



**“Cholamandalam Investment and Finance Company Limited
Q2 FY 2017 Earnings Conference Call”**

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**MODERATOR: MR. NISCHINT CHAWATHE -- KOTAK SECURITIES
LIMITED.**

Moderator: Ladies and gentlemen, good day and welcome to the Cholamandalam Q2 FY 2017 Earnings Conference Call hosted by Kotak Securities Limited. As a remainder, 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 telephone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Nischint Chawathe from Kotak Securities. Thank you and over to you, sir!

Nischint Chawathe: Hello, everyone. Welcome to the 2Q FY 2017 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. Arul Selvan -- Executive President and Chief Financial Officer; Mr. Rohit Phadke -- President and Business Head (Corporate Finance, Home Equity and Home Loans) and Mr. Ravindra Kundu -- Executive Vice President and Business Head (Vehicle Finance).

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

Vellayan Subbiah: Nischint, thanks a lot and good morning, everybody, Happy Diwali and just want to go through our quick performance for the quarter, I will be happy to turn it over to you for questions. The quarter continue to be fairly strong for us as we expected rest of the year as well. The PAT for Q2 is at Rs. 171 crores which is a growth of 42% over Q2 FY 2016 and for the half-year our PAT is Rs. 337 crore, a growth of 46% over the same period last year.

Our Q2 FY 2017 disbursements are at Rs. 4,444 crores which is a 21% growth over the same quarter last year and NIM has been maintained at 8.4%.

We finished with closing assets of Rs. 31,892 crores which is a growth of 19% over the same quarter in FY 2016. And GNPA which we report on a four months overdue basis has improved to 3.5% compared to 3.6% in the same quarter last year.

Vehicle financial business, disbursed Rs. 3,247 crores against Rs. 2,790 crores in the same quarter, that is a 16% growth and this has been possible due to growth in our light commercial volumes and also healthy growth in the used vehicle business.

Home equity grew by 17% from Rs. 770 crores to Rs. 901 crores and like I said we have seen aggregate growth of 21%.

The PBT ROTA for the quarter improved 3.7% as against 3.1% in Q2 FY 2016 and on half-year basis ROTA was at 3.8% compared to 3% in the previous year. And capital adequacy ratio of the company is at 18.69% as against regulatory requirement of 15%.

The subsidiaries made a PBT of Rs. 2.17 crores and the consolidated PAT for the quarter is at Rs. 168 as against Rs. 122 which is a growth of 37%.

So, I will stop with that and I am happy to turn it over to the conference for questions. Thank you.

Moderator: Thank you. We will now begin with the Question-and-Answer Session. We take the first question is from the line of Shweta Daptardar from KR Choksey. Please go ahead.

Shweta Daptardar: Just a couple of questions, sir, you mentioned last quarter that the growth in Heavy CVs is coming off so, what is your outlook ahead especially for the next 12 months?

Vellayan Subbiah: Yes, so obviously, kind of if you see this quarter the overall industry volumes are down 17% so, if we take Q2 FY 2017 versus Q2 FY 2016 we finished with 51,700 and everybody has a clear different way of categorizing Heavies so, we have finished with 51,700 versus 62,000. We do expect this to sustain I mean those are heavy numbers will pick-up compared to last year's numbers we do expect some of this de-growth to sustain.

Shweta Daptardar: Okay. But you expect it to pick up by the end of FY 2017, right, especially post the discount season?

Vellayan Subbiah: Yes, see basically we think at best the numbers will remain flat but I do not think we are going to expect any kind of stellar growth in Heavies in the second-half. I mean Heavy growth does go up because the second-half is larger than the first-half but you can compare it with the same quarters last year we do not think the growth is going to be significant.

Shweta Daptardar: Okay. Sir, secondly on the branch count front so, almost after three years we added 100 odd branches in first-half of the current fiscal so, what are the plans ahead especially region wise because these 100 hundred were concentrated in Tier-II and Tier-IV so, what is the brand expansion plans ahead and the region wise focus?

Vellayan Subbiah: Right. So, now we are at 637 branches and my sense is that we will finish the year, we will add another 70 branches before the year is out and what we will likely do over the next 12 months is probably add in another 150 branches, right. So, we are going to kind of increase our presence significantly in the smaller towns so, my sense is we will finish the next 12 months with close to 800 branches.

Shweta Daptardar: Okay. Sir, and coming to home equity business, quarter-on-quarter the performance has been sluggish both the disbursement front as well as on the AUM front, so what are your comments over there?

Vellayan Subbiah: I do not think the performance has been sluggish in terms of the AUM front, it has been about 18% growth which has been slightly lower than we have had in the past so, that is also driven by the fact that we are basically looking at both AUM and disbursements have grown to 18%

versus 23% which is what we were used to in the past so, we take over the last two years. So, the reason for that really is that we have been tightening a bit to focus best on our portfolio which has seen slightly elevated stress levels compared to what we have had in the past. So, we are seeing elevated stress levels, we want to first focus on improving portfolio quality before we start significantly increasing disbursements.

Shweta Daptardar: Okay. So, which portion of your home equity portfolio is actually observing those elevated stress levels?

Vellayan Subbiah: No, it has been across the portfolio and for the most part kind of similar to concentration or kind of where our assets are and obviously, I think your question is kind of are there slightly elevated levels in the north there are particular areas like Delhi ,Punjab, Haryana and Chandigarh that are seeing slightly elevated levels there as well.

Shweta Daptardar: Okay. Sir, what are the kind of GNPA's in this particular portfolio?

Vellayan Subbiah: So, we are at 4.1% in terms of home equity.

Shweta Daptardar: And the previous quarter I think it is higher than the Q1 what was the Q1 number sir?

Vellayan Subbiah: 3.8%.

Shweta Daptardar: 3.8%, okay. So, I mean this is the kind of number which we will be looking at even ahead 4% plus?

Vellayan Subbiah: Well, I would say that these numbers would probably sustain for the rest of this year and then it will take it will take at least four months to five months for these numbers to start dropping.

Shweta Daptardar: Sir, and lastly the funding mix, now it is tilting towards debentures and moving away from bank term loans and you also mentioned about in the last quarter so, what is the projected funding mix looking like?

Management: So, the term loans will be around 35% is what we are targeting, 5% movement will be observed in the debentures that will go up to 37%, rest of it will remain similar.

Moderator: Thank you. We take the next question from the line of Shubhranshu Mishra from Anand Rath Share. Please go ahead.

Shubhranshu Mishra: What I want to understand, there are two things one is we have had some strict environmental regulations with respect to that how do you see your used vehicle portfolio changing or any kind of changes that you can highlight here?

Vellayan Subbiah: Yes, Shubhranshu thanks for the question. I think we addressed this question in last conference call as well. I think the only .03% we present of our books is completely in the domain that

will get potentially affected by this and we do not do many vehicles that are more than six years old, so the amount that our booked is affected by this is minimal, I think we address the question last quarter as well.

Shubhranshu Mishra: Okay, sure, sir. And second given your branch expansion, it is mostly what you are forecasting is also in Tier-III, Tier-IV cities do we see any chain in mix as an LCV is growing faster than the heavy vehicles or medium commercial vehicles?

Vellayan Subbiah: Yes, we will see some of that and also like I said it is going to push us more towards the used market as well, right. So, both of those trends we will continue. But what we are also seeing for example is that there is a lot of up country of cars and MUVs and two wheelers so, those two businesses will continue to grow for us as well and we are beginning to see an uplift on the tractor segment again. But definitely those businesses will tend to push growth more than things like heavy.

Shubhranshu Mishra: Right. And any kind of number you would like to guide us for in terms of growth in that portfolio?

Vellayan Subbiah: Portfolio growth you are talking about?

Shubhranshu Mishra: Yes, sir.

Vellayan Subbiah: Broadly we have always kind of indicated 20% to 22% asset growth with slightly higher profit growth numbers with higher profit growth numbers.

Shubhranshu Mishra: Sure. And any color on how looks at the return equity and return assets any guidance on that?

Vellayan Subbiah: Like we have said, right I mean return on assets, pre-tax return on assets are now at 3.8% and the so, we were to look at the return on equity has gone to about 17.06% so, where we see this is going obviously in the second-half we do believe that this number will basically increase and during the second-half of the year is just half of the year in terms of performance so, both of these numbers will go up in the second-half if you are asking exactly will it go to we do not guide that specifically but we definitely do see them going up in the second-half.

Moderator: Thank you. We take the next question from the line of Vikesh Mehta from Religare Capital. Please go ahead.

Parag: Hi, sir, this is Parag here. Sir, if I add up your PBT for vehicle business and home equity business the number is actually lower than the reported I mean in the financials because that has been volatile all the time but this time the differences is around 20% so, what is the reason for this?

Vellayan Subbiah: Parag, that is a good question and our BU Heads will also support you on that question. Basically, what happens is the way it works is for the individual business units they get a

transfer price for the cost of funds from treasury and the rest of the gains go to treasury as a profit center. So, when you see the difference there is basically what our treasury gains.

Parag: So, basically on a segment basis you compensate to the treasury for the better performance?

Vellayan Subbiah: That is right, so, basically we benchmark against a particular index to create the transfer price for home equity and then there are many transfer prices for the vehicle finance business based on whether they are priority sector loans and based on the type of product and the tenure and then any gain above that kind of below that if the cost of funds are lower than that then that gain ends up going to the treasury business so, this quarter the gains for the treasury business was Rs. 41 crores which is obviously higher then so, it is significant number, the same number for the quarter was Rs. 8 crores.

Parag: Yes. And also, the ROTA PBT percentage which you generally report this is like cumulative on six months' basis which is 2.3% for home equity business for the full six months and the first quarter you did 2.6. so, if I have to probably think about the second quarter ROTA it should be lower at around 2.1 times kind of percent which is like slightly 40 basis points reduction quarter-on-quarter it looks slightly higher to me.

Vellayan Subbiah: You are seeing the ROTA for home equity. Yes, so basically the movement is based on two things, right kind one is what is happening clearly in that portfolio we are seeing an increase in terms of the yields are dropping and but the Q1 of 2016-2017...

Management: No, this is Q2.

Vellayan Subbiah: It is Q2, okay. So, basically there are two things, right; one is an interest income drop we just explains about 0.2% some has come from losses and so, you have two or three factors basically driving that drop.

Parag: Okay. And you said GNPA is 4% what was it same quarter last year?

Management: Same quarter last year, 3.2%.

Parag: Okay. And lastly, just very quickly since we are adding so much and these are guidance on OPEX reduction which we are being guiding since probably past one year - one and half year, is there anything to change there I mean are we going to be instead of taking two years we are going to take three years or something like that because the branch addition looks reasonably high now.

Vellayan Subbiah: Yes, you are right. The branch addition does not add significant cost for us like it does in the past. I think the bigger issue clearly is driven by productivity where we wanted a lot of the productivity gains to come from technology and what is probably cause is slowing down in that reduction of the OPEX assets number has been fact we have been slower than expected in terms of the technology roll out. Our new system we have had some glitches so, basically I

would say that process is delayed the roll out by almost nine months so, the earliest we will begin to see some productivity gains will be the first the last fiscal quarter this year January, February, March, so, yes, that has caused a delay in terms of us realizing there is reduce operating expenses to assets.

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

Digant Haria: I have in the last 12 months our credit cost has dropped significantly we were doing close to 40 bps to 45 bps in the past and now we are very close to 25%, so, I have two questions here one is what in the CV cycle is helping bring down these credit cost? And second is do we think we have reached somewhere at the bottom and should we stay here for some more time?

Vellayan Subbiah: No, definitely we have reached bottom, we do think we have to improve from the current levels, right now we finished the first half at 1.3% in terms of net credit losses to assets, we believe that is a most sustainable for that is almost 50 bps down from 1.3% so, over average over the cycle we need to bring down about 0.8%. The second in terms of what is driving is I think there is a combination of three things one is that we did start tightening underwriting standards ahead of the rest of the markets, the second is increase in significant collection intensity and that is a second reason kind of the earlier question that we had on operating expenses to assets a significant increase in operating expenses has come from the collection side but that is a conscious decision where want to keep the operating expenses. Even though it is keep the operating expense slightly higher it is improving portfolio performance so, definitely the increased collections intensity has helped it and the third of course is the market, the market has improved over the certain extent but though I mean I do not think the improvement in itself is huge. So, those three factors are what explain it. If you are asking me how we would allocate to each factor, I guess the easiest kind of cop out is third but I think that you cannot explain on than a third of it from market improvement so, the other two factors are quite important as well and I think you are seeing that in terms of how our books are kind of performing compared to some of the others as well.

Digant Haria: Yes because your credit cost is probably the lowest amongst all vehicle finance NBFCs so, that is very commendable.

Vellayan Subbiah: Thank you.

Digant Haria: And lastly on this home finance a bit, so, do we think this probably we have applied some bit of breaks on the home equity profit should that be compensated by the improving home finance book in the coming years and what do you see this overall mix say two years or three years down the line?

Vellayan Subbiah: Yes, definitely, like I have indicated I do feel in the medium-term the housing loans, the home finance business has a potential to be the same size or bigger then the LAP business. Now,

how long we will take to get there I think it is your question but I think that you is more like five years versus two years to three years.

Moderator: Thank you. Next question is from the line of Sunil Tirumali from Credit Suisse. Please go ahead.

Sunil Tirumali: Hi, this is Sunil Tirumali from Credit Suisse. Sir, just a couple of questions, you mentioned that your long-term target for funding is about 35% we have heard a come down from about 50% to 39% so, you already covered fair amount of ground and especially over the last six months I guess. I am wondering why that has not translated into a NIM benefit because going forward that funding cost as an incremental driver for margins is only the to extent bond yields fall further. But at least a shift from expensive bank funding to market borrowings has already happened mostly but still not shown up in your NIM benefit.

Vellayan Subbiah: Right, go ahead.

Management: What you are seeing right now is most of that numbers are end of the quarter number. Actually, even this quarter this benefits of this shift has not passed on completely. So, you will see more of the impact in the coming quarter on the NIM. On the cost of funds reduction, of course there is some sacrifice which is happening on the yield front in order to scale up the volumes.

Sunil Tirumali: Okay, got it. You have been maintaining this 20% to 23% - 25% kind of growth target when one of your key segments which contributes nearly to a third of or your business, you are seeing fairly high NPAs I mean have not seen 4.2 kind of NPA in the LAP business in many other places and you should probably be slowing down I mean what is the need to have a target which implies in acceleration of your business from current levels?

Vellayan Subbiah: I mean first of, I do not think it is an acceleration per say right because one advantage we have always had having this mix at least to start with the vehicle finance in the home equity business and on some of the other businesses is the fact that traditionally, the home equity business has tended to lag the down cycles in the home equity business have ended to lag the down cycles in vehicle finance so now we see vehicle finance picking up and then you know home equity kind of going to a bit of down cycle. The important thing is that we are able to kind of manage it on the balance right so, where we are seeing an opportunity to be slightly more aggressive in vehicle finance we are choosing to be more conservative in home equity and that is a conscious decision and I think somebody else asked us the question saying why have you gone more conservative in home equity and this is the reason, right which is why we are seeing 16% growth versus the 23% and that number might kind of drop even a bit more. But the vehicle finance business now, it is an opportune time for that business to grow. As a matter of fact, we are seeing a lot of conservatism from some of the other lenders in the space and it is kind of creating a bit more of opportunity for us to grow in that business right now. So, I do not think there is a question of kind of and we are not trying to Sunil from this

perspective we have never try to hit a particular kind of asset growth number kind of the level of conservatism or aggressiveness is purely based on numbers that we are seeing in terms of portfolio quality and performance and that is the central number for us kind of that actually drivers a lot of the on-ground activity and I do think that as a trend will continue. But like I said, I mean there is a lot of opportunity right now in vehicle finance right I mean car MUVs we have a very small market share in our up-country locations we are seeing a lot of demand for that product, with good yields, with very good ROAs so, the central focus for us has always been an ROA expansion and you are seeing that play out which is basically pre-tax ROAs now gone to 3.8% I feel confident that we will end this year at 4 plus. So, that is the central focus for us and if we can do that with a particular level of growth then that is what we aspire but definitely we are not trying to kind of grow book in an environment that is going to create more risk for the books.

Sunil Tirumali:

Okay, thank you. And my last question on this chart on employees that you mentioned quite a few employees has been taken on-roll, just wanted to understand what is the thinking behind that and what the actual job description that are being taken on-roll and does this have any cost impact? Thank you.

Vellayan Subbiah:

So, Sunil here the one point that I kind of maintained over time is that there is no a very significant difference I mean there is on-roll, off-roll is a bit of kind of legacy mind set, right because realistically now in India there is not much of difference between the two, right so, our perspective has been the branch managers in the smaller branches in some of the team leaders that have been with us for a long time in the field we prefer to have them on-roll and that is what causing the moment and we will continue to kind of do that on a selective basis just because we do not think that it makes sense to have this artificial demarcation between kind of an on-roll and off-role employee.

Moderator:

Thank you. We take the next question from the line of Umang Shah from Emkay Global. Please go ahead.

Umang Shah:

I just have two questions, one was in continuation to OPEX so, if I look in this quarter the quantum jump in employee cost does not commensurately get offset by the fall in our other OPEX or may be our business origination expenses so, I just wanted to know is there any one-off and by what time do we plan to take all our employees on-roll and how does the OPEX trajectory looks for the rest of the year?

Vellayan Subbiah:

Yes, so, just to give you a sense obviously kind of what is causing our employee cost to go up is the number of people we have moved, right from off-roll to on-roll and that is what causing our employee cost to go up like I said we have not been able to reduce our operating expense at a level we like for two reasons like I said one is the technology kind of delay and I think that is about nine months delay. And the second has been that we continue to keep increased focus on collection and I have elevated levels of collection cost as a result, right but if we come back

to your question on the on-roll versus off-roll that is basically going to be a Rs. 15 crores annual increase for us...

Arul Selvan: So, Umang the on-roll, the off-roll moment will be around Rs. 20 crores which is going into salary account Rs. 15 crores will be amount which we always incur in the Q2 because annual increments happen in Q2 and there will be around Rs. 3 crores to Rs. 4 crores on branch expansion, that will be the Rs. 40 crores movement.

Umang Shah: All right, got that. So, basically our 2.5% OPEX to asset target that we had by FY 2018 it might get pushed to FY 2019?

Vellayan Subbiah: That is correct.

Umang Shah: Okay, sure. And my last question is that in our home equity business our NCLs now for past four quarters to six quarters have averaged anything between 80 basis points to 10 basis points so, incrementally if on a portfolio basis if we are looking at an 80 basis points kind of NCL is it fair to assume that now incrementally all the positive delta has to come in from this portfolio rather than from vehicle finance.

Vellayan Subbiah: So, I will answer the second part of it, year, I would say right now the positive delta is going to come from vehicle finance but your question on what level, Rohit do you want to kind of tell him what level you think is going to remain at?

Rohit Phadke: So, as I was saying that the first thing is that SARFAESI Act which is now applicable to us is going to help us reduce GNPA and the second important is you have to look at GNPA we have not booked a single rupee of loss of now this is a cumulative GNPA for the past nine years. Does it answer your question?

Moderator: Thank you. Next question is from the line of Khushboo Surana from ICICI Bank. Please go ahead.

Khushboo Surana: Hi, sir, this is Khushboo from ICICI I just wanted to know the DPD profile for the home equity segment.

Vellayan Subbiah: Sorry, what is the question again Khushboo?

Khushboo Surana: I wanted the DPD profile for home equity segment, if you could just give me those numbers.

Vellayan Subbiah: Specifically what on the DPD profile?

Khushboo Surana: How many days passed the...

Vellayan Subbiah: We are porting on 120 days.

- Khushboo Surana:** So, could you give me break-up of how much of your is less than 30 and less 60 and less than 90?
- Vellayan Subbiah:** I guess we do not give specific break-ups like we kind of in the past but you know you can see I guess, the only trends you can see probably are from the overall numbers and what the securities guys report.
- Moderator:** Thank you. We take the next question from the line of Roshan Chutke from ICICI Prudential. Please go ahead.
- Roshan Chutke:** Just one question, want to understand the GNPA across the vehicle finance business, how are the trend there any qualitative comments also can help.
- Vellayan Subbiah:** Okay. So, I mean your question kind of how is it comparing for different sub-segments in vehicle finance?
- Roshan Chutke:** Exactly sub-segments within the vehicle finance business.
- Vellayan Subbiah:** Okay. So, we took different business within vehicle as of September 2016, broadly our overall GNPA level is about 3.6% those numbers tend to be obviously kind of for the Shubh segment but I think the first thing is that pretty much all of our businesses are 5% and without kind of getting into too many specifics the segments are tend to be higher than the average tractor and Shubh and Mini LCV which is the small commercial vehicle and the best performing segments tend to be kind of like construction equipment is one of our best performing segments, cars and MUVs tend to be fairly strong performing segments as well, so, those tend to be below these overall average and then the refinance business also tends to perform very strongly for us. But what we look at more than the specific GNPA's by business is the risk-adjusted return on capital businesses which are the routers once you have adjusted unexpected losses on those portfolios as well and that is what is our driving in terms of how we plan, which businesses we grow and which businesses we curtail our growth on.
- Moderator:** Thank you. Next question is from the line of Jayesh Gandhi from Harshad Gandhi Securities. Please go ahead.
- Jayesh Gandhi:** I am sorry, if the question is being repeated because I joined the call a little late. Can you just give me the borrowing profile for this quarter?
- Vellayan Subbiah:** It is there in the Investor Presentation. If you refer Page #34 it is on our website. The breakdown you wanted is the at the end half there were 39% term loan, 14% commercial paper, 4% basically on cash credit, 32% on debentures and 11% on Tier-I capital.
- Jayesh Gandhi:** Sir, I just want to understand is there any thought in the mind of management as to they want to put this bank term loan into?

- Vellayan Subbiah:** We have indicated 30% to 35% number is there for bank term loan.
- Jayesh Gandhi:** Okay. And can you just tell what is the difference between the bank term loan and interest rate?
- Vellayan Subbiah:** Right now for the same tenure it is about 100 bps - 120 bps.
- Moderator:** Thank you. Next question is from the line of Nidhesh Jain from Investec. Please go ahead.
- Nidhesh Jain:** Sir, I have two questions, one is any thought process on this moment to 90 days DPD or any timelines that you can write-off?
- Vellayan Subbiah:** Like we have said we do not want to specifically guide but we will go ahead I think you can kind of make a fair assumption on when we will do it, I do not we would have a kind of so, we will do it ahead of time, so we do not want to guide on a specific time right now.
- Nidhesh Jain:** And sir, secondly on the home equity business so, this elevated levels of NPAs actually other players do not disclose their GNPA on home equity so, we do not have that information whether how is it performance but can you just give some perspective with respect to any behavior with the geography or ticket size or underlying collateral whether it is higher in self-occupied residential property or otherwise, any color on that would be quite helpful.
- Vellayan Subbiah:** See, we only do self-occupied residential property and so given that what our GNPA's are that is reflection. Also our average ticket size for the loan is about 50 lakhs and for the property therefore is about Rs. 1 crores. So, that is sweet spot that we stay in obviously, kind of we have that for larger properties the rates have gone up even more but it is not something that we are privy to because we do not have too many very large ticket loans in that business.
- Nidhesh Jain:** So, to conclude that it is broadly, similar across the portfolio, the stress level.
- Vellayan Subbiah:** That is right, like I said it is slightly in northern capital region and in Punjab, Haryana, Chandigarh.
- Moderator:** Thank you. We take the next question from the line of Swanand Kelkar from Morgan Stanley. Please go ahead.
- Swanand Kelkar:** Quick question slightly different, this is a question we normally pharma companies but I will ask you what is in the R&D pipeline for you. what new areas of business are you experimenting with giving some thought to which could probably become important in the next three years to five years?
- Vellayan Subbiah:** That is a great question, I think the biggest growth opportunity we see right now the two within kind of the housing loans business we see a lot of growth for that, right and Swanand I think I said that before, we see significant growth in that business. In vehicle finance itself there are

two business that are looking quite interesting we started off two wheeler loans just with Royal Enfield as a product and we have been working with the Royal Enfield, as you know we have a fairly strong relationship with Eicher because they do not have any in-house financier and we have had fairly strong market share with them and given the parentage we have been working with Royal Enfield team as well and we are actually fairly excited about how that business is growing and so, we are thinking of basically just may be a couple of two wheeler manufactures with good reputations and products and focusing on growing out the book with those two wheeler manufacturers so, that is the product that we are fairly excited about as well just because of the potential size of the business, I do not know but some of these Royal Enfield bikes cost as much as kind of small trucks now a day and so the potential given that Enfields number have been growing at this rate so, in that business two wheelers business we are tremendously excited about. So, two wheelers and constructing equipment are two segments and the housing loans is a third segment and the forth one where we kind of still testing the waters a little bit has been the bill discounting segment on the SME side. Now, will we start looking at other businesses, we are beginning to kind of think of looking the products in new ways, one of the products for example that is in the R&D pipeline like you say is the product that we have been experimenting with through one of our subsidiaries White Data Systems which is basically trip loans, I do not know if you are familiar Swanand with the business but just to give you a sense the trip credit market in India is basically if we see the size of the opportunity it is almost 70% or 80% of the entire truck financing market in India and what this product is, is basically giving a person a loan when they are taking, let us say carrying Tata Steel from a plant to a customer, the truck that is carrying that steel basically needs working capital, the fund that ride because Tata Steel might have 30 days or 45 days payment and funding the working capital for that ride using both the vehicle and the load provider Tata Steel, I am just using an illustrative example, so, I am not implying we are doing with Tata Steel but we would use Tata Steel as a counterparty to that loan. This is a product that we have just started but actually we are tremendously kind of excited about its potential, the size of this business is almost 70% of the trucking business in India today, right but still it is in very early stages, should this business grow, the good thing is that it actually kind of increases our stickiness with our customers and what we are finding is that most of our existing customers anyway takes these loans from the informal segment at 4% to 5% a month.

Swanand Kelkar: 4% to 5% a month?

Vellayan Subbiah: Yes.

Swanand Kelkar: Okay.

Vellayan Subbiah: So obviously, kind of we are not charging those rates but it is a product that is much in need today because there is nobody kind of actually financing this.

Swanand Kelkar: This is your microfinance basically?

- Vellayan Subbiah:** Yes, I do not know we want to call that, that has different implications if we call it that. But this is a product that we kind of tremendously excited about and are beginning to experiment with.
- Moderator:** Thank you. We take the next question from the line of Avinash Singh from Jefferies. Please go ahead.
- Nilanjan:** Hi, Vellayan this is Nilanjan. Just a quick question, you talked about the difference in treasury the consol EBITDA versus the home end business is very high. Just want to understand how did you look at the individual ROTA versus your own expectations and then the gains that we made on treasury was it because or is there a possibility that we have kept our transfer pricing a little too high and there is potential of brining it down?
- Vellayan Subbiah:** Again, Nilanjan, we got somebody batting for our business which is good. Yes, obviously, we had a formula we basically a particular lending basket to determine what the transfer prices are. In the end some of that gain go the business units absolutely but what it also creates is kind of a bit more of an internal challenge because you set gains and obviously kind of one of the arguments that our business unit always make is that if there are treasury gains that we had, our competitors get those treasury gains as well and therefore the market tends to react and therefore you tend to see yields dropping and I think this was somebody's question in terms of what was happening with our NIMs as well. We are seeing some of that yield drop, Nilanjan you are probably right which is some of that transfer should go back to the individual businesses but we do basically have budgets as to what the individual businesses have to achieve for their pre-tax ROTA. But do we give them some leash because of what has happened from a cost of funds perspective practically that is what ends up happening.
- Nilanjan:** Right. I think it is a combination of not just cost of fund but what was the expectation on the net credit losses, are you actually wanted to get second bit of that.
- Vellayan Subbiah:** Honestly, I will tell you kind of from a budgeting perspective the LAP business is higher from where we budgeted the credit losses to be. We did expect that vehicle finance improve and it has but we did not expect LAP to come to kind of this level at..., we did not expect the home equity and the LAP business to go there. And like I said that is going to be a reality if I were to look for the next three months, sorry, the home equity business is at 0.9% for the first-half but I would expect that this number would kind of sustain at this level for the rest of the year.
- Nilanjan:** Sorry, what was 0.9%?
- Vellayan Subbiah:** The home equity first-half loan losses to assets.
- Nilanjan:** Okay. So, should we expect your transfer pricing into home equity might be a little higher than it was?

- Vellayan Subbiah:** We do not adjust transfer pricing based on what the loss levels are. The transfer pricing is formulae, we actually cannot affect it.
- Management:** Transfer pricing takes into account whether it is a fixed book a floating book and takes into account the tenure of the loan and how it needs to be funded basis what is the market price if I have to fund it on when the loan is getting disbursed.
- Vellayan Subbiah:** So, one way to look at that, could be if you thought of having an independent ALM statements for a **HE** loan and an independent ALM statement for a vehicle finance loan. What kind of a borrowing profile would you need and based on that borrowing profile what would your cost of funds be, right based on industry benchmarks and then if you perform better in those benchmark then treasury takes a gain for that.
- Moderator:** Thank you. We take the next question from the line of Shiva Kumar from Unifi Capital. Please go ahead.
- Shiva Kumar:** Sir, you said incrementally you would be expanding 160 more branches so, what is the sub-segments which you will be targeting in those 160 branches and what are the geographies in which you would be focusing on?
- Vellayan Subbiah:** So, the geographies they are slightly more loaded towards the East and so that is your question and then equally distributed towards North, West and South after that and sub-segments basically what like I said, the markets will start picking up significantly in those areas. We usually start with the light commercial vehicle and then get in car and MUV there is also a lot of two wheeler demand there and then once that is matured for a little while then we started to used the business and we start with our new businesses initially and then move.
- Shiva Kumar:** Right. Sir, how is your reading of the M&HCV segment any green shoots which you see in the next coming quarters?
- Vellayan Subbiah:** Basically you have got a base effect problem, right which is in the last year was very good and so what you are doing is what we are comparing is against that last year number, I do not think we are going to exceed the last year number this year.
- Shiva Kumar:** Right. And are you going to revise your growth estimates sir, now that incrementally you have already 100 branch expansion and you are aiming for 160 more so, would you be revising the growth targets for the coming years?
- Vellayan Subbiah:** Somebody just told us that we are getting too aggressive. No, I think our current growth targets will remain
- Moderator:** Thank you. Next question is from the line of Amey Sathe from TATA Mutual. Please go ahead.

Amey Sathe: Sir, one question this the freight aggregated that we acquired last year, is it possible to get any update how has been the platform doing and what are the benefits that we can see in say next two years to three years' kind of horizon?

Vellayan Subbiah: Yes, see I mean what we got to realize is that this is start-up and so kind of the ability if you take kind of our balance sheet side Rs. 32,000 crores the ability for a start-up to kind of significantly affect that balance sheet size or P&L, in its first couple of years of operation is fairly small. What I do see is as a big opportunity is the fact that for example, Swanand me ask the question earlier about trip credit, about new R&D areas right and for us this trip credit is a totally an unorganized sector in the country today. There is no formal lender for this product, that offers working capital and he called the macro finance or trucking but there is no formal lender that offers working capital for truck drivers and they all need working capital because all large manufacturers and a lot of SMEs basically tend to pay with 45 days or 60 days payment terms, right and this is 45 days or 60 days after you have delivered the goods and produced the proof of delivery back to the end customer so, this is almost like if you think of guys running Chennai and Delhi you are talking about a 75 day working capital cycle and then some people delay payments on that also. So, it is fairly kind of large requirement in the country and why it is important to kind of White Data in this mix is that they are providing the technology platform to enable us to organize this sector so, for example for the loan provider, the entire cash payment cycle is all handled online where like a loan provider, I used the example of Tata Steel can pay the money into us, we can subtract the kind of loan repayment required and then pay the rest into the customer, the entire physical supply chain, information supply chain and financial supply chain need to be on a platform in order for this to move electronic and in order to even for this product to be offered the product is not a scalable product because who will even authenticate the lorry receipt I mean it is not a negotiable instrument so, there is a lot of challenges and that is what this platform is really beginning to bring to us and I think from that perspective its impact can be fairly significant right because of that platform scale then our ability to grow on top of that can be extremely significant. The business is kind of growing at about 20% a month right now but it is of a very small base and so, I do not want to kind of get too much into that company specific number but I do see a lot of opportunity for that business in the medium-term for us, right but next two years it would not affect our P&L what will begin to affect is the fact that this trip credit business can begin to scale.

Moderator: Thank you. That was the last questions, I now hand the conference over to Mr. Nischint Chawathe for his closing comments, over to you, sir!

Nischint Chawathe: Thank you everyone for joining the call today. We thank the management for giving s an opportunity to host the call. Thank you.

Vellayan Subbiah: Thanks, Nischint.

Moderator: Thank you. On behalf of Kotak Securities, that concludes this conference. Thank you for joining us. You may now disconnect your lines.