year with its highest ever quarterly disbursement and profits in Q1. The company registered a very good performance in all critical parameters like disbursement growth, PBT, ROTA, ROE and asset quality. The company has made transition from IGAAP to IndAS this quarter.

Since this is the first quarter under IndAS, the comparable numbers are available only for Q1 of the previous year. A reconciliation of the profits between IGAAP and IndAS are also presented as part of our investor presentation highlighting key areas of impact. I will be presenting the company performance first as per IndAS followed by the performance of vehicle finance, home equity and other highlights under IndAS. I will be providing comparative data with reference to the performance of last year. The company has yet another stellar quarter with highest ever disbursement and PBT in Q1. Disbursements for the quarter were higher at Rs. 7014 crore registering a growth of 45% and PBT for the quarter was at Rs. 439 crore registering a growth of 35%.

The vehicle finance business grew by 48% in terms of disbursements and 24% in terms of PBT year-on-year. The HE disbursement grew by 27% and PBT by 7% year-on-year. Assets under management grew by 30% at Rs. 46,663 crore compared to 35,869 crore in Q1 FY18. Total income for Q1 FY19 was higher at Rs. 1597 crores against Rs. 1296 crores in Q1 FY18 recording a growth of 23%. PBT for Q1 FY19 was higher at Rs. 439 crore compared to Rs.

324 crores in Q1 FY18 recording a growth of 35%. PAT grew by 36% and was at Rs. 285 crores. PBT, ROTA for Q1 FY19 was 4% compared to 3.8% achieved in Q1 FY18. ROE moved up to 21.81% as against 19.15%. We have 883 branches across 27 states and union territories. Reduction in non-performing assets.

GNPA at end of Q1 FY19 declined to 2.99% compared to 4.73% at the end of Q1 FY18. In absolute terms, the GNPA as of June 18 were at Rs. 1377 crores as compared to Rs. 1682 crores as on June 2017 a reduction of Rs. 306 crore. Likewise, net NPA was lower at 1.71% at the end of Q1 FY19 compared to 3.17% at the end of Q1 FY18. June 18 net NPA percentage as per IndAS.

Provision coverage ratio improved to 42.72% in Q1 FY19 as compared to 33.08% in Q1 FY18. June 18 provision coverage ratio is per IndAS. Vehicle finance turned out a stellar performance with an all-round improvement in disbursement, asset growth and profit. Disbursement for Q1 FY19 were higher at Rs. 5665 crores compared to Rs. 3819 crores in Q1 FY18 registering a growth of 48%. This was achieved through a strong growth across product line HCV, LCV and mini LCV. The business recorded a PBT of Rs. 275 crores against Rs. 223 crore in Q1 FY18 recording a growth of 24%. Net income margin for Q1 FY19 was at 6.9% compared to 8.2%. Net credit loss was lower at 0.9% as against 1.1% in Q1 FY18. The PBT ROTA in Q1 FY19 was at 3.4% from 3.7% in Q1 FY18.

GNPA declined to 2.18% from 4.17% with provision coverage improving to 47.34% from 34.32% on year-on-year basis. June 18 provision coverage ratio is as per IndAS. Home equity disbursement for Q1 FY19 were higher at Rs. 939 crores compared to 740 crore in Q1 FY18 registering a growth of 27%. The business recorded a PBT of Rs. 58 crores compared to 55% in Q1 FY18 registering a growth of 7%. GNPA declined to 5.15% from 6.03% with provision coverage improving to 32.41% from 30.76% on year-on-year basis. June 18 provision coverage ratio is as per IndAS.

The capital adequacy ratio at the end of Q1 FY19 was comfortable at 18.15% Tier 1 was at 13.41%. My colleagues and I would be happy to answer any questions that you may have. Thank you very much.

Moderator:

We will now begin the question and answer session. We have the first question from the line of Suresh Ganapathy from Macquarie. Please go ahead.

Suresh Ganapathy:

What could be the reasons for the current MD & CEO to resign abruptly one year ahead of his tenure that is my first question and the second question is I have doubt on Page #18 and #19 of your presentation specifically if you look at Page #18 the IndAS reconciliation that you have done can you explain this line item profit on de-recognition of financial asset it is all over the place FY18 is a large negative number. First quarter is positive for this year negative for last year, can you just explain why there is a such a big difference in these numbers?

- Arun Alagappan:** Mr. NS has served the Chola Board and also as a lead director of financial services business for a long time. Mr. NS helped building a strong leadership team at Chola. He has helped build a very strong business in ecosystem of branches affiliates in strong relationships with manufacturers of commercial vehicle. Today in the board Mr. NS actually expresses his intent to step down from the board as well as MD with effect from August 18 for personal reasons and we respected his wishes and we wish him well in the future.
- Arul Selvan:** As per the IndAS when you are doing securitization it is not recognized as sale and it is continued to be kept in books whereas in the case of assignment you need to recognize it as a true sale and when you are recognizing it as true sale you need to also upfront the profit on the future income of the assets that are being sold. In period ending FY17 we had certain I think three deals where were assigned earlier on which we needed to upfront the gain as per the deals originating in the period whenever they have been done. So, that is the 973 million you are seeing there where we are up fronting the gain and that is taken to the reserve. Now having up fronted the gain this needs to be written down as the pool runs down which is the case what you are seeing in FY18.
- In FY18 we did not do any assignment deal and Q1 FY18 also reflects the same thing. In Q1 FY19, we did another assignment deal and that is the positive you are seeing there in these amounts of 36 crores of the 360 million you are seeing there which is the amount gained on the new deal done in Q1. Net-off sale run down which is happening for the old deals that has been taken credit off in Q1 in the transition reserve.
- Suresh Ganapathy:** No just to understand this bit better so what you are saying is this 973 that you have booked as a gain you know that has to be amortized over FY18 in the sense that once you book it as a gain upfront then you will have to amortize in FY18?
- Arul Selvan:** It is not amortizing you are taking the profit ahead in FY18 you would have recognized those income in the respective period in an amortized basis that you need to reverse back.
- Suresh Ganapathy:** It is all going to be function of assignment and nothing else.
- Arul Selvan:** In the case of assignment you need to upfront because it is like there is no residual loss or residual risk retained with you.
- Suresh Ganapathy:** What about securitization transaction how it is accounted for here because if the credit enhancement is greater than the ECL of the pool then you are not allowed to derecognize right, so is that also a part here will your credit enhancement be always be ahead of ECL?
- Arul Selvan:** Securitization income will be recognized on amortization as per earlier basis only. The only difference is earlier we used to only show the excess interest spread as the income. Now you need to show the entire income in the income line and you need to show the cost of funds in

the cost of funds line because you are bringing the asset into the book and also the borrowing into the book.

Suresh Ganapathy: So, that has nothing to do in this IndAS reconciliation anywhere?

Arul Selvan: It will not impact, but it will impact the individual line item.

Suresh Ganapathy: Sorry one more question on the IndAS this impact of application of IndAS 115 on revenues from certain customer contract what is that?

Arul Selvan: We had an advertisement revenue which we had one-time upfront income taken in the earlier period that needed to be amortized now because you cannot take the upfront income as per the 115.

Suresh Ganapathy: No, what is this exactly advertisement what did you say?

Arul Selvan: See what we do is we have around 800 branches. We have given the space for advertisement of various products in this branch. So, because there are walk in people can look into this and then buy. So, towards this we had taken in one-time upfront income of around 25 crore that has got now to be amortized so that is being amortized.

Moderator: The next question is from Viral Shah from Credit Suisse. Please go ahead.

Viral Shah: My first question and how are you thinking about the truck overloading relaxation that happened. It seems like the general feeling is that the new truck sales could take some hit, how are you looking at it, what do you expect as an impact on your new disbursement outlook as well as on your existing book that is my first questions?

Ravindra Kundu: The overload ban has been relaxed in some of the states, but those are actually applicable for the intrastate application since the long-haul truck are actually running in the rated load only and that is one. Second is this is related to heavy commercial vehicle only and specific to the haulage vehicle and not applicable for tipper, trailers and other products which is off road or not operating in the long haul. According to me it is around 25% up the overall heavy commercial vehicle. With respect to Chola our focus is more on light commercial vehicle, small commercial vehicle used in other product it is quite diversified. So, as of now for the quarter if you see heavy commercial vehicle went up by 93% and even in the current month also the sale is going on. So, therefore, I do not think that there will be impact definitely in terms of the growth percentage then we will get into the higher pace of Q2 or Q3 maybe the percentage growth will come down, but in terms of the absolute number the heavy commercial vehicle or light commercial vehicle will not get impacted so badly.

Viral Shah: So, just to clarify I was referring to the axle load limit increase not the ban being relaxed.

- Arul Selvan:** Now coming to the axle weight if you go through the notification it talks about the axle weight will be applicable for prospectively by the manufacture when they come out with the appropriate vehicle by doing the modification. When it comes to the manufacturer they are saying that they will take some time to produce such vehicle and bring it on the road. So, as of now such notification what it talks about is increasing the axle weight is not getting implemented immediately.
- Virah Shah:** And you do not think it is for it has any retrospective effect on trucks which are already on the road?
- Ravindra Kundu:** That is not mentioned in the notification. Notification is very clear about saying that it will be implementing prospectively.
- Virah Shah:** I wonder how it will be implemented on the road you can only check new vehicle but not the old vehicles. My second question is on you have given the GNPA and NNPA chart, I mean does this corresponds to Stage-3 under IndAS or is this still on the Indian gap format?
- Arul Selvan:** See the GNPA number has been calculated based on Indian gap that is 90 days above debts and the corresponding provisions on that is what is reflected here. Stage three what we have done is in Stage-3 we are taking 90 DPD also any assets which has been in 90 DPD over the last one year even though it might have been converted to standard. So, the Stage-3 numbers will be a slightly higher number than your pure NPA as per 90 DPD. So, to differentiate that we have made only the gross NPA numbers as per 90 DPD and the provisions there also. Just to intervene the gross NPA numbers is for June 18 under IndAS the earlier one as to the original number.
- Viral Shah:** So, this 2.99% for Q1 FY19 it is not the old way of looking at the 90 DPD accounting?
- Arul Selvan:** It is the old way of looking at 90 DPD. It is not Stage-3 is what I am trying to say.
- Viral Shah:** Do you have any provisioning carrying for Stage-2 and Stage-1 standard?
- Arul Selvan:** Sorry.
- Viral Shah:** I see one of the slides you have mentioned 40 basis points for standard asset provisioning, so you are still following the RBI format for this?
- Arul Selvan:** We are not following it. In which slide is it mentioned it is not mentioned. It is around 49 bps will come.
- Viral Shah:** Slide 15 at the foot note.
- Arul Selvan:** That is FY18. I mean this is the note which is continued to indicate that provision coverage is moved because of the RBI norms this is nothing to do with the current quarter.

- Viral Shah:** Very good moment in the operating cost something that we have been hoping for quite some time I mean what changed and what is the outlook on this?
- Arul Selvan:** Okay to be very frank we also got acknowledge that part of the operating cost now moves into the interest line as per IndAS the origination cost moves into the interest line. Having said that yes, we had an improvement in operating cost, we had an improvement of around 50 bps on the operating cost purely from our own efforts, but the 2% level here is primarily driven because of origination cost being treated as part of interest income because that is what IndAS says if any cost relating to the creation of the agreement also should be built into the effective interest rate.
- Viral Shah:** And finally, at 13% odd Tier-1 and fairly good growth momentum that you have it seems like capital raise is eminent?
- Arul Selvan:** We will suddenly take the call as we have been telling earlier we will come to that conclusion when the Tier-1 comes down to 12% because even then we will have a 200-bps headroom to maneuver and that decision will be taken in consultation with the Murugappan corporate board the promoters.
- Moderator:** The next question is from the line of Bunty Chawla from B&K Securities. Please go ahead.
- Bunty Chawla:** On the slide number 16 if we see the net interest margin which you said as dip down to 6.9% versus in IndAS YOY 8.2% so there is a huge decline of margin so can you share the reason behind that because of the accounting entry or it is clearly on the rise in cost of funds?
- Arul Selvan:** Actually, if you look at it there are two reasons for the dip in margins. One is because of the IndAS we have up holding just before the earlier question I said the origination cost is now moving into the interest line. So, the origination cost also gets netted off into the NIM. So, that is one major elements which takes away almost like a 120 bps of the NIM. Apart from that in the current quarter we had yield drops that is primarily because in Q4 as well as in Q1 their predominant push had been on heavy commercial vehicle which gives us lower yield, but also gives us lower cost and lower NCL. So, at the NIM level it may look like there is a drop. So, this the second predominant reason. On the cost of funds, we have so far in the Q1 we have been impacted by the cost of funds being higher because it is only happening on the marginal cost the increases are happening on the marginal cost and I think the impact of that will start showing itself in Q3 or Q4.
- Bunty Chawla:** Just as you said there because of the IndAS origination cost has moved into this, but the same feature will be visible in Q1 FY18 because that number has been under IndAS itself?
- Arul Selvan:** Yes, that is true. That is the second reason being the yield drop on account of the heavy is coming in.
- Bunty Chawal:** Can you share the incremental cost of funds and incremental yields?

- Arul Selvan:** Incremental cost of funds is coming at around 9% today if I take the longer tenure and if I take the short tenure it is around as 7.5%, 8%. On the yield side it will be in the range of around 14% overall. This is before fee and other income.
- Bunty Chawla:** Can you share some guidance on this net interest margin going ahead or for the full year for FY19?
- Arul Selvan:** That is quite difficult to say now because we are not sort of tackling we are both on the IndAS impact as well as what will be impact going forward on the cost of funds. I think at this juncture I did not want to commit anything on any upfront numbers for the coming quarters.
- Moderator:** The next question is from Umang Shah from HSBC. Please go ahead.
- Umang Shah:** I just have a couple of questions. One is so you have already eluded to the fact that the gross Stage-3 number would be higher compared to the current gross NPA of 2.99, could you also help us as to how big the differential would be and what would be the impact of NPL on securitized assets within that?
- Arul Selvan:** This considers securitized assets also. We have always been considering securitized assets when we can stretch gross NPA because we always work on assets under management. On the Stage-3 see right now I think we will wait how the industry share details on Stage-1, Stage-2, Stage-3 part of it and then we will come up with sharing these details. At this juncture we would like to keep this with ourselves rather than getting into because first of all this Stage-1, Stage-2, Stage-3 has been worked out for 17 different segments within our businesses. There are different stage 3 percentage, different provisioning percentages for each of them so 17x3 is what we have to do and for each of this the PDs and LGDs have been calculated and this is quite cumbersome process to explain in this short span. We will wait for the industries development and then we will share details on this.
- Umang Shah:** I understand just to reconfirm so this 2.99% which compares with 2.94% of gross NPA of FY18 also includes the NPL on the securitized pool.
- Arul Selvan:** Yes.
- Umang Shah:** So, is it fair to assume that the capital adequacy calculation which you have given also include the impact of securitized assets now being considered as on balance sheet?
- Arul Selvan:** We have calculated capital adequacy as per the existing methods because we still awaiting RBI guidelines on how the capital adequacy has to be calculated because what happens is if I add this securitized assets into the balance sheet then I should take the call that the cash collaterals provided can be netted off from the Tier-1 because that is the compensating factor when you remove the securitized assets from the risk weighted assets. Your Tier-1 is knocked out to the extent to cash collateral provided. Then I need to do that otherwise it will be double whammy in capital adequacy calculation. So, we would rather wait for RBI regulations to come up on

this. In this till that time we are going by RBI erstwhile regulation which is prevailing on capital adequacy. IndAS does not require us to do capital adequacy calculation RBI requires us to do and we have worked it on that basis.

Umang Shah:

My last question is on growth so one is for the overall book and the second is that in the home equity business after a long time we have seen very strong traction on a sequential basis in disbursement if Rupinder could just give us some color in terms of markets or customer segments which are driving this growth and how sustainable this growth would be and probably if some color could be given on the overall AUM growth both on the vehicle front as well as the overall AUM growth for FY19 that would be helpful.

Rupinder Singh:

I will talk about home equity and further Mr. Kundu will take on the VF growth. If you see home equity for the year-on-year growth we have delivered 27% and we have been poised enough to take it further in the same fashion in quarter two also. Till late we have a 150 branches and we are reaching Tier-3 and Tier-4 locations and expecting quarter-on-quarter increase of 18 to 20 branches basically. So, the growth predominantly coming is from the Tier-3, Tier-4 growth where we already have a presence in terms of VF branches. So, this is the new market which we have capturing along with whatever sustainable growth we can get from the existing locations.

Umang Shah:

So, basically it is distribution and in terms of average ticket size how it is trending?

Rupinder Singh:

We are maintaining average ticket size to around 50 lakh itself and we will continue to maintain to that level or maybe little over that, but approximately it will be around 50 lakh itself.

Umang Shah:

This is helpful and for the overall book?

Ravindra Kundu:

Umang vehicle finance is done 48% growth in disbursement and 38% growth in closing asset and we have been discussing in the past that we will be trying at least to get 20%. So, if the base effect will start looking in Q2, Q3 I think that is there we can do that.

Umang Shah:

Even post the axle limit regulation which are coming you would be confident of delivering of delivering about 20% kind of asset growth for the vehicle finance business?

Ravindra Kundu:

Axle weight I have been talking to the manufactures and also seen the SIAM's letter to the government they are very clear about it that they will take some time to implement it, but if that comes out retrospectively it will actually improve the cash flow of the transporter, it will improve the transporter who are actually operating in the long-haul and it will be beneficial for the financier in terms of repayment. Coming to the sale of the vehicle, as of now commercial vehicle is 50% up as against the last year and it goes down to 20% because of the base effect and because of the heavy commercial vehicle demand goes down, but light and small and other products are there, and we are well-diversified you have seen that our products we are well

diversified in terms of products and geography. So, we do not think that it is going to impact us.

Umang Shah: Just if I could squeeze in one last question, our annualized credit cost for this quarter was just about 90 basis points which is significantly lower compared to what we saw last year, can one expect that this is more kind of smoothened out number or as and when I mean on a quarter-on-quarter basis seasonality catches up and asset quality improve this quarter and I mean the trend line should kind of reflect in this number as well.

Ravindra Kundu: Historically, if you see that Q1 is always weak quarter in terms portfolio quality and after that it improves till Q4. So, Q1 is actually 0.9 I am expecting that we replicate the same thing what happened in the past we will be seeing better number or at least we can hold this number.

Moderator: We will move to the next question. The next question is from Alpesh Mehta from Motilal Oswal Securities. Please go ahead.

Alpesh Mehta: Just one question on related to this IndAS thing Slide #19. Write-back of incomes reversal on NPA and provisions for overdue of securitized assets can you give me the breakup of this what would be the interest reversal and the provisions related to that?

Arul Selvan: On the securitized assets write-back is 64 crore.

Alpesh Mehta: Secondly on our NPLs also we would have recognized some income on that front?

Arul Selvan: That is the balance. See what happens is this line reflects the income reversal as per earlier provisioning the moment the gross NPA happens, you have to 100% derecognized the interest income. In the IndAS you do not need to derecognize 100% you need to work out what is the expected credit loss on this interest income also just like us on the principle. So, we needed to work out this. So, in this context we had to reverse what had been provided for this 100% NPA interest reversals and then start providing as per the expected credit loss method for the income losses that could accrue. So, you have a write-back on the income reversal and you will have to know month-on-month consider what is the expected credit loss on the entire pool.

Alpesh Mehta: This line item only relates to the securitized assets or it is for the entire pool the income reversal?

Arul Selvan: It is for the entire pool. Income reversal of our NPA of the overall pool and provision overdues of the securitized pool. Securitized assets refer only to the provision overdues.

Alpesh Mehta: Assuming that on NPL of Rs. 100 if you would have recognized the interest of Rs. 10 and your loss given default is around 40% then the provision is you making is Rs. 4 or Rs. 10 on that interest?

- Arul Selvan:** It will reflect the Stage-1, Stage-2, Stage-3 criteria also which is what is the probability of default and then you will also work out the loss given default.
- Alpesh Mehta:** Secondly on Slide #14 the variable sourcing cost on the origination, the recognition was earlier upfront which was reflected in the expenses line item now would that be a part of income from operations, is that the part so largely the DSI expenses would be the part of income?
- Arul Selvan:** The effective interest rate will take into consideration the pure yield on the loan, the fee income on the loan and net-off the origination cost on the loan agreement-by-agreement it is calculated.
- Alpesh Mehta:** So, if your processing fees were lower than the DSA expenses that you were paying earlier than in that case your effective margins that you would be reporting would be on a lower side, is my assessment right?
- Arul Selvan:** Yes.
- Alpesh Mehta:** Was that the case earlier or it was largely netting-off each other?
- Arul Selvan:** Even fee income was higher actually. So, it had a negative impact on us because we needed to reverse lot of fee income which was upfronted.
- Alpesh Mehta:** Earlier reporting to this reporting now this is a double-whammy because earlier your fee income net impact of fee minus DSA was positive now it would be negative.
- Arul Selvan:** As long as your volume is progressive, incremental volumes are higher you will continue to have negative, but that will keep accruing to you over the period.
- Alpesh Mehta:** That is true. Lastly are you sharing the Stage-1, Stage-2 total provisions outstanding?
- Arul Selvan:** No, I think I answer in the previous questions one of the other investor that right now we have decided not to share this detail depending on whether how the other players are sharing, we will come back to you all the detail.
- Alpesh Mehta:** But is it fair to assume your coverage ratio which was under Indian gap was on a higher side as compared to IndAS because there is some ECL-related provision reversal and the Stage-2 would have required the higher standard asset provisioning so that is not much of important?
- Ravindra Kundu:** In absolute value the provisions have increased. Though as per old method I should have reversed that is because the standard asset provision is more now.
- Moderator:** The next question is from the line of Ankit Chaudhry from Equirus Securities. Please go ahead.

- Ankit Chaudhry:** Apart from the presentation the financials which are available in that we have made a comparison with last quarter also and I assume that would be on the IndAS only, the 31st March number quarterly numbers. So, in that case the other expenses have almost halved from 207 crores to around 104 crores so what explains that thing?
- Ravindra Kundu:** Are you referring to the other expense?
- Ankit Chaudhry:** The other expense part in the financials not the presentation, but the financials which were uploaded till the expenses part if I go in the other expense there is a comparison with the last quarter also and we expect that it would be on IndAS only?
- Ravindra Kundu:** That is because the origination cost has got grouped under the revenue from operations.
- Ankit Chaudhry:** If we exclude that all the origination and expenses and all that move to revenue from operations, so what could be other adjusted other expense for last quarter?
- Management:** Ankit you are asking as per IGAAP.
- Ankit Chaudhry:** This is for IGAAP 207 crores because you have not moved the fee part revenue from operations?
- Ravindra Kundu:** See the other expenses for current quarter would be 329 crore.
- Ankit Chaudhry:** Q1 to Q1 is fair but just wanted to understand on the quarterly part also what was the thing?
- Ravindra Kundu:** Yes, I will give you. I am not carrying the Q4.
- Ankit Chaudhry:** Fine. We will get in touch with you later.
- Moderator:** The next question is from the line of Keyur Asher from Reliance Nippon. Please go ahead.
- Keyur Asher:** I had a question on the borrowing profile that is on Slide #34, sir given the overall interest rates in the economy are going up, your funding from bank loans has increased YoY and likewise from debenture it has gone down and likewise securitization it has also gone down, so just wanted to get your sense actually what is typically the borrowing cost differential vis-à-vis bank loans, debentures and securitization?
- Ravindra Kundu:** See bank loans today are coming at around 8.5% on a monthly payment basis which if you annualize it will be around 8.5%. Debenture are coming in the range of around 9% I am talking about 3 years, 5 years term loan so 9.0 to 9.05 is what is happening in the market. But the problem is debenture quantum is not available if you drive for quantum the price goes up, but banks are willing to lend me. We have sanctions in place from various banks at 8.5 levels so that is why we are moving more towards banks. While there is a risk that that the MCLR may go up in the case of banks. What is happening is it is one-year reset is fixed and we have a

prepayment option at the end of 1 year, so we are open to close the loan if the MCLR moves up drastically. We will check at the respective point in time. On the securitization, we do primarily the priority sector segment which gives us almost us almost like a 120-bps margin difference that is why we drive securitization. We will be doing securitization, we have done some deals in Q2 already. That ratio will move up as we move further into the year.

Moderator: The next question is from Darpin Shah from HDFC. Please go ahead.

Darpin Shah: So, if you can share your thoughts on the progress which we have done in GNPA repossession is done and the progress under SARFAESI act for these assets?

Rohit Phadke: Currently if you see that our GNPA is coming down not only in percentage wise, but in absolute number also. So, major impetus is obviously on the SARFAESI. As of now we have already acquired more than 45 properties under SARFAESI across countries and month-on-month we are liquidating as and when we are getting a right option to sell-off. So, if we see there is a traction around and collection is in a proper structure form and there is a focus to get this money back in our books. So, this 45 properties it is actually more than 45 because every day there is something new addition in to it and there is also selling things which is happening around. So, every quarter you can see that this GNPA number is falling down.

Darpin Shah: So, this 45 properties approximately it could be what value overall?

Rohit Phadke: Obviously, since as NBFC we can acquire property more than 1 crore under SARFAESI so this is around average ticket size of 1.5 crore to 2 crore. So, 70 crore-75 crore of GNPA is there.

Darpin Shah: And so, for rest of GNPA which are there so what axle progress we are doing there?

Rohit Phadke: Under SARFAESI our book is around (+200) crore basically that is number of customers are more than 150 which we can go for SARFAESI this is the spot which I was talking about. So, the progress is there. We are in process of attaching the properties wherever the law is permitting us and month-on-month we are acquiring after following the process of 13(2), 13(4) and section 14. The process takes time of around 8 to 9 months, so it is in process basically.

Moderator: The next question is from Harshit Toshniwal from Jefferies. Please go ahead.

Harshit Toshniwal: This question on the axle norm, so when I look at the current one so if they are applied prospectively on the new sales then do you think that the huge CV prices could see some pressure in general?

Ravindra Kundu: The axle weight benefit is going to be to the long-haul customer transporters. Long haul transporters are always replacing their vehicle. The tipper and trailer and used segment, the transporter operating intrastate are already using the overload. So, therefore it does not make any difference that is the reason in some interview Minister said that we can actually do it

retrospectively also, but as per the manufactures are concerned they are saying that it will take time because they need to change their breaking system, they need to change the suspension, they need to also verify the steering, also they need to check the cabin capacity those thing is going to take some time. So, we did not worry about it as of now and it is not going to change the impact on the huge vehicle pricing.

Harshit Toshniwal: Another thing sir if there is going to be some delay then do you think the purchases could be delayed till that extent?

Ravindra Kundu: I am in little dilemma in this current one and that is particularly in heavy commercial vehicle. It is not there in lights and small and ICV, it is also not there in tipper and trailer. It is only in the rigid vehicle which is basically 31 ton or 37 ton, but there was there for 1 week and then after that those who will need the vehicle need to actually attach into the transport wherein the contract has been taken by the transporter they have actually gone and bought the vehicle, but there is a sales of heavy commercial vehicle haulage segment of 31 ton and 37 ton and especially 25 tonner in this month as of now, but we have to see the month end because you know that in automobile and in anything in India month end is very important and we will see what happens on 29th that year.

Moderator: The next question is from Amit Premchandani from UTI Mutual Fund. Please go ahead.

Amit Premchandani: You are saying this notification is not applicable on retrospective basis and now today our truck operator goes and buy something without the applicable changes in the fleet which is required for that 25% why will hw do it before that changes happen?

Ravindra Kundu: So, if the transporter need the vehicle to deploy it immediately based on the contract he has to do it, but if the transporter need to replace the vehicle just to modernize the fleet which the transporter normally do it once the contract are over with the finance company maybe they can wait.

Amit Premchandani: But I am just trying to understand why will he take a 20% loss for 1 month?

Ravindra Kundu: So, manufactures are saying that they are not in position to give the vehicle immediately it will take time that is what manufactures and dealers are talking to the transporter that if you are waiting then it is not going to work immediately we cannot do anything. Prospectively means we need some time. Some manufacture is saying 7 month-8 month, some manufacture is saying 3 month-4 month because they are saying that it requires different type of tyre, different type of breaking system which is going to take time for the ancillaries to produce and the OEMs to supply.

Amit Premchandani: I completely understand your point, but I am just saying that if it is not retrospectively applicable, then they will not be able to sell the vehicle that is the only point I am saying nobody will take a 20% loss because of this. And secondly on Slide #17 in the home equity

expense ratio moving from 1% to 2.6% is it wrong figure that I am seeing or is it actually move from 1% to 2.6%?

Ravindra Kundu: I think there has been some error we will correct that and provide you detail.

Amit Premchandani: What is the right number?

Ravindra Kundu: It is also 1%. You see it is not tallying.

Amit Premchandani: Yes, that is why I was just wondering what is it because there are lot of changes in IndAS I do not know what type of changes?

Ravindra Kundu: I am sorry there have been a few glitches. We will correct this.

Amit Premchandani: And sir on margins you said that some part of margin is impacted by IndAS accounting or OPEX net of all that what is the YOY decline in margin because YOY will not have any seasonality and all that?

Ravindra Kundu: If you go to Page #15 our ROTA has 3.8 has move to 4.

Amit Premchandani: What I meant was NIM on an overall consol basis has declined, some part of decline is because of some adjustment because of OPEX, but this 7.7% decline to 7.2% is net 50 basis point decline of any IndAS impact right?

Ravindra Kundu: That is both side IndAS impact has been considered. You look it at this way. See there has been drop of 50 basis point, there is a drop of around I have given you the you are asking IGAAP versus this?

Amit Premchandani: No sir on IndAS basis.

Ravindra Kundu: On IndAS basis if you see Page #15 the drop in net income margin is 50 basis points.

Amit Premchandani: And this is normal drop actual drop nothing to do with any IndAS?

Ravindra Kundu: This is the actual drop because of the yield drop.

Moderator: The next question is from the line of Ankit Chaudhry from Equirus Securities. Please go ahead.

Ankit Chaudhry: This question has been already been asked by the earlier participant, but still I want to understand this in the vehicle financing on the Slide #16 the NIM declined by 8.2% to 6.9% under IndAS now all these fee income that would have moved to the revenue in Q1 2018 also Q1 2019 also and you have stated that this has been due to the HCV increasing where yields

are lower but has there been 130 basis decline due to that or what has been the impact due to HCV increasing on the NIMs?

Ravindra Kundu: You will see a higher decline in quarters where the disbursements are higher because the fee income recognition is higher in those quarters and then because earlier when disbursements were higher NIMs will become higher because your fee income will be higher. Now we are reversing the entire fee income, so you will find in quarters where we are clocking higher disbursements the NIM will drop, but income on that is getting amortized over the subsequent period. As compared to Q1 of last year was actually a very slow quarter because after BS-IV implementation there were not vehicles to be sold the April, May month there were no sale only in June we got up. As against this in this quarter you are seeing growth of around 48%. Industry also you have the numbers there is huge growth.

Ravindra Kundu: And this marginal yield also if you see that it is coming down from Q1 of last year of 15.4, in Q3 last year at 14.1 and then Q4 in 13.7 and now in this Q1 it is marginally less, it picked up and it has gone up to 14.2 which is going to go up because cost of funding has started to go up. So, there are two impact. One is that the overall yield is coming down because of the mix of the heavy commercial vehicle and light commercial vehicle and new vehicle which were high in Q3, Q4, Q1.

Ankit Chaudhry: So, in this 130-basis point decline in the NIMs for the vehicle financing what impact would have been due to this heavy commercial vehicle share increasing in AUM, just give a fair assessment?

Ravindra Kundu: I would say it is a mix of heavy commercial vehicle happening and the drop in used compared to Q1 of last year and that is one and second is that fee income is moving towards that. See there are two, three elements to it. One is last year we had lot of NPAs and we were also collecting AFC and the other charges which were outstanding are being collected. Now having brought down the NPAs, these collections are also dropping. This also has an impact on the NIM. So, we want complete breakdown of it right now we are not sharing but we can broadly I can discuss this over a call with you.

Moderator: Thank you very much. That was the last question in queue. As there are no further questions I would like to hand the conference back to Mr. Nischint Chawathe for closing comments.

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

Moderator: Thank you very much. On behalf of Kotak Securities that concludes this conference. Thank you for joining us ladies and gentlemen. You may now discount your lines.