"Cholamandalam Investment and Finance Company Ltd. Q4 FY17 Earnings Conference Call"

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MANAGEMENT:	**MR. VELLAYAN SUBBIAH -- MANAGING DIRECTOR, CHOLAMANDALAM INVESTMENT AND FINANCE COMPANY LIMITED** **MR. ARUL SELVAN -- EXECUTIVE PRESIDENT AND CHIEF FINANCIAL OFFICER, CHOLAMANDALAM INVESTMENT AND FINANCE COMPANY LIMITED** **MR. ROHIT PHADKE -- PRESIDENT AND BUSINESS HEAD (CORPORATE FINANCE, HOME EQUITY AND HOME LOANS), CHOLAMANDALAM INVESTMENT AND FINANCE COMPANY LIMITED**
MODERATOR:	**MR. NISCHINT CHAWATHE -- KOTAK SECURITIES LIMITED.**

Moderator: Ladies and Gentlemen, good day and welcome to the Cholamandalam Q4 FY17 Earnings Conference Call hosted by Kotak Securities Ltd. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal for an operator by pressing '*' followed by '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nischint Chawathe from Kotak Securities. Thank you and over to you.

Nischint Chawathe: Hello everyone, welcome to the 4Q FY17 Earnings Conference Call of Cholamandalam Investment and Finance Company Ltd. To discuss the Financial Performance of Chola and to address your queries, we have with us today Mr. Vellayan Subbiah – Managing Director, Mr. Arul Selvan – Executive Vice President & CFO, and Mr. Rohit Phadke – President and Business Head (Corporate Finance, Home Equity & Home Loans). I would now like to hand over the call to Vellayan for his opening comments.

Vellayan Subbiah: Nischint thanks, so a quick overview of the quarter. Overall, it has been a good quarter and good year from our end, so happy to finish the year fairly strongly.

The big highlight is that we have actually moved to 90-day provisioning a year ahead of RBI requirements and we felt like the performance was quite strong to warrant that and so we have moved to 90-day provisioning and we will continue to kind of now report on a 90-days basis. The overall PAT for the quarter was 220 crores, that is a 14% higher PAT than the same quarter last year and for the year, we finished at 719 crores which is 26% higher than the PAT for FY16. And then PBT at 338 and similarly PBT for the whole year at 1106 crores which is a 27% growth over the same quarter last year. We have revised our provisioning norms to three months and we have also increased our standard asset provisioning to 0.4, both of these are basically a year ahead of RBI requirements for the same. GNPA and NNPA stood at 4.7% and 3.2%, respectively, and that is compared to 4.8 and 3.1 for the last quarter. The numbers we are now reporting obviously are kind of on a three-month basis.

We have had a 13% year-on-year growth in NIM and NIM for the quarter was at a strong 9.3%, we finished the full year with 8.6%. Disbursements grew by 13% on a YOY basis and the company, we have issued a final dividend of 20%.

Vehicle Finance basically disbursed 4400 crores in the quarter as compared to 3700 crores in the comparable quarter which was a 17% growth. HE basically like we have guided in the last couple of quarters, we have continued to remain very tight and so we actually declined there by 45% from 994 in Q4 FY16 to 544 in Q4 FY17. On year-on-year basis, the decline was 12%. Aggregate disbursements finished at 18500 as against 16380 and our NIM, like we said, is basically at 8.6% for the year.

Operating expenses unfortunately kind of remained a bit higher than we would like this year, we finished at 3.6. We have had two issues – one is a one-time VAT liability issue that basically kind of is quite significant chunk and then the second is that due to a lot of our tech initiatives getting delayed, we could not get some of the benefits from that which I think will now start kicking in. The good news is that all the tech has now been rolled out including the field force enablement software and it is working well. Now we should begin to get some of the benefits of that in this year and in this quarter.

Our GNPA 4.66 at three months overdue and NNPA 3.19 and our PBT ROTA improved to 3.9% as against 3.6% in FY16. Capital adequacy is at 18.64 and Tier-I capital is at 13.6. Across the board, we continue to remain fairly strong, subsidiaries made a profit of 7 crores versus 8 crores and so our consolidated results are 221 crores of PAT for the quarter and 719 crores of PAT for the year.

Let me stop with those comments and as usual all of us will be happy to answer any questions from you. We are fairly positive going into this year though like we overall guided, this year we should be able to deliver those overall numbers of about 20% asset growth and profit growth in the range of about 25%.

Moderator: Thank you, Sir. Ladies and Gentlemen, we will now begin with the question and answer session. The first question is from the line of Umang Shah from Emkay Global. Please go ahead.

Umang Shah: I have three questions, one was pertaining to branches. In the presentation on slide 13, we have branch classification based on category A, B, C, D and E, if you could just throw some color as to what is the basis of this classification and a related question is that clearly we have added closer to 170 branches this year, how do we look at branch expansion strategy next year and our cost-to-income ratios related to that?

Vellayan Subbiah: Let me get to the second question first, we are going to add branches especially kind of, we want to kind of penetrate the much smaller town and so we do have an aggressive plan to add branches. Like we have said, our belief is that the branch opening is because they are fairly low cost should be offset by what we will get in terms of productivity improvement and technology improvement. Just to give you a sense, like almost 70 to 80% of the branches become profitable in the first year of operation itself, so that is as far as the branch expansion.

Umang Shah: My first question was basically what is the basis of categorization of branches into A, B, C, D, and E?

Vellayan Subbiah: Basically, that is purely driven by the disbursement per month and the AUM that the branch has. Based on the disbursements and AUM, the largest branches are A, then it is B, then it is C, and then it is D.

Umang Shah: Okay, so would it be fair to assume that at the end of FY17, there were large number of branches falling into D and E category, so we would see some shift happening towards B and C as and when they grow, so large chunk of branches are new today, that is the reason why they are falling into D and E?

Vellayan Subbiah: Yes, and as we grow, they will start moving into A, B and C.

Umang Shah: Second was on the home equity front, clearly our credit costs have kind of, we have seen some kind of a mean reversion, so from almost 20 odd basis points a couple of years ago, we are now at almost 1% NCL in this business, is it fair to assume that the PBT ROTA and the NCLs are kind of more sustainable now and we should be seeing either stability in these ratios or some improvement?

Vellayan Subbiah: Definitely, in my mind we have hit bottom on HE, so one of the things obviously that kind of tense skews this number a bit is that we chose not to grow very aggressively and what we have seen is that has been the ideal strategy over the cycle though this Q is a particular year's number. Our belief is that losses and provisions will start coming down in that business and the NIMs and the PBT ROTAs are lower than what we expect to be the norm. If you ask me kind of the PBT ROTA will start moving back towards the 3% target number which was what we have for that business, so obviously kind of right now we are seeing a situation where because of the supply side rush, NIMs have gotten compressed, but definitely we see a situation where we will go back to that 3%.

Umang Shah: I just need two data points, one is for the full year FY17 what are the one offs within our OPEX line item so the VAT liability, how much was that for the full year?

Vellayan Subbiah: The VAT liability was around 28 crores.

Umang Shah: The second one was could you just break up the gross NPAs between Vehicle Finance and home equity?

Arul Selvan: On a three-month basis Vehicle Finance is 4.18 and 5.7 for the home equity.

Moderator: Thank you. The next question is from the line of Karthik Chellappa from Buena Vista Fund Management. Please go ahead.

Karthik Chellappa: First question is on the Vehicle Finance portfolio, can you share what has been the underlying credit losses?

Vellayan Subbiah: Underlying as in NCR, is that what you are asking?

Karthik Chellappa: The provision is what you make in the books, but I am talking about the actual write off?

Arul Selvan: Crystallize losses will be around 1%.

Karthik Chellappa: How will this compare, let us say with last year?

Arul Selvan: Crystallize losses has been remaining almost similar. There has been a small spike during actually last year when we had more of repo losses, because we had done more repo.

Karthik Chellappa: Essentially, if you are underlying credit losses is still somewhere close to 1% and if your reported 90-day NPL is about 4.18, so is it right then to say that a coverage ratio somewhere between 25 to 30% would be adequate for your portfolio?

Arul Selvan: Yes.

Karthik Chellappa: My second question is as far as our branch count is concerned, we are now at about 700 odd, what would this mean in terms of let us say the number of villages that we reach right now in terms of penetration?

Vellayan Subbiah: Villages, I do not know how the definition of the village is, we are saying Tier-6 towns, but basically villages are accessed purely through kind of our Tier-5 and Tier-6 towns, but I do not think they are defined as villages kind of per the standard at all.

Karthik Chellappa: Anything, cities, towns or so, what would that number be?

Vellayan Subbiah: We have the breakup by 86% are Tier-3, 4, 5, 6. If you want below that 86, how is that broken down, we define them as rural, but they are not villages for sure.

Karthik Chellappa: What I am trying to get is let us say there are about 6 lakh plus villages in India, given your current branch headcount, I am just trying to get a sense of how many of those you can potentially reach?

Vellayan Subbiah: One way to look at it is kind of if you get to a density of about 1500, then if each one has about a 70 to 80 kilometers radius, you can cover kind most of the active population.

Karthik Chellappa: Okay, 70 to 80 kilometers of 1500 branches kind of a footprint. Great, my last question is if we just breakup our Vehicle Finance portfolio now some of the sub segments have seen very, very strong double digit growth whether it is the UCV or car or so, so anecdotely from input from the ground, can you share from whom you are actually taking market share?

Vellayan Subbiah: Actually, if you look at the data, our market share has not grown significantly. We have grown by some, but it is not huge, it is kind of you are locking about less than 1% growth in market share, so that is the first thing, which is I do not think you need to look at significant growth in market share that is predominantly because we are working across a whole bunch of markets. If you look at the year, the individual categories, we might have kind of grown market share, but overall, is not a huge amount of growth in market share, so just to give you a sense, for example, in light commercial vehicles, FY17 we are at about 10.5% market share. The same number in FY16 was 10.6%, so if you take that, that is not huge growth in market share, which is the bigger point I am making. In heavy commercial vehicles, we have finished the year at 4.5, last year we were at 4.3 and so when we look at what is happening overall in the market, we have finished at 9.1 versus 8.7 for last year.

Karthik Chellappa: What about car, Sir, did we gain significant share in cars?

Vellayan Subbiah: Our cars is insignificant, we are like some 2% or something like that, significant headroom for growth there.

Karthik Chellappa: Lastly, in terms of asset quality any regions that you would like to single out where we still need to monitor?

Vellayan Subbiah: Basically, kind of now we are again going into monsoon season, so the monsoon kind of will define what happens in agri economies like Madhya Pradesh, Maharashtra, some parts of UP and so on, but basically I would say that is the broader swing. We are getting more and more comfortable across geographies, obviously places like UP tend to have higher NPAs for us, but they also tend to have higher yields, so we tend to basically do fairly well across kind of segments, and if you take other geographies, MP was affected last year, so slightly higher NPA levels, but overall we do not kind of sweat what happens in individual regions because this is one of those things where the portfolio view help us significantly.

Moderator: Thank you. The next question is from the line of Pawan Ahluwalia from Laburnum Capital. Please go ahead.

Pawan Ahluwalia: Thank you very much. I wanted to get a sense in each of our verticals, we have seen banks obviously get much more active in these various verticals, how much of competitor base is shifting from NBFC to banks, or is it mostly us just competing with NBFCs, so when you talk about the increasing competitive intensity, the supply side pressures you refer to is that more just NBFC getting more aggressive or do you see banks wanting to be very active in these verticals as well, and the second question is, as we push deeper into rural areas, we have seen a couple of NBFCs pursue this model over the last few years and what we have seen happen is that the yields are definitely higher, but the credit quality is also worse, there is a lot more volatility in terms of people having more volatile cash flows, taking longer to pay, etc., so have you guys done any study of across the credit cycle, what kind of ROEs can we expect adjusting for the fact that credit losses delays etc., likely to be higher and when you factor all of this in, is this likely to be ROE accretive, dilutive or pretty much the same?

Vellayan Subbiah: To start from kind of the end, obviously we are not trying to do anything that will be our ROE dilutive. We have clearly guided that. Our intent is to get to 20% plus ROE and we definitely see kind of a clear path there for us, so definitely when we look at increased branch penetration or anything else that we do, that is the definite intent. Let me just come back to your first question, which is the supply side intensity, that answer is different for the home equity business and the Vehicle Finance business. In the home equity side, yes, a lot of it is coming from banks, but in the Vehicle Finance business, the mix between banks and NBFCs has more or less stayed the same for the past almost seven or eight years. In the vehicle business, you see few banks present predominantly IndusInd and HDFC and to some extent ICICI and Kotak, but most of those players have remained the same for the last seven to eight years at least. Definitely on the home equity side and the LAP business, we have had a lot of banks jump into the mix and that is what has created supply side pressures especially on the yield and we do see that perhaps sustaining this year, but already we are going to see a situation this year where we probably see more people decrease the focus on this business versus increase and I think that is good for us because return to normal is always in our benefit. That is the answer to your question on the supply and demand.

Your second question was on rural branches and what they are going to do to the cost. Like we have articulated that is why we keep the cost of opening this branches very small and the operating cost of these branches very small, so just to give you a sense of both the operating cost and the cost of opening the branches will be under 10 lakhs a year, so what that ends up doing for us is adding about a 17 crore CAPEX and 17 crore OPEX, actually it is less than that across the 170 branches it is more like 13-14 in each of those areas, so that in itself is not what is going to kind of add to it, but I think your question was much more on credit quality and what we have done is actually kind of develop some fairly detail and kind of sophisticated algorithms that help us determine who we should originate to and that is purely based on what our risk adjustment return on capital is after accounting for both expected and unexpected losses. We feel fairly confident with our models because in testing them now and kind of start rolling them out for the last two-and-a-half years, so we do believe that is going to help us lend in a manner that is much more ROE accretive and ROA positive both in the short term and the long term.

Pawan Ahluwalia: Just one sort of follow up, two things that you said surprised me, one is that banks are decreasing their focus on the home equity segment, that does not jive with what we are hearing at least in terms of the commentary from bank management, so I am curious is there something going on in your segment where you are seeing banks pull back?

Vellayan Subbiah: What I said is that right now, there is very high supply side pressure in the home equity segment and that is coming from banks. My point is that I do not think they are going to increase that further this year because they are also seeing their portfolios basically not perform as well. Traditionally, we have seen two cycles of this where the banks jump in, the portfolios do not perform well and then they tend to return to other markets whether it is kind of mid-market corporate or kind of more of a retail focus, so the focus tends to come in and go out of this business over points in time.

Moderator: Thank you. The next question is from the line of Ishwaran Kandarswami from ICICI Bank. Please go ahead.

Ishwaran Kandarswami: Sir, this is regarding your new product which you have introduced which is called trip loans, could you please give some more details on that?

Vellayan Subbiah: Trip loans are basically kind of loans that we give to our truck customers which finances working capital for the loan. We have talked about it in the two previous calls as well, so we have addressed this question there. Are there any particular details that you want in addition to that?

Ishwaran Kandarswami: I will check that.

Moderator: Thank you. We will take our next question from the line of Sunil Tirumalai from Credit Suisse. Please go ahead.

Sunil Tirumalai: I have two questions, Sir, if you could give an overview of the kind of management changes that we should expect over the coming months and how we should think about given that you are expected to go to group responsibilities?

Vellayan Subbiah: The bottom line is if we take this year, obviously I am here till August, you do not need chase me away too quick, and if I were to look at kind of this year, we feel fairly comfortable with the numbers, because not that much can basically kind of change within that short period of six months, so the team and all the initiatives we are kind of putting in place obviously kind of stick and will continue through. The questions have to be beyond that and I think that some questions that you might have to address to the new management.

Sunil Tirumalai: Yes, but my question was in terms of have the successors been indentified and what level orientation is happening, etc.?

Vellayan Subbiah: We have already gone public and said that N. Srinivasan is going to become the MD.

Sunil Tirumalai: The second question was on GST, one of your competitors, Shriram Transport, he has taken a cautious stance and taken actually higher provisions seeing that there could be some stress coming from GST, wanted to understand how are you thinking about it in terms of not just your truck operator, customer, borrowers, but also their customers, who might be in the informal market in one of the industries and how they may get affected, what are your thoughts around that?

Vellayan Subbiah: We do not see any negative impact from it. As a matter of fact, we see GST as a fairly positive thing and we have spoken to a whole bunch of customers, they are also fairly positive on it, so we do not see much kind of negative impact on us at all.

Moderator: Thank you. The next question is from the line of Anita Rangan from HSBC Asset Management. Please go ahead.

Anita Rangan: Sir, just wanted to know on the home equity side, you first stated that NPAs are around 5%, so what is the kind of stress you are seeing in that particular segment, can you throw some color on that?

Vellayan Subbiah: I think there are two things, Madam, one is like we have guided, we have also guided that we think bottom is around 5.5% at 120 and right now we are at 5.8% at 90 and 4.9% at 120. Like, we have always guided, we think the bottom is around 5.5% at 120. Now, what are the positive factors in this business, what are the negative factors in this business? The positive factors clearly for us is SARFAESI, SARFAESI is helping us start to perform and we are beginning to perform well from that perspective, and it is beginning to deliver results so we are very encouraged by that and we do think that is going to help basically get the people who are sitting on the fence to start paying, because what you are dealing with is a fairly educative clientele and they are fairly educated on the legal system and how well it works or does not work in India, so basically what SARFAESI helps us do is push people who have tended to kind of benefit from the fact that other parts of the legal system may not work and I will say that SARFAESI is working very well and we are extremely encouraged by early results, so that is going to help us.

What can hurt us, cash flows still are not 100% normalized for this sector and that will continue to kind of hurt us because that is what has caused non-performance till date. Like we have said, we do think that because we have taken a cautious stance through especially the second half of last year, we do not think that will basically create a situation where we get into too much negative accumulation of the portfolio, when the portfolio swings back, we do think that we will end up having a better portfolio because at least for the last year, we have been fairly tight.

Anita Rangan: Sir, do you see some kind of slowdown in disbursements going forward as well?

Vellayan Subbiah: We have said that we will continue to take a cautious stance, now obviously you have got a bit of base effect because last year itself was down, so like this quarter like we said was 45% down. When you take it as a percentage basis, you might not see a slowdown but are we going to go kind of significantly gangbusters in this business in terms of disbursements, absolutely not.

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

Sunil Kothari: One thing Sir, I wanted to understand is do you see any major strategy change during like two or three years compared to last four-five years of performance, do you feel any other major area which will be focusing something on longer-term horizon?

Vellayan Subbiah: I think the broad articulation we made is that especially, we have talked about the shift to the ecosystem view of the world. I believe very strongly that is where the financial services businesses in this country are going to go with more technology, if you see what is happening broadly right with Aadhar and IndiaStack now, IndiaStack becoming kind of more and more prevalent in terms of what it does for us. The ecosystem view is going to become extremely prevalent in every business that we are in. You basically kind of take the equivalent also on the SME side and GST is going to begin to do the same thing, which is going to start offering tremendous amount of data for us to start utilizing from an ecosystem perspective. Fundamentally, in my mind that ecosystem shift evidenced by like trip loan kind of initial product is by far the biggest opportunity that financial services companies have today and we have clearly articulated our strategy and that strategy hopefully will play out over the next three to four years.

Sunil Kothari: Second question is you can see thoughts of board, why this management change, under your leadership everything is going as per perfect this thing, if you can share some thoughts of management or board?

Vellayan Subbiah: I am the wrong guy to ask for that.

Moderator: Thank you. Next question is from the line of Digant Haria from Antique Stock Broking. Please go ahead.

Digant Haria: Two questions, one is on the LAP bit, we said that we are more or less hit the bottom, so in terms of this 5.5-6% portfolio which is NPA, is there any specific trend in terms of ticket size or the customer profile which all resulted in this NPA and are we changing our disbursement strategy in terms of the kind of customers we choose to lend or the LTVs or the kind of properties we want to lend against in this segment?

Vellayan Subbiah: Definitely as far as what we are seeing in terms of portfolio, the larger ticket loans are underperforming versus the small ticket loans, so that is one definite area. Obviously, we have talked about geographic which is the NCR region and Punjab, Haryana, Chandigarh those regions are underperforming, so those are the two macro trends. Obviously those are the biggest shifts that we made from a disbursements and a lending perspective. We are taking kind of more cautious use in both of these areas. Under that, there are more specific issues as well, but I think definitely at the broad level, those are the two big trends and the big changes we are making.

Digant Haria: When you say larger ticket loans are underperforming, so the larger ticket customers would be pretty well-off customers?

Vellayan Subbiah: That is the conundrum of India. It is not a question of whether they have the capability to pay, sometimes when they get into a crunch, it kinds of comes back to who do they absolutely believe that they have to pay to, and that is where I said that SARFAESI is beginning to help because there are situations, definitely there are lot of situations where the guys have the funds. It does not affect personal lifestyle and I think that is why kind of, you take kind of what is happening at a global level also, I mean that is where I think kind of Modi's government seems to want to make a case of Mallya and all these other guys, but I think you see that playing out in kind of multiple levels in the country, where it does not affect personal lifestyles, so I am not denying at all that some of our customers are going through kind of real cash crunches, so I am saying you are seeing two category of guys, some that have a real ability-to-pay problem, with some that have more of an intent-to-pay problem.

Digant Haria: Second question is that if we assume that home equity portion will still take some time to go full throttle again, may be a year more and the competitive intensity goes down and at the same time we have Vehicle Finance portfolio which may or may not grow at double digits, the country level not your company level, so if you have to 20% growth for next year, does it come largely from the Vehicle Finance and the market share gains through these rural branches or through the Tier-3, Tier-4, Tier-5 branches?

Vellayan Subbiah: Actually, there are two things. If you see our home loans and SME businesses are offsetting the lack and growth of HE and LAP, that is what you got to look at, so as long as kind of vehicle delivered its number of 20 which it will, that in itself will allow us to kind of get there.

Digant Haria: Alright, so do you think that the home loan would probably offset the HE slowdown?

Vellayan Subbiah: Yes, because we have started disbursing kind of 50 crores plus a month in that business, so if you take between home loan and SME, we are disbursing a 100-120 crores a month, and the LAP business was, it kind of offsets the lack of growth in that business, so even if LAP slack line this year, you get this kind of growth coming from these two businesses which will give you the 20% growth in book there and you got to remember that home loans and the LAP business accumulate book much quicker because the book does not run off at the other end.

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

Adesh Mehta: Sir, my questions have been answered, best of luck.

Moderator: Thank you. Next question is from the line of Piran Engineer from Motilal Oswal Securities. Please go ahead.

Piran Engineer: Just a couple of questions, one clarification, in our Vehicle Finance portfolio our PBT ROTA would be about 3.2 and in LAP it is about 2.2, how do we end up with the 3.9% PBT ROTA?

Vellayan Subbiah: Good questions, we talked about this before. Basically, it is driven by transfer prices that we give to the individual businesses and then the rest we keep in treasury, so transfer prices are set by market indexes and the rest of the games we keep in treasury, so the treasury gains you do not see in the individual business P&L.

Piran Engineer: Okay, got it. Couple of questions on LAP, so firstly when Sir spoke about 1% crystallized losses in LAP and assuming LAP is a four year to five year product, do I assume that the credit cost per year is 20-25 bps?

Vellayan Subbiah: The 1% crystallized question was not for LAP, that was for Vehicle Finance.

Piran Engineer: Okay, what would be the crystallized losses in LAP then?

Vellayan Subbiah: We do not have enough data to develop morals to do that because basically the thing is, which is right now with SARFAESI our belief is that even if it takes us seven years, we are going to get the asset. If you get the asset, you do not have a crystallized loss.

Piran Engineer: We are comfortable with the kind of collateral we have and real estate prices dropping in North India, we are still comfortable that we are adequately covered?

Vellayan Subbiah: Yes, because our LTV on average is 50%.

Piran Engineer: Sir, when we speak about the 3% PBT ROTA target for LAP that would translate to about 2% post tax and with seven-eight times leverage, it would mean 15-16% kind of ROE, so am I missing something here in terms of how we get to 20% ROE or is it we can lever up 10x?

Vellayan Subbiah: No, we are not levering up 10x, we don't go because of the rating agencies. Basically, the point is this, you just asked the question and I think you answered that question for yourself, which is basically a lot of it goes into treasury gains, so you are talking about corporate ROE, you are not talking about individual business level ROE.

Piran Engineer: Got it, and in our new branches in LAP what would the yields be versus the other branches, I remember last time we spoke about the rural branches yields are higher, they would be higher by how much roughly, may be 200-300 bps?

Arul Selvan: It is not 200-300, it will be at least about 75 bps to 100 bps goes with the product mix.

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

Sameer Bhise: Just wanted to know what is the long-term coverage level that we would like to keep, is it around the current number?

Vellayan Subbiah: The constant point we made is that the coverage is an outcome number not an input number, and coverage is like what we have done now is kind of use both Basel-III and kind of multiple models to determine how much coverage is required. Now, the thing we have articulated very clearly what our provisioning strategy is. How much we provide at 90, how much we provide at 180, how much we provide at 24 months, when we write off and all of that, so I think you should look at it much more from that design perspective because I really believe that kind of in the analyst community kind of looking at this one provision coverage number is wrong just because the way guys report it is very different. We cannot understand when some of our competitors show 80% plus provision coverage. There are ways to kind of manage that number by write offs and things like that, but those are all basically kind of trying to generate financially correct answers but not the right economically correct answer, which is why we really encourage you to kind of look at our overall provisioning standards which we do make public. It is there on page 43 of our corporate presentation and you have got to assess whether you feel like that is conservative enough or not, that would be my kind of quick take on it, I am saying that we will not kind of squirrel away and look at countercyclical provision, that is not what I am saying, but the general idea is you got to come to a belief as to whether you think that is conservative enough number or not.

Moderator: Thank you. Next question is from the line of Shweta Daptardar from Dolat Capital. Please go ahead.

Shweta Daptardar: I just wanted a broader sense on the AUM mix of Vehicle Finance portfolio, so currently our mix is tilting towards HCVs and LCVs, but do you see any prominent impact of GST coming on HCVs, also your view on MHCV portfolio, plus I can see that used Vehicle Finance portfolio has been paid down, so what is your broader sense going forward on the entire Vehicle Finance mix?

Vellayan Subbiah: I do definitely see that, used will continue to grow, used has grown at a decent rate for us and it will continue to grow, your first question on kind of do you see, I do see used becoming a larger percentage of the portfolio overtime not smaller, so if you take our two used businesses now, they are at about 26% in the portfolio but when you look at origination, they are closer to 32%. You will see that will basically push more of a mix towards used over time that is the first point. Your second point was, will HCVs and LCVs be significantly affected by GST, we do think there will be some impact but we do not think that it will be so significant that it will start affecting the business. For the most part, the laws for the transporters themselves are not changed and the question is really going to be our underlying businesses going to kind of transport less because of GST and I believe the answer to that is no.

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

Umang Shah: Just a follow up, what would be our employee headcount at the year end and how many of them would be on rolls?

Vellayan Subbiah: 16,000 is the headcount and 6800 on-roll and 9200 off-roll.

Umang Shah: Next year, we should not be seeing the kind of employee cost jump that we have seen this year?

Vellayan Subbiah: Just to provide a clarity on that, that is because we took a lot of people who are off-roll and moved them on-roll, so it was not an increase in employees, but moving off-roll people on-roll.

Umang Shah: I was referring to the cost part, would the mix still continue tilt towards, but anyway that would get captured in the overall OPEX.

Moderator: Thank you. The next question is from the line of Dhaval Gada from Sundaram Mutual Fund. Please go ahead.

Dhaval Gada: Sir, just most of the questions have been answered, just two data points, what is the 90 DPD like-to-like comparison for VF and home equity business for last quarter?

Arul Selvan: Last quarter, December end, Vehicle Finance was 4.59, current quarter it is 4.18, and home equity was 5.23, and this has gone to 5.7.

Dhaval Gada: Any update on the capital raise plan or would you like to park it for the next?

Vellayan Subbiah: Yes, I do not think there are any immediate plans to raise capital, our Tier-1 is comfortable at 13.6.

Moderator: Thank you. The next question is from the line of Vibha Batra from FairConnect. Please go ahead.

Vibha Batra: My question is again on LAP, just wanted to understand that I know there are differences between various states, but if you were to sell a property, how long does it take to kind of sell that will decide the holding period and also the losses, and also what kind of haircuts have you take so far on property from the values that were like stressed value or whatever you set as a benchmark for auctions?

Rohit Phadke: As of now, we have not taken any haircut or any property that we have sold so far, so technically we have not booked any loss.

Vibha Batra: That is because your LTVs are 50%, but if you set a benchmark rate to stressed value, which is 20-25% lower than market value, when you actually auction, these are being auctioned below those prices or at those prices?

Rohit Phadke: Whatever we are auctioning the property, as of now we are able to get more than what we require to get from the property as of now, so it is early days, so I will not be able to comment on what will happen in the future, but as of now whatever property we are repossessing, we are able to get the money that we have to recover from the customer.

Vibha Batra: That is **C plus I 47.54**?

Rohit Phadke: Yes.

Vibha Batra: How long does it take?

Rohit Phadke: About 60 days after we repossess.

Vibha Batra: From the time when they become delinquent to final sale, would be what 12-15 months or longer?

Rohit Phadke: It will be lesser than that, SARFAESI also varies from region to region, in NCR it is very fast and in NCR it takes about 180 days.

Vibha Batra: If you have gross NPLs and as Mr. Vellayan mentioned that troubled areas are NCR, northern region, and it is effective, so your eventual losses out of this 5.7% should be quite small?

Rohit Phadke: As of now yes, and what we are also seeing that is when we actually go to repossess a property, customers are coming forward themselves either we buy or they themselves are coming arranging the money and closing the loan.

Vibha Batra: But the fact is that stock itself is fairly high, the customers who are coming and settling, customers who are flowing into the bucket, there seems to be some kind of imbalance, right?

Rohit Phadke: Yes.

Vibha Batra: When do you expect this to reverse?

Rohit Phadke: Well, as you know as Vellayan mentioned we are cautiously optimistic, but I think this year somewhere around another four-five months we think there will be a fair reversal of the flows which are coming in and the flows which are being.

Vibha Batra: One last question, what would be your prepayment rate on the LAP front?

Rohit Phadke: I do not have the exact data of now…

Vibha Batra: A broad number will also do

Rohit Phadke: On a portfolio level, it could be about 0.9 or 0.8%, monthly.

Moderator: Thank you. The next question is from the line of Saurav Dhole from Tri Vantage Capital. Please go ahead.

Saurav Dhole: I have just one query on the branch expansion that you conducted over the last financial year, if I see there has been about 150-160 odd branch count increase and the proportion of branches in the eastern region has also gone up, so I would assume that there was higher than normal absolute growth in the number of branches in the eastern region, so I wanted to understand from you, are you kind of seeing some kind of traction in business sentiment there which has prompted you to increase the branch count in those regions relatively more aggressively?

Vellayan Subbiah: Yes, definitely kind of we see the most opportunity in the east. We see that our market share is the lowest in that area, if you take within Chola's share, the percentage of kind of penetration in the east is the lowest and we definitely see most opportunity for growth in that region, so if you look at it kind of just to give you a sense, even at the state level like Chhattisgarh is the most profitable state in the country for us, even if you see our performance like Bihar and Jharkhand is a very profitable state for us and I also spend some time out in kind of what they call the seven sisters or whatever, kind of Assam, Meghalaya and all of those states, and there is real demand and really nobody to service the customer in these states, so anybody that is willing to give the customer even average levels of service, the customer is so happy, which is very different from kind of rest of the country, so we definitely see much more opportunity to kind of grow in that market and we plan to continue to kind of grow in that market.

Saurav Dhole: Just a follow up on that, the kind of products that you are selling across geographies, so are they priced relatively differently as per the competitive pressures in each region or is it a very uniform pricing that you follow?

Vellayan Subbiah: It is definitely not uniform, every region in our country is different, it is all supply and demand led.

Saurav Dhole: Like you said in the eastern regions competitive pressures are relatively low, so I would assume your yields and consequently your names will be higher for products in this region?

Vellayan Subbiah: We do look for kind of maximizing our risk adjust on return on capital, that is obviously the objective function for the business and at a broad level, you are accurate but obviously kind of there has a lot more detail under that.

Moderator: Thank you. We have the next question from the line of Pritesh Bumb from Prabhudas Liladhar. Please go ahead.

Pritesh Bumb: I missed the breakup of the home equity breakup into commercial versus LAP, self-occupied residential.

Vellayan Subbiah: 85 is SORP.

Pritesh Bumb: Self-occupied residential is 85, it was 88 last quarter?

Vellayan Subbiah: Sorry, 88 is SORP.

Pritesh Bumb: The commercial and others will be?

Arul Selvan: Rest is 12% is inclusive of everything, it is there in presentation, page 11.

Pritesh Bumb: I just missed the gross NPO also, overall gross NPO on 120 days, how much was it comparatively?

Vellayan Subbiah: No, we are comparing on 90 days now, 4.7 for the quarter versus 4.8 for the last quarter.

Moderator: Thank you. Ladies and Gentlemen, that was the last question. I now hand the conference over to Mr. Chawathe for closing comments, over to you.

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

Vellayan Subbiah: Thank you.

Moderator: Thank you very much members of the management and Mr. Chawathe. Ladies and Gentlemen, on behalf of Kotak Securities, that concludes today's Conference Call. Thank you all for joining us and you may now disconnect your lines.