"Cholamandalam Investment and Finance Company Limited Q1 FY'21 Earnings Conference Call"

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MODERATOR:	**MR. NISCHINT CHAWATHE – KOTAK SECURITIES**

Moderator: Ladies and gentlemen, good day and welcome to the Cholamandalam Investment and Finance Company Limited Q1 FY'21 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. Thank you. And over to you, sir.

Nischint Chawathe: Hello, everyone. Welcome to the Earnings Conference Call of Cholamandalam Investment and Finance Company Limited. To discuss the 1Q FY'21 Performance of Chola and share industry and business updates, we have with us today Mr. Arun Alagappan -- Managing Director; Mr. Arul Selvan -- Executive Vice President and CFO; Mr. Ravindra Kundu -- Executive Director; Mr. Shaji Varghese – President, Housing Finance and Mr. Suresh Kumar S -- Vice President and Business Head, LAP and SME.

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

Arun Alagappan: A very good morning to everyone. I take pleasure in presenting to you the Q1 performance of the company for the financial year FY'21. The quarter gone by was a test to the company's ability to adapt and be agile in the face of significant external disturbances to the business. Challenges continue to persist for the business with disbursements being down through a combination of weak demand and supply side constraints in the automobile industry. New business prospects during the month of April was mute due to COVID-19 lockdown and the resultant closure of dealerships, technical, legal offices and our own branches. However, May witnessed a slight recovery and the month of June '20 had significant improvement in business with disbursements being more than 75% of June 2019. The improving trend is likely to continue in the coming months as well.

The key items from the company's financial performance in Q1 FY'21 is as follows:

Profit after tax were at Rs.431 crores for the quarter ended June 2020 as against Rs.314 crores previous year registering a growth of 37%. Interest income was at Rs.2,034 crores for Q1 FY'21 as against Rs.1,876 crores for Q1 FY'20, registering a growth of 8%. Thanks to several cost reduction measures undertaken post the COVID-19 impact, the company was able to improve its efficiencies. As a result, it has reduced its operating expenses to average assets ratio to 2.2% for Q1 FY'21 against 2.6% in Q4 FY'20. Ratio of cost of funds to average assets saw reduction as well and was at 7.1% for Q1 FY'21 as against 7.7% in Q1 FY'20. The PBT RoA was at 3.6% for Q1 FY'21 as against 3.4% for Q1 FY'20. Return on Equity was at 20.6% for Q1 FY'21 as against 20% in Q1 FY'20.

Aggregate disbursements for the quarter ended June '20 were at Rs.3,589 crores as against Rs.8,572 crores in the previous year, registering a decline of 58%. The drop was primarily due to the lockdown on account of COVID-19. Assets under management grew by 13% year-on-year to Rs.70,826 crores at the end of Q1 FY'21 as compared to Rs.62,827 crores in Q1 FY'20.

On the non-performing assets, asset quality as of June '20 for Stage 3 assets had stood at 3.3% with adequate provision coverage at 41.6%.

Moratorium:

Pursuant to the moratorium announced by RBI on EMI repayments, the company has granted moratorium to its customers for installments falling due between March and August. Nearly 74% of our customers avail moratorium considering the uncertainty over the period of lockdown. However, post relaxations of lockdown after May 15, we witness traction with respect to moratorium availed customers, paying their dues in advance. We have around 50% of our moratorium customers repaying installments. During the month of June, the company has also made a lot of awareness calls, SMS to customers, explaining to them the impact of moratorium.

I come to the "Vehicle Finance." Business:

Following are the key pointers from the performance of our vehicle finance business in Q1 FY'21. Assets under management for vehicle finance business grew by 9% during the quarter to Rs.46,828 crores in Q1 FY'21 compared to Rs.42,977 crores in Q1 FY'20. Vehicle finance business has clocked a volume of Rs.3,231 crores for the quarter ended June 2020 as against Rs.6,940 crores in the previous year. Lower disbursements were on account of severe degrowth in the auto industry across product segments. Significantly, despite a lower disbursement, the company's market share in vehicle finance has more than doubled across the board from 1.7% in Q1 FY'20 to 3.99% in Q1 FY'21.

In CVs, the market share moved from 13% in Q1 FY'20 to 23% in Q1 FY'21.

In PV, from 3% to 6%, in three wheelers from 3% to 19%, in two wheelers from 1% to 2%, in tractors from 6% to 11% and in construction equipment financing from 8% to 21%.

The Vehicle Finance PBT was Rs.440 crores in Q1 FY'21 as against Rs.319 crores in Q1 FY'20, registering a growth of 38%. The vehicle finance division pulled back its gross Stage-3 to 2.41% in Q1 FY'21 against 2.91% in Q4 FY '20.

On the loan against property business, which we earlier used to call the Home Equity business , the AUM for LAP business managed to grow by 8% year-on-year from Rs.12,119 crores in Q1 FY'20 to Rs.13,109 crores in Q1 FY'21. Disbursements for the quarter was at Rs.119 crores as against Rs.1,101 crores in Q1 FY'20. A weak demand and conscious underwriting to avoid bad loans were reasons for the drop. The LAP PBT was Rs.86 crores in Q1 FY20 as against Rs.84 crores in Q1 FY20 registering a nominal growth of 2%.

Now, moving to the Home Loans business:

The AUM for the home loans business managed to grow by 47% year-on-year from Rs.2,240 crores in Q1 FY20 to Rs.3,302 crores in Q1 FY21. Disbursements for the quarter was at Rs.190 crores against Rs.420 crores in Q1 FY20. The PBT was at Rs.28 crores in Q1 FY21 as against Rs.13 crores in Q1 FY20, registering a growth of 121%.

The capital adequacy ratio for the company as on 30th June 2020 was at 20.4% as against the regulatory requirement of 15%.

On the liquidity position:

The company has not availed moratorium so far on its borrowings. The company holds strong liquidity position with Rs.7,169 crores as cash balance as of June '20 with the total liquidity position of Rs.11,677 crores, including undrawn sanction lines. ALM is comfortable with no negative cumulative mismatches across all time buckets. Even after extending the moratorium to its customers, for the second phase, the cash position of the company is adequate to meet all its maturities and fixed obligations till December 2020.

We are happy to announce that the company has been included in the FTSE Good Index Series created by the global index and data provider FTSE Russell. The FTSE Good Index Series is designed to measure the performance of companies demonstrating strong environmental, social and governance practices. Indexes are used by a wide variety of market participants to create and assess responsible investment funds and other products. Evaluations are based on performance in areas such as corporate governance, health and safety, anti-corruption and climate change. Businesses included in the index meet a variety of environmental and social and governance criteria.

Now the quarter gone by for the vehicle finance business kick starting a digital transformation exercise. The LAP business has rolled out its newly developed loan origination and loan management system. With the effect on COVID-19 on the sourcing side of business slowly subduing we expect a growth in disbursement in the coming quarters as compared to the quarter just gone by.

From the collections point of view, we expect Q2 and Q3 to be critical quarters for FY'21 and we are sufficiently prepared for the same.

Before me and my colleagues will answer your questions, I would request our CFO to kindly in detail discuss on the moratorium front as well as on the provisioning and then my colleagues and I will be happy to take your queries now. Over to my CFO, Mr. Arul Selvan.

Arul Selvan: Thanks, Arun. Good morning to everybody. We had introduced a few new Slides in our presentation with regard to the moratorium status. And I presume because it is the first time I thought it might be appropriate if I also take you through these Slides to make it clearer from an understanding perspective. Here I am talking about Slide #27 which is the moratorium collection to-date. First of all, I wanted to also apprise you that our moratorium percentage remains more or less at the same level of around 76% from a value perspective. This is primarily because most of our customers are still uncertain about the future and they want to keep their eligibility for being covered under moratorium as an eligibility for them to take a call whether to pay subsequent another two months, July and August EMIs or not. And because this coverage under moratorium also helps them by protecting them from being declared to the bureau, they want to keep that and we are with them to give them that flexibility and that is why you would not see us declaring that the moratorium percentage has come down. However, having said that, we have been making efforts to be in touch with the customer and collect from them. Whatever surplus they could afford to cover, not only in case of past overdues for Stage-2 and Stage-3 customers, but also even in Stage-1 customers, we have been able to collect EMIs for the moratorium period. And this is what is shown in Slide #27. So in Slide #27 if you look at it, the left most corner talks about moratorium, and this defines how many months of moratorium the customer has opted to avail, whether he wanted only one month, because one and two months primarily the present customers who had initially opted for moratorium and then had moved back to non-moratorium. And so, that is the few cases. And as it goes down, what are the choices the customer has exercised with regard to the opting of moratorium. The number of agreements is given. What has happened is in most of the cases, we are collecting at least one or two full EMI, in some of the cases we are also collecting part-EMI. This is what is represented here. One EMI, two EMI, three EMI and four EMI, because right now only four months have been up, so that is where it stops. So, we have collected full EMIs constitutes 34% of the book which is like at least one full EMI has been collected. Over and above this, we have also collected part EMIs from various customers and that constitutes another 16% taking total collections from moratorium customers to 50% but not necessarily the entire EMIs of the customers for the moratorium period. I think this is the clarity I want to bring and I do not want to say that we have collected from moratorium customers and hence it moves out of moratorium. I hope this is clear. Any questions on that, I will take it in the call as we move on.

We also added another slide, which is Slide #28 to give the vintage of the customers who have availed moratorium with regard to Stage-1, Stage-2 and Stage-3. So, we have given how old the customers were when they started availing moratorium. This is to give the comfort that most of the customers who availed moratorium had been in the system with us for a longer period basis that we are comfortable that god forbid even some of them do not pay, we are adequately protected because their capital in the loan is larger. So if you would recall, most of the vehicle finance customers, that the loan tenor is around 36-months and if somebody has paid anywhere between 18-months and above, the capital of them in the asset will be adequately large. It also means that in case god forbid some of them are not able to catch up and meet the repayments subsequently, even if we have to repossess the assets, we have enough capital to protect losses, generally our losses in repo will be in the range of around 29% to 32%. And so, if somebody has already paid 18-installments, then that is a adequate protection to us is available. And this is also factored into our provisioning adequacy estimations. So, if you see here in Stage-1, almost 45% is covered by (+18month seasoning) and if you look at it from 12month seasoning angle, it is covered by almost 68%. And in Stage-2 and Stage-3, if you look at it from 12month seasoning, it is 94% and if you look at it from (18 month seasoning) it is around 79%, 80%. So, this is the second Slide #which we wanted to also explain to you.

And the standard Slide #which we introduced last time and we continue this time, which is Slide # 26 represents the movement of stress as compared to March in each of the stages and how we have factored in the behavior pattern of the customers. I think there has been one or two questions on the movement between the Stage-1 moratorium, zero overdues being high. Primarily, this is because of certain non-moratorium customers availing moratorium when the second moratorium was introduced. And that is the shift that we have restricted, we have not given moratorium to any new loans that has been given in this financial year, which is like from 1st of April. So the Stage-1 represents the new disbursements coming into but that is also a shift from non-moratorium to moratorium in the current period. I will stop here. I thought this explanation would be helpful to at least reduce the number of queries from the investing public and the others who are in this call; however, I am glad to take any further queries on this during the call or even later. Thank you, everybody.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Udit Kariwala from Ambit Capital. Please go ahead.

Udit Kariwala: Sir, if I turn on to the moratorium collections table, when we say there are around 40,000-odd customers who had availed moratorium only for one month and as you commented that these may be customers in the initial period of the lockdown and subsequently they have not taken any moratorium, then how does that 74% number remain at 74% because these customers are no longer in moratorium. So, are we saying that there is an equal amount of addition to moratorium or is it that we have not changed that 74% number and we are saying that was the initial number of customers who had taken moratorium?

Arul Selvan: Yes, that was the initial number of customers who taken moratorium. There have been also inflow into the moratorium as I said, which we exercised in May, that is after May, the second moratorium was extended. That is what I also explained that there have been non-moratorium customers in our March declaration versus now who had moved from non- moratorium to moratorium. So there have been some outflows and there have been some inflows.

Udit Kariwala: Sir, when you say 31% customers have paid one EMI, where they had taken one month moratorium, so basically these customers have cleared all their dues, right, is this the right way to read this?

Arul Selvan: Correct, they have cleared all their dues. For the rest is 69% if you adjust that 17% also, for them the tenor will get extended by one month.

Udit Kariwala: When you say six months of moratorium months, which means these customers as of 28th of July, have either asked you to avail moratorium in August as well or have not responded in saying that please do not give me moratorium in August. Is that the right way to read this?

Arul Selvan: No, they have exercised their need to consider them for the full period.

Udit Kariwala: So they have said that we want moratorium in August as well?

Arul Selvan: We have got that sort of thing flagging in our system where we can track for every agreement, which month moratorium they have availed. So when somebody exercises their option to avail for all the six months, we have flagged them that they want because we need to do this upfront so that the PDCs do not go for collection as per the billing cycle.

Udit Kariwala: Sir, if I read the Slide #27 in terms of 50% of people who have taken moratorium, have paid some amount to you or rather have started to repay, 50% have not repaid. So, if I talk about in terms of amount, because given the EMI size may not be same for all customers, can you give us some sense as to in terms of amount what is the efficiency?

Arul Selvan: Bulk of it is vehicle finance and if you go to the earlier slide, you have the values given there from overall book perspective. So, from that you should deduct what is the number. Frankly, we have gone overboard on declaring all these because we want to be clear about this moratorium to the extent what we are tracking because there are multiple versions of this moratorium being in the general public awareness. So we thought what we look at as moratorium is what we have tried and explained to you. I think value terms is more or less you can arrive at it from this.

Udit Kariwala: In Q1, the additional provisioning which you have taken is around Rs.17 crores, in relation to the contingent provision for the impact of COVID. So, has this collection efficiency which you have stated on as anticipated because that is how I read because otherwise there had to be a little more contingent provision given the lockdown has been extended, right, nobody anticipated that the lockdown would extend so long? And do you expect the loss given default numbers to move higher given that the CV industry was already into crisis before COVID?

Arul Selvan: Unlike some other participants in the industry, we declared our March results itself much later than the lockdown extension. So, when we declared our numbers for March, we had factored in second moratorium also. And that is why unlike many others, we do not have to again provide anything. Our provisions are adequate, taking into consideration both the moratorium periods.

Udit Kariwala: Do you expect the LGDs to move up given the system was already in…?

Arul Selvan: No, LGD always work backwards and because we do not have a past history, you are not calculating LGD. Towards that we are providing this COVID provision and over and top of it is the management overlay of Rs.240 crores for the Stage-3. So, in our opinion, it covers our worst case scenario also. We have done stress testing of portfolio and calculated high, low and medium levels of stress and even in the worst case it may cover. And in he low stress scenario, we will continue to hold the Rs.500 crores of provision without having to reverse and which can be a sort of a cushion continue even at the end of March '21.

Moderator: Thank you. The next question is from the line of Bhavesh Kanani from ASK Investment Managers. Please go ahead.

Bhavesh Kanani: My question pertains to Slide #28 in the moratorium by vintage disclosure. Now when we look at the bottom exhibit, it shows for Stage-2 and three that the contribution from 24-months to 36-months vintage is higher than the other vintages. While I understand that the amounts involved are small, you mentioned that 36 is a typical tenure, that means if customers are towards the end of the tenure, then why would they be kind of defaulting or be captured in Stage-2 and 3, the contribution from that vintage is a little higher compared to other vintages?

Arul Selvan: This is also a conscious decision to give moratorium to such high vintage customers because the equity is protected in that cases. If you look at value within the stage, those segments are the highest. So, it follows the same pattern. And it is also to give ourselves the protection because if somebody is in Stage-2 that means he has got two EMIs overdue. So, we need to look at it that if his vintage is 18-months and he has got two EMIs overdue, so, he has paid only 16 installments. That is how we should treat it. So that is where in the Stage-2, Stage-3 you need to go down the segment to protect yourself better. Suppose in a six month installment I give more in Stage-2, that means already two installments due, then I am only protected for the extent of four installments.

Bhavesh Kanani: So our LGD risk is pretty low since the agreement is already towards end of the tenure?

Arul Selvan: Yes.

Moderator: Thank you. The next question is from the line of Rohan Mandora from Equirus Securities. Please go ahead.

Rohan Mandora: Sir, on Slide ##27, when we are talking about the customer who has availed one or two month moratorium, because some have not availed the moratorium, is it fair to assume that you have received all the remaining EMI?

Arul Selvan: It will go to non-moratorium and it will follow billing and if he has not paid it will follow the delinquency cycle. I may not be able to individually tell which of them have to perform correctly or not. But as you can see from the overall summary, the Stage-2 and Stage-3 are also coming down. So the pattern is good. See, why would somebody say that he does not want a moratorium when he has the confidence to service the loan. And that is why he himself taking it off from this. That is a very small quantum as you can see. But these are customers who had understood that if they take a moratorium, they will have interest liability, so they want to move out. So, we keep educating the customers that if you do take moratorium, you will get certain amount of additional interest because these moratoriums adds up to your principal and you need to pay interest. So people who are confident and who have got the earning potential clearly visible for the moratorium period, have gone ahead and moved back. For those who have got uncertainty, they want to keep the option open.

Rohan Mandora: On the repayment front, if we do the calculation of movement of AUM and we have a disbursement number, so the computed repayment comes to 609 crores for 1Q vis-à-vis around Rs.5,000 crores run rate for 3Q and 4Q. So with around 25% of the customers not in moratorium, I believe this number should have been at least closer to Rs.1,000 crores and we are not seeing any movement in Stage-2 and Stage-3 also for the customers which are not in moratorium. So how do we reconcile these three, four numbers?

Arul Selvan: I do not know how you have worked this back. I need to understand this a little bit more to respond to this. Two things you have to factor in. You need to factor in that the moratorium customers assets are not moving down. So that is continuing in the assets. And also the interest on the moratorium assets for the intervening period is also now added to their asset for these two months, three months, whatever is the period. So, those things unless you factor in, you are not taking opening balance plus disbursement minus closing balance may not work for you. I think you have done that approach, correct? If we take the opening balance, add a disbursement and minus closing balance is giving you collection amount, but that may not work in this scenario. Normally it works, you are right. But because here your other factors are coming. If you send me your worksheet, I can just run through with my numbers and then tell you where it is differing.

Moderator: Thank you. The next question is from the line of Bunty Chawla from IDBI. Please go ahead.

Bunty Chawla: Sir, on the presentation we have seen there has been a decline in the net interest margin for the entire full you can say portfolio. However, if we bifurcate between the vehicle financing loan against portfolio, there has not been a big movement in the margin or slightly declining only in the vehicle financing. So, what is the difference between the two, why there has been a 60 bps decline in the net interest margin on an overall basis?

Arul Selvan: Thanks for observing that. That is primarily because now we are carrying a large quantum of cash in hand. The average cash balance which we had in Q1 of last year was only around Rs.2,500 crores though at the end of the quarter we did last year around Rs.5,000 crores, but this year, throughout the entire quarter we have been holding almost Rs.7,000 crores. Again last year Q1 the deposit rates were very high. We were getting almost like 7% yield on the deposits, now we are getting only around 4.5%. So quantum is more and rate is less and that is what is dragging the NIM because the negative carry of holding high liquidity position. I hope that explains. So the business IRR is good. Unfortunately, because we are in very volatile circumstances we carry a high level of liquidity because of moratorium we do not know whether it is again going to get extended, etc., So if that is the case, we do not want to get ourselves into any liquidity issue and so we are carrying a large amount of cash, actually even in Q2, we will be carrying almost like Rs.8,000 crores in July and then it will come down progressively because we do certain ECB. So, these are the factors that has pulled down. You are right in observing that the business IRR is protected and it is improving, the overall IRR is coming down because of the negative cash.

Bunty Chawla: One clarification on that, as you have said rightly on the YoY basis, liquidity has been too increasing, but on a sequential basis if I consider from Q4 to Q1, last time you were holding around 6,000-odd crores of liquidity and currently, it is around Rs.7,000-odd crores of liquidity. Although there has not been a big change in the liquidity part, but sequential there has been a difference in the IRR which we are seeing sir?

Arul Selvan: The yield has also dropped. Most of the FDs got closed in March last year which was earning almost like 6% to 7% which we needed to now renew it at around 3.5%, 4%. The other factor also is… okay, maybe I do not know whether you consider it or not, there is no gain on assignment this quarter. While last year, we did a lot of assignments throughout the year, almost all the quarters, that part is not there in the current year.

Bunty Chawla: So, if you can guide for the full year any thought process on this, what should go on…?

Arul Selvan: We do not want to give any forward-looking guidance. Product wise, the business has been doing higher yield products, it is visible in these Slides #42 in the vehicle finance business, etc., and business yields will improve. We are taking conscious calls to keep the negative carry on liquid cash. We are carrying to maximize the returns from that. But we have to also factor in how the circumstances will evolve with regard to requirements to keep more cash. Progressively money market is opening up, we are finding good amount of deals happening where ourselves also doing certain deals. But right now, it is very difficult to give any forecast for the full year.

Bunty Chawla: On this provisioning part, currently we are holding 41.6% as a PCR our coverage ratio, so if we assume there has been increase in the gross NPA or asset quality changes, should we consider that this 41.6% will be maintained or we can adjust according to the IRAC, it should come down as a change in asset quality, how is the thought process on this?

Arul Selvan: If you look at it all through whether it is under the IRAC or IND AS, as our provisioning norms have been in the range of anywhere between 30% to 35%, which is what we reasonably feel is the adequate provision coverage for above cut off portfolio for as such. We have increased that from 32% to 42% almost over this because of this COVID. We will take a call as we go along to understand and then we will consider whether we need to bring down our whole debt but right now at least till the end of this year, we should be able to almost reach this levels.

Moderator: Thank you. The next question is from the line of Bharat Shah from ASK Investment Management. Please go ahead.

Bharat Shah: One of the most important things that I felt in the quarterly result was that our specific credit cost that you choose to provide in this particular quarter, is not only low compared to the fourth quarter last year, but it is actually lower than what we have seen in the preceding quarter itself. So in the fourth quarter, I think we provided Rs.284 crores of specifically ECL provisions cost and Rs.250 crores of COVID is a general one that we provided. Now, in this quarter we have chosen to provide only Rs.56 crores. So, I suppose that reflects your confidence that you have taken care for all that is there to be provided, you have identified whatever are the assets where provisioning is needed, in addition you have made a COVID provision extra in the fourth quarter last year and all that you have done represents a good summary or a view about like credit cost. Is that a correct assumption?

Arul Selvan: In a normal running period, what happens is, if you look at any of the past years, in Q4, we do very good with regard to credit costs and we will have a very small hit in Q4 because a lot of efforts have done to push and do collections better. And in most of the years, you will always have a little bit of a bounce back on the NPAs or Stage-3 assets in Q1. So, even if you see last year what happened was Q1 was a very high level of provisioning, which we had to do because the Q4 of FY'19 was a very good year. And we did a very low level of loan losses. So Q1 of last year was a little bit bad from that context. But this year what happened was in Q4 of FY'20 itself was a bad quarter. So, there have not been any further push backs that could happen from the portfolio. And in Q4, actually, we provided almost Rs.500 crores of one-time provision. So our normal provision in Q4 was only Rs.50 crores.

Bharat Shah: I thought in the fourth quarter last year you had Rs.284 crore of specific identified provision on the Stage-by-stage and Rs.250 crores was a COVID provision if I recollect?

Arul Selvan: No, Rs.280 crores was the COVID provision, on top of the COVID provision we provided Rs.250 crores as overlay. So, Rs.530 crores provision we carried was beyond the normal provision. If you refer to Slide ##26, you will find that sir.

Bharat Shah: So, in other words, what you provided in the fourth quarter last year; Rs.280 plus Rs.250 plus about normal provision whatever Rs.50 crores that you provided, and taking into account the moratorium progress so far, and taking into account the client situation, given the fact that you have written off Rs.56 crores in the first quarter, it reflects your confidence that asset quality and everything is under control. This provision fairly summarizes what you believe is the situation.

Arul Selvan: Yes, sir, we are confident. That is also because as I said earlier in the call, the March number itself was arrived at after taking into consideration the moratorium-2 also and that is where in March we took a larger hit unlike many others in proportion to our NPA numbers versus individually any other companies. So that way if you look at it as a proportion of NPA, our provisioning in March was very high, but we took all of the hit in one-go in Q4 itself. So, we do not need to provide additionally in our view as per our current trend more for the COVID or any other macro events right now. We will keep closely evaluating this and as and when if at all it is required we will provide, but currently our confidence is good that this provision is more than adequate for the entire year. We are right now carrying Rs.1,400 crores of total provision which is almost 1.50x of what we normally carry.

Moderator: Thank you. The next question is from the line of Aswin Kumar Balasubramanian from HSBC Asset Management. Please go ahead.

Aswin K Balasubramanian: My question was related to the vehicle finance segment. So, within that, in which customer segment are you kind of seeing more stress, is it more on the FTU, FTB side or the small operators or the larger fleet operators? And also kind of related to this is like you provided one table of month twice like how many customers have paid and so on. So, is it also possible that like when you said one EMI that they paid may be in May or June but have not paid in July. So, are you seeing that kind of trend as well or is it more like once they paid in May then they continue to pay in June and July and so on?

Arul Selvan: Yes, you are right that there will be certain people who would have paid April installment but not have paid May installment also. This is primarily because as you know these lockdowns are happening much more dynamically in respect to certain areas and again lockdown is opening but then it cannot be assured for example, Chennai there was a second lockdown, Bangalore, there is a lockdown. That is why people want to stay within the moratorium eligibility. So, people can pay when they are generally having enough money in hand. So, if you look at the typical SRTO segment vehicle owner, generally he has to operate at least above 65% of the capacity in order to start repaying an EMI. So, only when he reaches that level, he will be able to spare money to knock off the EMI or pay off the EMI. So, this is a volatile time. The customer profile of ours is such that the vehicles are general purpose applications, they can carry any load, it is not like car carriers or oil tankers. If this industry is out, they are out. It has both positives and negatives. While positive is they can move from one product demand to another product and so they keep on finding more opportunities to use the vehicle. On the flip side, they will also find competition coming into that segment if there are others who are willing to do it at a lower price. So that is where there is volatility in their earnings. So depending on availability of load, etc., people will be able to spare money and that is how they have been managing this by paying one or more installments. Thankfully, our customer profile especially in the vehicle finance is more rural-oriented. And considering that there are enough activities going on in the rural because monsoon is good and there is not that much amount of lockdowns in the rural. So they have been able to find capacity to keep their vehicles occupied. However, now progressively also, there is some amount of COVID impact moving into the hinterland. So we need to wait and watch how this pans out in the coming months.

Aswin K Balasubramanian: So, would it be fair to say that your customer profile would mostly be in the SRTO segment, that is why your comments are currently related to or…?

Arul Selvan: Yes, our customer profile is mostly in the SRTO segment.

Aswin K Balasubramanian: In the used vehicle segment, you have made a fair amount of disbursements this quarter. So is that more the refinance kind of segment or the actual like secondary sale kind of segment… the normal refinance, which you do after like once cycle gets over?

Arul Selvan: There is a fair amount of that proportion also, but it has also got new customers coming in. So both mix is there because after the BS VI coming in, the demand for used vehicles have gone up and so there is not used segment growth coming in as well.

Moderator: Thank you. The next question is from the line of Tara Mehta from Tara Shaw & Company Private Limited. Go ahead.

Tara Mehta: If we can have a little bit more clarity on Slides #27 and 28 the moratorium old aging? So what you call is this is Stage-1, Stage-2, Stage-3. So coming to Slide #27, we are talking about this part EMIs. So only 31% has paid one month.

Arul Selvan: They have availed one month they have paid one month. Likewise totally from overall pool, one installment paid is 17%, two installments paid is 8%, whichever cut you want to look, you can look up.

Tara Mehta: You are talking about Stage-1 is the most important because 96% of the moratorium, so what is the difference between Stage-1, Stage-2 and Stage-3?

Arul Selvan: That is the aging. Stage-one means where it is less than 30-days overdue, predominantly zero days overdue. If you look at the definition, you can see Slide ##26, it gives you. Stage-one is, the zero overdues or overdues with less than 29-days and Stage-2 is anywhere between 30 to 89-days.

Tara Mehta: So you are saying that even people who are in moratorium are already overdue before the moratorium?

Arul Selvan: Correct. We had taken the call and given that anybody who is less than 180-days and if they want to avail moratorium, it is a board approved policy, we have given that.

Tara Mehta: But then as the economy is opening up and all, why is our number of moratorium remains so stubbornly high at 74%?

Arul Selvan: I explained to you. People are wanting to remain within moratorium because their earning potential is volatile from our customer perspective. Because if you are covered under moratorium, then if they happen to not pay, then it does not count as a delinquency for reporting to the bureau. They would prefer that, because today the customer is very clear that they do not want themselves to be brought under the bureau scrutiny because for them that means they cannot borrow from us or from anybody else or most part of organized lending segments. So then they have to fall back on money on unorganized segment where the rates are higher. So that is where they are clear. Because that option has been given by RBI, so they want to keep that option. So that is where they are wanting to be covered under moratorium, they are eligible to do it and so they are claiming this or they are wanting to get covered under that.

Moderator: Thank you. The next question is from the line of Piran Engineer from Motilal Oswal Financial Services. Please go ahead.

Piran Engineer: Firstly, our FY'19 GNPL numbers have been restated in the latest annual report which is from Rs.1,100-odd crores to Rs.1,400-odd crores?. Is that to do with some difference between GNPL and gross Stage-3?

Arul Selvan: Can we take this offline? You can call me because I do not have the report right now in front of me I was more focused on this Q1 results.

Piran Engineer: My other question just on this quarter was that we saw very strong disbursements in tractors. And we are typically not a very large player in tractors but if I see our disbursements, they were as high as say Mahindra Finance and 40%, 50% higher than L&T Finance. I just want to understand really what happened in this quarter. Were sales so high that we capitalized on them, have we gone a bit more aggressive? Some of your thoughts on that would help.

Ravindra Kundu: This is Ravindra Kundu. We mentioned this thing in the previous quarter investor presentation and given the industry outlook when we declared the result of last year, because we declared the results little late, so we mentioned that what is going to happen this year and then we were talking about tractors with the OEMs they also expected that this year we are expecting better monsoon and last year has been a better monsoon, rabi and kharif, both the crops have been very good, MSP from the government has been very high and therefore yield of the farmers have gone up and that is a good base for the farmers to basically buy the tractor. And that was expected in the month of May and June, it will go up…

Piran Engineer: I get that the tractor sales were good, but our market share and financing has gone up meaningfully and players like L&T, Mahindra, they also did not have any liquidity problems, so they could have also grown really fast, but we have grown much faster. So, just wanted to understand why that has happened.

Ravindra Kundu: Yeah, that is what I was saying. So, we decided to actually focus tractors and in June basically. We were not doing much in the previous years. So, this year, we have actually started expanding across the country in terms of the tractors business. We have also expanded across top-three manufacturers. Earlier, we were having one manufacturer. So, in terms of the market share, again, it has come from the one of the top OEM which was not there earlier, because the preferred financier was not there. This year they decided including Chola as well as one of their preferred financier. So, that has given an opportunity for us to increase the volume. We do not want to just do the business unless there is a clear cut understanding with OEM and that too we want to focus more on the better top three, four OEM. So in this quarter , it has come out well and then preferred financier also has got tied up, and that helped us to increase our disbursement.

Arul Selvan: To the first part of his question, I just checked it out, in FY'19, when we reported, the RBI had not come out with a clarification of accepting Stage-3 as NPA from their perspective. So the disclosures from that perspective was based on the iGAAP norms. In the current year because RBI has now given guidance that Stage-III is acceptable, we have shifted to reporting them under Stage-3 norms which includes the interest component, whereas in the earlier iGAAP method, income reversal will go and the NPA is only on the principal. Hope that clarifies. If you have any further queries you can write to me.

Moderator: Thank you. The next question is from the line of Chirag Sureka from DSP Mutual Fund. Please go ahead.

Vivek: Hi, sir. This is Vivek here. My questions are as follows: You have taken a view and I know you said you would not give forward guidance, but what I wanted to understand is a) in terms of tractor portfolio, the previous question that was asked, how is it possible that you are able to nimbly move from one segment to another and assess the customer quality because if we are looking at last year's kharif crop and rabi crop, what you are doing is looking backwards, rather than looking forwards in terms of how it is going to come out in the next few years? So that is question one. And the question two is also related again to the vehicle finance portfolio only. With diesel rates actually going up quite high and the economy slow down, do you see pressure from freight rates coming in and then that affecting your portfolio more than in the past? Those are my two questions.

Ravindra Kundu: So, I mentioned that even for the current year also, the monsoon has been expected to be better and that was to your point and the past also has been good and we mentioned very categorically in our previous presentation and the current quarter presentation as well that industry is looking better, tractor yield is going to go up. Now moving from one product to other product, that is not happening actually. We have done the disbursement even last quarter, almost Rs.600 crores and this quarter it has gone up to close to Rs.700, 800 crores. So, the people were there. Only thing is that their productivity has gone up and we have a specific team who takes care of the factors, not that we have a commercial vehicle team going and doing the tractor because tractor is a very specific business and it needs to be done very specifically. So, we have been maintaining that. So, in terms of tractor business, we have done only when we understood that it is actually happening better and the market conditions are conducive and it is better for future as well. Now, coming to the commercial vehicle, as of now, the freight availability itself is a problem and obviously, the operating expenses of the transporter whatever capacity utilization they have today. Today, their operational expenses are slightly higher. During this period when there has been a lockdown and the capacity utilization has impacted and then further, we entered into the lien period of July, August, September wherein the rainy season people do not operate to the fullest capacity, obviously, people are actually going through tough time. And that is also a reason for mostly those transporters who are actually in the long haul operation, they have opted for moratorium. So, obviously, they are not earning to the fullest capacity and therefore they are not in position to serve the EMI. However, in future we are expecting that when lockdown is over and then the transportation naturally increases from October onwards and because the festival season coming up due to better agricultural activity happening, we are expecting that the freight availability will improve and diesel prices are actually because of the tax component, not that the crude oil prices have gone up, maybe, I think by that time it will start going down. So from the future point of view we are expecting that it will be better. However, in current context if you see the calculation of the diesel price, it is high and that is actually impacting their operating expenses.

Vivek: One quick question to Arul. How long would it be till we have extremely high level of liquidity?

Arul Selvan: I think progressively we will bring down, but I think we will hover around the 6,000 mark through the rest of the year. See, liquidity is the paramount. If you are missing on that, then you can get track down like sell across all other parameters. So, we do not want to take any chances but I think we will bring down from the 7,500 levels to 6,000 levels going forward.

Moderator: Thank you. The next question is from the line of Mansi Sajeja from SBI Funds Management. Please go ahead.

Mansi Saleja: Very specific one question on the ALM. If I see June '19 ALM, you have shown advances for this July, August, September quarter at Rs.4,500 crores and in this year you are showing that number to be Rs.2,000 crores. What is the behavioral assumption against that you are taking there? And specifically It looks very stark if we see only the month of September which traditionally which is according to now it should be no moratorium, but as against Rs.1,200 crores monthly inflows expected, you are expecting only Rs.750-odd crores. And I am considering that there is not much change in your overall composition of your notebook. It has only grown by some 15%, 17%.

Arul Selvan: Rs.4,500 crores is last year three months when full collection will happen. In September, because it is the first month after moratorium, we have conservatively shown a little lower only because we do not want to consider and then all of them will behave immediately post the moratorium. This is a much more conservative approach is taken.

Mansi Saleja: That shows there is 60% of last September's collection efficiency number on a higher notebook. Is it too conservative or is it the direction you assume?

Arul Selvan: Is this too conservative or not, I do not know how to respond to that. We would prefer to keep better cash in hand for those periods because in the first month post moratorium, we do not know how the behavior will be. We needed to be a little bit more conservative at least from a liquidity angle. While we are making every effort, where we are clear about what is happening, in the project what we are really going to collect, the rest of the periods we are wanting to be conservative.

Mansi Saleja: Between banks and capital markets, what would we say a difference between three, four year cost of funds perspective now?

Arul Selvan: It is widening drastically over the last few weeks. Now, three year money is available. Actually, we did a four year money at less than 7.40. So three months should be less than 7 or maybe around 7 whereas the banks still at around 50 level and again you have to factor in bank at a monthly payment basis, interest everything that is, NCDs can be endless.

Moderator: Thank you. The next question is from the line of Darpin Shah from HDFC Securities. Please go ahead.

Darpin Shah: In the vehicle finance business, the yield which you have given have fallen on a sequential basis whereas our high yielding book has gone up. So, what explains that?

Arul Selvan: In the vehicle finance book, we have also done some write-off of old overdues which we have been provided. So, the unfortunate thing in INDAS is you carry the provision including the interest in the provision line. And only when you write-off you need to account it in the income line. So, that is what is happening. So, that is another reason why our provision looks lower. We did some write-offs of old overdues of vehicle finance as well as a very small quantum of agri loans which we have been carrying in the past, we tried and we dropped the product. So, both these had provisions in the loan losses line. But that had to be reversed and we needed to take the hit in the income line. So that is why income line looks lower and the provision line looks also lower.

Darpin Shah: This quarter there has been a sharp drop in OPEX. Some of that can be attributed to the lower business. But what is your sense, how much of this can be structural for us going forward even when the business resumes to normalcy?

Arul Selvan: Yes, you are right, some of them are one-time like some amount of rental savings we did not which are like we could negotiate for a one-time reduction. But most of them can be carried forward. I see that we will be able to see good amount of OPEX reduction. The other factor you also need to consider is because our disbursements were low, and we even to some extent April, May, our collection activity was low. The costs on that count has been lower which once it bounces back to normalcy, you will have a higher disbursement and so a better income but you will also have a higher OPEX.

Moderator: Thank you. The next question is from the line of Prateek Poddar from Nippon India Mutual Fund. Please go ahead.

Prateek Poddar: I understand that a lot of your customers are under moratorium because of worries on the future front. In terms of income-to-EMI ratio, where is that for your customers today especially for the higher vintage customers -- are they earning enough to cover their EMI?

Arul Selvan: If the customers are able to operate 65% of their capacity or above, then they are comfortable servicing the EMI. This is not like a fixed thing because they are not running freight contracts for somebody, like if he is running for Maruti or he is running for Ashok Leyland, then we know that Ashok Leyland has standard operating, so, he will start now getting money. As I will said in some other context, these are very as it comes sort of business for them. So, in one way it is good, but in another way it is little to that extent. So, once the economy start moving, thankfully even now the revised guidelines have not stopped operation of transport between states or interstates, etc., So, hopefully they will be still able to ply and keep operating. But it is also linked to the demand, which is still to pick up fully because many of the downstream industries requirements are not fully operational. So, to that extent their utilization is lower. Until that perks up, then it will be a little tight scenario. So, for one month it would be better, another month it could be worse. So, it is not something which we can really give you a number unless you do it customer wise. And our guys do at a ground level at a branch level, but we cannot do this at a macro level.

Prateek Poddar: Can I extrapolate the e-way bill generation data which we see to your customers as a proxy of utilization, is that what we can do or that would not be a fair way to look at it because…?

Ravindra Kundu: e-Way bill for the month of June is significantly higher and that is the reason we are also seeing that capacity utilization of the customers especially in the month of June has improved significantly over May. But it has again gone down in the month of July because the lockdown has been expanded into Tier-2s, Tier-3 towns, and also there has been a very high heavy rain across the country and some of the places is actually flat. So because of the flood situation and also lockdown extended in these small towns, the capacity utilization started shrinking again. And normally it happens every year. July, August, it goes down. That is also one of the reasons people ahead of the time they decided not to come out from the moratorium because July and August looking to be very lean period for the transporter because every year they earn money for 10-months and they pay from their pocket during July, August. So e-way bill is going to be lower as per my expectation. It is directly proportional to the capacity utilization.

Prateek Poddar: My understanding was that in the month of July at least on a YoY basis, e-way bill generation is like 15% below what it was last year same time. And as you said that at 65% utilization plus, these guys start paying EMIs or it is easy for them to pay EMIs. Then in the month of July, fair to say that basis this data, we could see higher collections or the visibility for collections for you all in the month of July are higher?

Ravindra Kundu: Our July month collection has been equal to June month collection, it has not gone down. However, the capacity utilization has come down. So the capacity utilization is specific to the transporter especially the SRTOs but it is not only the SRTO or the heavy commercial vehicles, it is a well diversified product mix. So the collections are equal to last month. However, the capacity utilization is looking down because people are not able to utilize it. There are two reasons -- because of the heavy rain and second is that there has been a lockdown extension in the smaller towns.

Moderator: Thank you. The next question is from the line of Abhijit Tibrewal from ICICI Securities. Please go ahead.

Abhijit Tibrewal: If you could please give the GNPA for the vehicle LAP and home loan segments, what was the total quantum of write-offs in the quarter? And then I had one question for Shaji sir. We did home loan disbursements of about Rs.190 crores in Q1. What I was trying to understand is even some of those affordable housing finance companies have found it difficult to reach a run rate of about Rs.200 crores to Rs.220 crores and obviously much larger affordable HFCs and us, how is that we were able to disburse something like Rs.190 crores in Q1?

Arul Selvan: The NPA for vehicle finance, there is a Stage-3 of 2.41% and around Rs.1,100 crores. About GNPA for LAP is around 6.9%.

Shaji Varghese: Home loan is 3.3% GNPA on assets. When it comes to the home loans, now, let me first define whom do we serve and whichever markets we serve. We serve the middle income group spread across mostly in Tier-2, 3, 4 and not in the larger cities. Now, even to the extent among the top-8 cities, even-3 cities, we are not even present. We have established 167 branches. Of that, 91% is in 2, 3, 4. And even when we look at our portfolio, majority are self-construction or resale. We are also not actively present in the developers place under construction market where the demand is hugely subdued and we do not see much velocity there. The segment which we operate even during the lockdown days, the activity level in three, four especially are far, far superior than the rest. By clear presence of us in these markets, we have a reasonably good traction which we could see. But having said, in our peak, we reached around 185, 190 crores, but we have also reached only 50% of the peak which was in the month of June, we just touch Rs.100 crores as in Rs.185 crores, Rs.190 crores we have done in the past. So, it is not that we have done anything extraordinarily here. But yes, our strength lies in three, four self-construction and resale, there the demand is reasonably better than the Tier-1 and two is what we understand when we look at the sales velocity data from various agencies.

Abhijit Tibrewal: Kundu sir, what proportion of your total disbursements of Rs.3,200 crores would be top-up loans in the quarter?

Arul Selvan: We have not done any top-up loan because now the 75% customers are in the moratorium, so we are not financing no.

Abhijit Tibrewal: And if you could just give some color on this new term NRRB that was introduced in the last earnings call, are those metrics looking good now?

Ravindra Kundu: Yes, it is looking better actually. In fact, in the month of May, I told you know for bucket-one and two moratorium delinquent customers, the customer who have got one installment due or 1 to 1.99, so that time I told you that the NRRB for the month of May was 26.79%, which has gone up to 33.98% in the month of June, and not only for one to two bucket, two to three bucket also has improved, three to four also improved. So as the capacity utilization is improving, this is also improving, so for example, heavy commercial vehicle… and this is for overall book I am telling you, and for giving just one more example, I am not going to tell you all product, heavy commercial vehicles NRRB was say 17% in the month of May, for the month of June it has improved to 30% So, that is the same. That is the reason is Stage-2 is actually coming back. If you see that our Stage-1 has gone up. And last time I mentioned that these Stage-2 customers who are into moratorium having one or two installments due, now current installments are not getting paid. So, our focus is to basically collect from them with respect to the previous due as on 29th February and make them normalized and then further we pursue with them for advanced collection. So, a lot of customers have paid advance, you have seen that on page number 27, around 34% customers have paid at least one EMI and 14%, 15% customer have paid part EMI. So the collection efforts from the moratorium customer is on with respect to both delinquent and non-delinquent customer and delinquent customer, the normalization of rollback is higher.

Moderator: Thank you. Due to time constraints, I now hand the conference over to the management for closing comments.

Nischint Chawathe: Thank you, everybody for joining us in the call today and we thank the management for giving us an opportunity to host the call.

Arun Alagappan: Thank you, all.

Arul Selvan: Thank you.

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