



**“Cholamandalam Investment and Finance Company Limited
Earnings Conference Call”**

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MODERATOR: **MR. NISCHINT CHAWATHE – INSTITUTIONAL EQUITIES -**
 KOTAK SECURITIES LIMITED

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

Nischint Chawathe: Hello! Everyone. We are happy to host the management of Cholamandalam Investment and Finance Limited this morning. Management is represented by Mr. Vellayan Subbiah — Managing Director; Mr. Arun Selvan — Executive President and CFO and Mr. Rohit Phadke — President and Business Head, Home Equity. I am now handing over the call to Mr. Vellayan who will discuss the results.

Vellayan Subbiah: Thanks, Nischint, thanks a lot. We will just give you a quick glimpse of results at a glance and then turn it over to questions. Q4 profit before tax is at Rs.203 crores, a growth of 48% on a Q-on-Q basis, for the full year PBT is at Rs.657 crores, 19% higher than PBT of FY-'14 and both these numbers are taking into consideration the fact that we have accelerated provisions to 5-months overdue and adopted standard asset provisioning to 0.3% 1-year ahead of RBI's requirement. We have seen a 16% growth in net income and then we have seen a healthy growth in closing assets of about 13% on a Q-on-Q and Y-on-Y basis. The decline in GNPA has basically been from about 2.77% in December '14 to 2.38% in March '15, that is on a like-for-like basis that is apples and apples on 6-months overdue. Obviously, when we push the GNPA number to 5-months, the number has gone up and we have reported those numbers as well. The PAT is for the quarter is at Rs.136 crores, a 50% growth in Q-on-Q and full year PAT is at Rs.435 crores, that is 20% higher than the PAT of FY-'14. We disbursed Rs.2,564 crores in Vehicle Finance as against Rs.2,795 crores in the same quarter last year. We continue to basically have a cautious approach towards Disbursements and that resulted in an 8% degrowth compared to the same quarter the previous year. HE on the other hand grew Disbursements by 9% from Rs.785 crores to Rs.857 crores. The Chola's aggregate Disbursements for the quarter were Rs.3,508 crores as against Rs.3,672 crores. Chola's NIM was 8% compared to 7.9% for the same quarter last year. NIM was strengthened due to interest income, substantial increase in fee and other income and a sustained reduction in interest cost. The collections performance improved and like we said we have seen roll forward rates in all buckets dropping consistently and an improved GNPA position. At 5-

months overdue, the number is at 3.12% and our NNPA is at 2%. Our PBT ROTA improved to 3% as against 2.8% in FY-'14. Capital adequacy is at 21.24% as against regulatory requirement of 15%.

And then we have issued a dividend of Re.1 per share along with the interim dividend that is a 35% total dividend.

The subsidiary has basically made a profit of Rs.9 crores before tax as against Rs.4.28 crores in FY-'14. CDSL has also submitted an application to the RBI for payments bank license.

Consolidated PAT at Rs.137 crores for the quarter, which is a growth of 49%.

Nischint, I will stop with that and I am happy to turn it over to everyone on the call for questions.

Moderator:

Thank you very much, sir. Ladies and Gentlemen, we will now begin the question-and-answer session. We have the first question from the line of Ashish Sharma from Enam Asset Management Company. Please go ahead.

Ashish Sharma:

Just on the macro environment for CV financials, FY-'15 was challenging, but just your sense on as to how you see FY-'16 panning out and in particular two trends — you see discount sort of a normalizing in the first half of FY-'16 and secondly, on the impact of the rain in Q4 of FY-'15 — do you see some impact of the same on asset quality in first half of FY-'16? And just also in terms of what sort of a growth guidance we can sort of work with for FY-'16?

Vellayan Subbiah:

In terms of growth guidance, especially in this environment, which is fairly volatile, I do not know how comfortable we will be giving growth guidance. I think you asked what is our outlook for the year. Most people are expecting the second half to be good, but, in general, we are not in favor of crystal ball gazing. So we do not want to give too much in terms of growth guidance, all we can say is that if the markets do improve, we are ready to kind of support that with growth from our perspective, and as our GNPA position improves... and I have always said that 3-months of improved collections is what will give us comfort to grow Disbursements, obviously, we have seen the improved collections trend now for 5-months so that is getting us more comfortable to disburse. Overall market conditions: Yes, the unseasonal kind of rains did affect it in certain pockets, especially in central and west. Obviously, the monsoon again is going to kind of determine how the year pans out. So I still think

there are several things that have to play out, right, — government changes, monsoon, a bunch of macro things have not played out yet. So it is a bit too early to tell. What we do feel comfortable on is we have always had kind of three levers to our performance this year — one is improved collections, the second is improving our cost of funds and the third is increasing disbursements. Our general feel is at least if a couple of those levels play out, it should kind of augur for a pretty good year.

- Ashish Sharma:** And on the discounts front, sir, you see them normalizing in the first half or...?
- Vellayan Subbiah:** Yes, in general, I do think that the level of discounting will start normalizing in the first half.
- Moderator:** Thank you. Next question is from the line of Rahul Bhangadia from Lucky Investment Managers. Please go ahead.
- Rahul Bhangadia:** Just wanted to get a sense on this, as these NPA recognition norms get a little tighter, and probably the gross NPA number looks a little worse than what it was in the past, what is your sense of what coverage ratio would you like to maintain going ahead?
- Vellayan Subbiah:** Basically just to give you a sense of how we are looking at it, how we have provisioned and how we will continue to provision for 6-months plus cases is that at a 6-month point we have provisioned 25% on New Vehicles, 40% on Used Vehicles and that has just been our general provisioning, at a 1-year point we have provisioned 100% on Used Trucks, and at the 2-year point we have provisioned a 100% on New Trucks. Now both of those provisioning norms are ahead of what the RBI mandates, but we have been using those provisioning standards for a while. On HE, we have provisioned 25% at 180 days, 50% at 24-days and then 100% after 60-days right. Now what we are going to add to this obviously is from this month onwards we are adding 10% on at the 5-month point. So basically they will go to 10% at the 5-months point and then they will go to 25 or 40% at the 6-months point. So what does that do to provisioning coverage, obviously, kind of provisioning coverage will drop, because in effect what you are doing is you are adding this 10% provisioning segment that you did not have in your bucket before. So as a percentage or as a number it drops, right, but obviously from a level of conservatism you have just gone up a bit more than you were before right. I am sure you guys will be basically kind of resetting your expectations on provision coverage numbers, because with these standards it will be very difficult to keep extremely high provision coverage because you have this whole bucket that comes in now at a 10% provision coverage number,

but overall is the portfolio in effect providing more are being more cautious, the answer is 'yes'.

Rahul Bhangadia: So going ahead we are likely to see lower coverage ratios but that in no way compromises with the financial robustness of the numbers that you are reporting?

Vellayan Subbiah: That is right. For example, we have or we could if we wanted move all 6-month coverage or 180-day coverage to basically keep it at 15%, that would drop our provision coverage even more, right, but we do not want to do that, because our preference is to take it to the numbers we have been keeping for 6-months because we have honestly felt that is the prudent amount to keep.

Rahul Bhangadia: If I understand your thing, right, you are basically saying that it is the denominator effect rather than anything else basically?

Vellayan Subbiah: Yes, because you are increasing the denominator by a lot and for what you are bringing in to that denominator for that incremental delta you are only adding 10% of provisioning.

Rahul Bhangadia: Which obviously will go to 25 or 41s, another 30-days past once you have started recognizing it, right?

Vellayan Subbiah: Exactly, when it moves another 30 days, then it will go up to 25 or 40.

Rahul Bhangadia: If we were to go by RBI provisioning number what is the provision coverage ratio that you would have to kind of require in the books... rough number would do sir, not an exact calculation.

Vellayan Subbiah: It will be around 25%.

Rahul Bhangadia: If we go strictly by only RBI requirements?

Vellayan Subbiah: Yes.

Moderator: Thank you. The next question is from the line of Vikas Mehta from Religare Capital Markets. Please go ahead.

Parag Jariwala: Parag Jariwala from Religare. Sir, I just wanted some update on your Home Equity portfolio. What we are hearing is that across India we have seen pricing correcting by around 15-20% though it may not be a general trend, but what is your outlook on the

Home Equity business in terms of growth, are you seeing any sign of asset quality problem, etc.,?

Rohit Phadke: As we look at it, I think as the market and economic conditions get better, the portfolio quality will only keep getting better. Secondly, once the Finance Bill is passed in May we will have access to the SARFAESI Act, and this is definitely going to help us even better our collections and keep them. I do not see a pressure on the NIMs because the cost of fund is also coming down. This is my take.

Parag Jariwala: No, but are you seeing any pressure as far as the pricing is concerned? What happens is that say a property was costing 100 and you used to give a loan of 70 suppose, if the price is getting lower like 100 is getting 90 in next 1-year, then it may pressure your Disbursement growth, right, is it fair...?

Rohit Phadke: We are not seeing any great pressure on pricing.

Parag Jariwala: So when you say that your Home Equity financing is let us assume at LTV of 70%, so that...?

Rohit Phadke: That is on the agreement value.

Moderator: Thank you. Next question is from the line of Rohit Shimpi from SBI Mutual Fund. Please go ahead.

Rohit Shimpi: Just want to check, you have given a nice comparison of the NPA numbers on 150 and 180-day, could you talk about the income that we would have not booked because of the shift to 150-day, is there a margin impact also which is very significant?

Vellayan Subbiah: Obviously, yes, there is a switch from an income reversal perspective. The income reversal bucket is Rs.14.6 crores, that is company as a whole.

Rohit Shimpi: And on the Home Equity business, would you have some number that you have in mind for growth in FY-'16, we could understand that where you would not want to give a growth guidance with so industry return...?

Rohit Phadke: Rohit, we have also never ever said anything about growth in Home Equity but we have been growing at a steady rate of 15-20% and I think we will continue to do that. If you look at last year also our assets have grown at 25%. So I think we will

maintain a cautious and a healthy approach. We do not wish to be too aggressive on that.

Moderator: Thank you. The next question is from the line of Aditya Singhania from Enam Holdings. Please go ahead.

Aditya Singhania: I just had two questions: One is could you give us some more color in terms of the better collection trends that you are seeing for the last 5-months, is there any particular segment driving that or what really are the drivers in your view as you see it and could you just break out the NPA on CVs and Home Equity or Vehicle Finance and Home Equity?

Vellayan Subbiah: In terms of overall, where are we seeing the performance improvement, first off, obviously, kind of March is always kind of a good month because pretty much every customer understands that, they need to pay. So you always tend to see an improvement on March, but more than that the good thing that has been important for us is if you see the trend from October onwards it is actually from November, December, January, February, March for 5-months back-to-back month-on-month we have seen this improvement in Vehicle Finance collections and Home Equity has also seen a significant improvement around March. In terms of what segments have we seen that? Basically, two portfolios that were hit; the most was south and west for us, so geographically we have seen south basically improve even more than west has, and that has been by far the biggest improvement. The good thing is that we have seen improvement across everything. So if you see, for example, early default which peaked in October for us in retail at about 5.6 that is down to about 3.3, down by March, and every month between October and March has been an improvement. So if you take our direct which is our Shubh business and our Used business, even there we pretty much seen an improvement every month. So the good thing is that the one sector where we did not see the trend was Tractor by the way because Tractor in the rural market did get hit. So January and February had worse performance and then March got better. So we need to see if the performance improvement in Tractor sustains, but both our large trucking segments have seen improvement month-on-month across the timeframe.

Aditya Singhania: So you are saying that south has improved more than west but west has also improved?

- Vellayan Subbiah:** Yes, just to give you a sense, all four of our zones have all improved, when we got hit south and west caused the majority of kind of the hit that we took overall as a country, and between those two zones, south has improved more than west.
- Aditya Singhanian:** When you say south, could you sort of if possible break it down further between I guess the two zones that people were most apprehensive was TN and AP, is there any sort of pick up in Andhra Pradesh or not really is there any difference?
- Vellayan Subbiah:** Yes, actually the two areas where we were most hit were Tamil Nadu and Kerala, and in both Tamil Nadu and Kerala we have seen very significant improvements.
- Aditya Singhanian:** And if you could comment a little on what are the underlying drivers — is it the diesel price correction which is helping cash flows or is the fleet utilization improving, some sort of color on that?
- Vellayan Subbiah:** So Aditya like I have always said, right, there are two things are driver to; one is what is happening overall to the market and is there more cash flow in the hands of the customer; the second is when there is cash flow, are you the first one there, try and pick up on that cash flow or not, right, because most of our borrowers have multiple obligations. So I definitely think that the intensity of the efforts that the team has put in both in Home Equity and Vehicle Finance has definitely paid off because consistently we are seeing that we are the first ones there or we are being able to kind of collect in those situations, so I definitely think a lot of it I like to kind of say has been because of the strong efforts that the team has put in. In addition kind of is there more money in the hands of the customer? I do think that it has gone up, but it has not gone up significantly yet, like for M&HCV, a lot of the demand pick up, for example, is all Replacement demand, people kind of upgrading their fleets. So, the real demand pick up I still think we are yet to see.
- Aditya Singhanian:** Just if you could share the NPA numbers for Vehicle Finance and Home Equity?
- Vellayan Subbiah:** Vehicle Finance I will just give you first like-for-like comparison which was 2%, so what was the 3.11% in December '14 dropped to 2.69% the NPA, and the net number what was at 1.71% dropped to 1.51% for Vehicle Finance.
- Aditya Singhanian:** This is on 180-day?
- Vellayan Subbiah:** This is on 180-day for Vehicle Finance. When we move to 5th bucket provisioning what was the 3.11%, the GNPA number has now gone to 3.67%.

- Aditya Singhanian:** So 150-day on March is 3.67% for VF?
- Vellayan Subbiah:** That is correct.
- Aditya Singhanian:** What was the comparable number in December?
- Vellayan Subbiah:** The 4.14% has now gone to 3.67%.
- Aditya Singhanian:** And the March 180-day number for Home Equity?
- Vellayan Subbiah:** 1.73% and the 5th bucket is 1.94%.
- Aditya Singhanian:** The December number for home equity?
- Vellayan Subbiah:** December number for 150 was 2.09%.
- Moderator:** Thank you. Next question is from the line of Manish Agarwalla from PhillipCapital. Please go ahead.
- Manish Agarwalla:** Just want to get comments on coverage ratio. I heard your comment but if I look at on the like-to-like basis that is 180-day DPD, even in that case the coverage has actually come down on a quarter-on-quarter basis. So just want to understand is it the change in the NPA vintage because of which the requirement was slightly lower or your thoughts on that going forward how we see this?
- Vellayan Subbiah:** I think there are two factors; one is some of that is driven by the change in vintage and then second obviously is that just for that pool, securitization also kind of affected to a certain extent, but the predominant impact is because of the change in vintage.
- Manish Agarwalla:** Could you also help us with the number of Repossessed Vehicle stock?
- Vellayan Subbiah:** As of March we closed with 1195 Vehicles.
- Manish Agarwalla:** What would be your loss on sell down of this Repossessed Vehicle in Q4 roughly?
- Vellayan Subbiah:** It is close to about 40%.
- Manish Agarwalla:** So which remains same as in Q3 also?
- Vellayan Subbiah:** That is right, that number has not changed.

- Moderator:** Thank you. The next question is from the line of Amey Sathe from JM Financial. Please go ahead.
- Amey Sathe:** Sir, two questions; one is what is your sense on your credit cost in Vehicle Finance over next 2-years, so currently we are around 2%, the number more or less topped out?
- Vellayan Subbiah:** Yes, that is our belief that we have seen the worst.
- Amey Sathe:** What will be the normalized credit loss rate that you are expecting once probably economy...?
- Vellayan Subbiah:** Credit losses we felt like it should be around that 1% mark right over the cycle, below 1% over a cycle, so obviously we have seen an unseasonably high number, but our belief is a bit under 1% over the cycle.
- Amey Sathe:** And I also am seeing some Disbursement done under the head of Agri, so I know it is extremely small number but anything in that that can you do next 2-3-years?
- Vellayan Subbiah:** That is still very small, I do not think we will grow it out. If we are going grow it out significantly obviously we will have that discussion, but it is basically kind of what we are doing in a partnership with Coromandel Fertilizers where we give their farmers kind of rural and agri loans and this is disbursed at the Coromandel retail outlet, they have about a thousand retail outlets, and the loans that we give to the existing customers as a group, not known in any kind of contact way.
- Amey Sathe:** Is it possible to get absolute number for gross NPA?
- Vellayan Subbiah:** Company as a whole is Rs.802 crores.
- Moderator:** Thank you. The next question is from the line of Sameer Bhise from Macquarie. Please go ahead.
- Sameer Bhise:** Just wanted to ask that we have been working on some of these productivity initiatives in terms of lowering our OPEX, so just wanted to get some progress on that?
- Vellayan Subbiah:** So I think the good thing is, Sameer, in a year where Disbursements were really kind of did not grow much at all, we have still held OPEX numbers overall under control because last year we had to invest fairly heavily in collections and our collections

numbers to average assets did go up significantly. So even in a year like that we have managed to keep overall OPEX at about 3.42%. So our sense is if Disbursement begins to pickup we do not need a lot more additional manpower to handle I would say even kind of a 30%, 40% increase in Disbursement. So, if we do see Disbursement pick up, then we will see that number drop. That does not mean we are going to go and disburse just to make that number drop. But, assuming the market does pick up, we will see the number drop. So, I think the real benefit of that really comes in cycles where there is growth, Sameer, because obviously, we do not go off and kind of let go off too many people, just to kind of support that number. So, in a growth market, we would not need to add more people and I think that is when you will begin to see the efforts of those productivity initiatives, which by the way continuing even in this market.

Moderator: Thank you. The next question is from the line of Manish Shukla from Deutsche Bank. Please go ahead.

Manish Shukla: If I look at your AUM mix today roughly it is Vehicle Finance 70% and Home Equity about 30%. Assuming the CAPEX activity picks up sometime over the next 6-months, a year or two out, would you believe that this will incrementally shift in favor of Vehicle Finance or more or less it will stay where it is right now?

Vellayan Subbiah: It will naturally shift more towards Home Equity actually, because if the Disbursement growth in both segments is similar, because the length of which the Home Equity assets in our books, the AUM mix will naturally shift towards Home Equity, and that will actually move to like 65-35 from 70-30.

Manish Shukla: Just to understand, Home Equity, are you incrementally adding more locations and centers through which you are doing business?

Vellayan Subbiah: Yes, we are adding another about four locations, we do not add physical branches because...

Manish Shukla: Liability yes, from where you are writing to the business?

Vellayan Subbiah: Yes, we are adding another 12 more branches this year.

Manish Shukla: The next question is on credit loss. You mentioned that through cycle experience has been about 1% kind of a loss. Now under the 90-day NPL regime, is there anything which structurally can change the business in terms of either origination or recoveries

which can potentially bring down this loss number because recoveries would be more actively chased so to say?

Vellayan Subbiah: The way to look at it is it actually might push up the number. It depends on how you react, right. Shriram Transport, for example, has been fighting this move to 90-days for the longest time, right. And one of the reasons they have done it is because they honestly and correctly felt like 90-days is not enough reaction time especially for our Used truck customers. For Used truck customers, this is basically the only avenue of income. So, this gets cut off, they have no way of paying you and they get cut off for different reasons — you kind of have accidents, you have death in the family, sickness, theft, something happens with a particular load — Any one of these events can easily push these people into 90-days of repayment. So I think the more fundamental question is going to be do companies really change their strategy because of the provisioning norms. And that is a question that I do not think we have all the answers to yet but have begun to think through and try and understand how we should address, because you go and repo vehicle too early then over the long-term you are spoiling the overall effectiveness of your portfolio. So, I think the strategy that some people might end up coming up and I do not know what our strategy will be yet, because we have gone fully to 90-days is to basically let it run into provisions but do not change your behavior on it, kind of stick with the behavior that you feel is right from the customers angle. And I think a much better approach to take the behavior that is right for the customer. Now, if you do that, you will end up with kind of a decent amount that is sitting in the 10% provisioning bucket between 90 and 180-days. That is where kind of we will have to have discussions with the analysts and explain to them as to kind of why this is happening as well, because often if you take some of these cases, it is probably not the right answer to repossess that asset at 90-days and if we go out and try and do that we do not want to kind of actually do things which just do not make sense for the business at all. So, again, our strategy on this is not final. We have another at least a couple of years to think through it. But we are actively thinking about what the right approach to this is.

Manish Shukla: My last question... I do not know if you already commented on it, but your thoughts on the new priority sector guidelines and any impact it might have on your ability to securitize?

Vellayan Subbiah: That all of you guys have to tell us. For us obviously kind of the more priority sector requirements that is better, right, because we generate more priority sector than we can use. So, I read one report...I forgot the kind of whose report that was, that said

that this will make it tougher for banks to generate priority sector loans, I read one analyst who said that. If it does, then that is a good news for us, no.

Moderator: Thank you. The next question is from the line of Manisha Porwal from Taurus Mutual Fund. Please go ahead.

Manisha Porwal: There are two questions: One is this Disbursement which we said is going very well. So I just wanted to understand the break-up between Used and new vehicles in that. Is the Used vehicle market picking up first or it is the New which is giving you a sign of improvement?

Vellayan Subbiah: Just give us a minute, we will get you that data.

Manisha Porwal: Another thing in the meanwhile have you seen any LTV change, in the sense, is the customer reducing his requirement to LTV which is giving you some kind of signal that maybe the cash flow pressure is over, is he putting in more equity or the requirement for finance is increasing but the assumption for cash flow is improving and hence you are more looking at positive sign?

Vellayan Subbiah: It is a good question. There is not much of fundamental change at LTV after what happened is really kind of 2012-13, the good thing is that the supply side also gotten more disciplined. What happens in the market in LTV? I would actually say it is almost 75% driven by the supply side, because if the financial start offering 95%, 100%, LTV, that is what really changes the market. The good trend we have seen is that we have seen decent amount of supply side discipline as far as LTV is concerned. As a result of which, we have not seen significant increases in LTV in the markets to-date. In terms of the overall business, we have seen the New business pick up a bit more than the Used business, but that has also been because we have seen a spurt in M&HCV in the first quarter. So, I do think that Used business will catch up in this quarter as well.

Manisha Porwal: About this cost of funds, the benefit that we are getting, is it like we are finding it difficult to keep it to ourselves and improve our NIM and there is a competition which is prompting you to pass it on to the borrowers or we are retaining that cost of fund benefit for now till we maybe pass this provision or whatever the cost we would want to enjoy this cost of fund or we are forced to pass it on.

Vellayan Subbiah: If you see last year itself, we did get some benefit from the decreased cost of funds. In terms of cost of funds answer, the answer is different for both of our businesses –

Home Equity, the transmission to the customer tends to be more immediate and therefore, the ability to keep the spread is a bit more mitigated but there also I would say we have done a decent job of being able to hold down to a decent extent. On the Vehicle Finance side, definitely, I do think there is opportunity to hold down to that more, two reasons obviously – you got a fixed cost book, right, so everything you originated does not change, and the rate of transmission of change in cost of funds to the market is not as pronounced. Another reason why this cost of funds issue might be more pronounced in Chola's cases to an extent, because for the past 5-years we swung our mix heavily towards bank borrowing whereas some of our competitors, if you take Sundaram Finance, for example, are not very dependent in bank borrowing at all, they kind of always have been money market, NCD-based. So as our mix swings a bit there, we tend to get a bit more benefit because the spreads between bank base rates and where commercial paper or NCDs have been going up and continue to be slightly elevated.

Manisha Porwal: There are the few states which are trying to bring in that norm that more than 15-year or 10-year old vehicle, they are trying to restrict in their states. Do you think that more of it to come to the places where we operate and if at all if it comes then what is the impact?

Vellayan Subbiah: Obviously, the impact is good, no. So, we obviously operate in all states now pretty much. I think that trends are good overall for the country. We do not want too many old assets running around and things that kind of force a replacement cycle to get quicker. So it is definitely a good trend.

Manisha Porwal: Can I get the breakup of Disbursements for Used and New Vehicles in the last quarter?

Vellayan Subbiah: 10% for Used and 16% for New, that is a sequential quarter growth, because quarter-on-quarter we did not get growth, right, comparable quarter there was degrowth.

Moderator: Thank you. The next question is from the line of Aadesh Mehta from Ambit Capital. Please go ahead.

Aadesh Mehta: Sir, we realize that collections have surely improved over the past five months on a month-on-month basis. Sir, on a YoY basis like say second half of FY15 compared to second half of FY14, how has the trend been?

- Vellayan Subbiah:** I think the important thing to look at there, Aadesh, is basically looking at roll forward rates, because obviously, as the buckets continue to swell, the buckets were much larger as we hit October FY14. If you take October FY14 Vs October FY13, the buckets were 3x is large. So the more relevant trend is what has happened in the roll forward rates in each of those areas. What we have seen if you take roll forward rates, even you compare them YoY, the
- Aadesh Mehta:** Sir, what does roll forward mean?
- Vellayan Subbiah:** If you have an account that opens in the third bucket this month, the account pays you in installment, then next month again, it will open in the third bucket.
- Aadesh Mehta:** So the kind of customers who are perennially 90-days past due?
- Vellayan Subbiah:** What roll forward measures is if your account opens in the third bucket this month, customer does not pay, then the customer goes to the fourth bucket next month. Roll forward is a number of customers that do not pay and therefore move from bucket-X to bucket-X+1.
- Aadesh Mehta:** Basically, is the customer movement from one bucket to another?
- Vellayan Subbiah:** That is correct. So obviously, if a customer is continuously flowing, so this month they open in first bucket, next month they open in second bucket, next month they open in third bucket. That is your worst customer, right, if he is just slowing every month. So roll forward measures how many customers in a particular bucket have flowed to the next bucket say for a particular month. So obviously, the roll forward number coming down is a good trend, right. That is a metric because otherwise if we just take the overall number it is not a factor kind of the actual performance of either kind of our portfolio or the market. So, what you look at is being able to reduce the number of customers that are not paying you in a particular bucket for a month. That is where the collection focus is. And that number has been consistently getting better even if you compare it versus that number a year ago.
- Aadesh Mehta:** This will be true both for Vehicle Finance and Home Equity book?
- Vellayan Subbiah:** Yes, that is true for both.
- Aadesh Mehta:** How has our lesser securitization impacted our NPL coverage ratio? You mentioned somewhere in the call that like even adjusting for 180-days past due NPAs, actually we notice ...

- Rohit Phadke:** It is not lesser securitization. RBI has got this regulation that securitization should be shortfall in collection on securitized assets, should be accounted on cash basis and kept this as provision in the NPA provisioning side.
- Aadesh Mehta:** So these are being accounted through the NPLs?
- Rohit Phadke:** Right.
- Moderator:** Thank you. The next question is from the line of Digant Haria from Antique Stock Broking. Please go ahead.
- Digant Haria:** A slightly different question; in your presentation, I read there are 45 gold loan branches have been closed I think in this quarter because when we look at the number of branches they have come down by almost that amount in this quarter. So, does it lead to some kind of cost saving or these branches were not already not accruing too much to the cost and we do not see any benefit of this in FY16?
- Vellayan Subbiah:** It will give us some cost saving year-over-year, it will be in the order of about Rs.10 crores.
- Digant Haria:** So we have no gold thing going on, right, we probably had entered into tie-up with some bank where we would originate gold loans for some bank, that thing is over, right, now?
- Vellayan Subbiah:** Yes, that is over.
- Digant Haria:** So nothing related to gold actually higher now?
- Vellayan Subbiah:** Nothing.
- Moderator:** Thank you. The next question is from the line of Sunil Kothari from Unique Investment Consultancy. Please go ahead.
- Sunil Kothari:** Just wanted to understand, why we are not entering in Consumer Durables segment for Lending, just your logic?
- Vellayan Subbiah:** Sunil, that is a good question. I think basically at this stage we said that we will kind of focus more on secured lending, I think part of it obviously is kind of history of the company as well what happened to the company in 2006-2008 timeframe. The thing is that we are seeing good growth in these sectors, we have added the Home Loan

business and the SME segment that will also kind of help bolster the growth. But obviously kind of everybody is looking at what Bajaj has done, I think they have done a great job — Hats off to them – and asking about the Consumer Durable space as well. Just kind of given our mix at this stage, we see enough growth opportunity in these two markets plus the Housing Loan segment that we have added on as well. So that will continue to be our focus for right now.

Sunil Kothari: During last 2-3 years if you remove this Gold Loan branches, we have not expanded much. So during next 2-3 years, what exactly we will be doing, maybe economy may take another 6-months or 12-months to recover but internally, from technology point of view, employee addition, branch network, how you see what exactly we are doing for next 3-year planning?

Vellayan Subbiah: That is a good question. Actually, if we go back, obviously, 2-3 years we did expand our branch network, but 2012-13 is basically when we hit that 580 numbers, so in 2012-13 to now we have kept it constant, but 11-12 we had 375 branches. So we have kind of grown since then. But we have also felt like we are at a decent level of penetration now where we want to get deep enough into our existing branches before we start our next level of branch expansion. That is what our focus is going to be. And I do think that if we do increase our penetration in the existing branches this year we will expand our branch network next year. We are doing a fair amount on the technology front; a lot of the things we have been investing on we are in the stages of development right now, we are basically look at significantly seeing how we can reduce our turnaround time to the customer. Bajaj have done fantastic job on Consumer Durables, where they basically got the turnaround time to under a minute once the forms are filled out or under 20-minutes end-to-end. So, what we are also doing is we are developing these tablets, we are going to deploy into the field force and that we will have on the September timeframe. That will do two primary things: One is it will empower the field force a lot more to make all of their decisions end-to-end. So traditionally, now, how have been structured is that a sales person collects information and submits it to a credit decision person to kind of make the credit decision. So now when the tablets are deployed, as soon as they collect the information, that information available to everybody across the Chola system instantaneously. It is a lot of decisioning logic to determine what kinds of loans we can pretty much give within a 2-hour turnaround timeframe. I think fundamentally, the nature of Commercial Vehicle Loans is going to take a significant turn in the country over the next year. So we definitely see that opportunity and we want to drive or kind of be at the forefront of that change, especially given where we think

there is an opportunity from a technology side. So, there is a fair amount we are doing on the technology side where we think that it will help us over the next 3-4 years, we definitely think that will help. And then a couple of new businesses also will help us drive our growth which are the Housing Loans and the SME business which we are quite excited about. In terms of growth engine, I would say, definitely kind of that is where we are looking at in the near future.

Moderator: Thank you. The next question is from the line of Siddharth Purohit from Sushil Finance. Please go ahead.

Siddharth Purohit: What has been the trend of Used Vehicle prices in the market – has it improved vis-à-vis last two quarters?

Vellayan Subbiah: Yes, it has been a marginal improvement maybe to the extent of about 5% or so, but nothing significant.

Siddharth Purohit: Particularly in the Heavy Vehicles segment?

Vellayan Subbiah: This is mainly in the Heavy.

Moderator: Thank you. The next question is from the line of Kaitav Shah from SBI CAP. Please go ahead.

Kaitav Shah: My question is more qualitative: Given that some private sector banks are now aggressively vying the CV Tractor, the entire Vehicle Finance space, over a two-three year period, do you think competition will intensify and maybe impact yields, do you think that is a likely sort of scenario? And given that now you also have to sort of report more in terms of credit bureaus, etc., so, you will be joining that mainstream in that sense?

Vellayan Subbiah: Credit Bureau... we have always been submitting data to CIBIL for at least 6 or 7-years. So that trend will continue. Your question on the private sector banks coming in more aggressively. HDFC I think consistently has been the most competitive player in the space and continues to be. I think we have consistently had this quarter over the last like four or five years, because usually what happens is when growth goes out of other sector, the private sector guys jump in to Commercial Vehicles sector a lot more. Generally, what we have also seen is when the growth comes back, when they move back to the sector where there is a lot more growth. One of the points have always kind of illustrated is how difficult it is for somebody to kind of to

accumulate a significant book in the sector, because just in commercial vehicles itself you have almost 3,000 dealerships that disburse loans, right. And we disburse across almost 2,300 dealerships, so at each dealership, you only do about Rs.50 lakhs worth of loans on an average. So for the large private sector banks, if we take somebody like Axis Bank that already has over a 1 lakh crore retail book, close to 5,000 or 10,000 crores suddenly come from CV Lending, the number of dealerships is going to have tight relationships is a lot. And the first year you develop a relationship with a dealership he is not going to give you significant market share. So you got to think that it is a fairly difficult book to build. I think the banks which had the most patience in building it and has done it very well has been HDFC Bank. But besides of them, some of the others tend to get in and get out but we have not seen them consistently kind of grow in this space over periods of time.

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

Umang Shah: I had two questions: The first one is pertaining to the credit cost. As it has been discussed during the call that probably we would be moving a bucket upwards every year till FY18 during our transition from 180 to 90-day outstanding NPLs. Is it fair to assume that probably our credit costs over this period may remain higher than typically the normalized credit costs or do you see any offsetting factors to that?

Vellayan Subbiah: So long obviously, kind of the question is as in absolute percentage term I ask him it will stay at the same, so first of all, we do not have to go to FY18, it depends because obviously, we are at 150, so we have two more moves to make. To your question, I think I have said some reset will be expected from as it plays out from the analyst community, some reset will be expected because obviously, to go from 180-90 and then keep your overall GNPA at the same is not a feasible thing. So, I think yes, there will be some and therefore will credit cost as a percentage stay at an absolute slightly elevated number, if we are saying that we need to go to 90-day, yes it is not going to go back to kind of the sub-1% level and stuff like that. That is the expectation.

Umang Shah: A related question to that; so typically, what we have been planning to do in terms of improvement in our post-tax ROA is next 3-4 year period, probably that journey might get a bit more elongated, would it be a fair assessment again?

Vellayan Subbiah: I do think that there is a chance that it could get stretched slightly, but our biggest levers have not been kind of swung as much by the credit cost side. When you think about the PAT ROTA impact, there you are more concerned around MCL versus the

other question you asked me which is focus on NPAs, and obviously, kind of one affects the other. But what we have to look at is how do we keep MCL level low enough, right. But, yes, there is impact on it but there are two other areas that we can focus on which we will continue to focus on which are operating expense, there are net income, margins itself, right, and both of those continue to be significant opportunity areas for us.

Umang Shah:

My second question was related to the branch strategy that we have. So, contrary to what the competition has been doing, namely like Mahindra or Shriram, they have been expanding their capacity for past 6-9 months so to say either in the form of some rural branches or rural centers or different names as they give it, contrary to that we have been maintaining our branch network or rather some Gold Loan branches have been actually shut down, so as everybody has been expecting that the recovery is around the corner, how well-equipped we are to kind of leverage on that opportunity, #1? And #2, are there any thoughts or any plans that you guys have in terms of expanding your branch network probably from this year onwards?

Vellayan Subbiah:

In terms of are we ready when the recovery comes, I would say, absolutely, we are getting very ready for that and very equipped for that. For branch density to drive that recovery, I would like to believe at this stage we do not need it, Home Equity is increasing the branch density, as far as Vehicle Finance is concerned, even with 520 branches we are in fairly good shape. So, our belief is with our current branches we should be able to kind of pick up on the Disbursements growth when it does pick up. If we need to add more, I think that is something we will revisit in second half as we begin to see what is happening with the recovery, like this recovery has been around the corner for a while, do not want to...

Moderator:

Thank you. The next question is from the line of Pradeep Agrawal from PhillipCapital. Please go ahead.

Pradeep Agrawal:

Sir, my question pertains to your Home Equity portfolio. In the limited history, we have of 7-8 years in this portfolio. Once the default happens, what is the process moving forward from that level, how do you repossess or how has been the experience in selling off that property?

Rohit Phadke:

So far we have never had to sell off a property. By the time we repossess the property, the customer comes for settlement. Currently, we are following the arbitration process by repossessing property, but as you are aware, now that we are enabled that we will be able to use the SARFAESI Act to repossess property. So once

the Finance Bill is passed, we will have that provision with us and that will definitely help us improve our credit cost better.

Pradeep Agrawal: So, as you said, you follow arbitration method, so you are in consultation with the borrower, you sell the property or the borrower himself sells the property, right?

Vellayan Subbiah: Borrower himself either comes for a settlement and pays off the money or he comes with a seller and he pays off the money.

Pradeep Agrawal: Secondly, in one of the earlier questions, you mentioned that the closing stock is about 1195. If I am not wrong, this number in the previous quarter was about 2100?

Vellayan Subbiah: That is correct.

Pradeep Agrawal: So, is this a normal pattern which we see in March quarter that your closing stock was down suddenly or what is the normal trend?

Vellayan Subbiah: Good question and a good observation. Yes, in March quarter, there is always a lot of pressure to kind of bring down your closing stock as well, but it obviously depends on the overall market and so we will have to see how this quarter plays out. Obviously, our intent is not to hold down too much stock or too much more than we need to. Rapid disposition is something that we want to do, but you are right in your observation that the numbers always kind of tend to look great at the end of March quarter for everything.

Pradeep Agrawal: Because earlier we were getting a sense from most of the lenders is it was not easy to sell stock in the market because that was taking a hit on your price. So is the market is absorbing that kind of sell off which...?

Vellayan Subbiah: The good thing for us is compared to the portfolio size of some of the others actually 2000 does not seem like that many, 1000 kind of here or there does not seem like that many. Obviously, it is a very elevated number for us and we do not like it at that number. So, I would say that if you take the 1000 across our 500 branches, what we have been really doing is having each of the branch managers figure out kind of see a break in identify customers for a couple of these trucks which is easier to do versus having kind of something like 15,000 trucks repossessed in which case you have a much bigger problem.

Pradeep Agrawal: So what is the current strategy – are we still doing repossession or still staying away from repossession and trying to resolve the matter in consultation with the buyer?

- Vellayan Subbiah:** We are still doing repossession, and repossession as a trend will have to continue.
- Moderator:** Thank you. The last question is from the line of Nischint Chawathe from Kotak. Please go ahead.
- Nischint Chawathe:** I was just checking, can you talk a little bit about the payment bank?
- Vellayan Subbiah:** Obviously, it depends on whether we get the license or not, but it has been something that we have been fairly keen to do. I think somebody else asked a question about consumer durables. One of our key focus is as a company has been to focus on basically the Retail and the SME space and increasingly, we can see that the RBI wants to differentiate less and less between the larger NBFCs and the banks. So, developing a strong retail penetration then becomes part of something that all our larger NBFCs then have to do and we see an opportunity in a payment bank as one way to go down that track. If we see payments even from our existing portfolios and our existing ecosystem, payments are quite a challenge: Just to give you a sense, the most expensive collections we do where it requires a call center plus an agent to go out and kind of collect, it costs us almost 2.2% of what we collect to collect it. That means if we want to collect Rs.1,000, it is going to cost you Rs.22 to collect it which is very expensive. And what we want to look at it is basically kind of increasing the efficiency of that payment mechanism perhaps starting with the ecosystems that we know well, which would be the farmer ecosystem, our ecosystem with truck drivers who are in Chola, but then looking at opportunities to expand out into other ecosystems as well, geographically, within the country. So from that perspective, we see kind of the whole payments opportunity at the bottom of the pyramid has a significant opportunity that can be leveraged in the country today and so we are quite keen to kind of push into that area and leverage it.
- Nischint Chawathe:** I think we will end the conference call now. We thank each one of you to attend the call this morning. We also thank the management of Cholamandalam to give us an opportunity to host the call.
- Vellayan Subbiah:** Thanks, Nischint, thank you, everybody.
- Moderator:** Thank you very much members of the management. Ladies and Gentlemen, on behalf of Kotak Institutional Equities, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.