



**“Cholamandalam Investment and Finance Q2FY13  
Results Conference Call”**

**October 31, 2012**



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**Moderator** Ladies and gentleman good day and welcome to the Cholamandalam Investments and Finance Q2 FY13 Results Conference Call hosted JM Financial Institutional Securities Private Limited. As a reminder for the duration of the conference all participant lines will be in the listen only mode and there will be an opportunity for you to ask question at the end of today's presentation. Should you need assistance during the conference call, you may signal for an operator by pressing \* and then 0 on your touch tone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Amey Sathei. Thank you and over to you sir.

**Amey Sathei** Yeah Thank you Lavina. Good morning everybody and welcome to Cholamandalam Investments and Finance Earnings Call to discuss second quarter FY13 results. To discuss the results we have on the call Mr. S. Vellayan, Managing Director of the company, Mr. Kaushik Banerjee, President Asset Finance and Mr. Arul Selvan, Senior Vice President and CFO. May I request Mr. Vellayan to take us through the financial highlights post which we can open the floor for question and answer. Thank you.

**Subbaiah Vellayan** Thanks Amey. Welcome everyone, good morning. Just to give a quick overview. Q2 has been a fairly good quarter for the company. Overall disbursement growth for quarter was 29% and vehicle finance grew by 25% home equity by 47%. We disbursed a total of about Rs.2,662 crores in the quarter. As earlier reported in the last quarter gold loans continues to be very subdued. Basically driven by fairly tight and conservative interpretation of the regulation that has come from RBI in that segment. Total income from operations was Rs.605 crores up 47% and our PAT for the quarter was Rs.69.7 crores which was a 75% growth from last year. For the half as well, our disbursement growth has been 39% over last year. Income growth of 46%, total income of Rs.1163 crores and PAT growth of 80% where total PAT of first half of Rs.139.35 crores. In terms of significant activities, we have expanded our branch presence. We have 484 branches as on 30<sup>th</sup> September and as on today we are almost 500 branches compared to 375 as on 31<sup>st</sup> March 2012 and all of those branches have all been added Tier-3-4 location. We also raised Tier-2 capital of Rs.388 crores during the period ended 30<sup>th</sup> September, primarily by sub debt and perpetual debt. And that has shown up capital adequacy standing at 18.18% now compared to 16.32% in September 2011. In terms of our subsidiaries Chola securities and Chola distribution had a total loss of Rs.0.24 crores during the half year. Whereas compared to a loss of Rs.4.92 crores in the first half of FY12 and Chola factoring made a profit of Rs.0.93 crores compared to a loss of Rs.56.99 crores in H1 of FY12. The consolidated PAT for the first half was Rs.139 crores against the PAT of Rs.67.6 crores for the same period last year which is a growth of 105%. we can get into more details. Obviously we also are continuing our productivity initiatives on both the vehicle finance and home equity businesses. It is more advanced in vehicle finance. We discussed it with you last time, it's an initiate called hyperdrive and basically we are beginning to see productivity gains from that initiate, flow and that's helping us to reduce our cost to income as well. So let me stop with that. And Amey, we will be happy to open it up to the questions from the audience.

- Moderator** Thank you sir. Participants we will begin the question and answer session. Our first question from the line of Mr. Gautam Chhaochharia from UBS, please go ahead.
- Gautam Chhaochharia** Just a quick question on the NPL of provisioning part. That seems to have gone up sequentially in both vehicle finance as well as business finance quite sharply. So can you throw some more color on that?
- Subbaiah Vellayan** In the business finance case, couple of cases where the market value of scrip's pledged took a dip on the quarter ending date and therefore we took a call and we made a provision for the cases and we continued to monitor those cases to understand how we should kind of react to that in this quarter as well. On the vehicle finance case, the one area which continued to see concern is our Orissa portfolio. And that is predominantly why that portfolio has been affected. That basically if you see there is net NPA overall for our, it's been 0.57%, basically the concern has been with Orissa that's been kind of singular factor which is up in our NPA there.
- Gautam Chhaochharia** This is a one asset or there are few assets like that in sub market value at the end of the quarter?
- Subbaiah Vellayan** Sorry you are talking about Business Finance?
- Gautam Chhaochharia** Yeah for the business finance.
- Subbaiah Vellayan** Business Finance is basically 2 assets that we are dealing with.
- Gautam Chhaochharia** And a collateral would be what listed securities?
- Subbaiah Vellayan** Yes they are both listed securities.
- Gautam Chhaochharia** The other question to ask is that if you look at the growth rates for the second quarter, again it remains very strong but compared to last few quarters that slowed down a bit. Are you worried about that or are you happy with the current numbers?
- Subbaiah Vellayan** We are happy with the current numbers. There are 2 things that happened. One is if you take vehicle finance, compared to the first quarter, there are couple of things happening there. One predominantly is vehicle finance last year, September was when the festival season started and this year it moved to October. So as you know in that market its fairly swung by festival seasons and festival season related buying and most of India has Shraadh or kind of a bad time and that is followed by Navaratri and that's a good time to buy. So when you look at what happened last year, that period actually kind of came in September and if you look at this year that period is now predominantly moving into the October November time frame with Diwali and all of that. And that's the biggest driver for that. Kaushik you want to add anything there?
- Kaushik Banerjee** One more thing if you look at the YTD industry TIP growth is also last year industry grew about 18% over the previous year where as in the current year industry is about 8% over the previous year. So the industry growth rate itself was half, it was more than half. Over the growth that was experienced last year but having said that we actually hope to see a fairly good Q3 and Q4. Last

year the 2 festival came together in the month of September whereas in the current year we have the festival in October and November. That was one factor. Secondly the monsoons also, if you realize now the segment that we address, are basically middle and bottom of the pyramid, so the sentiment on account of delayed monsoon has impacted overall sales in the market. But with the situation stands today, we can expect significant revival of demand through positive sentiments in the current, we are already seeing a fairly significant improvement in the current scenario within the last quarter and we should actually see fairly decent going forward.

**Moderator** Thank you. Our next question from the line of Mr. Amit Ganatra from Religare Asset management, please go ahead.

**Amit Ganatra** Can you just, your line was not clear when you were talking about the rise in NPA in vehicle finance, if you can just restate what you mentioned.

**Subbaiah Vellayan** So basically in vehicle finance, we have exposure in Orissa and the Orissa heavy **commercial heavy vehicle** portfolio has seen a real deterioration in asset quality because of the mining ban there and that is almost singularly explain our increase in net NPA percentages.

**Amit Ganatra** The other thing is that you mentioned about growth. So I was looking at this chart where you have provided data on the trend in domestic LCV sales SV sales. So basically your growth rate still continues to be higher than the industry growth rates. So you must be gaining market share in that sense even now?

**Subbaiah Vellayan** We continue to grow market share. 2 things we are driving, I think one is a fairly significant branch expansion and that's helping us increase penetration and therefore increase shares. So in the 2 segments in the light commercial vehicles, mini light commercial vehicles and in the used vehicle space we continued to gain market share.

**Amit Ganatra** The other thing is retail as a space is now gaining more and more attention from more and more players. The more you interact with different players the more they continue to say that our next focus area would be retail. So within retail some of the attention also is now towards the CV as a segment, what is your view in terms of long term profitability of this segment? Do you think that current profitability in terms of margins and asset quality can be sustained

**Subbaiah Vellayan** I think that's a great question. And if you look at every industry, our fundamental belief is that the industry has to go through a learning curve and the effect of the learning curve is that pricing comes down. In our case the margins come down. So right now the way we look at it we have got 3 opportunities areas that helps Chola versus the overall market. And those 3 opportunities are I guess, first is that we have a lot more opportunities to optimize our mix versus some of the other guy in space. And so for example our ROA is for a new heavy commercial vehicle are fairly low whereas ROA on certain other assets are fairly high. So our ability to kind of move to assets that have higher ROA will help us achieve what we have indicated as our kind of target, ROA as company and vehicle finances of business. The second is the operating expense to average asset which was running last year at about 3.7%. We think that number has to be brought

down and allows for an effective ROA expansion, which gives us a fair amount of opportunity. Our cost of income last year on a net income basis was about 58% and this year it has dropped to 52%. So for significant opportunity till there to work on cost to income line and we are working very aggressively and that's what hyper-drive we focused on. And third element for us is scale because we are still a smaller player in a fairly big pond right now. And so it gives us the opportunity to get some of the scale economics. So I think between those 3, we have in our internal plans is between those 3 we will be able to keep slightly improve ROA in next couple of years.

**Amit Ganatra**

Can I ask one more question?

**Subbaiah Vellayan**

Sure go ahead.

**Amit Ganatra**

One more question is that having spoken to different players, some players work on loss given default kind of model. So they tell us ultimately is the loss given default which matters and that's the ultimate credit cost that we take. So as long as our ultimate credit cost do not go up we don't get bothered by higher slippages. So I just wanted to understand your perspective.

**Subbaiah Vellayan**

I think that's the biggest mistake that can happen in our sector. For example what you are saying is we are just taking expected losses into consideration by their pricing. And this is continuously been our argument, every kind of discussion we have in peers in our sector. Industry for example you can take **Probability of Default (PD) and Loss given Default (LGD)** and assume that's going to be your losses, then the early calculating expected losses and saying expected losses equals losses. Now what you actually see depending on the segments we are in is that the unexpected loss numbers are really higher than for expected loss number. And our point pricing for that risk or not. So often we jump out of segments so we look at this in 3 dimensions. If you take the products from the segment dimension or a geography dimension. So actually if you look at it we will analyze this as a set of micro markets that in a particular micro market we often see that people would not have priced effectively for the unexpected loss to the segment. And that will often cause us to exit our micro market because we have to price that risk in and which is an effort we are working on to get much more detailed and granular of our analysis of it because when you look at, for example you talk about Orissa mining. That's a classic unexpected loss. It's like US sub prime all over again and that once that pools kind of start behaving badly due to whatever you want to call it, any extended factor, the whole pool will collapse together and it will result in massive unexpected losses. So it is a lot of work actually kind of model work, unexpected losses are in each one of the micro market and we definitely price that in. So when we get pricing we are taking the amount of economic capital, we need to price for unexpected losses as well.

**Amit Ganatra**

So is it fair to assume that tomorrow if you see rising slippage in any of these segments that segments growth as far as company is concerned then would come down?

**Subbaiah Vellayan**

For us yes, we are actively doing that and just to give you a sense, one is we are doing that. Other pattern we begin to see is that you will have lot of guys, like you said retail is the buzz word,

everybody is jumping in. The guys who don't price effectively have jumped in and will jump out as quickly also. We have seen some guys go through cycle of readiness in commercial vehicles. So to second time we are seeing the cycles because we are seeing commercial vehicles for a long time but the guy who jumped in basically gets the fingers burnt and jump up. Because the way they jump in is basically saying this has performed so well over the last 4 years but we don't look at it over two credit cycle.

**Amit Ganatra**

Have you yield on advances expanded on a quarter on quarter basis?

**Subbaiah Vellayan**

Yield has gone up a little bit. But we have the vehicle finance, we have seen some NIM compression predominantly because of the cost of fund increase but it has come back on comparables, previous quarter last year versus same quarter this year. We have seen an expansion.

**Amit Ganatra**

And this expansion is on account of any change in product mix specific or can this be attributed to any specific reason or this is just the overall repricing?

**Subbaiah Vellayan**

There is definite kind of move in product mix where we have grown more in the used segment that we have grown and the use by the way we break down in 2 categories, one is 6 year old plus vehicles, and then the second is 4 years to 6 years. And we have grown the 4 year – 6 year vehicles which is our customers coming back. We have grown that segment very aggressively and that has helped move our NIM as well.

**Moderator**

Thank you. Our next question from the line of Mr. Sankit Godha from JM Financials, please go ahead.

**Sankit Godha**

Just now you told the future driver for the ROA would be on the cost cutting front. So just wanted to know how do you look the cost to asset ratios to pan out in near future and what are the steps you have taken to contain the cost?

**Subbaiah Vellayan**

It's a good point. So we talk about cost to assets, cost to income right now we have, last year we had operating cost to assets about 3.97%. Overall as a company we were at 3.72% for the first half of FY13. In terms of where do I think it can go I do believe that this number has to tend or at least 3% overtime and we have given ourselves 3 years to get a 3%. And Sankit, second part to your question is what are we doing to drive, we would do as much as cost cutting, environment we are growing at 30% advantage we have is. We don't have to cut cost. We just have to make our existing cost more productive. And so what we initiated on in October last year, October 2011, was the initiative called hyperdrive which was focused on increasing the productivity of our vehicle finance business. It started of with sale team and it was focused on increasing the number of loans that all the sales person originates while also keeping the other factors that a sales person manages in balance such as early default indicate the number of quality of the portfolio. And what we have seen is a its worked very well in the branches that we piloted them out in and it so now scaling its so now we are actually in the process rolled about a 100 branches were in the process of taking it out, to all of our branches as we speak. So by the end of the year

that would have gone through the entire sales force and next year we go through the entire collections force as well but a lot of work is done, you just focus on improving our efficiencies, our productivity, and our cost management in the business and so next year we focus on collection and we focus on home equity business as well.

**Moderator**

Thank you. Our next question from the line of Swanand Kelkar from Morgan Stanley, please go ahead.

**Swanand Kelkar**

Quick question on regulation for NBFC. So now we have a time line from RBI as to when the recommendations it could become guidelines, so just wanted to get a sense from you, what are the main bullet points in those recommendations that affect you and your business and if you could give some sort of a sensitivity slash quantification may be around capital requirements asset provisioning, return on assets, securitization things like that. So what are the heads that affect the business the most and what are you thinking on those lines? And second question was since you are the flagship financial services company of the group, what the thoughts on banking license.

**Subbaiah Vellayan**

Let me answer the second question first because it's a quicker answer. What we have said and continuing to maintain banking licenses is that we are waiting to see the final guidelines and we will have an interest to be awarded with the final guidelines are something that we think are not too onerous our new banks versus old banks. So we continue to be fairly interested in that. We need to wait for the final guidelines before we make our final decision and recommendation. I think your second question was impact of Usha Thorat, right, that is the first part of the question?

**Swanand Kelkar**

That is correct, yes.

**Subbaiah Vellayan**

Obviously there are 3 large factors that Usha Thorat will affect, one with a 180 DPD – 90 DPD on provisions. So it will affect us. We believe kind of the effect will be manageable. The second is basically the capital adequacy Tier 1 which will go up from 9% – 12%, I believe we get 3 years to do that. So we don't see too much of a concern there. So obviously it means that we will have to come and look at, how much equity we raised and the third component with is this 30 days of outflow cash on hand which I think we need to kind of understand a bit better because unpledged we are holding as liquid fund will count as cash on hand. Or whether the cash like CRR has to be kind of totally unproductive. So that element we need to understand a bit better and the fourth element is where they will increase the risk weightage on the corporate mortgage finance business to 150%. we have already de-grown our business to Rs.200 crores. So we don't see that having much of an impact because our book has got in very small in that area.

**Swanand Kelkar**

So if I may just squeeze in one more if you think about a 90 days past due, if it were to happen today, what kind of an impact would that have for your P&L and can you pass that as a one time adjustment directly through reserves or that has to be passed through P&L

**Subbaiah Vellayan**

See if you take it in the P&L only. All we can say is in the range of about Rs20 crores or less.

- Swanand Kelkar** Rs.20 crores or less of provisioning through the P&L?
- Subbaiah Vellayan** Yeah because of 180 – 90 day movement.
- Moderator** Our next question from the line of Mr. Umang Shah from Motilal Oswal, please go ahead.
- Umang Shah** Just want to understand one thing. We have been rapidly expanding our branch network, so what is the kind of target that we are working with may be over a period of next one to 2 years, that's first and second in terms of capital raising. What is the quantum and what are the timelines we are targeting our capital raising at?
- Subbaiah Vellayan** In terms of branch expansion we are more or less done for this financial year. Next financial year again we will add about a 100 branches. Our belief is we will continue to add about a 100 branches till we get to about 750 branches or so, for the next two years we will add about a 100 branches each year. In terms of the second question on capital raising, what is indicated is we would raise equity in the first quarter of the next financial year which is April – May - June 2013. However depending upon the buoyancy in equity markets we might pull that ahead of quarter.
- Umang Shah** Just one more question. In terms of securitization, what is our strategy? Are we seeing deals happening and if we were to do it, it would be in which segment, I believe we have been doing it only in the VF segment and not in home equity. Can you just throw some light on that?
- Subbaiah Vellayan** Yes definitely securitization in the market is opening up. It's opening up very strongly. I think Shriram Transport yesterday said they expected to close to Rs.4000 crores of business in the second half. Its opening up very strongly in the priority sector space. I think it's predominantly driven by the fact that there is kind of a requirement for priority sector assets in the banking segment and we are going to use that. So in our estimate we wont do as much as folks in Shriram Transport are doing. But we are going to use that revenue and we are actually in the middle of conversations right now with a couple of banks. So you can expect activity on that securitization from us in this quarter and the next. We are only going to do it in VF we are not going to do in home equity.
- Umang Shah** Perfect and just one last question I mean considering all the factors keeping in mind about the competition that is kind of submerging and that's going to sustain in the retail financing segment one, second factoring the kind of initiatives that we are taking to contain costs and bring down expense ratio targeted by 3% over next 2 – 3 year period. And considering the cyclicity of the credit cost and the losses that we kind of apprehend in our business, what should be our sustainable ROA going forward. So we have seen a considerable improvement over past 4 – 6 quarters. But on a steady state basis, may be over next 2 – 3 years what should be our steady state ROA for the overall portfolio?
- Subbaiah Vellayan** Umang like we said, the 3 year target we set for us, 3% post tax ROA. And so we continue to hold and work towards that target.



**Umang Shah** 3% and according to you that should be kind of achievable over the next 2 – 3 years?

**Subbaiah Vellayan** That's right, 3 years is what we have said.

**Moderator** Our next question is from the line of Mr. Nilanjan Karfa from Bric Securities, please go ahead.

**Nilanjan Karfa** Kind of revisiting an earlier question, on the pressure on the retail side plus all your business line, so I want to ask you this question, based on the micro markets you are in and the various products line, can you specify which all micro market you are seeing pressures rising and what you see over the next couple of quarters, 4 – 8 quarter, so which all micro markets you wish to open the branches based on your risk perception of unexpected losses.

**Subbaiah Vellayan** If you look at a branch expansion are happening both in vehicle finance and home equity. Home equity were fairly underpenetrated right now, we are about 52 markets and we can see that number continue to grow up certainly in and that's really driven by where we see the most unleveraged homes geographically and that's basically how we pick those segments and we can expand in that area. In vehicle finance most of our expansions have actually been driven in consultation with the manufacturers where they see the growth coming because usually we have fairly tight relationships with TATA, Eicher, Mahindra and Ashok Leyland. Even the fact we are not a captive financial neutral and actually are quite willing to guide us to where they have seen the growth. So the new locations we add early driven by manufacturers telling us if they will give us strong support in those markets.

**Nilanjan Karfa** Could you also specify in terms of geographies you talked about, is it on the east and southern etc or now central. They are little more in depth, if you can specify the geographies.

**Subbaiah Vellayan** Will let Kaushik answer that,

**Kaushik Banerjee** . If you look at the segmentation of markets we have 4 areas, north, south, east and west. We are fairly well penetrated in the south because we started our business here. The areas of expansion we are looking at now are west and east. We are most under penetrated to the east in terms of branch networks. We see a fairly large growth in terms of our branch openings in the east and followed by the west and the north. So in terms of growth we have seen the highest amount of growth coming from the current year which is largely due to number of branches we have opened and in terms of overall revenue, north is at 28%. So over time we can see north becoming the predominant market for us followed by south, west and east. That's the pattern of our branch openings will follow.

**Nilanjan Karfa** And how does that gel with our estimate of how the market is heating up in each of those micro markets?

**Kaushik Banerjee** The focus in terms of branch opening is only in the Tier-3 or Tier-4 markets which are clearly today under penetrated in terms of vehicle density and as our MD pointed out earlier we have a fairly broad range of products both new and used vehicles. So today used vehicle constitutes of

about 32% – 33% of overall portfolio. We also have our tractor business which is largely Tier-3, Tier-4 driven. So we have adequate number of products to sustain viability across geographies in these markets also we categorize the branches in terms of size and therefore operating cost from E to A, E - being the smallest and A - being largest. So what we do we opened a branch as an E - category branch. This is a small operation. And then based on growth in stock on hand and disbursements the branches keep graduating to larger infrastructure. So for us the breakeven point for a branch is fairly low.

- Nilanjan Karfa** That will be what in the range of 1.5 years or break even for a smaller branch?
- Subbaiah Vellayan** IT is between 9 – 11 months typically.
- Nilanjan Karfa** And specifically on the home mortgage, you are saying people are still under leveraged?
- Subbaiah Vellayan** No, what we are saying is if you see in the Indian home population you still have a majority of home that **are not mortgaged** so our home equity business for example is not giving loans against new construction. It's basically giving small loan using his house as collateral and that is an unleveraged house. So a large chunk of houses in India are currently unleveraged.
- Nilanjan Karfa** And typically what would be your ticket size in that market?
- Subbaiah Vellayan** Its 50 lakhs.
- Moderator** Thank you. Our next question is from the line of Mr. Subramaniam PS from Sundaram Mutual fund, please go ahead.
- Subramaniam PS** Could you just throw some light on how do you expect the loan mix to change say in 2 – 3 years' time when you target the ROA, how do you see the loan mix changing and what kind of RoAs you expect from each of these segments? You also emphasize that you have the opportunity to change your mix, so on your current mix if you can elaborate on what is the profitability of different portfolios that would be useful.
- Subbaiah Vellayan** So in terms of the overall mix obviously like we broadly articulated, we don't kind of give too much product level profitability but the overall number vehicle finance and home equity are there in our investor presentation. So we see what's happening vehicle finance has a had of 2.74% and home equity is a bit over 3%, now home equity has the advantage of basically the ability to reduce our cost and synchronize the asset based growth and there the asset base is about Rs.3600 crores. So that will continue to happen over time. So that naturally as long as you can keep up the use in that space it leads into an increasing ROA in that business, we are obviously taking action there as well to reduce our operating cost. And the vehicle front obviously we have got much more of a mix question and what you have is a situation where you have heavy commercial vehicles being at a low end of ROA mix. New heavy commercial vehicles are the lowest end of a ROA mix. And at the high end you have the 6 year plus vehicles being at a high-end of that mix but to a question that Mr.Sankit or somebody brought up earlier

that ROA calculation there does not include the amount of economic capital you have to hold towards unexpected losses. So obviously we take that out in our internal calculations in terms of what are total risk-adjusted return on capital is. So basically we move in the Risk Adjusted - ROC model. So what we do is, this is an approach. We take that and product as a portfolio and then intentionally move or mix more towards the product that we think have a better RA-ROC. We make a decision at a product level. We increasingly kind of move it to make the decision at a micro market level which is a combination of product, geography and customer segment.

**Subramaniam PS** And also the home equity business that you are doing does it have any synergies with the vehicles finance business that you do?

**Subbaiah Vellayan** Very little.

**Subramaniam PS** So the scale benefits that you are saying would have to come from each of these business growing in phases and some productivity improvements in each of these businesses?

**Subbaiah Vellayan** That's right. However, as a company overall overheads like head office cost and my overheads gets spread out.

**Moderator** Our next question from the line of Shekhar Kedia from Barclays, please go ahead.

**Shekhar Kedia** Just had a question, when we are talking of optimizing our cost-to-income ratio, if we continue on our branch expansion spree I was just wondering as to would that not have dent on our cost-to-income ratios as in those branches will still take some time to become productive and in that interim it will not yield us benefit in terms of a higher ROA. So just trying to understand your perspective on that bit?

**Subbaiah Vellayan** It's a good question. And actually Kaushik answered it to a certain extent when he talked about our approach to branch expansion where what we do is typically we start these branches what are called category E - branches, that has a CAPEX of less than Rs.10 lakhs to open up the branch. And basically we take 100 branches and less than Rs.10 lakhs, the entire CAPEX involved in that effort is about Rs.10 crores and 80% of the branches breakeven in the first year. So that allows us to keep that component fairly small in terms of our overall expense ratio.

**Arul Selvan** We have been expanding branches of around 100 for the past 3 years. So the current cost-to-income basis has got similar levels of branch expansions over the period. Progressively as these branches will also start yielding and you will have a better return.

**Shekhar Kedia** And sir my second question was in terms of growth, you have talked about the mix right now, what growth rate would we be comfortable in terms of keeping in mind the Usha Thorat Committee report recommendations being implemented and coming in, so what kind of a growth rate would the NBFC be comfortable with going ahead?

- Subbaiah Vellayan** There are 2 things. I don't think we have changed our growth rate expectations based on Usha Thorat because none of this is talking about the growth rate, our loan against shares business is not a big business, and we are not growing that business in any case. Another thing that she has in her recommendation in her committee, would affect the growth rate of vehicle finance or home equity. And some of the newer segment we are getting into I don't think it will affected either. In terms of what growth rates are we comfortable with. I think the growth rates in the first half we are comfortable we will be maintaining those growth rates in the second half as well.
- Shekhar Kedia** And sir in the first few questions the industry growth rate has halved in this year as compared to last year, could I have the figures if you don't mind?
- Kaushik Banerjee** I will give you YTD, in the current year, heavy commercial vehicles are down 16% over last year light commercial vehicles have grown 23%, small commercial vehicles has grown 15%. So the overall growth rate of the industry also holds at 8%. We have grown by about 13% over the same period. So we are about 1.5x industry growth rate. If you look at the latest CRISIL reports you will find that last year same period the industry growth rate was 18%. And the pull down has actually come from heavy commercial vehicles. So heavy was at about 10% last year. So swing in terms of value is much higher as heavy commercial vehicles are higher ticket products whereas the growth has come from the lower ticket size. So in terms of unit it has grown by about 8% but in terms of value terms it actually comes down more significantly.
- Moderator** Thank you. Our next question from the line of Amit Ganatra from Religare asset management, please go ahead.
- Amit Ganatra** Yes couple of more questions sir, one is what is the standard assets provisioning that you must have done this quarter?
- Subbaiah Vellayan** If you see 25 bps, apart from that we have provided another 5 crores towards the **corporate** mortgage finance book as a conservative measure.
- Amit Ganatra** And the other thing is, this is just a clarificatory question, when you talk about 3% ROA in the assets do you include the securitization assets or this is the balance sheet assets that you are talking about?
- Subbaiah Vellayan** It is including managed assets.
- Amit Ganatra** So when you talk about this 3% kind of target, the ROA, the denominator includes the managed assets. So it includes the securitized assets as well.
- Subbaiah Vellayan** Yes I think the point is we don't have that much securitization that is making that much of a swing for ROA.
- Amit Ganatra** No I know it is not there but just for understanding purpose.
- Subbaiah Vellayan** Yes you are right.

**Moderator** Thank you. Our next question is from the line Ziad Motorwala from Motilal Oswal, please go ahead.

**Ziad Motorwala** But in the mortgage business, are we doing LAP loans or home loans?

**Subbaiah Vellayan** LAP.

**Ziad Motorwala** And what segment we target, the self-employed mostly or is it the salary segment?

**Subbaiah Vellayan** It is fully self-employed. It's over 85% self-employed.

**Ziad Motorwala** One of the other companies in the housing finance space had mentioned that there is a slight slow down in the high tickets space, any thoughts on that?

**Subbaiah Vellayan** We don't play in high ticket space. Like our average ticket size is Rs.50 lakhs and a lot of guys are doing a lot of deals that are like Rs.3 crores, Rs.4 crores, Rs.5 crores and all that. We don't play in that segment yet.

**Ziad Motorwala** So what is the area that you mostly focus on in terms of the geographical distribution of the assets side so far?

**Subbaiah Vellayan** is you talking about home equities?

**Zen Motorwala** Yeah.

**Subbaiah Vellayan** Home equity business North is a larger followed by South, then by West then by East. And now north is about 33 - 35% of our total overall business.

**Moderator** Thank you. Our next question from the line of Jyoti Kumar from Spark capital, please go ahead.

**Ganesh Ram** This is Ganesh. 2 questions, one is your cost of funds given that your proportion of your commercial papers is gone from Rs.230 crores to Rs.2000 crores in the last 6 months. I would have expected in this whole sale falling over night rate environment, your cost of funds would have gone down sharply at least on the other hand it has gone up actually. Any reason for this?

**Subbaiah Vellayan** You are taking in absolute value or percentage?

**Ganesh Ram** I am looking at it more from your yields have gone up your NIMs have gone down, so which means logically your cost of funds should have gone up actually.

**Arul Selvan** The incremental borrowing during Q2 was at 9.4% so as a percentage compared to last year it will look like it has gone up because last year the repo rate impact came in the Q3 Q4 onwards only. So while the book which we are carrying has got cost of fund impact, I am talking about the borrowing book, increased rate because we are carrying term loans which are of just running

at base rates and the benefit of the reduction by RBI has not been completely passed on by all the banks. So we are still carrying a term loans at a slightly higher rate.

**Ganesh Ram** I am saying the CP book is largely short term and that rates have gone down and your proportion of your CP is gone if you see

**Arul Selvan** It is only March end, the CP book came down because in March the CP rates were significantly higher. If you see the Q2 we had similar levels of CPs. You are taking the March level and you are comparing Q2 of FY12 versus of Q2 of FY13.

**Ganesh Ram** No even if I see from June to September it has gone up by about Rs.800 odd crores. So you should have seen cost of funds decline given that the short term proportion has gone up and short term rates have gone down, I was just wondering if I was missing anything.

**Subbaiah Vellayan** Basically there has been offset by what happened in the term loan space because if you see Q-on-Q you will have some of the older term loans run off. And term loans that are running off were term loans that were at much lower rate.

**Arul Selvan** Also during the quarter what has happened is they have been carrying more liquid funds so you have interest income coming in on one end and having cost of funds on the other side.

**Ganesh Ram** finally just a small thing. This employee cost have gone up slightly in this quarter slightly higher of my numbers, any one-off there?

**Subbaiah Vellayan** Basically the branch expansion right?

**Moderator** Our next question from the line of Mihir Ajmera from Enam Holdings, please go ahead.

**Mihir Ajmera** Just 2 things I wanted to check. Sorry I missed it, did you give the cost of borrowing number for the quarter?

**Subbaiah Vellayan** Cost of borrowing for the quarter will be at around 10.3% that is a total borrowing. Incremental borrowing will be at 9.2%.

**Mihir Ajmera** Compared to last quarter the cost of borrowing seems to have fallen marginally?

**Subbaiah Vellayan** Correct.

**Mihir Ajmera** In terms of provisioning again I am sorry if I missed it, did you give the standard asset provision number for the quarter?

**Subbaiah Vellayan** For the first half it is Rs.8.28 crores and for the quarter it will be around Rs.6 crores.

**Mihir Ajmera** You also mentioned you had a Rs.5 crore provision for the home equity business, did I get that right?

**Subbaiah Vellayan** Considering the economic environment we have built in some additional standard assets provision this quarter, that's we are putting around Rs.5 crores on this.

**Mihir Ajmera** So this 6 crores includes the 5 crores numbers?

**Subbaiah Vellayan** Yeah.

**Mihir Ajmera** Right and the rest of the provision which is about 17 odd crores is all for vehicle finance and home equity or is there something for personal loans as well.

**Subbaiah Vellayan** No personal loan, there are some amount gets further towards the business finance, loan against share.

**Mihir Ajmera** Okay that you mentioned, so if we compare quarter-on-quarter just for the vehicle finance business, could you give us some sense of the provisioning done?

**Subbaiah Vellayan** Vehicle finance business both provisions and and the loans which is written-off is around Rs.16 crores.

**Mihir Ajmera** Vehicle finance this quarter is Rs.16 crores. And what was that last quarter?

**Subbaiah Vellayan** Again similar to Rs.16 crores so only YTD is around Rs.32 crores.

**Mihir Ajmera** So there isn't much of a change.

**Moderator** Our next question from the line of Jyoti Khatri from Systematix shares, please go ahead.

**Jyoti Khatri** Firstly on the ROA side you are looking for ROA of 3%. 2 questions related to that. Firstly on the cost side you plan to bring down the cost ratios to 3%, is it fair to assume that you will achieve more economies of scale that the revenue accretion would be higher than the cost and that will be one of the reasons to bring down the cost ratios and secondly with respect to the competition that you face in the CV segment from the banks, you said you have got a larger presence in terms of the branches and you got tie up with the companies. But how about the pricing? How favorable or unfavorable is for you as compared to other banks. If I just look for the pricing if you can just tell us pricing of the loans on the long term?

**Subbaiah Vellayan** Pricing you want to talk about, Arul, business lending or?

**Jyoti Khatri** Yeah lending, the pricing of your CV segment.

**Subbaiah Vellayan** Your question on the pricing basically the pricing in the markets, the arrears have gone up a bit but that's predominantly been driven by adjustments in mix. Within a particular product, we would say that there is pricing pressure. And that's been driven predominantly by the earlier points raised which is everybody seems to be jumping into retail now. What are the scale economies, so what we believe is that half of the 3%, basically right now we are looking at pre

tax basis were about 3%, we have to move to about 4% in a pre-tax basis over 3 years. We think that to move to 4% we will actually have to move to 4.5% because you lose about 50 bps to move pricing pressure. And off of that 150 bps gain we think 30 bps will come from the scale based on our current modeling.

- Moderator** Our next question from the line of Manisha Porwal from Taurus Mutual fund, please go ahead.
- Manisha Porwal** Sir this is a small data piece which you used to provide till last quarter. This is about a business segment overview. You used to give the LTV, the tenure, in this presentation of September doesn't have that slide.
- Subbaiah Vellayan** When we look through our presentation, we have added some other pages for our presentation in an effort not to kind of make the presentation too big and fat. We took this one out because all of the points covered in it are covered in the individual business unit presentation. So for example vehicle finance presentation has all those details in it. There are some specific details that you think have got left out we will be happy to give it to you.
- Manisha Porwal** I was actually looking at asset quality segment wise. The NPA each segment wise, which you use to address in the slide.
- Subbaiah Vellayan** We should be able to get that to you and perhaps as you can to write to either Arul, Arul Selvan might be the best, if you can write to him, he can direct the data over to you.
- Manisha Porwal** Sir one more related question from the same slide is, on the home equity segment the LTV in this segment is quite comfortable at 50 – 55% I believe. This time we were forced to make some kind of provisions because of deterioration in the investment value. So I just wanted to know what kind of LTV, in the sense we are comfortable and like the deterioration have been to what extent that we thought of providing on this?
- Subbaiah Vellayan** No I think you might be confusing issues, we have not made any additional provisions in home equity.
- Manisha Porwal** The business finance has an LTV of 50%, I missed the term. And there you have made some kind of provisions?
- Subbaiah Vellayan** That's right.
- Manisha Porwal** Just wanted to understand why with such a comfortable LTV what was the drop in the value that we were forced to make provision and what is that comfortable level of security that you look for beyond which you provide.
- Subbaiah Vellayan** Do you remember, so there are couple of assets on the quarter ending date where our actual values of securities are actually dropped below the value of the loan. And that's why we made that provision in the business finance case. The LTV and specific asset has gone to over 100%.



**Manisha Porwal** LTV has gone through 100% this quarter?

**Subbaiah Vellayan** There are 2 things, one is the LTV on the portfolio versus the LTV on the specific loan. What we are saying is LTV on specific loan when they talk of 100% and that is why we have made that provision.

**Manisha Porwal** So you prefer to keep the LTV to 50% and any deterioration which takes the above 50% you provide for that portion?

**Subbaiah Vellayan** No, the LTV went from a more than 100%.

**Manisha Porwal** Exactly. So you provided for that gap. Okay and sir this was 1.43%, the NPA in the business finance last quarter. So can I get the number just off hand like I will write a mail for the sector wise?

**Subbaiah Vellayan** It would have gone up significantly in that segment. Let me try and get the numbers.

**Manisha Porwal** And sir some small thought on how the gold loan is working for you all? Because there is a small thing that RBI brought out yesterday that all the gold loan given only for speculation by all banks and there has been curtailment which has been prescribed by RBI. So I just wanted to get your thoughts on that. What would be the impact on overall industry from your perspective on the gold loan and Chola in specific?

**Subbaiah Vellayan** There are 2 things, one is your question on how is the gold loan doing? I think I have addressed this which is our gold loan is not doing well at current point in time. Gold loan is not doing well predominantly because we are very strictly following 60% LTV. And the 60% LTV, that has asked to lend effectively in that market. Because everybody else is at a higher levels market appears to be higher. Your second question on how is the RBI directive affecting, I think that is pretty unclear because what RBI has said right now is they do not want banks lending to any intermediaries including jewelers and all that for anything other than our working capital means. So what they are trying to do is when jewelers from accumulating position.... There are two things, one is honestly that does not have near-term effect on gold loan business at least as far as we can tell. However, it has been the practice of jewelers; we don't do any business with jewelers. We don't do any business with them. Chola as a company does not do business with jewelers. So how that in long term affects us is still unclear. In the near term that will not affect the gold loans.

**Manisha Porwal** Because its more to do with the speculative kind of financing which I believe it also talks about the loan which has given for auctioning like people who want to participate in the auction and I think it also points out in some ways that NBFC when they try to auction the gold, there is some kind of financing support may be these banks were earlier providing or RBI must have found them to be providing such kind of supports. So I just wanted a little more clarity on that. Was it a big portion of such auction was coming from some kind of loan or for the industry?

- Subbaiah Vellayan** Again for us our presence in the gold loan business itself is too small to be affecting any of this nor we will get affected by it. But I think we are asking more from a market knowledge perspective, we don't actually have or anybody in the team does, have any idea of what percentage of gold in auction is sold to people who buy using a loan to buy which I think is your question and so we have to idea of that.
- Moderator** Thank you. Our next question is from the line of Ziad Motorwal from Motilal Oswal, please go ahead.
- Ziad Motorwala** In terms of self employed markets, there is not much data base available. So can you provide some sense on what the size of the market would be?
- Subbaiah Vellayan** I think Ziad, you raised a great point which is there is not too much data available. We have also been looking for sources of data and there is not too much data available and it makes increasingly difficult for us to assess market size. And there are estimates that say there are 80% of the homes in India are not mortgaged. We will combine it with the fact that there are more self employed, much more self-employed than salaried and your guess on market size estimation is good as ours. Because honestly all you can say is less than 60% is self-employed 80% of the loans are not leveraged. That will give you some big number. And all we can say that radically it will be our large housing loan in this country. But it's probably not the case. And it's also our focus. It's basically a business loan by using house as a collateral. What we have seen is it seems to be a large enough segment that a lot of people are getting interested in it. But we haven't run up against any market size data that allows us to kind of confirm how large this segment is. And by the way I can ask this question in reverse which you find and send it to us.
- Ziad Motorwala** If I do find something I will definitely share it with you.
- Moderator** Participants that was the last question. I would like to hand the conference over to Mr. Amey Sathei for closing comments.
- Amey Sathei** On behalf of JM Financials I would like to thank Mr. Vellayan and other management team of Cholamandalam and all the participants for joining us for the call today. Thank you.
- Subbaiah Vellayan** Thanks Amey.
- Moderator** On behalf of JM Financial, that concludes this conference. Thank you for joining us and you may now disconnect your lines.