



**“Cholamandalam Investment and Finance Company Ltd Q2
FY16 Earnings Conference Call”**

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MODERATOR: **MR. NISCHINT CHAWATHE – KOTAK INSTITUTIONAL
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Moderator: Ladies and Gentlemen good day and welcome to the Cholamandalam Q2 FY16 Earnings Conference Call hosted by Kotak Institutional Equities. 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 an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Nischint Chawathe and over to you sir.

Nischint Chawathe: Hello everyone, welcome to Q2 FY16 Earnings Conference Call of Cholamandalam Investment and Finance Company Limited. To discuss the financial performance of Chola and to address your queries we have with us today Mr. Vellayan Subbiah — Managing Director; Mr. Arun Selvan — Executive Vice President and CFO; Mr. Rohit Phadke — President and Business Head—Consumer Finance, Home Equity and Home Loans; Mr. Ravindra Kundu—Senior Vice President and National Business Manager—Vehicle Finance. I would now like to hand over the call to Mr. Vellayan for his opening comments.

Vellayan Subbiah: Nischint thank you. Good morning everybody first of all we apology for having earnings call slightly delayed this time, so just a one-off events. Just to go through quickly the highlights of the financial performance our PAT for Q2 FY 16 was Rs.120 crores a growth of 27% over Q2 FY 15 and for the half-year PAT is at Rs. 231 crores a growth of 23% over the same period last year and Q2 FY 16 disbursements was Rs. 3672 crores which is a growth of 21% over Q2 FY 15. We have also had a 20% growth in NIM during the quarter. At the end of this quarter we also accelerated our provisions to 4 months overdue and adopted standard asset provisioning at 0.35%, so this is basically 18 months ahead of the RBI's mandate so we moved to the 120 days as of now. Our GNPA on a five months overdue basis has stayed stable at 3.39% obviously at a four months overdue basis the GNPA has gone up and that is at 4.42% today.

Overall all other numbers continue to be healthy we have disbursed Rs.2790 crores in our Vehicle Finance business as against Rs. 2189 crores in the same quarter last year and that's a growth of 27%. The two basic segments that are growing I think everybody knows is Heavy Commercial Vehicles continue and have also seen a healthy growth in the Used Vehicles segment and we continue to see that as a big opportunity for us. The good thing in growth in Used and Heavy is that it allows us to maintain our NIM positions over time and so we are seeing steady balanced growth in both of those segments. Home Equity disbursements grew by 7%, from Rs.717 crores in Q2FY15 to Rs. 770 crores in this quarter and our aggregate disbursements grew at 21%. The NIM was 8.5% for the quarter compared to 7.7% NIM in the same quarter last year. As I told you we proactively advanced the adoption of NPA provisioning 18 months ahead of schedule, the impact of this adoption on pre-tax profitability was Rs. 53.58 crores so we took a Rs. 53.58 crores hit to pre-tax profitability because of this adoption. Our PBT-ROTA improved to 3.1% as against 2.7% in Q2 FY 15, this is even after adjusting for the early adoption, and on an half-year basis our ROTA was at 3.0%.

We have converted our CCPS and this was Rs.500 crores subscribed by Dynasty Acquisition (FDI) and that is converted into Equity at a conversion price of Rs. 407 per share that is including a premium of Rs. 397. The preference dividend is cumulative and has been paid pro rata up to the conversion date.

Our capital adequacy is fairly strong and stands at 20.8% against the requirement of 15%. Subsidiaries have not shown strong performance, their PBT was at Rs.1.78 crores as against Rs. 2.95 crores in the same quarter last year and consolidated results for a profit of Rs. 122 crores as against Rs. 99 crores PAT which is a growth of 23%. So that is the overall commentary on the company. Overall as we see the Commercial Vehicles market itself this year obviously most of the research has been projecting a growth, Crisil has projected a 4 to 6% growth overall for the segment this year, basically what we are seeing is that the growth has been led by M&HCV as freight availability improves and beginning we see the improvement in industrial activities which is basically what is driving that increase in freight availability as well which is driven by higher infrastructure projects and healthy replacement demand from large fleet operators. We continue to expect Light Commercial Vehicles sales to be flat due to subdued rural demand and monsoons also have been below normal in most parts. We have also seen a rebound in bus sales by about 9 to 10% and this is basically being backed by better demand for intercity travel, higher bus operator profitability, steady growth, and offtake by schools and pending order deliveries under the JnNURM scheme. As we see long term prospects of commercial vehicles we continue to believe that they are very healthy and because we continue to believe this is going to be on the back of public infrastructure spending and steady agricultural output which along with continued supply side capacity constraints in Railways is going to drive overall demand, so demands for buses also is expected to be driven by steady growth in urban population, Smart cities and demand from schools and corporates which continue to drive up the bus demand as well. So overall we basically see fairly healthy set of demand coming back into the market and that is on the back of maintaining our NIM and maintaining fairly steady and hopefully decreasing GNPA position over time, positions as well as see going forward. We'll stop with this commentary and turn it over to you Nishchint and the questions, we'll be happy to answer any questions from our side as we go forward.

Moderator: Thank you very much. We will now begin with the question and answer session. The first question is from the line of Amit Premchandani from UTI Mutual Funds. Please go ahead.

Amit Premchandani: Starting with Home Equity business, this quarter we have seen a sharp decline in terms of disbursement growth, can we expect this trend to continue or is it just one off this sharp decline and also from geographical colors of the exposure of Home Equity business how much is in the large market like NCR or MMR region and are we also seeing aggressive balance transfer now in this business?

Vellayan Subbiah: Usually if you look at the first half, disbursements are slightly subdued and credit demand picks up in the second half, so the decline that you see in the second quarter is a conscious decision, the reason because one is there are lot of players, new players who are doing

aggressive lending and the retail demand in SMEs is still stretched, the cash flows are still stretched the demand quite weak we consciously do not want to play either the LTV game or high ticket game. If you look at the industry, industry ticket size is 1.2 crores we are still at 50 lakhs even our LTVs are continue to be at 50% we like to maintain that position. Our assets also are still at 90% SORP. On the geographical spread we have the largest number of branches in the industry in the Home Equity segment. We are at 80 branches and will continue to expand these branches across the country simply for the reason that the portfolio should not get concentrated at one place.

Amit Premchandani: In terms of portfolio amount geographical concentration how much is NCR and how much is Mumbai region?

Vellayan Subbiah: NCR will be about 25%, North will be about 40-45%, Mumbai we hardly have any, Mumbai is very small for us, South is bigger and after that comes West.

Amit Premchandani: On small finance bank part you don't have a small finance bank license you have payment bank license, and now these small finance bank after conversion can enter to almost all segments that you're also operating in and a lot of south-based MFIs have got this license, so how do you see that competition suddenly coming up and hit you in the same segment that you're operating in?

Vellayan Subbiah: Are you talking about Home Equity or you're talking about all our segments?

Amit Premchandani: All the segments

Vellayan Subbiah: If you take some of these who have got it for example if you take Equitas or some others they have already had Commercial Vehicles signed so I just think that for a lot of them it's going to grow. What has happened is first half all of them have to make adjustments to their capital structure first. I feel they are going to go through that phase which will take them a little bit of time because right now most of them have gone for impact capital that is what they have raised, now to change from that over time will take a little bit of time but honestly I still see that one HDFC as a competitor still far more relevant than all those small finance banks combined. So if we have been gaining or maintaining market share with HDFC and the more aggressive guys in the mix I do not see the biggest competition coming from the small finance bank.

Amit Premchandani: When the vehicle finance business was not growing significantly you kind of accelerated on the Home Equity part, are you planning to enter to any new segment given that now Home Equity has now seeing some kind of slow down any plans on Home Loan front, affordable Housing Loan in the segments that you are operating?

Vellayan Subbiah: We have started affordable Housing Loan segment we have been doing that now for almost three years and now we are beginning to accelerate that book. We are basically moved to 5

states where we are beginning to originate affordable housing loans from, the book is still fairly small right now, it is about 200 crores but we're beginning to accelerate that book now fairly significant.

Amit Premchandani: Any sense of the yields of that book and how do you report it, it is part of Home Equity or some other segment?

Vellayan Subbiah: I will get an answer now we report it, but in terms of yields it is doing about 13.5% to 14%.

Arul Selvan: In the annual report it will come under loans against immovable property, that gets combined along with Home Equity but if you look at the investor presentation the Home Equity number which is shown is only the Home Equity part.

Moderator: Thank you. The next question is from the line of Subir Sen from Birla Mutual Fund. Please go ahead.

Subir Sen: The gross NPA numbers on 120 day basis 4.4 and 3.1 this is only on book or on book plus the assigned portfolio?

Arul Selvan: It is on book plus assigned.

Subir Sen: Can you give me the corresponding numbers for 150 days and the absolute numbers in rupees crore?

Arul Selvan: It is 3.39 for fifth bucket and the absolute number for current fourth bucket is Rs. 1200 crores this company as a whole, the fifth bucket is Rs. 925 crores.

Subir Sen: Rs. 1200 is 120 days and 925...

Vellayan Subbiah: 925 is 150 days.

Subir Sen: And the corresponding 150 days number is 3.39% gross NPA and the net is how much?

Vellayan Subbiah: 2.08%.

Moderator: Thank you. The next question is from the line of Swanand Kelkar from Morgan Stanley. Please go ahead.

Swanand Kelkar: On the LCV recovery and I heard you mentioned this year would be flattish. One thing which we are seeing is that HCV recovery M&HCV recovery has been fairly okay for the past 12 months, what do you think are some of the dynamics which will translate that into the LCV recovery, is it just a matter of time it's the question of when not if and has e-commerce played any role on the LCV growth side at all?

Vellayan Subbiah: There are two questions, definitely is it a question, it is a question of when not if because if we look at it there is still an under penetration of LCV in the country, what happens in these kinds of cycles obviously is the utilization gets skewed once there is oversupply utilizations drop, utilizations create a price drop and then everybody starts making losses and nobody want to replenish supply. We are seeing this e-commerce demand pickup for especially for pickups in some of the associated stuff for intra-city delivery and everybody is picking up the size of their fleets there, but I still think it's going to take a little while before the overall industry demand comes back predominantly because what happens is that the used segment starts picking up a lot as there is no nonperformance in the market whether it is coming through repo or whether people are just selling off their vehicles directly it ends up that the used segment starts picking up a lot so that then subdued growth in the new segment for LCV's. So that is a trend that we are going to see for the rest of the year and then after that we have to see if the new for LCV begins a pickup as well. So till that news Used supply goes through the system the New will not pick up.

Swanand Kelkar: The other question was slightly longer term, we have seen your journey to 3% ROTA (PBT) even after absorbing accelerated provisions, when you look out for the next 2 to 3 years what are some of the drivers that you see to take these numbers high.. Is it cost to income, is it lower provisioning what are some of the drivers next 2 to 3 years to take the ROTA (PBT) from 3% to higher numbers.

Vellayan Subbiah: There is still a lot of headroom in our existing drivers itself, one driver is clearly the optimization of mix, the second driver is we definitely see that as we move our cost of funds position over time because, like this year for example that has benefited us a decent extent because we moved a bit away from banks and into money market instruments. Overall both on Equity and debt side we are seeing much more interest on the mutual funds which we appreciate and I think that's what we're basically seeing is that as that move kind of thing goes forward that will help improve our ROTA as well. The third is that OPEX continues to be a huge lever, we have been able to maintain our operating expenses in an environment though it has gone up slightly in the first half it will come down in the second, we have been able to maintain our operating expenses in an environment that has not seen a lot of growth. On growth such coming back into the system you will see that we will be able to push down our operating expenses significantly and so we are still maintaining that we believe that we can go to 3% post-tax numbers over the next 3 to 5 years and that is really going to be a combination of the mix, the business mix, operating expenses and cost of funds and obviously what we do see happening over time is that the loan loss levels which are at all-time high for us will also come down.

Swanand Kelkar: When you say mix optimization you mean more on the Vehicle Finance side?

Vellayan Subbiah: On both, because for example if we see when we want to grow our Home Loan business – each of the businesses Rohit's business is between, he is experimenting with a couple of other

businesses we have talked about like Chola Money, Home loans, as some of these new businesses pickup his ability to affect mix as well goes up significantly.

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

Anand Laddha: If I had seen the provision calls on the Home Equity business has gone up, if you can guide us what is the gross NPA in the Home Equity business and the comparative number for Q1 and Q2 last year for Home Equity?

Rohit Phadke: The gross NPA number for Home Equity is 3.23% at the fourth bucket,

Anand Laddha: What could be the fourth bucket in Q1?

Rohit Phadke: In Q1 the fourth bucket is 2.81%.

Anand Laddha: Any reason for increase in Home Equity business gross NPA sir as the percentage in system is increasing and now we are seeing a fairly large cycle of in this business can guide us what could be the ultimate loss and default in this business?

Rohit Phadke: Our NPL is still at about 0.7% so NPL is pretty low, we have not written off anything at all it is only provisioning. The second thing is as I said the demand SME credit cycle are still very stretched, we find that customers who have been paying us regularly for the past 4 to 5 years also have cash flow problem for the simple reason that the business has gone down. This does not seem to be a stress but yes this is the temporary slowdown problem which is affecting the industry but there are two positive things which are happening one is the notification on SARFAESI is still pending with the Ministry of Finance. The second positive thing which has happened is there are amendments to the Arbitration Act where they have ensured that the arbitration would be speedier and secondly the objections which the customer raises would be amended and the customer would not have much say once the arbitration award is passed. The cabinet has cleared the Arbitration Act and it will come up for approval in the months. Once when both these SARFAESI Act and the Arbitration become effective I think in the next two or three months we will have significant levers to pressurize even these good customers to give top priority to ensure that they close their loans. So I do not see any stress, this is a temporary situation. These are good customers with assets and it is a basically because there is a business problem that they are unable to pay or they have cash flow problem in the short run.

Anand Laddha: What is the loss driven default in the Home Equity business?

Rohit Phadke: As of now there has been no loss at all. The gross NPAs that you see or cumulative NPAs for the past nine years. The only reason they are pending is because in Home Equity businesses even to reprocess the asset you have to go through legal, legal process in our country is slow and that is why I said that once that SARFAESI and Arbitration are amended and they are

there, our legal process would be much faster and our ability to recover would be much faster and these things are expected to happen in the next 2 to 3 months.

Anand Laddha: You mentioned that net NPA in the Home Equity is 0.7%?

Rohit Phadke: It is just 0.7% still.

Anand Laddha: Arbitration Act requires Parliamentary approvals?

Vellayan Subbiah: Yes.

Rohit Phadke: Sorry the Net NCL....

Anand Laddha: NCL provisions?

Rohit Phadke: The Net Credit Losses. The net NPA is 2.37%. The NCL the credit loss is just 0.7%.

Anand Laddha: 0.7% for the full year or this number is cumulative number?

Rohit Phadke: No that is for the year

Anand Laddha: Credit cost for Home Equity business for this year business is 0.7%....

Vellayan Subbiah: Correct.

Anand Laddha: Our margins had improved on the whole business and the bulk of the improvement in margin has been coming from the Vehicle Finance business, if I have to see the loan mix it has not changed very significantly so if you can explain us what are the drivers of those margins and where do you see those stabilizing?

Vellayan Subbiah: You have three factors – one is there is a bit coming from loan mix because we are doing more Used Vehicles as well and the Used Vehicles obviously have a higher yield, so one component is that. The second component is what we're seeing is that obviously there has been a lot of fees that have piled up like shortfall collection is another area basically if we repossess a truck and sell it and have the loss on the asset then basically that delta the loss on the asset continues to remain in shortfall. The amounts have gone up we have started collecting that shortfall now.

Anand Laddha: Is it similar to penal interest we collect?

Vellayan Subbiah: Basically think in this way which is a shortfall collection, let us say what a customer owed us was Rs. 1000. We repossessed the asset and on the sale of the repossessed assets we made Rs. 800, so that delta Rs. 200 is still has to be paid to us so that is in effect is an unsecured loan because there is no longer asset against it but we only recognize it when we collect it that goes straight to kind of an improvement in NIM. The third component is the reduced cost of funds

which has had a significant contributor as well this quarter and this half. Because the reduced cost of funds is happening because of two things one is we have had not enough as Mr. Rajan would say transmission in base rates so hopefully guys will decrease base rates more but we have had some decrease in base rates and we have also moved our mix more towards money market instruments.

Anand Laddha: If I had to see the loan book used is what, 28% of the loan book and the same time last year it was around 28-29% only.

Vellayan Subbiah: Used is 32%.

Anul Selvan: 32% is disbursement 28% is the portfolio.

Vellayan Subbiah: Okay you are telling at the portfolio level.

Anand Laddha: Yes at portfolio level.

Vellayan Subbiah: I think when we see the overall yield for us, we can look into the data, I know the overall yield number has gone up a bit so your question is hey listen if the mix is the same how is the overall yield gone up. There is another contributor obviously which is on the income reversal on the collection side.

Anand Laddha: It is what penal interest?

Vellayan Subbiah: No penal interest. It's the provisioning bucket, keep it simple because we have also been moving provisioning buckets but let us keep it simple and say that you are at the fifth bucket provisioning. When you hit the fifth bucket let us say you have not paid or you have hit five months overdue at that point we are reversing all of the income that we would have recognized for the first five months. Now you come from five months overdue and you become a regular customer. Now you have to reverse that income reversal, so in a market where the guys are beginning to pay more than not pay you will get more reversal of income reversal than actual income reversal itself. They will also help you in NIMs.

Anand Laddha: Is there any further space for margin improvement, one is cost of funds can decline further, can the yield further improve from this level? Yield on loan book can improve further?

Vellayan Subbiah: I think this is a healthy NIM, both businesses are at healthy NIM right now. 8.5% is very decent, it's been the highest that we have been in almost like four and half years, so especially you guys are modelling anything I would definitely say the way you have to look at is over time there has got to be some efficiency in market transmission as well. There might be slightly more pressure than the kind of push out a bit more of this into the market, so I would say that this is a good level to be at. It allows us to start pushing to our ROTA levels will like to hit so I do not think we should plan on any more.

- Anand Laddha:** What are the gross NPAs in the vehicles finance book in Q2 and compared to number for Q1?
- Vellayan Subbiah:** On the fourth bucket?
- Anand Laddha:** Yes.
- Arun Selvan:** The fourth bucket vehicle financing is 5.05% and in the first quarter it was 4.91%.
- Anand Laddha:** Now we have been seeing the cycle is it fair to assume the loss given default in vehicles finance is around 30 to 40%
- Arun Selvan:** LGD on repo will be 25%. It will be around 2% on the overall book.
- Anand Laddha:** For example, if it is an Rs.100 vehicle has turned into an NPA, what could be the ultimate loss we will have to provide on that? Is it 40%, 50% the real crystallized loss?
- Vellayan Subbiah:** We will try and see if we can get back to you with this data.
- Anand Laddha:** Last quarter Q1 we provided Rs.21 crores towards the VAT. Any update on that?
- Arun Selvan:** We had provided additionally Rs.1 crore because this is for the repossessed vehicles during the current quarter. From the regulatory side, it is the same state like there have been deferment of these hearings. So there has not been any movement either positive or negative.
- Anand Laddha:** I believe we won the case in Andhra but it is pending in other states. So whenever it comes in favor there will be some reversal of expenses?
- Arun Selvan:** It if comes in favor it will then be reversed.
- Moderator:** The next question is from the line of Rahul Bhangadia from Lucky Investment Managers. Please go ahead.
- Rahul Bhangadia:** Just a question on the accelerated provision that you have done which is Rs.53.6 crores. Just wanted to understand the nature is there anything one-off kind of number within that number in the sense that something cumulative that you are accounted for? That is one. And second, has this been kind of accounted uniformly over Q1, Q2 or is there a skew out there?
- Vellayan Subbiah:** Just to give you a sense, you take the amount of assets that you have in your coat pocket. Your question is kind of I am confused by the Q1, Q2 because you think of it more as a balance sheet item than a P&L item because you are moving to whatever assets you have in the fourth bucket versus the assets you had in the fifth bucket. So from that perspective it is a state of business as of today. So, now going forward we will always be in fourth bucket provisioning.

- Rahul Bhangadia:** My question was the impact of PBT that you have mentioned because that particular impact was not mentioned in the previous presentation. What I wanted to know was that whether this Rs.53.6 crores has been accounted in Q2 or it has been accounted overall H1?
- Vellayan Subbiah:** It is accounted in Q2.
- Rahul Bhangadia:** So this Rs.53.6 crores you have put completely in Q2, right, and this Rs.53.6 crores is for the whole bucket as you just mentioned basically?
- Vellayan Subbiah:** That is correct. One way to look at it is PBT would have been higher by Rs.53.6 crores had we not taken this movement.
- Moderator:** The next question is from the line of Gaurav Agarwal from ENR Advisors. Please go ahead.
- Gaurav Agarwal:** In the annual report, under the provisions and loan losses line item there are two other items, like loss assets written off and loss on repossessed assets. The number which I can see it is the net of some items. I wanted to understand which items are being netted off to arrive at these two numbers?
- Arun Selvan:** It is net of means there will be a movement in the provisioning which will be the net provision movement. The moment you repossess you create a provision and the moment you sell it you crystallize the loss and adjust the provision against it. So that can be a positive or a negative movement on this adjustment.
- Gaurav Agarwal:** In the same head, there is another item provisions released for non-performing assets on recovery are written off. So that item is separately given.
- Arun Selvan:** That is for provisions on NPA. This is for provision for repossessed assets. There are two different provisions. In the case of NPA, the asset remains in the book and there is an NPA provision and there is a movement thereof.
- Gaurav Agarwal:** And what about loss assets written off net?
- Arun Selvan:** Losses are written off is where if you have not collected and you are taking a call that this cannot be collected anymore and then you are providing for it. You are not even able to repossess.
- Gaurav Agarwal:** Any changes at the fundamental level that you are thinking to implement considering the changes in the enquiry commission norms? May be next year you may think of shifting to 90-days but the fundamental practice of the business remains the same. Any changes at the ground level, any change in the target audience, may be the policies, anything which you can talk about?

- Vellayan Subbiah:** That is a good question. We have talked through this. There are two things -- One is we do not want to fundamentally change the nature of the business because we are changing the nature of our provisioning norms. It is the business we have come to understand well. We know the segment well and we should not move away from the segment just because we are changing our provisioning norms. The second point is what then that throws out is how do you actually behave in terms of the market. At least we feel that we are going to see how this 120 data pans out. But our feeling is that we should not get much more aggressive on early stage repossessing just because we have changed provisioning norms. Obviously, we need to see how this pans out as we go into next year. It is going to depend on where we are in the cycle. But our belief is that we should be able to maintain that status and not fundamentally change our repo strategy based on our provisioning strategy.
- Gaurav Agarwal:** Historically, what has been the loss state from repossessed total assets maybe across the cycles during good times, during bad times?
- Vellayan Subbiah:** Losses have been between 0.8% and 0.9% of the total assets.
- Gaurav Agarwal:** I wanted to understand the historical impact on the P&L and on accounts? When did the last time you changed your NPA from 180 days to 150 days?
- Vellayan Subbiah:** We changed six months ago.
- Moderator:** The next question is from the line of Shrey Loonker from Reliance Mutual Fund. Please go ahead.
- Shrey Loonker:** If you can give us some idea of how the second hand CV prices are moving and the discount towards the first hand prices -- is it widening, is it narrowing, is it broadly the same, are there any geographic split there, if you can give us some texture there that will be helpful?
- Arun Selvan:** Second Hand Vehicle whatever repo vehicle we are selling month-on-month and the losses which we are incurring it has come down from 47% to 35%. So the realization has improved by 15% over the last six months' time. Heavy Commercial Vehicles has actually improved much higher than the Light Commercial Vehicles. The Small Commercial Vehicles is basically a cause of concern. It is actually at the same level, but among the Small Commercial Vehicles some of the manufacturer vehicles like Tata Ace and all it has improved from 38% to say 32%, 5-6% improvement is there in terms of realization. Overall, Small Commercial Vehicles and Light Commercial Vehicles I think we need to wait some more time, demands will pick up and then the old vehicle demands also will pick up and the realization will go up.
- Shrey Loonker:** But would it imply for HCV that the discount to the first hand prices would have reduced over the last one year?
- Arun Selvan:** Yes, it has come down significantly.

- Shrey Loonker:** The second part was in the HCV growth strong disbursements for that. If you can give us some geographical texture as to which were the states which turned around for us so well this time around?
- Arun Selvan:** We are having 529 branches across the country, fully distributed South, North, East, and West and disbursement is also more or less between 24% to 27% among the zones and thereby the HCV disbursement is also equal everywhere, and HCV disbursements in terms of industry also almost same across the country. South has picked up as compared to their last year last quarter and we have seen that Ashok Leyland is also doing better than Tata Motors Limited because the maximum sales are happening in South. So thereby our disbursement is slightly HCV skewed towards South this time but it is equally distributed.
- Shrey Loonker:** Can you can give me some idea of what would be the average ticket size growth for us Y-o-Y in the HCV disbursement ...a ball park number would just help?
- Arun Selvan:** Medium and Heavy Commercial Vehicles, both we take it under HCV. That means 16 ton GVW till 48 ton GVW. The cost of the vehicle is basically from Rs.14 lakhs to say Rs.27-28 lakhs. So overall our ticket size is around Rs.18 or 19 lakhs.
- Shrey Loonker:** That would have seen some movement upwards I would presume, right?
- Arun Selvan:** Not much, because what happened is during this time Medium Vehicles also started selling more. The growth of M&HCV segment is driven by both Medium Vehicles which is 16 ton which went down last time; it has started selling more, which is coming under the HCV segment only. So thereby the ticket size is actually maintained.
- Shrey Loonker:** If you can give us some idea of how the collection efficiency has improved, the degree of it and probably a few ideas because the commentary across players and across participants what we pick up on the rural the cash flow still remain weak. So is it more intensity from our work force which is leading to this better collection efficiency or better velocity of cash flows at the customer level?
- Arun Selvan:** It is because of the intensity of the collection like four to five times we are sending our people to collect the money. That is what is helping us.
- Shrey Loonker:** This particularly has changed over the last six to seven months because I would presume that is how our recovery architecture would be?
- Vellayan Subbiah:** It is actually kind of a cumulative effect of keeping off that intensity over a period of time. We just do it once or put a sudden burst for one or two months it does not have as much effect but basically because you keep that intensity up over a year we have been almost 18 months in this, that is what is beginning to kind of give us that benefit and we are seeing that both in terms of I would say when we look at our early default data for example on new heavy for the last almost 15 months every month our early default has come down. As a matter of fact in

every segment in both the Light Commercial Vehicles and Heavy Commercial Vehicles new ones that is the case. Early defaults have dropped every month for the last 15 months and early default is an early indication of the performance of the current portfolio.

Shrey Loonker: The early defaults going down would also reflect the increased cash flow velocity also. Could that be read as well?

Vellayan Subbiah: There has got to be some market effect. I think it is a bit kind of arrogant for us to assume that it is all our doing. It is obviously the three factors going into it -- One is the market; the second is in actual adjustment that we tightened our credit norms; and the third is the collection intensity.

Shrey Loonker: We have seen very heavy disbursements growth in Vehicle Finance not so much reflecting in the Loan growth. Is collection efficiency the only concerning factor there or is there something more to it?

Vellayan Subbiah: There is obviously another driver which is the run off in the business. The growth over the last three years is what affects your run off this year.

Shrey Loonker: It is just that the portfolio is vintaging ...?

Vellayan Subbiah: Exactly. So you will have more run offs. So you will need more to kind of drive more growth.

Shrey Loonker: This will be a trend which will be visible even in the forthcoming quarters as well?

Vellayan Subbiah: There is a crossover point. The way to look at it is as an inflection point when your disbursement growth goes more than x, then it has contributed to asset growth will start pushing up, but right now for this year I would say that this trend would continue.

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

Sunil Kothari: Just wanted your thoughts on this payment bank license we have got. What will be our strategy -- will it change functioning, how it will help over a longer term and which are the challenges broadly?

Vellayan Subbiah: Broadly, what we would like to do is we are just in the midst of defining and articulating our strategy for the bank. Actually I will be in a better position to answer this question kind of a quarter from now because then we will have much more clarity around. We are obviously spending a lot of time on that. But I will have a lot more clarity to answer your question. Broadly, we have given very high level stuff in kind of in press interviews and the like and actual articulation I will be in a better position to do next quarter.

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

- Anand Laddha:** This quarter the employee cost has grown very fast. Is there any one off in that line?
- Arun Selvan:** We have floated few incentive schemes and we have provided for that; one is to reduce the NPAs and then also to drive PBT at the branch level. This is the first time that we are driving PBT at a branch level. For that we had created certain provisions and it is more like a one-time, around Rs.8 crores.
- Anand Laddha:** That is only for one quarter or would it be for the coming quarters also?
- Arun Selvan:** That is more like one quarter. We will have to see the efficiency and we will see if that needs to be continued and that will be a call taken as we go along.
- Anand Laddha:** The provision ratio has come down to 30%. I know we had moved to 120-day bucket. But going forward what sort of ratio would you like to maintain or...?
- Vellayan Subbiah:** We have talked about this in the past. This is where we need to see, we will take a look at it. There is a provision ratio one has to look at as an output. It is not something that you basically and we can show you a whole grid that basically determines what the provision ratio is going to be. If you just look at the basic math, I will tell you how we are doing it right now and what the RBI requirement is. If you think of what is happening is in the 4 to 4.99 bucket and the 5 to 5.99 bucket we are providing 10%. In the 6 to 11.99 bucket we provide 25% for everything except for Shubh or our used trucks where we provide 40%. And then in 12 to 24 again we are at 25% for everything except that at 12 we move our used trucks to 100%.
- Anand Laddha:** And the normal truck which is like 10 in the first bucket, 25 in the second, 35 already provided for the normal?
- Vellayan Subbiah:** The normal trucks go to 100% at 24-months. If you use this grid you have a weighted average that then throws out what your provisioning percentage is going to be. Now, obviously what causes a drop in provisioning percentage is that most of your weight is sitting in four to six. This is obviously a new trend for everybody. It is a weighted average, right. But if most of your weight is sitting in four to six, obviously, your provisioning is going to tend more towards 10%. The RBI norm is 10% up to two years.
- Arun Selvan:** Goes on to 20% and then 30% till you reach 60. Once you cross 60-months you go to 100%.
- Vellayan Subbiah:** Anybody provisioned according to RBI norms then their provisioning coverage will be something like 12% or 14%. This is a big challenge in the math. This will have to be some iterative process. For example, how can we increase our provisioning coverage? It is basically by taking what is in four to six and then suddenly providing 30% for it. If I start provisioning 30% for four to six, then I will be creating a lot of pressure to start repossessing early. Repossessing early is a wrong behavior again which is why I think that only till everybody then comes and normalizes till we see guys like Shriram and other guys come in and we understand how are they doing it, it makes sense for the industry to move towards something

similar, but we need to see how the other guys do this when they move to 120. And may be happy to send you kind of this grid.

Moderator: The next question is from the line of Nidhesh Jain from Investec. Please go ahead.

Nidhesh Jain: My question is on Home Equity business. What is your outlook on post tax ROA on that business? And secondly, your disbursement growth for the quarter has been on the lower side. So what is your outlook on the competitive intensity in that business increasing, what is impact on the growth as well on the yields?

Arun Selvan: If you look at our asset growth, the asset growth is in line, we have always said that we grow at a steady pace between 20 and 30% and asset growth is still at 25%. We expect to maintain 20 to 30% growth on our assets. On the PBT route also we have always said that PBT route was pretty high earlier, I do not think they are realistic, but we should fairly maintain (+3%) PBT route.

Nidhesh Jain: But we have seen a decline in disbursement as well as some pressure on the net interest margin side despite some cost of fund benefit?

Arun Selvan: If you look at the marginal yield, the NIM on the marginal book is a healthy 3.9%. There will be certain pressure on NIMs on the book because generally the yield in the market have gone down but we are in line, our NIMs have not dropped, our NIMs are where it were same period last year.

Moderator: The next question is from the line of Nischint Chawathe. Please go ahead.

Nischint Chawathe: This is more on the liability side. The share of bank loans has declined from around 65% in the fourth quarter to around 56% currently. Any sense if you could give us where this settles down to, and ideally in the overall liability mix what should be the share of CPs?

Arun Selvan: 45% to 50% will be the bank loans. As we have explained in the past also, quarter end and year end there will be seemingly a little bit high on the bank loans, but around 45% to 50% will be the average across the year set of a level.

Nischint Chawathe: Any specific target CP level?

Arun Selvan: CP levels we will keep it is in the range of around 12% level because that is what will be the one which will match our ALM. I need to match it against my one year maturities on the asset side. I cannot scale up CPs beyond that.

This was the last question for today's conference. Thank you very much for attending the calls to all the participants and thank you very much for the management to give us an opportunity to host this call.

Moderator

Ladies and Gentlemen, on behalf of Kotak Institutional Equities that concludes this conference. Thank you for joining us and you may now disconnect your lines.