



## “Cholamandalam Investments & Finance Limited Q4 FY16 Earnings Conference Call”

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**MODERATOR:**    **MR. NISCHINT CHAWATHE – INSTITUTIONAL EQUITIES  
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**Moderator:** Good morning ladies and gentlemen. Welcome to the Cholamandalam Q4 FY16 Earnings Conference Call hosted by Kotak Securities. As a reminder all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing '\*' then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Nischint Chawathe from Kotak Securities, thank you and over to you sir.

**Nischint Chawathe:** Hello everyone. Welcome to the 4Q FY16 Earnings Conference Call of Cholamandalam Investment and Finance Company. To discuss the financial performance of Chola and to address your queries we have with us Mr. Vellayan Subbiah – Managing Director, Mr. Rohit Phadke – President and Business Head (Corporate Finance, Home Equity and Home Loans), Mr. Ravindra Kundu – Executive Vice President and Business Head (Vehicle Finance).

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

**Vellayan Subbiah:** Thanks Nischint and good morning everybody. Welcome to the call. Basically we just go through our numbers quickly and give you a quick summary and obviously open it up to questions as usual.

We had a good quarter and a strong finish to the year. The PAT for Q4 was at 192 crores which is a growth of 42% on a Q-on-Q basis and our full-year profit was at 568 crores which is 31% higher than PAT of FY15. On that PAT we have also accelerated our provisioning to 4 months overdue and accelerated standard asset provisioning to 0.40% which is ahead of the RBI mandate. We have also created a one-time provision of 55 crores as a standard assets provision just on a prudent basis to cover the revised asset classification norms that required to be complied by March 2018, so that's basically a provision that we have created for third bucket.

The decline in gross net NPAs has been from 4.3% to 3.5% so we have moved up 0.8% which we think is a very healthy number in one quarter and we are very bullish that we will continue to improve portfolio quality. We have also seen a healthy income in NIMs. NIM is at 9.4% for the quarter and 8.7% for the full year. Closing assets grew by 17% on a Q-on-Q and YoY basis and disbursements grew by 28%. The company also issued a final dividend of 20%.

Basically the vehicle finance business disbursed 3760 crores in the fourth quarter and that was a significant growth over the Q4 of FY15. Basically it's been a combination of revival in the CV market coupled with our focused approach on strengthening dealership networks and that's what's helped us register our growth there. Our disbursement growth was 32% on a Y-on-Y basis and 47% compared to the same quarter last year.

Home Equity grew by 16% from 857 to 994 crores and 40% on a Y-on-Y basis so our aggregate disbursements for the quarter was 4941 crores as against 3509 crores in Q4 of FY15.

Our NIM was very healthy like I pointed out earlier. Basically this has been driven by an increase in interest income, a reduction in cost of funds and a substantial increase in fee and other income.

Coming to our expense side, our expense to asset ratio have basically been maintained at 3.4% for the year but it dropped to 3.2% in Q4 of FY16. So coming into FY17 we hope to bring that number down further from the 3.4% levels.

Collections performance improved significantly through the quarter resulting in roll forward rates in all buckets dropping and an improved GNPA position. The NNPA is now at 2.13%. Company has created, like I said, a standard asset provision of 55 crores and that is for provisioning for the three months overdue, so that is basically so that we will potentially move to that point ahead of the March 2018 requirement and so we have provided for that. Our PBT-ROTA has improved significantly, its moved to 3.6% as against 3% and with that our PAT-ROTA is at 2.3 against 2% in FY15, so that's getting healthier and like I have indicated and guided before we are going to push that number all the way up to 3% so I think the movement towards that 3% PAT-ROTA has begun.

Capital adequacy is fairly healthy at 19.68% and like I said we issued a final dividend of 20% for a total dividend payout of 45%.

A brief overview on the subsidiaries, basically Cholamandalam Distribution made a PBT of 2.61 crores for the quarter and on a full year the subsidiaries made a PBT of 8.75 crores, so basically that's going fairly well.

Our consolidated PAT for Q4 is 194 crores as against 137 crores in Q4 of FY15 for a growth of 30% overall.

Our AUM has just exceeded a bit above 30,000 crores.

So I will stop my commentary with that and be happy to turn it over to the floor for questions.

**Moderator:**

Thank you. Ladies and gentlemen, we will now begin the question and answer session. We take the first question from the line of Harish Subramainum from HDFC Standard. Please go ahead.

**Harish Subramainum:**

Wanted to understand the fee and other income you talked about which was also one of the factors that drove NIM. Was that a function of high disbursements in this quarter?

**Vellayan Subbiah:**

Yes definitely that's one of the contributing factors. Thanks for the question. We have multiple factors obviously high disbursements result in higher fee income. We also started getting shortfall collection income which has been a good contributor for us and we have some income coming from finance charges as well.

- Harish Subramainum:** So there were interest income write backs in this quarter, so how much would that be?
- Vellayan Subbiah:** You are talking about income reversal?
- Harish Subramainum:** Yes.
- Vellayan Subbiah:** So the reversal of income reversal we will just get you the number. Just give us one minute. I will take the next question and as soon as we have the number on the reversal of income reversal amount for the quarter we will give it to you.
- Moderator:** The next question is from the line of Sanjay Shah from KSA Securities. Please go ahead.
- Sanjay Shah:** Can you throw some light on our growth in home equity? We feel it is around 14%, not that satisfactory.
- Vellayan Subbiah:** See basically there are two things; one is that the competitive intensity in that industry was up significantly last year. Usually the trend we see is that when there is no growth in the corporate book a lot of people basically start jumping into this business and then when some growth in the corporate book comes back then people move away. So competitive intensity was fairly high which then started also creating great pressures in that business. So we took a fairly conservative stand to growth last year. We will be watchful in the first quarter this year but if competitive intensity starts dropping a bit then we will start getting more aggressive in that business as well.
- Sanjay Shah:** Is there any possibility of NIM growing in that segment, that vertical?
- Vellayan Subbiah:** Right now what we are seeing is because of increased competitive intensity that also creates a certain amount of NIM compression but it's also going to depend on what happens with the cost of funds this year because what we also saw in the last quarter is that short-term funds basically started spiking a bit in terms of costs especially money market instruments. So we will have to see how that behaves this year with both MCLR and the behavior that's driven by that with the banks and what's happening to the money market as well.
- Sanjay Shah:** Can you throw some light on our new venture that is rural finance business which we did around 21 crores last year?
- Vellayan Subbiah:** That's a book that basically we are driving with one of our partner companies in the group Coromandel Fertilisers. So what we do in that business is that we give loans to farmers that come through and our offices there are in the Coromandel retail outlets and we give loans to farmers that are coming through those retail outlets because those are farmer population we know. There is a fairly large farmer population that we deal with there; almost 2 million farmers come through our retail outlets. We have been doing it for about 2-2.5 years now. We ran into a problem when there was the AP election and what happened was that basically the government, like you probably know, gave a loan waiver at that time. That created a fairly high

level of non-performance on our loans. So we took a fairly conservative stance as a result of that but we continue to test that market because we see a lot of potential in it, so we continue to test that market in a small way, so effectively I would call that a pilot business for us and if the pilot succeeds over the next one to two years we will look at scaling that business but till we feel comfortable with that business especially because of political intervention in that business, we want to spend a little more time getting comfortable about it before we say we really want to grow that business aggressively.

**Sanjay Shah:** My last question, how do you see the stress on this vehicle finance going ahead this year starting?

**Vellayan Subbiah:** Our general belief is that portfolio quality will improve in that business. Tractor actually saw portfolio degradation but we have begun to see improvement in the tractor portfolio as well but our general belief is that portfolio quality will improve in that business.

**Moderator:** We will take the next question from the line of Shivakumar from Unify Capital. Please go ahead.

**Shivakumar:** I just checked that the home equity assigned portion of the AUM has increased this year to roughly around 23% from 11% last year, so what is the in-house strategy or assigned book?

**Vellayan Subbiah:** What started happening is that we have started to see demand for securitization of the home equity portfolio as well, so what we are doing is that instead of just assigning vehicle finance portfolio we started assigning both vehicle finance and home equity in a particular ratio and obviously it is dependent on demand and supply in a particular year but obviously our intent therefore.....and the good thing assigning home equity portfolio is it kind of creates perfect matching from an ALM perspective on our book as well. So going forward to the extent that there is good demand for home equity books from other banks we will look at securitizing those books as well. We don't have any stated intentional strategy on how much home equity and vehicle finance we will do but that ratio is basically dependent on the demand and supply in that particular quarter for those two products.

**Shivakumar:** During the last earnings call you said that you are looking at expanding by 100 branches subsequently in FY17. Are you sticking to that? Are you again increasing that number going by the recent auto numbers or what is your current view on that?

**Vellayan Subbiah:** We are definitely sticking to that but I do think that we might do slightly more than 100.

**Shivakumar:** Any number you would want to share as to outlook on FY17 earnings?

**Vellayan Subbiah:** On FY17 you are talking about number of branches?

**Shivakumar:** Number of branches and even the topline and bottom-line numbers?

- Vellayan Subbiah:** Generally we don't guide too much on topline and bottom-line. Generally what we believe is in a good market we will see around 20% asset growth with obviously higher profitability growth than that. So it's going to depend on market conditions but that's generally what we have seen in terms of a pattern of performance.
- Shivakumar:** But AUM growth you will definitely beat this year's number, the growth number?
- Vellayan Subbiah:** Like I said, if markets remain good, yes, then I do expect this year to be better than last year.
- Harish, to your question the reversal of income reversal in Q4 is 4.26 crores.
- Moderator:** We will take the next question from the line of Ashish Kothari from AlfaAccuarte Advisors. Please go ahead.
- Rajesh Kothari:** Rajesh Kothari here. What is the breakup of your vehicle finance business?
- Vellayan Subbiah:** I think the break-ups are given in detail in our investor presentation.
- Rajesh Kothari:** I couldn't find it.
- Vellayan Subbiah:** So I will give you a page number on our investor presentation. What kind of break-up would you like?
- Rajesh Kothari:** Got it, understood. In terms of outlook would you like to give which segment you think will do better in terms of the mix? How do you see the mix over the next one year or so?
- Vellayan Subbiah:** So obviously you have got the breakup which is on page 24.
- Ashish Kothari:** Yes.
- Vellayan Subbiah:** So in terms of outlook the segment we are most bullish on is used and Shubh loans.
- Ravindra Kundu:** 32% is our portfolio as of now. The disbursement in used and Shubh, which we call it, is higher than the portfolio, the portfolio mix has been increased from 28% to 32% so therefore we are driving that number more. But in the market the new side, the heavy commercial vehicle has got a higher growth so HCV has gone up by 35% YoY as against LCV up 7% and de-growth of 10% in small commercial vehicles, so heavy commercial vehicle is also one of the product which is growing in our portfolio, we are inline in the market as far as heavy commercial vehicle disbursement is concerned. Apart from that we are growing our used vehicle book.
- Ashish Kothari:** Your used vehicle book what is the growth you have reported there?
- Ravindra Kundu:** YoY the growth is around 20-25% put together.

- Vellayan Subbiah:** So basically any view in terms of the yield and because of the competition particularly in the used vehicle business as there is a lot of discounting which is going on in the new commercial vehicle and without that industry is not growing that robustly but of course you are doing very well, so can you give some color on that, how do you see that industry?
- Ravindra Kundu:** So new vehicle basically discount one or two manufacturers they are giving higher discount but one good thing is that now it has started declaring how much discount they are giving and every finance company is financing net of discount. The discount is going to the customer directly. As far as the finances are concerned our interests are protected because we are considering the discount while fund financing it but the discount compared to 2013-2014 has significantly come down, it is 50% of what discount used to be. In heavy commercial vehicle the discount has come down significantly but ICV and LCV these discounts are still prevailing.
- Ashish Kothari:** So do you think because of that heavy discount into the new segment, the used segment probably therefore the growth has been subdued for the industry?
- Ravindra Kundu:** No, it's not like that. In fact, because of the higher repossession during last 2-3 years the new used vehicle or low used vehicle, 3-4 years old vehicle, being repossessed by all the finance companies they have sold it. So those vehicles are available in better price so that's the reason it is actually kind of impacting HCV, LCV and new vehicle sales.
- Ashish Kothari:** As you see over the next one year or so you think the mix will remain by and large same or do you see any significant change in your mix?
- Ravindra Kundu:** Mix is aligned with the market. Like these two years we have seen that our HCV is growing, before that LCV was growing, so market between the new HCV, LCV and small commercial vehicle, whichever product has a higher growth obviously it impacts the disburse portfolio size, the portfolio mix of the finance company. Apart from that we are continuously focusing our used and Shubh. We want to increase used and Shubh but if there is a constraint that you can't increase one completely.
- Vellayan Subbiah:** Just broadly, the mix will shift a bit towards the used and Shubh on one hand and maybe slightly towards the heavies as well.
- Ashish Kothari:** In your home finance business can you just tell us since the competition is increasing rapidly in this business how different is our product and customer selection strategy?
- Rohit Phadke:** If you look at the home equity portfolio the growth in assets has been pretty healthy at 24% and we always said that assets should grow in between 20-25% so we maintain that growth in assets. Secondly, we have been increasing our number of branches, we are at 92 locations. The advantage that we have is we already have over 500 branches for Chola and for us getting into those branches is much easier than any of the competition because we don't need to do anything we just have a manpower to be present because we already know the market dynamics and the

market behavior. So one is, we will be getting into more and more branches. Number two, our customer selection category criteria remains the same. We were one of the first movers in the organized sector when we entered this business past nine years and that is really helping us. That experience of nine years is helping us select customers and we have been able to give better service to them, retain customers much better that is why the growth in assets has been healthy.

**Ashish Kothari:** What is your average ticket size for home loan?

**Rohit Phadke:** Home loan is 16 lakhs.

**Vellayan Subbiah:** I think you are talking about home equity?

**Ashish Kothari:** Yes, home equity.

**Rohit Phadke:** That's 50 lakhs. We have consciously maintained it at 50 lakhs.

**Vellayan Subbiah:** But if I look, while assets grew by 24% the disbursement growth was a little bit sluggish, right?

**Rohit Phadke:** Yes.

**Ashish Kothari:** And if look at even compounded growth last five years also the disbursement CAGR was 17% whereas AUM CAGR was 28%. By when you think the disbursement can also grow in line with your assets under management?

**Vellayan Subbiah:** Because the assets stick on the book for longer, if disbursements go up even more then the assets under management will also go up more.

**Rohit Phadke:** Also the focus is on customer retention because once the customer is in your books for a longer time the portfolio also behaves in a much healthy fashion.

**Moderator:** The next question is from the line of Anand Laddha from HDFC Mutual Fund. Please go ahead.

**Anand Laddha:** We have seen better recovery on the CV side, what is driving this recovery? Is it that things are really moving on the ground in terms of freight carrying capacity or is it just the collection efficiency which is driving this recovery?

**Ravindra Kundu:** In heavy commercial vehicle side obviously two things have happened in the market side. One that the utilization of the vehicle has gone up, the loads are available. Although the freights have not gone up but the productivity has gone up because of that cash flow has improved a lot and because of the diesel prices has gone down the cost side also transporters are getting benefited. That is from the market side. Our focus on collection we started in 2014 in a different way, bucket-wise, then we have started roll forward rates, so those strategies are



working very well, we are not allowing our early default to go up beyond a particular limit. So any customer basically we see in the second or third bucket not able to do better so we try to actually either reassign or try to close the account by negotiating or finally initiating the legal. So the collection side we have strengthened our collection mechanism in such a way that the infant delinquency is not going up and therefore our NPA has started coming down, it will further come down in the next one or two quarters.

**Anand Laddha:** What could be your gross NPA and net NPA in the vehicle finance?

**Ravindra Kundu:** Gross NPA is basically fourth bucket we have 3.65 and net NPA is 2.05 which has come down by 1% from 4.67 to 3.65 and 3.30 to 2.05, significant reduction over Q3FY16.

**Anand Laddha:** Similarly what could be the gross NPA and net NPA in the home finance business?

**Ravindra Kundu:** 3.36 and 2.3.

**Anand Laddha:** So gross NPA in the home finance is higher than VF

**Vellayan Subbiah:** Lower.

**Vellayan Subbiah:** The net NPA is higher in the home finance.

**Vellayan Subbiah:** Because we have provisioned differently for each of the businesses.

**Anand Laddha:** In your commentary you mentioned that you are looking to increase your ROA to 3%, so if you can give some more highlights, any further improvement in ROA, is it margin expansion?

**Vellayan Subbiah:** I think the two biggest kickers this year will be reduction in OPEX to assets and reduction in NCL to assets because I feel like both those numbers this year will be lower than the numbers last year. See if growth comes back in then OPEX to assets will drop because we are working on a whole bunch of efficiency initiatives as well including the roll out of our tablets which should happen in the second quarter latest. And with that we feel like we will get a lot of productivity gain across the system as well, so both on the sales and collections team that will help us bring down operating expenses to assets. And there are several other things we are doing, we have a lean initiative going, so several other things we are doing on the OPEX to assets side, so we do believe that that number can be pushed down. Second area obviously is NCL to assets which was running higher than historic levels and we do believe that that number will also start coming down this year, so those two will be the larger contributors this year. We don't think that this year is going to see a significant increase on the NIM side.

**Anand Laddha:** We haven't expanded branches for quite some time. You still believe that 534 or whatever number you have is optimal or you need still go deeper. We saw some and see increasing their branches now they could have a strength of almost like 1200 branches, so is it still possible to open a 2-man, 4-man branches, go deeper and deeper or is it okay 534 is sufficient?

- Vellayan Subbiah:** I think you have missed the earlier question. This question we have already answered. We are going to add over 100 branches this year.
- Anand Laddha:** Despite adding 100 branches you still believe there is enough space for a cost-to-income ratio to come down?
- Vellayan Subbiah:** Yes because when we add these branches we add them at very low cost. We add them at a CAPEX of less than 10 lakhs per branch and an OPEX of less than 10 lakhs per branch. So they don't add too much to our cost structure.
- Anand Laddha:** We started seeing some improvement in the MSME disbursement this quarter as well as self-employed home loan. So what's the outlook for these two segments going forward and if you can give some indication of the yield in these two segments?
- Vellayan Subbiah:** It's a good question and I would say that of all of our businesses I am the most bullish on our home loans business. Our home loans business is basically for FY16 we did a yield of 14.31%, book yield. And we are tremendously bullish on growth in that business because we are doing housing loans for the self-employed, smaller ticket size about 16-17 lakh average loan size and we are seeing tremendous demand for that business. We are expanding that business now to 55 branches this year and we see tremendous potential across that entire set for this business. My belief is over the next five years that business will be as large as our LAP business and will be a big contributor for the company. Our customers in that business are basically retailers, distributors, basically self-employed nonprofessionals, so we are not going after lawyers, doctors that profile. But in this profile, just your service restaurant, your dhabha, barber shops that whole profile we are just seeing tremendous demand for because there are very few people who are willing to give those guys loans in the country and they are very steady income levels, we see a lot of potential in that business. So that of all of our businesses I would say, if I look at the small businesses and which businesses have potential for growth that's the business that I am most bullish on. The SME business we started basically with our ecosystem and we see opportunity to improve that. That basically has an average yield of about 13.35% for the year. Those are more short term loans predominantly with some term loan product but predominantly we are doing a fair amount of bill discounting in that business. So there is steady growth there and I see a lot of potential so that also I believe will be a very strong business for us. But of the two I definitely see a lot more potential in home loans.
- Anand Laddha:** Last question, if you can share our employee count?
- Vellayan Subbiah:** I think that is there in our presentation page 36, we have 2886 people on roll and the total strength is 13590.
- Anand Laddha:** 13590 employees?
- Vellayan Subbiah:** Well, on roll and off roll, we have two companies, right?

- Anand Laddha:** 13590 is the total. And 2886 is the on roll employees?
- Vellayan Subbiah:** 2886.
- Moderator:** We will take the next question from the line of Sneha Gantra from Shubkam Ventures. Please go ahead.
- Sneha Gantra:** Next year are we moving to 90-day DPD? Currently we are standing at 120 DPD.
- Vellayan Subbiah:** It is likely that we will move in the next 12 months.
- Sneha Gantra:** Any change in the borrowing mix we are planning?
- Vellayan Subbiah:** We have been moving a bit away from banks and more towards money market instruments, I think that trend will continue.
- Sneha Gantra:** Could you share your margin outlook for us.
- Vellayan Subbiah:** We don't necessarily share margin outlook numbers but I think I have given a broad commentary in some other statements that I just made earlier.
- Moderator:** Thank you. The next question is from the line of Jeetu Punjabi from EM Capital Advisors. Please go ahead.
- Jeetu Punjabi:** I wanted to just understand, you are seeing better trends on the CV business; do you have a sense that these trends are secular and they will continue? And the second question linked to this one is in recent weeks we are seeing a lot of strength in a whole CV side, do you also sense that there could be shortages of the segment and there could be a big surge in the business in the next few quarters?
- Vellayan Subbiah:** Jeetu, do we think that the trend will continue, yes our belief is that this trend should continue this year because broadly we have kind of seen three sluggish years especially on the Heavy side, even Lights have been sluggish for quite a while. So we just have the advantages that. Unfortunately, what ends up happening is we end up comparing against last year. But there is a fair amount of latent demand that comes from replacement cycles like Ravi said there is utilization appears to be improving in the market. So there is a decent amount of demand is coming back, so our belief is that it will continue through this year.
- Jeetu Punjabi:** Last very recent weeks you have seen very strong trend could that lead to shortages in the business?
- Ravindra Kundu:** Supply-side there is no shortage basically. The industry average of heavy commercial vehicle in 2012-13 was around 2.6 lakh which is actually higher than the last year number, so heavy commercial vehicle has not crossed the peak. The light commercial vehicle has not even

touched nearby that number what 3.5 lakhs we sold industry sold in 2012 and 2013 so therefore the scope is there. A small commercial vehicle is half of the peak. It is 1,72,000 as against the 4 lakh units sold in 2012 and 2013. So therefore the scope is there but it is like last quarter only we saw small commercial first time actually after two years started moving up and light commercial started hitting the double-digit number and HCV is actually kind of maintaining 35% of growth. So therefore the growth journey in small and light have started just now and heavy is just completed one year of growth. But they are far off the number what we have seen in 2012 and 2013 or so. There is going to be continuous growth for some more time.

**Moderator:** Thank you. The next question is from the line of Sunil Kothari from Unique Investment. Please go ahead.

**Sunil Kothari:** Sir just one question is related to this 55 crores additional provision that we provided in latest quarter, Quarter 4?

**Vellayan Subbiah:** Yes sir.

**Sunil Kothari:** One more thing on a longer term horizon, broadly our dependence on the vehicle finance is at present very high. It seems that the way you conveyed this message is you want to improve home finance, home loan and SME. So any other further segment where you see becoming a bigger scale or bigger size over next 2-3 years' period? Are we trying to move some risk from vehicle finance over a period to something else, any strategy or thought process on this?

**Vellayan Subbiah:** Like we said I think there is enough opportunity. We just take the housing loans business and the MSME business, so you just have to tell Mr. Phadke who is here with me to grow these businesses. But our belief is like I said basically the good thing with the housing loans business also is there a fixed in your books were much longer so it's a longer tenure loan. So if we can grow those two businesses our belief is that it will start kind of broadening our portfolio base so that right now we have almost 2 to 1 on vehicle finance to LAP so if we have housing loans coming then I think it will create a more even spread there.

**Moderator:** Thank you. The next question is from the line of Girish Raj from Quest Investment. Please go ahead.

**Girish Raj:** In the home equity business expense ratio was around 1.2% throughout the FY16 and there was disbursement growth of 14% approximately. So I thought the scale benefits would play in FY16 what exactly happened can you please throw some light on that?

**Vellayan Subbiah:** Actually if you look at Page #31 of the Investor Presentation, this gives you pretty good sense of what happened right. Basically you see a certain amount of compression on the net income margin, it went from 5.4% to 5.1%, so expense ratio dropped by 0.1% from last year to this year from 1.3 to 1.2. But obviously we also had losses and provisions go up from 0.5 to 0.7

which is what created a movement of 0.5 in our PBT ROTA so it moved from 3.7 to 3.2, the contributors to that were 0.3 from net income margin side, (+0.1) from expenses and (-0.2) from losses and provisions.

**Girish Raj:** Can you give some flavor on credit or the delinquency in this particular portfolio going ahead. We understand it has been consistent for last three quarters but how do you see it?

**Rohit Phadke:** If you look at our GNPA, as of now we have not written-off anything, whatever this is merely provisioning and the biggest change which is going to happen is that after the moment the notification from SARFAESI is going to come, we are going to have a quicker and faster resolution, so we're just waiting for that.

**Girish Raj:** One just the data point, what is the blended yield in vehicle finance business for us?

**Vellayan Subbiah:** Blended yield in vehicle finance is 15%.

**Moderator:** Thank you. The next question is from the line of Sameer Bhise from Macquarie. Please go ahead.

**Sameer Bhise:** Just wanted to ask on your long-term kind of guidance or directionally what would you be comfortable with regards to leverage, any leverage that you are looking at?

**Vellayan Subbiah:** Current leverage levels I would say we are comfortable with as you know we are basically running at about 19.86% capital adequacy. We are comfortable with that number coming down to about 18%. So that will slightly increase the amount of leverage but that's the level that we would feel comfortable at.

**Sameer Bhise:** Somewhere around 12% kind of a Tier-I is what one should consider?

**Vellayan Subbiah:** That is correct.

**Moderator:** Thank you. The next question is from the line of Abhishek Murarka from India Infoline. Please go ahead.

**Abhishek Murarka:** The question is specifically on tractors and LCV, there has been quite a bit of a pickup in terms of disbursements in both. Can you just share some more overview on what exactly driving the demand and what pockets you see demand in, etc.?

**Ravindra Kundu:** Tractor, our disbursement has been in line with the market, tractor has come down by 10%, our industry disbursement is also down by that much only. In light commercial vehicle the disbursement we are actually focusing a more on the pick-up side like Dost or Mahindra Pick-up so that particular product is growing well. HCV segment is also doing well. So these three products across the country are doing well. In terms of tractor, there are some pockets due to the consecutive cross failure, the sales have come down and we have seen that little stress in

the portfolio therefore we have not focused on the disbursement rather than we are focusing on collection in tractor.

**Abhishek Murarka:** The second question is just on the home loan side, I understand that there is a lot of potential there. But incrementally do you see much more competition especially given that a number of NBFCs and MFIs are converting to small finance banks, etc. These guys are also focusing in the same segment 10 to 15 lakh kind of ticket size and largely the kind of self-employed nonprofessional that you spoke about. So do you think some competition or pricing pressure or something could creep into this business as well?

**Ravindra Kundu:** Yes you are right there will be more competition but the market size is so huge because prime segment of home loans is very small where most of the companies are focusing and that is why you will see lot of companies coming into focusing on these segments simply because of the size of the market is too huge.

**Moderator:** Thank you. The next question is from the line of Ashwin Balasubramaniam from HSBC Asset Management. Please go ahead.

**Ashwin Balasubramaniam:** In terms of your portfolio composition, the vehicle finance business, the re-finance would largely be loan against unencumbered vehicle, is that correct?

**Vellayan Subbiah:** The re-finance business is yes you are right basically what happens is sometimes when our assets come off-loan or they have kind of become free through another financier, sometimes guys re-finance through us or it could just be an asset that never got financed in the first place. But you are right it is an unencumbered vehicle.

**Ashwin Balasubramaniam:** This would be to fleet operators or to first time users and first-time buyers?

**Vellayan Subbiah:** Usually they will have multiple vehicles but they don't have to be large fleets, so they can be small road transport guys with 5 to 9 vehicles.

**Ashwin Balasubramaniam:** And what would be the proportion of used vehicles in the car and MUV segment?

**Ravindra Kundu:** It is 5% of our CV, our overall portfolio the used and Shubh is 32%, out of that 5% is used car and MUV.

**Ashwin Balasubramaniam:** What would be the breakup of your provisions in terms of losses on repossessed assets, write-offs and other provisions and also when you are calculating a net NPA, is that additional 55 crores also deducted that or that's excluding that 55 crores?

**Vellayan Subbiah:** The 55 crores is going to standard assets so that's different. We will try and see, we have a split view on provisioning.

**Ashwin Balasubramaniam:** If you can also give the stock of repossessed assets.

- Vellayan Subbiah:** I don't know we shared stock numbers in the past but our stock is at much lower levels than it was last year.
- Moderator:** Thank you. The next question is from the line of Shweta Daptardar from KR Choksey. Please go ahead.
- Shweta Daptardar:** Now that the NPA levels are trending down so that will also start reflecting in the expense ratio ahead?
- Vellayan Subbiah:** Our operating expense ratios don't have any of the NPA data because that shows up, so I think the answer to question is no.
- Shweta Daptardar:** I was talking basically in terms of collection.
- Vellayan Subbiah:** I think that's what I figured. So broadly the thing is yes it's more driven by if collection intensity has to go down, collections cost will come off and we do believe that will happen to a certain extent.
- Shweta Daptardar:** In the vehicle finance portfolio, your disbursements are well spread across states, so how do you see state wise or region wise performance shaping up ahead and also the one that 3.65% is the GNPA number in the vehicle finance portfolio, so which are the regions or the states who are seeing maximum stress and otherwise?
- Ravindra Kundu:** Kerala and West Bengal have been the worst effected in the downturn and now both the regions have done fantastic job in terms of reduction of the gross NPA. Across the country the NPA is coming down uniformly. Only the market wherein the crops have been continuous because of the monsoon failure things have not done like central India and Maharashtra. There slightly actually things are getting delayed in terms of improvement.
- Moderator:** Thank you. The next question is from the line of Ameya Sathe from TATA Mutual Fund. Please go ahead.
- Amey Sathe:** We acquired that freight aggregator, if you can help me understand how it is useful for our lending business that will be really great.
- Vellayan Subbiah:** There are multiple things, so one of the things for example is that business is also doing we are looking at putting GPS in a lot of trucks. Now if you look at what's happening there, like Jeetu Punjabi earlier asked a question saying what is happening, do you think the truck demand kind of sustainable? Actually we knew if we had data like an average heavy commercial vehicle does about 7500 km per month. Now if you look at an environment in down cycle that number goes down and of cycle that number goes up. So our ability to even understand what's going on into the market is greatly enhanced so we knew what was going on. We know that an average truck is doing 10,000 km a month then we know that it's great time. If we don't have this truck doing 6000 km a month then we know that the market is not so good. Obviously that kind of

intelligence is phenomenal to have because nobody has that intelligence in the country today. I don't know, maybe some people do we don't. But we don't think many people do either, so we see it is an opportunity to basically gain intelligence at different level that can basically feed our core business. Just one example, I can give you a lot more thing is we will run out of time.

**Amey Sath:** Just one clarification, the 54 crores provisioning that we have created, it is for the standard assets for 40 bps or it also includes some part for 90 DPD migration?

**Vellayan Subbiah:** No, nothing is for 40 bps, 40 bps is already done. This is including 40, you are right. We will give you a split and how much is 40 and how much is 90. Just to answer that question 12.45 crores is for the 40, the 0.4% and 42.35 crores is for the 90 days.

**Moderator:** Thank you. The next question is from the line of Pradeep Agarwal from Phillip Capital. Please go ahead.

**Pradeep Agarwal:** Basically want to ask on the provision side, why your credit cost standard about 160-170 basis points for FY 16 given your guidance on improvement in the asset quality and with higher provision of about 55 crores you have done this quarter, what is your gestimate or any guidance on that side, how much that cost is likely to go down from here?

**Vellayan Subbiah:** Like it has been over a cycle the number, it is very difficult to credit at this stage. But like I said the two big contributors so could we get 0.2% to 0.3% top of that, my belief is yes.

**Pradeep Agarwal:** So 20 to 30 basis points reduction from here on?

**Vellayan Subbiah:** That's our belief.

**Pradeep Agarwal:** But if you look at your provision coverage which is I think it's optimal at 40% so you expect to maintain at that level or aim is to improve that further or bring it down, any target you have in mind?

**Vellayan Subbiah:** We don't have a target but broadly we do believe that in stronger markets we will kind of improve our provision coverage.

**Pradeep Agarwal:** The guidance which you have given you have that improvement in your mind and given that guidance or this is...

**Vellayan Subbiah:** Yes hopefully I have.

**Pradeep Agarwal:** Lastly on the mix side you have guided that your home loan portfolio is likely to be as big as your lap portfolio currently in five years, so what is the broad impact of that will be on your yields or basically on the NIMS that will have because your home loan portfolio will be at a significantly lower yields as against LAP?



- Vellayan Subbiah:** I believe Anand asked that question, we answered just now, our home loan portfolio is at 14.3 so it's higher than LAP.
- Moderator:** Thank you. The next question is from the line of Manisha Porwal from Taurus Mutual Fund. Please go ahead.
- Manisha Porwal:** What kind of PCR we've planned to maintain after we moved to 90 day DPD?
- Vellayan Subbiah:** There are two things, obviously kind of formulately you have come to a PCR because you have provisioning norms and so depending on how much you provision at 90, how much you provision at 180, how much you provision at 365 formulately you end up with a number. First we have to see what our number evolves to. If you ask us kind of statistically within that number will be in the high 30s but our belief is that we will kind of increase PCR above that. But we have not gotten deterministic about what we will increase PCR to the number will be above that.
- Manisha Porwal:** Have you given any timeline for the 3% ROTA that you plan to finally target at?
- Vellayan Subbiah:** There is no final but 3% in three years.
- Manisha Porwal:** You mentioned that it's only after the farmers received crop and all do you actually see some improvement in the cycle. Does it mean that the second half is going to give you the growth or the growth is going to be evenly spread or be better quarter on quarter, the growth would-be evenly spread? In the sense if I go to Q1 it will be better YoY, so Q2 will also be better YoY, so I just wanted to understand whether it will be more of a second half kind of growth that you feel that we are going to get this year because assuming that the monsoon should be good?
- Vellayan Subbiah:** I believe that every quarter will be better but obviously the second half is better to relatively compared to the first half.
- Moderator:** Thank you. The next question is from the line of Abhinesh Vijayaraj from Spark Capital. Please go ahead.
- Abhinesh Vijayaraj:** The GNP number on a 90 day basis in the vehicle finance and the home equity books what will they be?
- Vellayan Subbiah:** We haven't shared those numbers but broadly to just give you a sense we have kind of provided for most of it.
- Abhinesh Vijayaraj:** Your repeat customer base in the vehicle finance book, how much would that be indicatively?
- Vellayan Subbiah:** We to 32% of the disbursement every month repeat.
- Moderator:** The next question is from the line of Lakshmi Narayanan from Catamaran. Please go ahead.

- Lakshmi Narayanan:** I have two questions. One is if I look at your tractor segment from a disbursement point it has actually grown around 18%. And second on the HCV also you have grown above industry. If you can just help me understand are you taking market share away from someone in both tractors and HCV and if so who is it? And the third question is in terms of refinance if can you just tell me understand what sort of book is there and what kind of average interest rate the borrower gets?
- Ravindra Kundu:** In heavy commercial vehicle our market share has gone up from 4% to 5%. We are very small player as far as HCV is concerned. In HCV Tata Motors their share has come down.
- Vellayan Subbiah:** Like Ravi said, our market share is very small so it has gone from 4% to 5%, so it's actually a very small number, so who the market share goes away from is not really very relevant because the market share increase is so small.
- Lakshmi Narayanan:** How about tractors?
- Vellayan Subbiah:** In tractors in general kind of our market share has been flat, so we haven't seen too much of an increase. But earlier on there what we see is broadly again because our market shares are kind of like at 5-6% you don't see who specifically is moving because anybody else moves they are moving by 0.2%, so you won't see it.
- Lakshmi Narayanan:** And tractors also you said your market share is in the range of 5%-6%?
- Vellayan Subbiah:** 4%, we are 4% flat.
- Lakshmi Narayanan:** Refinance if you can help me understand what sort of book is that? You mentioned that in one of these questions if you can just help me understand a bit more?
- Vellayan Subbiah:** The refinance portfolio is what we call a used portfolio in our book. So we have two used portfolios, one is called used, one is called Shubh. So the refinance portfolio is basically kind of vehicles that come off first lease and refinance is about 15% of our book and what that portfolio comprises of is unencumbered assets that have been financed traditionally by some other financier first or in some cases in ourselves and because that asset is unencumbered then the owner might want to use that to get working capital or to fund something else. So that's basically what that asset book is.
- Moderator:** The next question is from the line of Jhanvi Goradia from Motilal Oswal Asset Management. Please go ahead.
- Jhanvi Goradia:** A question on the vehicle finance book if you see you have also guided and even this quarter the growth in the used and the Shubh segments is higher and will continue to do so, so do you think the book is getting riskier, so today as the NIMs are up because of higher contributions from these segments tomorrow the credit cost would also be a bit higher?

- Ravindra Kundu:** If you see our portfolio of heavy commercial vehicle portfolio has gone up so therefore heavy commercial vehicle is the least net credit loss product. On the other side we are balancing it with used and Shubh, so there is a good balance between new and used and in terms of risk also and therefore we don't see that our credit cost will be impacted. In fact we are expecting that our net credit loss will come down further. There is a huge scope; it was at 1% some point in time, so there is scope to improve.
- Jhanvi Goradia:** Would it be possible for you to give the NPAs in this particular segment, the Shubh segment?
- Vellayan Subbiah:** I don't think we get to NPA at a segmental level but just to give you a broad guidance Shubh will be a bit higher than the overall average.
- Jhanvi Goradia:** Second question on sourcing of your home loans, if you could just elaborate a bit is it mostly internally done or through tie-ups with builders or is it through builders?
- Ravindra Kundu:** It's mostly internally done or through tie-up with builders.
- Moderator:** The next question is from the line of Arvind Kumar from First Rand Bank. Please go ahead.
- Arvind Kumar:** I wanted to know the absolute number of the gross NPAs, it seems that it has gone down since December 31<sup>st</sup>, so was there any write back or account being standard?
- Vellayan Subbiah:** The absolute number at March 2016 is 746 crores. GNPA you asked, right?
- Arvind Kumar:** Yes.
- Vellayan Subbiah:** When do you want to compare it to?
- Arvind Kumar:** December 31<sup>st</sup>.
- Vellayan Subbiah:** December it was at 912 crores.
- Arvind Kumar:** So you had some account becoming standard?
- Vellayan Subbiah:** So that is what happened. I think somebody asked us about the income reversal factor also so, yes.
- Arvind Kumar:** It was around 150 crores?
- Vellayan Subbiah:** That is correct.
- Moderator:** The next question is from the line of Mihir Ajmera from Enam Holdings. Please go ahead.

- Mihir Ajmera:** You mentioned regarding improvement in the utilization levels for CV, so I just wanted to check what are the levels you are seeing and what are the kind of peak levels which you have seen?
- Ravindra Kundu:** In 2013-2014 the number of trips of the transporters went down to three trips in a month which has gone up to 5-6 trips so that how you can see that the utilization of the vehicle has started reaching to 8,000-10,000 km per month thereby the cash inflow has gone up.
- Mihir Ajmera:** Is there a number, like on the number of days that you measure like 20 days or 22 days or something like that?
- Vellayan Subbiah:** For long haul it's usually the number of km per month.
- Mihir Ajmera:** Secondly on the resale values are you seeing some inch up in the prices and which is actually helping your asset quality, what's the trend?
- Ravindra Kundu:** Resale value as far as the repossessed asset what we are selling it, it has improved, it has improved by 5-6% in the last 6-7 months.
- Moderator:** The next question is from the line of Rahul Bhangdadia from Lucky Investment Managers. Please go ahead.
- Rahul Bhangdadia:** I just wanted to confirm the 54 crores accelerated provision that you mentioned has completely been done in Q4 only, right?
- Vellayan Subbiah:** That is correct.
- Rahul Bhangdadia:** Second is on the utilization bit that you mentioned could you help us with the same number, you just said long hauls are now running at about 8,000-10,000 kms a month, the same number say 6 months back or 1 year back?
- Ravindra Kundu:** That's what we said. Two years back it was actually as low as 3 trips in a month so it was actually at 5,000-6,000 kms per month.
- Rahul Bhangdadia:** Two years back?
- Ravindra Kundu:** Yes. So it started improving from last 1.5 years slowly, so it has reached to 5-6 now.
- Rahul Bhangdadia:** So from about 5,000-6,000 kms a month we are up to 8,000-10,000 kms a month in the last say 1.5-2 years?
- Ravindra Kundu:** Absolutely right.

**Moderator:** Ladies and gentlemen, that was the last question. I would now like to hand the floor over to Mr. Nischint Chawathe for his closing remarks.

**Nischint Chawathe:** Thank you very much for joining us today, special thanks to the entire team at Cholamandalam for giving us an opportunity to host this call. Thank you very much.

**Vellayan Subbiah:** Thank you.

**Moderator:** Thank you members of the management team. On behalf of Kotak Securities that concludes this conference. Thank you for joining us and you may now disconnect your lines.