



## “Cholamandalam Investment & Finance Company Limited Q2 FY-15 Earnings Conference Call”

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**Moderator** Ladies and gentlemen good day and welcome to the Cholamandalam Investment & Finance Q2 FY15 Results Conference Call hosted by JM Financial. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '\*' then '0' on your Touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Amey Sathe from JM Financial. Thank you and over to you, sir.

**Amey Sathe** Good afternoon to everyone. Welcome to Cholamandalam Investment & Finance Earnings call to discuss the second quarter FY15 results. To discuss the results we have on the call Mr. Vellayan Subbiah – Managing Director of the company and Mr. Arul Selvan – CFO. May I request Mr. Vellayan to take us through the financial highlights post which we can open the floor for question and answers. Over to you, sir.

**Vellayan Subbiah** Thanks Amey. I apologize in advance; I have got a bit of cold and sore throat so I might be sounding a bit worse. The company overall has had in terms of our quarter our total income is up by 14% and our PAT is up by 6%. We disbursed Rs.2,189 crores in vehicle finance as against Rs.2,138 crores in the same quarter last year and Rs.717 crores in home equity, against Rs.675 crores in the same quarter last year. The new business disbursements were Rs.123 crores for an aggregate of Rs.3,028 crores this quarter versus Rs.2,827 in the comparable quarter last year.

Total income is up 14% at Rs.919 crores and with continued stress in commercial vehicles our overall GNPA is at 2.6% and NNPA is at 1.4% as of September 30th 2014. We continue to follow a fairly stringent credit selection approach which is reflected in disbursement growth being lower at 2% compared to the previous year in the vehicle finance business and we will continue to take that approach till we see the market performance improve. Our PAT is Rs.95 crores as against Rs.90 crores in Q1 for a growth of 6%. We have added two branches for a total branch count of 579. On September 3rd we also allotted Rs.500 crores of CCPS to divest the acquisition which is an entity of APAX partners and that will convert at a conversion price of Rs.407 a share which is a Rs.10 face value plus a Rs.397 premium 12 months after the date of allotment or earlier at the discretion of the board. So there is no dilution in EPS for the next three months and six months on account of issue of the CCPS.

And the company also raised Tier-II capital of Rs.42 crores by way of PDI to strengthen its capital adequacy ratio. The CAR now stands at 19.78% against the regulatory requirement of 15%. Subsidiaries had a combined profit of about Rs.4.5 crores so our consolidated PAT was Rs.99 crores as against Rs.91 crores registering a growth of 9%.

So Amey I will stop with that and we will be happy to take questions.

**Moderator** Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Digant Haria from Antique Stock Broking. Please go ahead.

- Digant Haria** Sir, in the home equity business this quarter was again a little slow so perhaps if you could just throw light on this that have we stopped expanding location in which we are present or it is the same location which are probably not giving us good growth now?
- Vellayan Subbiah** Yes, so we have also got Rohit Phadke who heads home equity and he will answer that.
- Rohit Phadke** The growth has been slightly slow in the first two months. Growth was slightly slow in the first two months of the second quarter but the third quarter the growth was pretty good. Actually what we had done was we were booking commercial property in the new business, earlier which were used to book under LAP and that we have stopped, we have again regrouped the same under LAP and so you will see a consistent growth going forward. As regards to the branches, our expansion will continue and we will keep adding newer branches.
- Digant Haria** Okay. So we are present at how many locations now versus last quarter?
- Rohit Phadke** We are present in 70 locations as of now.
- Digant Haria** Okay. And last quarter the same number would be?
- Rohit Phadke** Last quarter was 65.
- Digant Haria** Okay, got it. Now my second question is mainly on the vehicle finance business, so what have been the GNPA, I think last quarter the GNPA's in this business were 2.7%, so what would be the number for this quarter?
- Arul Selvan** This quarter is set to 3%.
- Moderator** Thank you. The next question is from the line of Rahul Bhangadia from Lucky Investment Managers. Please go ahead.
- Rahul Bhangadia** Just a bit on the presentation thing, you give a breakup on the vehicle finance and the home equity separately but as I see it, the PBT in the vehicle finance segment has gone down by 30% and the rise in the home equity does not seem to be enough to compensate for that. Am I missing something out there because the overall profit reported are broadly flattish?
- Arul Selvan** What happens is both in the Home Equity and Vehicle Finance business we charge interest cost at a transfer price rate and we had a good amount of profit coming out of the treasury as well as investments which we had kept in for short-term investments. So that has given us some benefits both on the treasury side and on the investment side. Apart from that you have the securitization benefits also coming because both HE and VF are reported on an AUM basis, securitization profit is separately tracked.
- Rahul Bhangadia** So if you could help us with the quantum's of both the securitization and the treasury profit?

**Arul Selvan** May be I will be able to share separately.

**Rahul Bhangadia** But those two are the heads under which the difference is explained?

**Arul Selvan** Yes.

**Moderator** Thank you. The next question is from the line of Nischint Chawathe from Kotak Securities. Please go ahead.

**Nischint Chawathe** First on the home equity business as we continue on this aspect. Your provisions in this segment have also gone up, how do we read this?

**Rohit Phadke** This is a momentary thing, the reason is because you see there is a liquidity crunch in the market and at the ground level really things have not improved. So some of our large customers could not really be on time but all of these customers will be on time and will be back to normal in this quarter. So the rise that you see is primarily because of a few customers who did not be on time.

**Nischint Chawathe** So you are comfortable that this will come back to those normal levels from the third quarter itself?

**Rohit Phadke** Yes, absolutely.

**Nischint Chawathe** Okay. And if I have to look at it on a like-to-like basis what would be the growth in home equity business in terms of disbursement or loan growth whichever way you want to put it?

**Rohit Phadke** As of now the growth including the business that we have booked in the new business and the commercial property is about 23%. So I think for the year also we will keep maintaining that pace.

**Nischint Chawathe** This is the loan growth that you are talking about?

**Rohit Phadke** Loan growth, the disbursement growth.

**Nischint Chawathe** Okay. Disbursements made during the period?

**Rohit Phadke** Right.

**Nischint Chawathe** Okay. Now just moving on to the vehicle finance business, we see some growth in the HCV segment, how do we read this? Is this something that you are able to see some green shoots out there or how should one really look at this?

**Vellayan Subbiah** Yes, you are talking about HCV that is heavy commercial vehicle?

- Nischint Chawathe**                      That's right.
- Vellayan Subbiah**                      So we are seeing some green shoots there in that business. Obviously you can see kind of even overall and industry kind of HCV sales have gone up. So I just think that we also have some base effect there which is this has been down for three years now, so you are seeing a bit of a pickup. But yes, we are seeing some growth in that business.
- Nischint Chawathe**                      And you would continue to believe that LCVs will lag HCVs in terms of recoveries?
- Vellayan Subbiah**                      Yes, that is our belief. Yes.
- Nischint Chawathe**                      Okay. And in HCVs which particular segment you know is the small fleet operator or who has kind of driven this growth, is it the large fleet operator or a small fleet operator?
- Vellayan Subbiah**                      So we do not do much with large fleets, a majority of the growth is coming from the large fleet but what we have picked up is being more on the SRTO segment which is small road transport operators, two to nine trucks.
- Moderator**                              Thank you. The next question is a follow-up from the line of Rahul Bhangadia from Lucky Investment Managers. Please go ahead.
- Rahul Bhangadia**                      Sir, in the previous conference calls you have mentioned your goal on controlling cost and really taking it down to below 3% or maybe even 2.5% as a percentage to assets while these have been difficult quarters, the cost to income has broadly maintained its level in terms of percentage to assets. So we still stand by that aim of taking it down to below 2.5%?
- Vellayan Subbiah**                      Yes, definitely. We have talked about doing that in the medium to long-term and yes, definitely that is the focus.
- Rahul Bhangadia**                      So should we look at a number of maybe 2.5% to assets in what, three years?
- Vellayan Subbiah**                      I would say the range would be 3 to 5?
- Rahul Bhangadia**                      3 to 5 years?
- Vellayan Subbiah**                      Yes.
- Moderator**                              Thank you. The next question is from the line of Jyoti Kumar Varma from Spark Capital. Please go ahead.
- Jyoti Kumar Varma**                      First on strategically between vehicle finance to non-vehicle finance portfolio, at AUM level what is the mix that you want to maintain? If you were earlier at 75 to 25 and I think we are close to now 70-30 give or take a couple of percentage points.

- Vellayan Subbiah** Yes. So overall overtime I basically see it depending on the growth from housing loans as well, I definitely see this kind of moving to more like... well, it depends on how long-term you go but long-term we would like to see it at more like 60 vehicle finance as a percentage of our overall book.
- Jyoti Kumar Varma** So incrementally you will focus more on home equity and other businesses?
- Vellayan Subbiah** No, that is not necessarily the case, obviously home equity sticks in your books longer so the implications and disbursement growth aren't the same under the implication and the assets under management. And our belief overtime is some of the newer businesses also have to grow such as housing loan.
- Jyoti Kumar Varma** And that will not impact your asset finance company status as a NBFC?
- Vellayan Subbiah** Well, obviously kind of if it does get to that stage then we will have to think of whether we need to kind of structure our way out of it or not.
- Jyoti Kumar Varma** Okay, sure. The other question that I had was given the drop in the diesel rates or decrease in diesel rates, how is your used HCV segment playing out, are you seeing some improvement in the UCV market?
- Vellayan Subbiah** I think it is too quick to kind of see that reaction. I think the diesel rates have already dropped so I don't think we have that immediate kind of feedback. Our belief is that the used sector is going to become a more and more attractive sector.
- Jyoti Kumar Varma** Sure. And the third question I had is the impact of this 180 day to 90 day transition, I think there is fair bit of speculation of RBI coming out with guidelines or to that effect, any thoughts on that?
- Vellayan Subbiah** Well, see honestly this question has been asked for like about 12 or 14 quarters, first thing that I have always said on regulatory change is first let's wait for the regulatory change to come out and it is expected out today or tomorrow, I guess today is what they had said, it has to come out today. So that's the first thing we should wait for it to come out. I mean as long as it is an orderly process I think it is the right thing, I mean basically you got to recognize that 90 days is too short for a truck but if that is what the RBI is going to mandate, as long as they give us enough time to move to that norm I think it's fine.
- Moderator** Thank you. The next question is from the line of Kaitav Shah from Anand Rathi. Please go ahead.
- Kaitav Shah** Sir could you give me the breakup for gross NPA in vehicle finance and home equity business separately?
- Arul Selvan** Yes. You want in absolute terms or percentage?

**Kaitav Shah** Percentage please.

**Arul Selvan** Percentage gross NPA for vehicle finance is 3% and home equity is 1.4%.

**Kaitav Shah** Sure sir. And in your experience or view how do you think the recovery say over 12 to 18 month period should pan out, what product can pick up pace and are you seeing anything on the ground in terms of incremental for example footfalls or enquiries, etc.?

**Vellayan Subbiah** So you are talking predominantly about vehicle finance?

**Kaitav Shah** Correct sir.

**Vellayan Subbiah** Yes, so like we said I mean I think we need to kind of see... we are seeing positive sentiment, obviously the second half if going to be better than the first half because our business is seasonal from that perspective. But we have not seen enough data from collections which is to give us comfort that, the recovery is underway.

**Kaitav Shah** And sir over a longer period, how do you visualize which product would sort of lead the growth etc and any thoughts there?

**Vellayan Subbiah** See, I think like we discussed I mean over a longer period definitely it is going to be first heavy is picking up then followed by lights and then small.

**Kaitav Shah** Okay. And for FY15 how would you see the credit cost panning out? Do you think we have peaked at these levels?

**Vellayan Subbiah** I do think that it is getting close to the peak, whether we have peaked yet or not I cannot kind of be specific.

**Management** Thank you. The next question is from the line of Amey Sathe from JM Financial. Please go ahead.

**Amey Sathe** Just want to take opportunity to ask two questions, one is on the home equity segment, if you explain environment with respect to the competitive intensity or the rate pressure that will be helpful?

**Rohit Phadket** There are more and more people who are getting interested in the lap product and so there is a plethora of new entrants entering this space, but we have the advantage of being present here and we have our OPEX under control, cost under control. So we have the courage and the necessary skills to fight with the competition that is going to come in, but it definitely will put some pressure on margins.

**Amey Sathe** Okay. But are we talking about not reducing our lending rates and focusing on, probably sacrificing growth in order to protect our profitability?

**Rohit Phadke** See, we will ensure that we keep growing, we will do whatever that needs to keep us growing, number one. Number two, we will keep protecting our profitability if that means adding some new streams of revenue, we will add those streams of revenue but on a long-term scale we will ensure that there is growth both in disbursements as well as profitability.

**Amey Sathe** Okay. And the second question was on the gold loan portfolio, I think that is also witnessing some uptake on a sequential basis. So any plans or are you seeing any trends in that portfolio?

**Vellayan Subbiah** No, we have no plans right now to kind of grow that.

**Amey Sathe** Okay. So the disbursement uptake we are seeing is just so anything to read into that or?

**Vellayan Subbiah** No, actually basically we were not originating any gold loans in our books and then... so therefore when we started then we saw a bit of an uptick but there is no intent to kind of continue that growth.

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

**Sameer Bhise** Just one question, what is the cost of the PDI instrument?

**Arul Selvan** It will be in the range of around 12.75 to 12.9.

**Moderator** Thank you. The next question is from the line of Kashyap Jhaveri from MK Global. Please go ahead.

**Kashyap Jhaveri** Just wanted to check in this quarter's provision cost how much is the reposition loss that we have taken and have the percentages varied between let's say 4Q of last year and 1Q and 2Q of this year?

**Arul Selvan** Reposition less will be around Rs.21 crores for the quarter.

**Kashyap Jhaveri** And how much would that be in the previous quarter which is Q1?

**Arul Selvan** Q1 is around Rs.30 crores.

**Kashyap Jhaveri** And same quarter last year?

**Arul Selvan** It was Rs.29 crores, almost Rs.30 crores.

**Kashyap Jhaveri** And how have the rates moved I mean as a percentage of the outstanding if you could throw some light on it.

**Arul Selvan** Realization rates?



**Kashyap Jhaveri** I mean let's say receivable is from particular let's say an asset is let's say Rs.100 and as you said total Rs.29 crores is the total repossession loss. So on that Rs.100 how much percentage loss would that be?

**Arul Selvan** On the repossession?

**Kashyap Jhaveri** On the repossession.

**Arul Selvan** See, it has started now showing signs of slowing down. The loss levels are coming down because the realization rates are increasingly becoming better.

**Kashyap Jhaveri** Okay. Any number that you would guess on that?

**Arul Selvan** I would say the large levels have now come some 40%, it picked to 42%-43%, it has now come down to around 37-38%.

**Moderator** Thank you. The next question is from the line of Anand Ladha from HDFC Mutual fund. Please go ahead.

**Anand Ladha** Sir this financial allotment to Apax Partners, has the fund come in this quarter or it already come in between the quarter or it is going to come probably towards the end of the this quarter?

**Vellayan Subbiah** The funds have come in and they came in... Well, this quarter you mean like in July-August-September, right?

**Anand Ladha** Yes.

**Vellayan Subbiah** Yes, they have come in.

**Anand Ladha** So part of the NII improvement is because of the fund?

**Arul Selvan** It came in September so it is like a one month point of benefit.

**Anand Ladha** Okay. And sir in the case of home equity, just want to understand this is about loan – what's the average tenure of a loan and so loans are monthly EMI or quarterly EMI?

**Rohit Phadke** All these loans are monthly EMIs and the average tenure of a loan is about 10 year.

**Moderator** Thank you. The next question is from the line of Geetika Gupta from Kotak Securities. Please go ahead.

**Geetika Gupta** Wanted to understand the reason for the sharp increase in operating expenses in this quarter.

<b>Vellayan Subbiah</b>	Collections cost on the vehicle finance has gone up because we are obviously putting a lot more effort towards collection right now and we are significantly increasing our intensity on collections. So that's what caused it to go up.
<b>Geetika Gupta</b>	And should we expect it to remain at similar levels going ahead or would we expect it to come down gradually?
<b>Arul Selvan</b>	It will continue for one more quarter and it will sort of plateau down.
<b>Geetika Gupta</b>	Another bookkeeping question, you gave a breakup of your NPLs in vehicle and home equity for this quarter, 3% and 1.4%, could you give us similar number for last quarter 1Q.
<b>Arul Selvan</b>	Yes, vehicle finance was 2.7% and home equity was 1%.
<b>Moderator</b>	Thank you. The next question is from the line of Aditya Singhanian from Enam Holdings. Please go ahead.
<b>Aditya Singhanian</b>	I had two questions, one on the home equity side, I think last quarter also there was a bit of a slowdown and I think the general sense I had got was that at least you were expecting pick up this quarter which does not seem to have happened and there is some increase in NPA also. Would you think that there is some negative surprise and in the market trends how would you see that or do you think this is just transitory?
<b>Rohit Phadke</b>	See, first of all let me clarify on the growth part. See, as I explained earlier to another investor, our issue is we do loan against property which means we fund against residential and commercial properties. So as a part of a support to our new businesses, some part of that business were booking in the new business which we have stopped. If you take the disbursements in the new business and this business your growth will be about 23%. So there is no let up in the growth in disbursements and as far as the rise in NPL is concerned, as I explained there were a few large customers who could not pay, this is nearly transitory and there will be no surprises.
<b>Aditya Singhanian</b>	And on the vehicle side could you give us some sense on the trends in collections?
<b>Vellayan Subbiah</b>	On the vehicle side likely said, basically what we are seeing is we are seeing roll forward rates that means how much the rolls from one bucket to the next bucket, we have see that beginning to come down. But because the bucket size is so large they have not come down to an extent that the overall either the MCLs or the NPAs are beginning to come down which means we need much more improvement which we are not seeing happen quick enough. So when that is going to happen Aditya I don't have a clear read on it yet but we are getting more bullish in kind of what potentially can happen because in general some other trends were seeing a positive but till it kind of really happens in the ground I don't want to make a prediction saying it will happen this quarter. The positive trends are the fact that basically diesel prices have gone

down, we are seeing capacity utilization on the trucks go up, and freight rates have remained stable.

**Aditya Singhania** Okay, thanks. And just a follow-up on that, in terms of utilization rates going up are you seeing that only on the HCV side or on the LCV as well?

**Vellayan Subbiah** No, it is on both.

**Aditya Singhania** So then what explains the sort of delayed recovery in LCVs relative to HCV?

**Vellayan Subbiah** See the thing is this, everybody is looking at percentages and percentage comparisons right, so for HCV the numbers have been down for almost I think (+2.5) years. So now when people are saying it has picked up, I don't know, I think we just saw the data, I think it's still lower than where it was in 2012. So now what do you define as an LCV pick up, does that mean we have to go back to 2012 numbers? So that's what is causing it.

**Aditya Singhania** Okay, I understand. And just a final question if I may ask, could you give us the trend in cost of borrowings quarter-over-quarter?

**Arul Selvan** As a percentage of debt?

**Aditya Singhania** No, the actual cost, is it 10%, 10.1%, cost of borrowed fund.

**Arul Selvan** In Q1 it was at 10.26%, it was dropped to 10.14 now.

**Aditya Singhania** Right. And any sense on this in terms of...

**Arul Selvan** This is on average debt.

**Aditya Singhania** In terms of trends how are you seeing this?

**Arul Selvan** It will come down further is what we expect because we find some good amount of traction and we have been able to push down the rates with banks, some of those old borrowings where we had a spread beyond the base rate. Now almost 90% of our bank loans are running at base rate levels. Most of the changes happen in the last month of this quarter which is in September so I see that impact also benefiting in the coming quarter.

**Moderator** Thank you. The next question is a follow-up from the line of Rahul Bhangadia from Lucky Investment Managers. Please go ahead.

**Rahul Bhangadia** Sir, you just mentioned that you are seeing the utilization levels getting slightly better, in the last two-three years we did see the freight rates not exactly kind of catching up with the diesel rates and thus the operator struggling on the margin front may be. As the diesel prices go down, do you see the freight rates following down as it settles down or not really?

- Vellayan Subbiah** I think it's a very good question and honestly we do not have enough data to kind of accurately predict how this is going to play out. In general what we have seen is obviously there is a larger buyers, if we take kind of a cement company or somebody who kind of large contractual buyers, they usually squeeze their operators to basically get benefit from diesel rate decreases. But market load guys tend to be stickier and don't tend to pass on the benefit that quickly. Okay. So it depends on the segment, we believe that the market load segment will benefit from this.
- Rahul Bhangadia** But the same example that you used as the cement guys, so did they actually pass on, the increased cost of diesel was that passed on to the customers or not really?
- Vellayan Subbiah** See that's the thing, it depends, it is a very simple equation right, is it more loaded towards kind of the supply side or the demand side. So if you are a larger buyer of trucks you don't pass on increases but when a decrease comes you say, listen let me get the benefit of the decrease. But it's not quite that this thing, all I am saying is in the general equation the market load operators who basically don't do long-term contracts have more flexibility in keeping this benefit with them.
- Rahul Bhangadia** Okay. So there is no clear cut thumb rule that we can go by for this one?
- Vellayan Subbiah** No.
- Moderator** Thank you. The next question is from the line of Ashish Sharma from Enam Asset Management. Please go ahead.
- Ashish Sharma** Just a question on the home equity business, first of all what will be the average ticket size of our loan and you mentioned that you sort of exited a certain segment, was it a high ticket sort of a segment? Just some color on that.
- Rohit Phadke** See, average ticket size is Rs.50 lakhs, we did not exit any segment, we do loan against residential as well as commercial property so for the past eight years since the inception of business both the types of loans we have been booking under the loan against property book. As a support to our SME business we decided to book some part of the commercial property business under that head which we have regrouped back that is why the absolute growth is showing to be smaller, that is the only difference, we have not exited any segment at all.
- Ashish Sharma** Okay. And as you mentioned that the average ticket size is Rs.50 lakhs so we sort of our targeting a segment which is a property of closer to below Rs.1 crores I mean we are not in the bracket of loans above Rs.1 crores or are we?
- Rohit Phadke** We do loans above Rs.1 crores also but the maximum exposure is about Rs.5 crores and we have very limited loans in the high ticket size category. Most of our loans hover around Rs.50 lakhs to Rs.1 crores, but a Rs.50 lakhs loan would mean a property of minimum Rs.1 crores.

- Ashish Sharma** And sir from a vehicle finance perspective, if you just see the return on total assets for first half I mean it has contracted from 2.6% to 1.6% I believe because of the higher credit cost. I mean let's assume FY15 again is a sort of a normalization year and we see some sort of growth coming back in FY16, do you see this return on asset again going back to 2.5%, I mean what is the sort of a normalized number for vehicle finance return on asset sir?
- Vellayan Subbiah** So obviously the thing is I think yes, the quick question is kind of as you can see from I don't know if you have seen the chart or if you have seen this thing but obviously almost all of the explanation comes from an increase in losses and provisions right?
- Ashish Sharma** Yes sir.
- Vellayan Subbiah** So when the market does come back to normal I do think we will go back to that numbers that we had in H1 FY14 which will then allow the number to push back up again.
- Ashish Sharma** And from a growth perspective once the market sort of normalizes FY16 what sort of a number we are looking at?
- Vellayan Subbiah** I don't want to speculate now, I would say first let the market come back to normal, that's what we want to be focused on at this stage.
- Moderator** Thank you. The next question is a follow-up from the line of Jyoti Kumar Varma from Spark Capital. Please go ahead.
- Jyoti Kumar Varma** Sir, can you just give some perspective on how our home equity business is spread across geographies in terms of how is it versus in North South or whichever way you want to split, metro or non-metro, whichever you are comfortable splitting it.
- Rohit Phadke** It is about 45% of the business comes from the North, so typically the home equity business will follow wherever the GDP rates are high, wherever business is good and wherever land titles are large. So North has all these, NCR has 7% of the GDP sitting there. So you have about 45% coming from North, 35% coming from South and the remaining would be coming from West.
- Jyoti Kumar Varma** Okay and in terms of metro non-metro markets?
- Rohit Phadke** Well, I don't have the breakup of metro and non-metro but about 50% would come from Tier-I cities.
- Moderator** Thank you. The next question is from the line of Umang Shah from CIMB. Please go ahead.
- Umang Shah** For FY15 what is the kind of AUM growth that we are expecting to close the year with?

- Vellayan Subbiah** It is another tough question there. It really depends on how much market pick up we see. At this stage our focus is not so much on the AUM growth because we basically want to stay conservative till the market picks up. So I would say it is obviously going to be in single digit somewhere but I don't want to speculate too much more than that.
- Umang Shah** Right, so overall AUM growth you are saying would be single digit within which the assumption is that the home equity will continue to grow at a strong pace right?
- Vellayan Subbiah** That's right.
- Umang Shah** Sure. My second question is, the current capital raise that we have done, as per your assessment how long would it be that you guys would be back to tap the capital markets?
- Vellayan Subbiah** So for that basically we do not see going back to the market for the next three years at least in our projection. So obviously some of it is dependent on what comes out or is going to come out on the regulatory front. The current modeling we do not see a need to go back to the market.
- Umang Shah** So with a current year 12.6% that should suffice for the growth for next two to three years?
- Vellayan Subbiah** Yes, so that is correct. And to your question on AUM growth, I just looked at some of the numbers, it could actually be low double-digits, it could be kind of somewhere in that 10% to 12% range.
- Umang Shah** Okay, low-teens, right. And just last question, is there any thought process in terms of better capital utilization hiving off the home equity business into a housing finance company or something of that sort?
- Vellayan Subbiah** Yes, so obviously I think this question has also been asked several times before, what we have always said that the business needs to get to a critical size that would kind of validate doing that otherwise you kind of create more overhead than benefits. So I mean we had opened to kind of thinking about that if and when the business gets to that size.
- Moderator** Thank you. We have the next question is a follow-up from the line of Rahul Bhangadia from Lucky Investment Managers. Please go ahead.
- Rahul Bhangadia** Sir in case over the next two three quarters or as we hope if the interest rates do come down, is there a chance to improve the spreads or you would rather pass it on and control the NPA side or kind of take the growth up, how do you see that panning out?
- Vellayan Subbiah** See the good thing that has happened in this entire run up till now is that people have not started kind of dropping on the yield and rent, at least in vehicle finance. So that will continue to stay in place on the vehicle finance side but this is only for areas where kind of the banks predominantly are not in right. So we take the fleet heavy commercial vehicles, there I do see

spreads coming down. But if you take the SRTOs, you take kind of the used markets, there I see spreads being maintained.

**Rahul Bhangadia** Okay, so hypothetically if the interest rates were to come down by maybe 50 basis points over the next one year, would you be able to hold on to what level, 25 basis points of that on an average?

**Vellayan Subbiah** So I would say more like 30 basis points.

**Rahul Bhangadia** So you will be able to hold on to 30 out of that?

**Vellayan Subbiah** That is right.

**Moderator** Thank you. As there are no further questions from the participants, I would now like to hand over the conference to Mr. Amey Sathe for his closing remarks. Over to you, sir.

**Amey Sathe** Yes, just one question sir, sir what will be the proportion of commercial property versus residential property in home equity?

**Rohit Phadke** As of now 89% of our assets are self-occupied residential property and the remaining 11% has a mix of the remaining categories which is rented, residential, self-occupied, commercial, and lot's of other categories.

**Amey Sathe** Okay, thanks. On behalf of JM Financial I would like to thank Mr. Vellayan as well as other management team of Cholamandalam and all participants for attending the call. Thanks a lot sir.

**Moderator** Thank you all. On behalf of JM Financial that concludes today's conference. Thank you for joining us and you may now disconnect your lines.