



**“Cholamandalam Investment & Finance Company
Q4FY13 Earnings Conference Call”**

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**MANAGEMENT: MR. VELLAYAN SUBBIAH – MANAGING DIRECTOR
MR. KAUSHIK BANERJEE – PRESIDENT ASSET FINANCE
MR. ARUL SELVAN – SENIOR VICE PRESIDENT AND CFO.**

MODERATOR: MR. AMEY SATHE – ANALYST, JM FINANCIAL

Moderator Ladies and gentleman good day and welcome to the Cholamandalam Investments and Finance Company Limited Q4-FY13 Earnings Conference Call hosted by JM Financial Institutional Securities. As a reminder for the duration of this conference all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call, please signal an operator by pressing * followed by 0 on your touch tone phone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Amey Sathe from JM Financial Institutional Securities. Thank you and over to you sir.

Amey Sathe Yeah Thanks Shyma. Good afternoon everyone and Welcome to Cholamandalam Investments and Finance Earnings Call to discuss Q4-FY13 results. To discuss the results we have on the call Mr. Vellayan Subbiah – Managing Director of the company, Mr. Kaushik Banerjee – President Asset Finance and Mr. Arul Selvan – Senior Vice President & CFO. May I request Mr. Vellayan to take us through the financial highlights post which we can open the floor for questions.

Vellayan Subbiah we will go through Q4 highlights first and then we will go through FY13 as well. Q4 has been a good quarter for us. Vehicle finance disbursements were up by 32% and home equity disbursements were up at 42% compared to the same period last year. The company disbursed Rs.3140 crores in vehicle finance as against Rs.2370 crores last year same quarter and Rs.639 crores in home equity as against Rs.448 crores in Q4 of 2011-12. Gold loan, given the current environment and given our strict adherence of 60% LTV against the value of gold, have been very small. We have disbursed Rs.14 crores for the quarter as against Rs.54 crores of Q4 2011 – 2012 in our overall book it is less than 20 crores. So we significantly shrunk that book. Home loan disbursements were Rs.2 crores for the quarter and we also started our corporate finance loan business which is an SME loan and we disbursed Rs.13 crores in this segment. The aggregate disbursement was Rs.3808 crores as against Rs.2872 crores in the same quarter last year for the growth of 33%. The company also had an equity issue during the year where we issued just about 1 crore shares at a price of Rs. 285 per share for a total aggregate raise of Rs.300 crores in the month of February 2013. The issue had 21 investors contributing including FIIs, mutual funds, insurance companies and PE funds.

Our total income is Rs.726 crores compared to Rs.523 crores in the same quarter a growth of 39% and PBT Rs.122 crores a growth of 34%. PAT Rs.86 crores which is growth of 59%. I will quickly go through FY13 compared to last year and there in vehicle finance we disbursed Rs.9882 crores as against Rs.7307 in FY12. Home equity disbursed Rs.2161 crores as against Rs.1528 in FY12. And gold loan like we said has been more or less flat at about Rs.59 crores vs. Rs.54 crores.

The home loans verticals that we talked about have disbursed Rs.3 crores and corporate finance Rs.13 crores. Over all our PBT grew by 55% to Rs.451 crores and our PAT grew by 78% to Rs.307 crores. We also expanded our business to 518 branches as of 31st March compared to 375 on 31st March, 2012. All our additional branches have been Tier-3-Tier-4 locations and the

company raised Tier-II capital of Rs.700 crores by way of sub debt and perpetual I debt. Our capital adequacy now stands at just over 19%.

In terms of our subsidiaries, the wealth management subsidiaries basically made a profit of Rs.1 crore Vs compared to a loss of Rs.3 crores in FY12 and Cholamandalam factoring made a profit of Rs.1 crore Vs a loss of Rs.61 crores in FY12 and consequent to the approval of both the companies for amalgamation of CFACT with Chola Investment and Finance. CFACT (Chola Factoring) has filed the scheme of amalgamation, with honorable high court judicature at Madras for necessary orders. At a consolidated level, a profit after tax was Rs.308 crores as against a PAT of Rs.169 crores, a growth of 82%. And finally we are issuing a final dividend of Rs. 1 per share which is 10% basis the face value of Rs. 10 per share to equity share holders. I will stop with that and we will open the questions at this stage.

Moderator

Thank you Sir. We have the first question from the line of Sunesh Khanna from Motilal Oswal Securities. Please go ahead.

Sunesh Khanna

Just wanted to get a sense on the asset quality and how it is shaping up. Not specifically for the company parse but overall, just looking at the environment, the volumes both on the manufacturing as well as the agri side are down, in the freight rates are down, whereas the operating cost have gone up by 20%, so are we seeing some sort of initial signs of stress building up.

Vellayan Subbiah

Yes Sunesh. I think that the answer is quite different based on whether you are looking at heavy commercial vehicle Vs. Light Vs. mini Light. For example on Mini Lights, we definitely don't see the freights rates going down. As a matter of fact if anything is trending upwards and so when we look at the overall market, the answer is not going to be the same for various segments. We have already seen the effects in heavy commercial vehicles. But in terms of whether this will spread to lights and mini lights, I don't think it is automatic given that it will spread. I also feel that if the market beings to pick up this year, then for the most part we should be able to just kind of correct an overall performance and go back to what it was like in 2011 -12. But like I also state that, given the fact that 2011-12 was a stellar year, besides that the market performance is still not bad overall. Again people are quite concerned but most people like you can see, we been reporting fairly strong numbers and have been fairly bullish in terms of their portfolio quality as well. So I think there is significant strength in the overall market as from the points that you mentioned.

Sunesh Khanna

so as per your observation, given the scenario, who is the better placed. Is it the fleet operator or the SRTTO or people owning 3-5 truck, who is better? Who is able to absorb the shock more or efficiently?

Vellayan Subbiah

we definitely say that the smaller guys are able to absorb it better primarily because they are much more flexible. They are willing to relocate, run different routes, and do things where it is tougher for larger fleet operators to do.

Sunesh Khanna What is our LTV running at and have we seen any increase or decline in LTVs?

Kaushik Banerjee The LTVs remain the same over last year. We are about our LTVs is 79% last year and 79% year before last as well. So the LTV hasn't changed over this period.

Sunesh Khanna Can you give the breakup of your book in terms of HCV, M&HCV and LCV in proportion of the overall loan book?

Vellayan Subbiah It is there in the investor's presentation Sunesh.

Sunesh Khanna Alright I will have a look at it.

Kaushik Banerjee Just to very quickly tell you. LCVs today constitute about 34% of our portfolio. heavy is at 14%, Tractor 6% Used is 27%, MUV is 8% all mini commercial vehicles is 11% for our portfolio.

Sunesh Khanna And sir just for the securitization side how much securitization deal has been done for the full year and also for the last quarter.

Arul Selvan We did Rs.2200 crores for the full year.

Sunesh Khanna right sir. Thanks a lot sir that's all from my side.

Moderator Thank you the next question is from the line of Prashant Shah from Vantage Securities. Please go ahead.

Prashant Shah just wanted to understand what benefits will you get from your amalgamation will effect?

Arul Selvan Basically in terms of the amalgamation see there are certain personal loan as such which in CFACT books came into our books and once we write them off we will get the tax benefit there on.

Prashant Shah It's just basically that you will get tax benefits on that.

Vellayan Subbiah Yeah that's correct.

Prashant Shah Just wanted to ask you another point was on your asset quality if you see on sequential basis you net NPAs are down significantly you did about 0.6% in the last quarter and this quarter you have reported about 0.2%. similar is the case with gross NPAs are not down so much from 1.17% vs. 1% so how would you explain the jump in your provisions during the quarter. There are up almost 50% on a Q on Q basis.

Vellayan Subbiah It is an incremental provision for the HCV segment which is under Orissa portfolio.

Moderator Thank you. The next question is from the line of Ashish sharma from Enam Asset Management please go ahead.

- Ashish Sharma** This should take that asset quality trend point a little further in terms of a geographical performance I mean your 29% of your disbursements are in South India . Have you seen sort of different trends in different geographies or overall also it is I mean in the segments it is fine?
- Vellayan Subbiah** No. We have not seen any significant skew on any single geography. The trending in terms of portfolio behavior is pretty much the same across the geographies in the country.so as I said early two trends add one is obviously Orissa that we discussed. Second is that west had a couple of areas that were affected by the drought. And so they got a bit sluggish there was parts of Maharashtra and but that also you know as a kind of we think we will kind of basically settle back in this year as long as we have a good monsoon.
- Ashish Sharma** Another question was sir in terms of performance of the mini LCV and small LCV segment I mean is this a structural trend I mean the kind of growth rates that we see in this segment I mean because of the improved road infrastructure I mean somebody had mentioned from the industry that the ratio of vehicles sold which is medium to heavy commercial vehicles to this small LCVs the ratio can improve from 1:1.17 to 1:3 I mean for 3 small LCV vehicles for any the one vehicle sold in the medium and heavy commercial category sir. Do you see this sort of a structural trend?
- Kaushik Banerjee** Yeah there are two reasons for that one is with the heavy commercial vehicle segment migrating to higher tonnage vehicles. And your overall freight movement may go up over time. You will be using smaller number of vehicles to transport the freight. That is one reason why your number of vehicles in the heavy commercial vehicle segment in terms of growth rate will moderate to some extent. On the other side your small commercial vehicles are driven by consumption behavior and what we clearly seen is with more disposable income in the hands of the Indian public especially in the non-urban market. The demand for consumer goods and consumption will keep going up at a faster rate. And this is what drives the purchase of small commercial vehicles. Again with increasing road penetration in the smaller cities smaller towns you will have a higher utilization of four wheeler vehicles compared to three wheeler vehicles, improvement in road conditions. Right and if I club the three wheelers also my growth rate is even faster. So the long term story is that the small commercial vehicles segment will grow at a faster rate than heavy commercial vehicle now but the 1:1.17 and 1:3 is something that I can't comment on.
- Ashish Sharma** Another question was your vehicle finance has grown at 35% for the full year do we have sort of a number in terms of what was the volume growth for the vehicle finance thing and how much was the price increase.
- Kaushik Banerjee** In terms of our unit growth we are at about 34% growth over last year, which is a combination of both our new and used vehicles whereas the disbursement growth is 35% so in terms of value. So the delta between volume growth and value growth and unit growth is fairly limited.
- Ashish sharma** In terms of guidance for FY14 in terms of disbursements and AUM, do you see sort of price increase helping in case disbursement is little subdued?
- Vellayan Subbiah** In general we haven't guided, going forward. But over all we see a fairly decent year coming up.

- Ashish sharma** No specific numbers?
- Vellayan Subbiah** No specific numbers but we see a fairly decent year coming up.
- Moderator** Thank you. The next question is from the line of Arvind Subramaniam from IDFC Mutual Fund. Please go ahead.
- Arvind Subramaniam** My question is on the liability side. So if I look at your balance sheet that you report in your financial results as per Schedule 6, what I see is that the proportion of short term borrowing, if I look at March '12 over March '13, the proportion of short term borrowing have increased whereas the proportion of long term borrowing have come down and given this context, the maturity has only gone up. Given that you are decreasing your loan against share segment and increasing LAP. So is how would I explain that because your short term borrowings have actually doubled from Rs.1500 crores to Rs.3000 crores and long term borrowings have remained more or less similar and I am not referring to the ALM, because there you of course add cash credit un-utilized component.
- Vellayan Subbiah** Taking into consideration, if you are looking at the incremental growth that is happening over the last quarter
- Arvind Subramaniam** Or even the last year in fact for that matter.
- Arul Selvan** If you look at the current assets or current liabilities is around 1:1.22. So that is the proportion that we are all confident of handling and there is a working capital line which is available in case of. That is not reflected in the balance sheet as you would see and un-availed working capital lines as well as sanctioned lines which are not utilized. We tend to take in the year end where you tend to avail certain amount of CC just from the perspective of the bankers because they also want to avail the CCs to show the utilization levels which will be set off in the first few weeks of the coming year. That tends to take the short term liabilities on a slightly higher level during the year end.
- Arvind Subramaniam** But I am actually comparing it will even march of last year. March of last year also we would have the same compulsion to use cash credit. But if I see during the year, you're incremental.
- Arul Selvan** Last year march what happened was the CP rates were very high and if you see our book, we would have had only 2% of borrowing the CP and this year March it was not so, and we have taken it up to 6%. That has offset it to some extent to be in the level of term liability in last year's book. This year we always try to keep our CPs between 6-10% levels because that is what we could manage with our current ALM position. Last year if you recall the CP rates were ranging beyond 12% at the year end. We have not availed and if you refer to our investor presentation, you will find that our CP level at the yearend last year was 2%. This year we are not being so biased on the CCs.

- Arvind Subramaniam** And then one more question where I see home loans as a new segment. What I just want to do is to clarify, will you then also have to apply for an NHB license or are you allowed to do home loans without a license and then what is the difference if you do it as an NBFC or if you do it under the NHB?
- Vellayan Subbiah** Given that we have just started the business, we are just doing it as a part of our NBFC itself, as that book grows, yes we will apply for an NHB license. The NHB basically gives you certain advantages in terms of being able to borrow from them at a lower cost of funds for longer terms and things like that. So we will get that benefit but right now the book is too small to be worried about it.
- Arvind Subramaniam** But is there any certain regulation which requires you to get a license from NHB given that you are doing home loans and they are the regulator for home loans?
- Arul Selvan** It is not mandatory. It is only when you cross certain percentage of your book as pure home loan. It should be your principal object To be defined as a housing finance company.
- Moderator** The next question is from the line of Anand Laddha from HDFC Mutual Fund. Please go ahead.
- Anand Laddha** You just mentioned that there will be some benefit on the merger of the factoring business, the tax benefit if you can quantify the same, what sort of loan you have or how much you can do right of and how much can be the tax benefit?
- Vellayan Subbiah** That's little too early to say and it is something which you would have anyways got, whether it is in consolidated or otherwise but the benefit will accrue in CFCL books now but I think it is too early to quantify.
- Anand Laddha** At least if you can quantify how much is the outstanding personal loan book which is standing in the factoring book.
- Arul Selvan** In the CFCL book it is around Rs.63 crores.
- Anand Laddha** And Sir on the home loans, one the SME business which you just started, if you can give some color, how different is it from LAP business. These are the unsecured loans, what could be the average ticket size, what could be the yield on the same?
- Vellayan Subbiah** none of the loans are unsecured. Basically we are looking at both doing working capital and term loans. Term loans will either be against plant and equipment or against in some cases land again so of those asset classes and then in terms of working capital obviously we will be tying up depending on what kind of situation it is, it will be forms of bill discounting or other activities like that. So average ticket size in my mind is kind of probably going to be in about Rs.2-3 crore range in this business and like you can see we have only disbursed Rs.13 crores, so the book is fairly smaller at this stage days.
- Anand Laddha** What could be the average yield on the same?

Vellayan Subbiah	The yield is somewhere just about 14%.
Anand Laddha	Just on the auto loan disbursement, if you can just give what sort of outlook for the next year in terms of disbursement and the loan growth and if you can just highlight how has been the performance of Shubh?
Vellayan Subbiah	In terms of outlook for next year, we don't give any specific guidance but we do think that it is going to be a decent year because we see opportunities for growth in the segments we are in and we see fairly healthy and robust growth being projected for both LCVs and small commercial vehicles and in the other segments which are tractors and heavy our market share is fairly small. So from both perspectives, we see it being fairly decent year in terms of growth opportunities. Second question on the Shubh portfolio, your question was more on Shubh portfolio.
Anand Laddha	Because that is what 7 year old CV
Kaushik Banerjee	It is usually (+5) in terms of age. Shubh portfolio has behaved in the same lines as the new CV portfolio and the performance in terms of the 90 DPD has been in fact better than our own projections on the portfolio. So in terms of ROTA it is by far the most profitable product that we have in our auto finance portfolio.
Anand Laddha	Fine. If you can give me what could be our risk weight asset overall?
Arul Selvan	17000 crores.
Moderator	Thank you. The next question is from the line of Subramanian P S from Sundaram Mutual Fund. Please go ahead.
Subramanian P S	Just wanted to know how much was the income from Securitization that you would have looked for the entire?
Vellayan Subbiah	We don't take any upfront gains from securitization. We just treat it as a regular income stream like we would if kind of borrowed that amount from a bank or any other institution.
Subramanian P S	Bulk of it happened in the last quarter so that would be
Arul Selvan	There was very little effect because most of it is borrowed in the last quarter.
Subramanian P S	But how much would have been the interest that you would have recognized just to understand what kind of spreads you are earning on this?
Arul Selvan	I am not carrying this straight away now. May be you can call me and we can discuss
Subramanian P S	The other question was on the outlook of branch expansion and resultant impact on OPEX or operating leverage. Any color on that you might give us?

Vellayan Subbiah

Likely add about 75 branches this year. The opex to assets we see is in seeing flat perhaps declining a bit. Like we have articulated, our continuous focus is going to be declined. decrease that. decreased opex is the percentage of average assets. So definitely our focus is to reduce that number as a percentage of average assets. As you can see from last year to this year we have come down by almost 26 basis points and we should be able to decrease it this year as well. So increasing the branches doesn't affect that because we don't spend much in the new branches when we open them because we are very low on capex and opex on those branches when we open them.

Subramanian P S

Any new products that you would be willing to launch or any new segments that you would be looking to finance this year?

Kaushik Banerjee

I think the ones that we have got, we are still focusing on those which are the home loans, the SMEs, those are the books and we obviously started tractor and have been growing that book as well. So beyond that we will evaluate new areas and obviously will communicate to you when we are close to starting them. But I do think that there is enough growth in the ones we have got.

Moderator

The next question is from the line of Ganesh Jayaraman from Spark Capital. Please go ahead.

Ganesh Jayaraman

Two things. One is on the employee productivity side. I see a 1400 people employee increase this quarter visa-vie December. I was wondering, if you at the limit on sealing on employee productivity because I was a bit surprised with the increase. Do you see this as your optimal business per employee kind of metric or do you see a scope of improvement for that there. That's on number one on the productivity side if you can give me a thought process on that. Second is on the asset quality side. Do you see a trend of your customer or your borrowers repaying you from the business side or do you see them repaying more from their other sources, their land sale or personal wealth or is there a trend that you are absorbing, we are seeing few other NBFCs. Also tell us that especially on the commercial vehicle side, it is not operation which is helping them repay the loans, its more other income. Are you also seeing it and what is your sense on that.

Vellayan Subbiah

First on the man power side, one other things that we did differently this year, which is what is called as man power spikes right, is that we wanted to go into next year with the full man power available in place. One other thing that we learnt from our overall productivity initiatives when we tell you to do the hiring late the time it takes them to get up to speed and productive actually by the time all that happens, most of the year is over. As you know that in our industry especially in vehicle finance, the peak is the second half. It basically starts in September – October. This year we consciously said that we will bring in all the people before April. So the focus of getting them all up to speed in the first half of the financial year so they can be productive for us when we hit our peak. So what is really seen there is the front ending of the recruitment not because we have hit any productivity bottleneck as it were. As a matter of fact, both the challenge and the opportunity for us is that if we got our full work force now and they can all be at a higher productivity level that can give us better results in the next year. So that's the question on productivity. We do not see any productive or bottle neck or threshold that we have hit at this

stage. The second question what we are seeing is more people earning and paying. And that's what is continuing and what we are seeing in some pockets is kind of the number of visits it takes has gone up but the "earn and pay" model is what is driving kind of repayment from what we can tell.

Ganesh Jayraman

Lastly the securitization which you have done is it in the nature of an assignment or got through a pass through certificate route or what kinds of banks have bought it? Is it foreign banks or private banks? Could you give us some sense of the pricing, differentials at least vis-à-vis normal bank borrowing or how do you see the appetite for that going forward? Given all the regulatory changes you have seen appetite increase but are you also seeing it? Just wanted to get a thought from all those things.

Vellayan Subbiah

Actually appetite has definitely increased. We are doing this as PTC and all the deals are PTC. So the appetite has definitely increased. So I do think clearly there is a tremendous amount of demand for it. So from that perspective we see it as a good opportunity for us.

Ganesh Jayraman

The demand is more from what kind of segment?

Vellayan Subbiah

It's basically private sector banks, foreign banks.

Ganesh Jayraman

What is the differential in pricing that you are saying vis-à-vis say a direct bank loan?

Vellayan Subbiah

I will say kind of obviously they are good which is why we are doing it.

Ganesh Jayraman

I am sure. Yeah, I just want to get a sense of how attractive it is?

Vellayan Subbiah

It is attractive Ganesh. It is I think-

Moderator

Thank you. The next question is from the line of Aden Lau from T Rowe Price. Please go ahead.

Aden Lau

I just wanted to check if you we mentioned that you would be seeing a steady decent year coming up? Can you just elaborate on where is the recovery in certain segments or is it continue to grow in the LCV segment for vehicle financing aspect?

Vellayan Subbiah

Aden thanks for the question. I think that you have rightly said we have not seen and most projections are that both light commercial vehicles and small commercial vehicle will continue to grow this year. So given that that is our major concentration area that is one of the reasons why we see it being a decent year for us. Secondly in the market that have been hit which have been heavy commercial vehicles and tractors where growth has been hit our market shares are fairly small. So there is an opportunity to improve your market shares in those segments. When we overall look at vehicle finance we also see a lot of opportunity in the used portfolio which would not tapped as significantly in the past. So overall that is why we see a decent growth opportunity on the vehicle finance side. On Home Equity is well, the loan against property business now seems to have come at front and center on everybody's radar and a lot of people see the opportunity for growth in that business and we have been talking about this now for the

last 4 years saying that there are a lot of good growth opportunities in the business. We are one of the first people to start it and we have been in the business for over 6 years now. So basically scaling that business now that we are more comfortable with the base characteristics of it and a lot of other people are also getting in but that market is huge as by kind of rough estimate it could actually be as big as housing loan market in the country.

Aden Lau

Just want a point about CVs and home equity. I think what is happening across the industry right now is that banks or NBFCs are talking about retail growth. Are you seeing competition pick-up in this segment particularly LCVs because this has been talk of the town for pretty much year or so?

Vellayan Subbiah

Aden, I agree that everyone is talking about retail growth anyhow now retail is the new mantra and I think it will continue has a mantra for the next at least a year if not longer. I think to look at is when you talk about LCVs it is not that easy for somebody to kind of grow their portfolio on a very big way when it starts from scratch. You need relationships with dealers, you need a develop those relationships overtime and you have to look at it that at an average dealership we might be doing something like you may talk about LCVs perhaps Rs. 30 lakhs – Rs. 40 lakhs worth of volume in an average dealership may be going up to Rs. 1 crores but kind of numbers are not significantly high. The point is that if you want to build a Rs.1000 crore book in that business you need to have deep relationships with the lot of people that you cannot develop overnight. So it is not easy to originate this product or basically say I am going to build a huge book overnight and if you are thinking for some of these private sector banks Rs. 1000 crores is tiny right? So if they want to make a big dent in it they actually need to think of how they are going to originate Rs. 2000 to Rs. 5000 crores and you have to think of the level of relationships which they have to develop which is not easy to do that is the first thing. The second is that some other dealers also have a fairly long memory and in the previous slow-down a lot of the private banks jumped out of the business and the comfort kind of to start developing relationships with those banks again is something that dealers are going to be weary of.

Aden Lau

So are you worried about certain things on competing on interest rates because they do have a lower cost of funding?

Vellayan Subbiah

Yes, I mean that is traditionally the way they have competed. But like I said kind of the dealerships usually take a more holistic perspective to it because the dealership wants a partner that is reliable, not just kind of opportunistically but actually reliable over the whole cycle and we have been able to earn the trust of the dealers in the channels over the last 10 to 15 years. So I do not think that immediately the private sector banks will be able to come in and make a huge dent. HDFC Bank is an exception though because they have been developing this for a quite a while.

Moderator

Thank you. The next question is from the line of Digant Haria from Antique Stock Broking. Please go ahead.

Digant Haria	Couple of questions. Sir firstly is the increase in yields that we saw in this quarter especially largely you do better proportion of UCVs and LCVs?
Kaushik Banerjee	Yes.
Digant Haria	We can expect that trend to continue for FY14 as well?
Kaushik Banerjee	There will be some erosion on the yields on the retail side, earlier question on the competition from the banks. But yes as we keep building our used book and our tractor book with a portfolio mix moving towards used and as the number tractors being funded, we should be able to increase our yields over time. But one does not know what the play will be on retail side but the effort will be there to kind of maintain and try and increase.
Digant Haria	You mentioned in your Orissa portfolio in the last conference call that Rs. 43 crores is the GNPA out of the total exposure of Rs. 183 crores. So is that number constant or that number has inched up slightly this quarter?
Arul Selvan	Actually it has come down.
Digant Haria	Okay. Sir, because I think you mentioned there was some extra provision this quarter?
Kaushik Banerjee	For the residual book we have provided.
Digant Haria	Lastly what has been the trend in your sourcing cost especially in the new branches that we have opened in the last 2 years?
Vellayan Subbiah	Sourcing cost has actually been showing decline overtime. For 2 reasons: one is the fact that with increase in productivity the cost for transaction has come down and the second is with the product mix which we have in place the overall sourcing cost has shown a decline over the previous period.
Moderator	Thank you. The next question is from the line of Umang Shah from CIMB. Please go ahead.
Umang Shah	Just a couple of questions here. One was on the provisioning fund as you mentioned that you have made some incremental provisions on the Orissa portfolio. Apart from that any extra provisions that we made during quarter to achieve higher PCR or?
Vellayan Subbiah	Yes, the one additional one there Umang is last quarter we talked to you about one of our accounts on the loan against share business, , we fully provided for that account as well because we don't see any performance improvement in that account.
Umang Shah	And the amount for that would be?
Arul Selvan	In this quarter we would have provided at Rs. 9 crores.

- Umang Shah** As a policy do we maintain something like going forward what kind of a provision cover do we plan to maintain or?
- Vellayan Subbiah** We do not do it as a policy. Some of it does tend to depend on what how we see the portfolio performing as well and the age of the portfolio.
- Umang Shah** Alright, got it. Secondly was in terms of our return ratios what we had discussed earlier was when you were targeting 3% RoA over a period of next 2-3 years. So do we maintain that or do we have some changes to that particular guidance per se?
- Vellayan Subbiah** Yes so we did connect 3 years. Yes we will continue to work towards that objective. I think last year we moved from 1.66 to 2. So that has been a move of about 0.3 to 0.4. So our focus is to keep that momentum as we go on to the next couple of years as well.
- Umang Shah** Would it be fair to assume that the improvement should be driven by margin improvement on operating leverage?
- Vellayan Subbiah** Yes so we have continued to maintain opex as such is a big lever for us and we will continue to push on that and Kaushik just mentioned the margin improvements as we change our mix that is another big lever. Obviously the cost of funds is we will have to see how that goes this year but the advantage we have got is that if there is in a declining cost of funds environment traditionally we tend to do a bit better because the vehicle finance book is a fixed loan book.
- Umang Shah** And the LAP as well as the home loan book would be a floating rate book?
- Vellayan Subbiah** Yes, that is correct.
- Umang Shah** And just 2 last questions: one was on the capital raising front so I mean with the recent capital raise we are at around 11% Tier-1 assuming that we grow not as fast as we did in FY13 but still remain ahead of industry. How long do you think you will have to come back to markets to raise capital?
- Vellayan Subbiah** We will have to raise in FY14 - FY15.
- Umang Shah** So not FY14, year starting?
- Vellayan Subbiah** FY15.
- Umang Shah** And just last question was on gold loan you mentioned that you are doing 60% loan to value on gold loans right?
- Vellayan Subbiah** Right.
- Umang Shah** So that is based on the scrap value basis or is it including that making charge thing?

Vellayan Subbiah	Scrap value.
Umang Shah	And post the recent decline that we have seen in gold prices what has been the behavior of that portfolio?
Vellayan Subbiah	Portfolio itself is tiny for us Umang, it is Rs. 19 crores but we have had no challenges with it because we have been at a very conservative-
Arul Selvan	Almost 85% of this portfolio has touched the 60% LTV. So it has not impacted us.
Umang Shah	And we do not have any plans to get too aggressive into this segment right?
Vellayan Subbiah	No, not truly figure out what's going on with all of these other regulations and everything else.
Moderator	Thank you. The next question is from the line of Gautam Saushriya from UBS. Please go ahead.
Gautam Saushriya	I think most of the questions have been answered just one book keeping question. What is the plan strategy for business finance from here on?
Vellayan Subbiah	We do not see any kind of growth in that book as you can see the book has de-grown and we are not aggressively trying to grow that book. My sense is that now we have loan against shares less than a Rs.100 crores I believe in kind of overall portfolio. I do not think we have any plans to grow it, in certain accounts we might choose to keep them because they have been very long historic relationships and now you feel very comfortable with it. There is no plans to grow it.
Gautam Saushriya	And gold as of now you just a maintain status quo or are you still looking at evaluating an opportunity?
Vellayan Subbiah	We are maintaining status quo to see how the environment pans out and that is the current strategy.
Gautam Saushriya	And how many branches would you have for the gold business?
Vellayan Subbiah	45.
Moderator	Thank you. The next question is from the line of Nikhil Rungta from Standard Chartered. Please go ahead.
Maharukh	This is Maharukh. Just have a couple of questions. Firstly on the tractor portfolio what would be the industry level NCL's, whether the segment is not doing well any idea?
Kaushik Banerjee	It is difficult to actually aggregate industry level NPLs to different companies follow different policies. One cannot really comment on what is happening in the industry level but what I can say is that the NPL level for us in tractors is sub-1%.

Nikhil Rumta Sir 1% gross?

Kaushik Banerjee Yes, 180 days.

Maharukh 180 days is sub 1%. So that is hardly any stress right? Basically just your growth issue?

Kaushik Banerjee We actually started tractor about over 18 months ago. So to be honest it is fairly early to kind of comment on how the portfolio is panning out. But as things stand right now, yes we are at sub-1% in terms of our 180 plus.

Maharukh And the other question I had was again I know a lot has been discussed already on this call on the M&HCVs. So expect for probably one or two players, no one has really had any impact on NPLs from the current CV cycle. none of the big players, there may be small players I do not know but at least the 4-5 big financiers don't seem to be having too much of an NPL issue on the CV segment. So what conclusion do we draw that M&HCV are very scattered and financed by many which is why players that we do not track are taking the hit or how would you view this?

Vellayan Subbiah See Maharukh, I think to answer your question right, there are 2 things to look at right? One is that we have always maintained that the 2011 – 12 book was the best book that we have seen historically in this business and I am talking about probably over at least 3 cycles. So what NPL were last year was perhaps the best that we have ever seen. Now what has caused a massive concern is that the portfolio has gotten a bit worse than last year. And I really mean that it has just gotten a bit worse than last year. The thing is that we have to believe that things tend towards the mean. Things cannot keep on going down and we still significantly we have always articulated on our calls that we think that the net credit loss level and vehicle finance should be in the range between 0.75% and 1%. Now things are significantly south of the mean right? Just because they went from 0.54% to 0.6% or a bit under that like we said before is no reason for alarm. So I actually say that none of the companies have been getting alarmist in the trend that they have been pointing out. The people that have perhaps been getting alarmist have been kind of some of the ratings agencies and some of the others. But from a company I think what most companies are saying and you are seeing that in the results is that things are not that bad. I think that is why you are seeing a bit of a dichotomy but I feel like most of the companies reporting results that is the view that they have continued to maintain.

Maharukh Would it be fair to say that it's more of a growth issue than an asset quality issue?

Vellayan Subbiah Idea is kind of go back to the basic idea that things need to tend towards the mean right? I mean do you expect even in developing economies they do not have such good portfolio's and even in developed economy they do not have such good portfolios. So given that we are in growth mode, yes you would kind of expect it is slightly kind of worse our portfolio. But again I think we are still lower than average which means that we are still in the better half of the cycle.

- Moderator** Thank you. We have the next follow-up question from the line of Sunesh Khanna from Motilal Oswal Securities. Please go ahead.
- Sunesh Khanna** Can you just give me the break-up of P&L of business finance last time you have given but this time I cannot find it in the PPT?
- Vellayan Subbiah** I think because the book is gone small we have taken it off. We will be happy to kind of try and get that to you. But the book has gotten significantly smaller so we have kept it kind of restricted it to the bigger businesses in the presentation.
- Moderator** Thank you. The next question is from the line of Bharat Sheth from Quest Investments. Please go ahead.
- Bharat Sheth** Just can you update on these RBI new provision norms which were in offing? What is the status on that update?
- Vellayan Subbiah** That we should ask RBI and not ask us. No, I mean I think you are talking about Usha Thorat Committee, we do not have an update on it. I mean we obviously just wait for RBI to release these things before we act but if we have to move to those norms where we are ready to move those norms.
- Bharat Sheth** Yes sir, if we move to that norms then how it affects our NPA and all? What kind of impact we have on P&L?
- Vellayan Subbiah** I think we discussed that last quarter on the call. I think the effect on us depending on when they call it. Basically it will be in the range of about Rs. 60 crores – Rs. 70 crores, half of which will go to as NPA's and half of it will go to a standard asset position.
- Bharat Sheth** In housing what is the ticket size that we are targeting?
- Vellayan Subbiah** Housing loan business ticket size is right now in the range of about Rs. 30 lakhs.
- Bharat Sheth** I mean now the ECB norms which have come out for housing finance. So can we avail that facility?
- Vellayan Subbiah** I think it is potentially of our time but right now we are too small. Right now we just focus on understanding the business and getting the business started. So that will continue to be our focus for the next year after that we will start thinking about the funding size.
- Moderator** Thank you. The next question is from the line of Varun Chopra from India Capital. Please go ahead.
- Varun Chopra** Just wanted to follow up on your comment on HDFC Bank. Wanted to get a sense of how sort of competitive intensity has increased say you year-over-year from the largest private banking competitor. It sounds like with (+35%) disbursement growth, it is not an issue as yet but may be

some color on how you are seeing the competitive intensity and sort of their response. And just follow up question that is would that be the right way to look at it at the geographic overlap of your branches relative to HDFC Bank?

Vellayan Subbiah

So Varun thanks for the questions. I think first of all if you look at CVs our competitive position in terms of market share and ranking has improved from last year. HDFC Bank we see kind of coming in but nobody has got such large market shares that one player is going to make a huge difference to overall standing in the industry. When you look at our market shares numbers we have actually grown. We have got about 9.9% overall we moved almost 1% up in market share in the commercial vehicle business. HDFC Bank has probably also moved up by 1% - 2%. But you basically are seeing people in that 10% range right? So one player is not affecting the overall mix, what you are seeing is that share is going away from I say the number 6 to 12 player in the mix. Your question on you take a geographic kind of approach to this, I say if you look at it now with HDFC's branch density and our branch intensity are in over 85% - 90% of the potential market areas. Not necessarily a geographic gain but you have to get a lot more granular on that. I always look at it as a combination of three things: combination of the geography, of the product, of the customer segment. What we do is have a fairly micro market view on this, so for example HDFC focuses a lot more on fleet that is not our sweet spot; we focus a lot more on small road transport operators. If Shriram Transport focuses a lot more on first time user. So, each one of the players in the business had a different customer segment focus. You need to add that lens to it and you also need to add a product lens to it like I articulate in the product side we tend to be much smaller than the lights and mini lights whereas again HDFC tends to be much stronger on the heavy.

Varun Chopra

So you are not seeing any convergence of the relative markets that each of these players are going after at this point at least?

Vellayan Subbiah

No because the market is in itself is so huge right Varun when I look at it and when I talk about 9.91% that is just a new market, then you have the use CV market which is almost as big again.

Varun Chopra

When we talk about the competitive positioning is benefited by the long standing relationship with the dealers, does that dealership relationship come top down from the OEM or is that a micro market individual dealer level?

Vellayan Subbiah

So we actually manage that relationship at four different levels: one is top down from the OEM, we work with TATA and Eicher, and Mahindra very strongly and now we are trying to develop the similar relationship with the Ashok Leyland as well. Basically there what we do is we articulate at the beginning of the year where we would like to take the partnership with that manufacture over the period of the year and then we have quarterly business reviews where we basically monitor progress and correct over the year. Obviously the teams themselves are meeting much more often than that and a lot of its direction that is set in comes from the OEM. So that is the first level. The second level tends to be the OEM at a regional level, third level tends to be with the dealer owners and the fourth level tends to be with the sales force executive at the dealers. And so we actually kind of map the relationship at those relationships at those four

levels, see who is going to be the counter party and our side that is responsible at each of those four levels and then take a fairly systematic approach to improving share each of the dealerships across all of the dealerships in the country.

Moderator

Thank you. We have the last question from the line of Ganesh Narayan from Yes Bank. Please go ahead.

Ganesh Narayan

Just two questions from me: one on this entry into home loans is this more like a strategy for cross-sell or are we really bullish in this business? Is there any segment that you catering: urban, metro, rural and second is last year there was lot of trouble with respect to this restrictions on mining companies, etc., and how does the situation look like for those geographies and how are we placed there?

Vellayan Subbiah

Right, maybe I will answer your second question first. So mining a couple of the geographies are still kind of choked up and we are not significantly changing or increasing our lending again to those segments till we see real change in the environment. First we want to make sure that the loans we have already disbursed we can collect on. So that is with regard to the mining segment. The second question on housing loan: right now we are staying very focused on housing loans for the self-employed. Self-employed is who we have targeted in loans against properties. We believe that we are beginning to understand the self-employed segment in this country better and we also see a bit of vacuum and in that a lot of these self-employed people are not able to get loans from people like HDFC because their sweet spot has been the salaried segment. So because it is a customer segment we know well and because we see a need for that segment we are staying focused on that and it is still early days for us but we see a lot of potential in home loans for self-employed especially like I said we are talking about that Rs.30 lakh ticket size.

Ganesh Narayan

And there is a specific focus from RBI on the smaller housing. So since your saying your average ticket size will be Rs.30 lakhs there is a component which qualifies for priority sector even now if it is less than Rs.10 lakhs. So that segment would be left out from your side or you would cater only to Rs.30 lakhs to Rs.40 lakhs – Rs.50 lakhs kind of set-up?

Vellayan Subbiah

You know we looked at the over less than Rs.10 lakhs pieces especially because there seems to be a lot of focus on that but I think that that it is the one of things like some other financial inclusion things that came out. We are just not seeing enough on the supply side there. We are not being enough units constructed in that segment at all and we do not have the volume on the supply side, there is probably a reason for that. So it seems like see for example when RBI first articulated financial inclusion they talked about all BC models, what we ended up with was the whole bunch of dormant bank accounts right? So some of these, what we see is our behavior that you cannot quite force. It is driven in the end by the supplier side and demand for that specific product. So what we see is that a lot of the people for example that own small restaurants or kind of are in service businesses are in self-employed businesses and they have the income that can support a Rs.30 lakhs homes. So that is what they aspire to, they do not want to live in sub Rs10 lakh super affordable housing; they want to own a house. They want to own like a lot of Indians dream. So I think that we are more driven by the supply more we see the supply demand kind of

where there is scarce supply side in terms of the opportunities and these are not being driven by builders building 1000 plus units, it is the self-employed person himself that had a contractor and is building out a property for themselves.

Moderator Thank you. I would now like to hand the floor back to Mr. Amey Sathe for closing comments, over to you sir.

Amey Sathe On behalf of JM Financial I would like to thank Mr. Vellayan and other management team of Cholamandalam and all the participants for joining us for the call today. Thanks a lot.

Vellayan Subbiah Thank you.

Moderator Thank you sir. Ladies and gentlemen on behalf of JM Financial Institutional Securities that concludes this conference call. Thank you for joining us and you may now disconnect your lines.