"Cholamandalam Investment and Finance Company Limited Q2 FY20 Results Conference Call"

November 06, 2019

MANAGEMENT: **MR. ARUN ALAGAPPAN – EXECUTIVE DIRECTOR, CHOLAMANDALAM INVESTMENT & FINANCE COMPANY LIMITED**
MR. ARUL SELVAN – EXECUTIVE VICE PRESIDENT & CFO, CHOLAMANDALAM INVESTMENT & FINANCE COMPANY LIMITED
MR. RAVINDRA KUNDU – PRESIDENT & BUSINESS HEAD (VEHICLE FINANCE), CHOLAMANDALAM INVESTMENT & FINANCE COMPANY LIMITED
MR. ROHIT PHADKE – PRESIDENT & BUSINESS HEAD (HOUSING FINANCE, CHOLAMANDALAM INVESTMENT & FINANCE COMPANY LIMITED
MR. RUPINDER SINGH – SENIOR VICE PRESIDENT & BUSINESS HEAD (HOME EQUITY), CHOLAMANDALAM INVESTMENT & FINANCE COMPANY LIMITED

MODERATORS: **MR. NISCHINT CHAWATHE – KOTAK INSTITUTIONAL EQUITIES**

Moderator: Good day, ladies and gentlemen and a very warm welcome to the Q2 FY20 Earnings Conference Call of Cholamandalam Investment & Finance Company Limited 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. I now hand the conference over to Mr. Nischint Chawathe from Kotak Institutional Equities. Thank you, and over to you, sir.

Nischint Chawathe: Thank you. Hello everyone. Welcome to 2Q FY20 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. Arun Alagappan – Managing Director, Mr. Arul Selvan – Executive Vice President and CFO, Mr. Ravindra Kundu - President and Business Head (Vehicle Finance), Mr. Rohit Phadke - President and Business Head (Housing Finance) and Mr. Rupinder Singh - Senior Vice President and Business Head (Home Equity). I would now like to hand over the call to Arun for his opening comments.

Arun Alagappan: Good morning, ladies and gentlemen. I have great pleasure in presenting to you the performance of Chola finance for the quarter and half year ended September 2019.

At the outset, I am happy to state that we ended the quarter with a business asset base of Rs. 59,292 crores, registering a growth of 24% over last year.

The following highlights from Q2 and H1 FY20 performance reaffirms Chola's steady growth despite the prevailing adversities in the external market.

Aggregate disbursements for the quarter ended September 2019 were at Rs. 7,381 crores as against Rs. 6,899 crores in the same period over the previous year, registering a growth of 7%. Aggregate disbursements for the half year ended September 2019 was at Rs. 15,954 crores as against Rs. 13,914 crores last year, registering a growth of 15%.

Assets under management including incremental cash held in hand grew by 23% from Rs. 52,486 crores in H1 FY19 to Rs. 64,409 crores in H1 FY20.

PBT for the quarter ended September 2019 was at Rs. 523 crores as against Rs. 460 crores last year, registering a growth of 14%. PBT for the first half year ended September 2019 was at Rs. 1,006 crores against Rs. 898 crores last year, registering a growth of 12%.

The PBT-ROTA for Q2 FY20 was at 3.4%. The PBT-ROTA for H1 FY20 was also at 3.4%.

PAT stood at Rs. 307 crores for Q2 FY20 and for the half year ended September 2019 PAT was at Rs. 621 crores.

Pursuant to the taxation laws amendment ordinance 2019, the company exercised the option to compute income tax at the revised rate of 25.17% from current financial year and accordingly has remeasured the current/ deferred tax and the consequential effect has been fully recorded in the current period. Additional income tax expenses of Rs. 80.21 crore and Rs. 126.73 crore has been recognized for the quarter and half year ended September 30, 2019 respectively.

ROE was at 19.2% in Q2 FY20. Book value was at Rs. 86.2 per share as of Q2 FY20, up by 19% from Rs. 72.7 in Q2 FY19.

We have increased our branch network to 1,029 branches, out of which 81% are in Tier-3, Tier-4, 5 and 6 cities. We are well on our way to reach 1100 mark by the end of this financial year.

We have maintained continued focus on our efforts to reduce the nonperforming assets. As per Ind-AS, our Stage-3 assets at the end of September 2019 was at Rs. 1803 crores as against Rs. 1623 crores in September 2018. Stage-3 percentage to total gross assets stood at 3.2% in September 2019 as against 3.4% in September 2018 Coverage ratio for Stage-3 was at 34.4% as of September 2019 as against 34.8% in September 2018. As per I-GAAP, GNPA at the end of Q2 FY20 was at 2.75% as against 2.95% at the end of Q2 FY19. In absolute terms, the GNPA as of September 2019 was at Rs. 1651 crores as against Rs. 1428 crores as of September 2018. Provision coverage ratio was at 43.1% in Q2 FY20 as against 44.6% in Q2 FY19.

Let me also share with you the business level performance of Vehicle Finance and Home Equity divisions. Vehicle Finance has delivered a performance with an improvement in disbursements, asset growth, profits and reduction in delinquencies in H1 FY20. The vehicle finance business grew by 3% in terms of disbursements for the quarter and 12% for the half year ended September 2019 and 24% in terms of closing assets year-on-year. The business recorded a PBT of Rs. 318 crores for the quarter as against Rs. 322 crores last year and for the half year PBT was at Rs. 637 crores as against Rs. 597 crores last year. Due to industry slowdown in commercial vehicle, the business has made a conscious shift in its portfolio mix to increase share of refinance and passenger vehicle segments.

Moving on to the Home Equity business, the Home Equity business grew disbursements by 17% for both the quarter and half year ended September 2019 over the previous year. PBT grew by 4% for the quarter and 22% for the half year ended September 2019 over previous year. The business recorded a PBT of Rs. 88 crores for the quarter ended September 19 as compared to 84 crores last year and for the half year Rs. 172 crores as against Rs. 141 crores last year. Higher recoveries in NPAs supported in the growth. Recoveries continued to be good by leveraging SARFAESI, resulting in higher profitability in this business.

The company's capital adequacy ratio at the end of Q2 FY20 was at 17.09% with Tier-1 at 12.87%. In the upcoming quarters for FY20, we look forward to continue on our growth trajectory and ensure value creation for the shareholders. Thank you all for attending the call. My colleagues and I would be happy to answer any queries now. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Subranshu Mishra from Bank of Baroda Capital Markets. Please go ahead.

Subranshu Mishra: My first question is with regards to your disbursements. I just wanted to understand the number of loan contracts that you have done in the Vehicle Financing in this quarter versus 2Q 19 and the number of loan contracts in the Home Equity business in this quarter versus second quarter 19 sir?

Arul Selvan: With regard to the Vehicle Finance, the Q2 numbers for last year that is FY19 is 1,20,105 as against that the Q2 numbers in the current quarter is 1,52,368. Though it may seem very high, this is primarily driven because there has been a spurt in the two-wheeler volumes which is why the numbers seem to be very high in the current quarter. On a YTD level, it is 2,36,531 number for last year as against it is 3,11,207 in the current year.

Subranshu Mishra: Can you repeat the number for Home Equity?

Arul Selvan: 2,316 versus 3,044.

Subranshu Mishra: And YTD?

Arul Selvan: YTD, 4,704 versus 5,919.

Subranshu Mishra: Sure sir. And sir out of your 26,000 workforce, how many are on-role and how many are off-role and of this, how many people you engage in collections and if you can explain the collection infrastructure as well sir?

Arul Selvan: We have around 8000 people on-roll and we have the balance off-roll. I do not want to divulge on this collection versus the salesforce details beyond quantum.

Subranshu Mishra: But if you can explain the infrastructure at least sir for the understanding of risk management?

Arul Selvan: Infrastructure in the sense?

Subranshu Mishra: What is your risk management infrastructure, what buckets you do through branches?

Arul Selvan: Everything is done by branches.

Ravindra Kundu: This is Ravindra Kundu, good morning. So we do everything through our inhouse team. We have like you mentioned that some people are in off-roll and some people are in on-roll. So in collection, we have a collection manager for soft bucket, just divided into two segment and then hard bucket and then recovery and below that, we have a collection executives who are in the off-roll, who are there in across all branches.

Subranshu Mishra: And if you can give the number of people if that is okay?

Ravindra Kundu: We have around 8000 collection executives in the field.

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

Sunil Kothari: Sir my question is simply how much tax rate will be paying over a period. I mean for this first half, we already provided for some past and some changes. So what tax rate should we count?

Arul Selvan: So what will happen is, if you see the first quarter, we paid the current tax plus deferred tax was working it around 35%. Because we took the full hit of the deferred tax assets in the current quarter, the rate of tax will be around 41% for this quarter. But in Q3-Q4, it will come down to the 25.17% which is the rate that is now going to be used for the next 2 quarters. For the full year alone you will see that the rate will average at around 30% due to spike in current quarter and from next year onwards, it will be 25% assuming government does not change any rate.

Sunil Kothari: Sir second, just very broad understanding. How you are seeing the scenario compared to first half now onwards and do you see any positive things happening or you will be as caution and careful?

Ravindra Kundu: In terms of Vehicle Finance, if you see that first half has been decent as far as the disbursement is concerned. It is not up to the expected level, but we have done better. But industry did not do well. Going forward, I think October onwards, we have seen that the spurt in the market in terms of sales other than the Heavy Commercial vehicle and ICV. Across all product segment, the retail sales has improved and dealer inventory also has come down. So therefore you will start seeing that the wholesale will also pick up, but the real growth will come only after sometime. It will take another 2 quarters to come back. Maybe it is more than that, but I think it is not going to come so fast. Good thing is that this year rain has been so good. So we are expecting that from Q4 after rabi festival also come back, then maybe you will see the light commercial vehicle, small commercial vehicle, two-wheeler and three-wheeler sales will further improve or stabilize at level where it has been seen in the month of October.

Sunil Kothari: And Home Equity sir?

Rupinder Singh: This is Rupinder. Regarding Home Equity, this is directly impacted by how the SME behavior is on market. So first two quarters was really tough in that sense and we were able to manage by prudent funding and having a focus on collection throughout. Our full concentration is more on the retail book than the bigger ticket size. So this is the strategy we adopted around 1-2 years back and we are working continuously on that and that is giving some results on that piece. Post Diwali, there is a lot of positive notion in market which people are talking and we are also evaluating that. So, the numbers which we have delivered is around 15%-17% in the first H1. So if things does not improve, we are confident that we will be able to match this number anyway, but if there is an improvement in market in SME particularly, then we can take it to next level also.

Sunil Kothari: Sir, my last point or my next question just my thought is you being a very conservative group and management and we have our past experience also since many years, my humble request is if we can being a prudent management we do not chase growth and be careful about whatever things are happening and I am very sure you will not take any risk. So not to try to match whatever projection you said, but you will be very careful about the balance sheet and your P&L, so this is my thought as a long-term investor.

Arun Alagappan: Absolutely. I think asset quality is our primary focus and that will remain our focus also.

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

Jignesh Shial: Firstly, we have witnessed a sharp rise in the OPEX during the quarter both on the employee expense side as well as other OPEX side. Is there any one-off or the trend is expected to continue going forward as well, similar sort of a rise? That is my first question.

Arul Selvan: What happens is in the Q2, we always have the employees annual increments coming in. So from July, it is effective every year. So you will see this spurt happening in the salary cost and it will remain at these levels for the next 3-4 quarters which is up to Q1 of next quarter. The salary cost will more or less be flat after this. Also, what has happened is in the expectation that BS-VI, there will be prebuying etc., we did have certain amount of SFEs on the ground in Q1 which is now being corrected. So there had been a little bit of a spike in the fixed expenses of these SFEs in this quarter. Due to normal attrition, we are not refilling them and we are bringing down this number to suitable reported. Around 1200 people had been moved out now into collections also, they have been moved into to give more focus to the collections. Apart from that, the other expenses is we are spending quite a bit on the IT side to bring more analytics and more to strengthen our underwriting as well as on the ground level information flow. So this is more or less one-time expense, this will not happen going forward.

Jignesh Shial: So the other way for the current quarter, cost to income is around 39.4 or cost leverage assets around 2.8. So earlier we used to have around 2.5-2.6 with some spike happening in between quarter. So is it fair to assume it should stay somewhere around 2.5-2.6 or it will be at levels of 2.8 around? I am saying OPEX to average assets, will that be a comfortable ratio?

Arul Selvan: Yes, 2.6 will be an okay number. See it is like a double impact. While the numerator increase, the denominator has not grown substantially because as you see the disbursement had been muted. So these are like more very cyclical thing when restricted to quarter-on-quarter impact. If the volumes pick up, you will see the denominator affect automatically flowing through.

Jignesh Shial: Understood. Secondly, our disbursement growth has slowed down this quarter. Our AUM growth is still remaining pretty stronger. So any specific reason behind it because repayments I do not see the trend has improved quite substantially though there is a bit of an improvement. So is it to do with we are indulged into little longer tenure products or how is it, if you can give some light over this? And if this disbursement remains weaker, will the AUM growth going forward should ease out or how do you see that way?

Arul Selvan: See, disbursement fluctuation in one quarter would not impact the AUM growth significantly. So even in the first quarter, we did reasonably good disbursement and when you are comparing Q2 of last year versus Q2 of this year, there has been a Q3, Q4 where there always be a spurt. So if this degrowth continues for the next 2 quarters, yes, you will see some slippage or slower growth in the AUM. Hopefully, I think we see some turnaround now and we do not see that happening, but we will have to wait and watch on how the industry performs.

Jignesh Shial: Understood. And the margin seems to have improved but that too also has to do with your assignment has also been there. So any guidance over margin? Do we see that cost of fund should stabilize from here on or you think there will be some more pressure coming up on margins. And are you able to pass it on to the end guys or how is it?

Arul Selvan: See, cost of funds we are able to pass on in the case of Vehicle Finance, but that is more on the marginal book. That is proportionately growing, and you will see the yields improving as we talk, both from increasing the yield as well as shifting in the portfolio mix. On the cost of fund side, most of the resets will happen only in Q4. If you recall, bulk of the bank borrowings had been in Q4 last year and that is a one year reset period for all long term loans. And lot of banks' MCLRs have come down, but those MCLR reductions are not, you know currently we are enjoying the benefit because the reset will happen only in starting December to March, that is where the bulk of our borrowings are. So you will see a good amount of cost of funds drop in Q4 provided nothing adverse happens in the environment. Otherwise, Q3 will be more or less at similar level but maybe marginally better, lower cost of funds and a better NIM.

Jignesh Shial: Understood. And just lastly any plans of QIP because we already at 15% sort of Tier-I if I am seeing it correct. So any plans for raising money in this year or any plans going forward? Any idea about this?

Arun Alagappan: The board is discussing it and we will come back with firmer plans.

Jignesh Shial: Understood. And there is no co-lending arrangement being done with any of the bank till now, right?

Arun Alagappan: No, not as yet. But we are looking at tying up with, and we are in the process of really doing our IT systems with couple of banks. So once that gets done, then we will roll it out.

Jignesh Shial: But if the co-lending happens, your fee income will start surging, so the AUM would not be growing. Is my understanding correct?

Arul Selvan: See, what will happen is, fee income will grow but expense will also grow because when you are spending for the entire book which is not on your balance sheet. Predominant ratios will change. NIM will be looking better, the expense ratio will look slightly worse. It all depends on how much difference I am getting from the fee income versus the expense I am incurring. That will flow to the bottomline.

Moderator: Thank you. The next question is from the line of Sandip R from L&T Mutual Fund. Please go ahead.

Sandip R: Two of them. One is partly answered already, but I will still ask the same question again. Tier-1 has been falling over last couple of years. It is now getting done at around 12.30, 12.40 kind of a level. Of course, as of now this is not a problem. But what would be the board approved policy sir, what is the comfortable level that you would like to maintain on the Tier-1 front given that the gearing itself is already very high at 8x plus number. So that is one. And second sir, I have the observation on the ALM profile, while I think you would be one of the very few NBFCs who have been able to raise the funding at ease from the market. But still looking at the ALM profile, up to 6 months bucket seems to be very constrained in terms of the positive ALM that we may have over there. On a balance sheet size of almost 60,000 crores, we have a positive ALM of only 740 odd crores. So any views that you may have on the liquidity profile of the company?

Arul Selvan: To answer the first question, currently our Tier-1 is at around 12.9%. Internally, we have a guidance that if it reaches 12% we will immediately seek to infuse capital. But even though it is not, it is still a little far away from the 12%, as Mr. Arun spoke now. The board had discussed even during the current meeting about what are the possibilities and then you will soon hear something in this regard once the board takes the final call on that. So we still have some headroom before we really need to take action even as per the internal guidelines. With regard to the ALM what you are seeing is a number. It does not factor in any credit lines or sanction limit. As we closed September, we had almost 7000 crores of approved long-term credit lines from two of the leading public sector banks which has not been drawn because we did not want to unnecessarily draw and keep cash as such, we were sitting on almost like 6000 crores of cash which is incurring negative carry. So this is why we have been conservative. Otherwise, we are comfortable on the ALM. Even now we have drawn some part of the 7000 crores, in the meanwhile we have got fresh approvals from other banks to the extent of again another 2000 crores.

Sandip R: Sure sir. So I am assuming you would have drawn down these lines after September. So the liquidity profile would have become much better as reported on September 19 numbers?

Arul Selvan: No. As we talk, we have drawn only 2000 crores out of the 7000 crores. I'am still sitting with 5000 crores, because I really don't need to draw down that much because I am using some amount of the cash which I am keeping. The internal guidelines is I need to carry two months of cash in hand to meet my two months of the subsequent two months maturities which is what we target and keep as cash in hand. So we are quite comfortable on that and many of the banks are now even willing to reduce the rates and offer us. The other advantage is also, the new RBI guidelines which allow us to borrow against PSL assets which was in between stopped for some time has also helped us to negotiate with some banks to get PSL based lending at finer rates and even lower than the MCLR. So we are working on those things and we are confident on the ALM side that there will be no issues.

Sandip R: Just one last question. How has been your experience in terms of being able to get a plain vanilla conventional term lending from the banking channel as opposed to, of course you have been able to do the securitization and also getting the loans under PSL route. But over the last couple of months given the tightness in the market for the liquidity of NBFCs, you have been able to get the term lending from the banks at ease?

Arul Selvan: Absolutely. As I said, 7000 crores just come from two banks who are willing to give us large chunks for 5-year tenure and 4-year tenure and apart from that, I just spoke about these 2 banks. Apart from that, we have another 4 or 5 banks which are giving us anywhere in the range of 500 to 1000 crores each of them and willing to give us at that base MCLR itself. So I do not see any constraint in money coming to us either from the banking channel or even on the same lines, we have tied up certain you will see shortly some amount of that foreign currency loans also coming through. So these things are also helpful to us in the long run to sort of diversify the investor pace and keep the funds coming through from multiple sources.

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

Nidhesh Jain: Sir, firstly on the asset quality, can you share the gross NPA number for Home Equity and Vehicle Finance?

Arul Selvan: You want as per the Stage-3 or you are only asking GNPA…

Nidhesh Jain: Stage-3 sir.

Arul Selvan: Vehicle Finance Stage-3 is 2.34% and Home Equity is 5.88%.

Nidhesh Jain: And secondly sir in the presentation, you have given disclosure on managed assets and on book. So what is the key difference there because the absolute profit number is also different across these two disclosures.

Arul Selvan: You are talking about the business profitability, is it right?

Nidhesh Jain: Yes, Home Equity and…

Arul Selvan: What happened is the managed assets, see we measure internally on managed assets of the business performance. From a segmental reporting perspective when we give it for the listing purposes, we need to split even the gain on assignment into the respective businesses. We don't put this gain on assignment into the respective businesses because what happens is these are like, it depends on whether I do an assignment or not, so the business profitability will fluctuate depending on whether I do an assignment in a particular quarter or a particular period or not. It does not help us measure the trending of the business profitability over periods because these things will influence the number. That is why we have given you because there are some people who came and asked your segmental number and graphs in investor presentation do not match, so we have given both. The Ind-AS number which is in page 41 for vehicle finance for example will match with the segmental profitability while what you see in page 40 is based on the managed assets is what is the normal trend without considering such onetime movements.

Nidhesh Jain: So from analyst perspective we should focus on managed?

Arul Selvan: Correct because that is what you will look at over subsequent periods trending etc.?

Nidhesh Jain: Thirdly sir, we have also given disclosure of high yield, medium yield, low yield products, there you have classified refinance under medium yield. I was under the impression that refinance will also be high yield segment, so what are the yield ranges in the refinance?

Arul Selvan: The refinance yield will differ based on the underlying asset. If it is a heavy commercial vehicle, it is generally 100, 150 basis points higher than the base new product yield. Those are refinance. So it depends on the mix running at any point in time. See, what happens is while the refinance yield is lower the profitability is very high. What we have presented here is more from a yield perspective because it is the repayment track record, the customers will be refinanced if they have got a good repayment track record, etc., the NCL is low. Similarly, the transaction cost is lower, very minimal sourcing cost, very minimal collection, so even if the yield is slightly lower, it will be slightly higher profitable, so from a profitability perspective, it is higher but I think may be the context in which you would have heard us talk in the earlier questions.

Nidhesh Jain: And just lastly on the segmental disclosure in the financials, the segment which is others, there we see very sharp improvement in profitability for the 6 months, while in the unallocable segment, the PBT has declined, so can you just explain what is the reason for these two numbers?

Arul Selvan: We have not categorised home loans as a separate segment, primarily because it is a very small number still but the home loans have been growing significantly over the period and that is why you are seeing the sharp increase. The other reason is also that while we are awaiting this NHB license from RBI, very soon it will move up into the subsidiary and so we didn't want to split this segment separately but this primarily represents the home loan segment.

Nidhesh Jain: For the first half, our PBT is around 97 crores that is primarily our home loan business?

Arul Selvan: Not all of it, there is some treasury gain and there is some investment income etc., but the big movement is in the home loan.

Nidhesh Jain: And unallocable segment what all is included sir there?

Arul Selvan: Those will be mostly like your HO expenses which is not allocated to the respective or CSR among which is not relating to the business but something you have to incur.

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

Digant Haria: Sir, two questions, one for Kundu sir, every week, I think, in our investor group, there is some message which comes that you know some transporter has 80% of their trucks lying idle and I think it is a standard thing we also saw in the 2014-15 cycle. Sir, anything you would want to highlight on this heterogeneous nature of this transport segment like what segments you see are doing okay, what segments are really stressed and what are the implications for us in terms of existing portfolio and future growth that we are targeting? So that is question number one. Question number two is on the Home Equity business. How are these SARFAESI resolutions progressing for us? So that are 2 questions from my side.

Ravindra Kundu: Heavy commercial vehicle, if you see the sales also has come down by 40%-50% as compared to the last year. It is because there is no demand for heavy commercial vehicle and there is a scarcity of the load and the people who are having the heavy commercial vehicle irrespective of the profile of the customer with the retail customer market, load operator or the fleet operator, they are not able to utilize their vehicle fully and therefore there is an impact in the cash flow. That is due to extended rain, due to slow in economy and also due to the mining activity, road construction and other things are also basically slowed down during last 6 months. Whatever increased from the March month to now in the Stage-3, it is mainly because of the heavy commercial vehicle which is not basically able to serve their EMI and they are flowing slowly 1 to 2, 2 to 3 and that is what is our challenge now and good thing about is that for last 2 years, we have been reducing our focus on heavy commercial vehicle quarter-on-quarter. Our portfolio mix of HCV used to be 20% which has come down to 15% but our disbursement mix is less than 10%. That is because we actually expected that this is going to happen but whatever we have funded, all the people who are having repayment track record for many years, they are not able to serve the EMI, that is the fact.

Digant Haria: And on the LAP part?

Rupinder Singh: Yes, for LAP part I would like to tell on the SARFAESI piece particularly, so the process is on basically the SARFAESI piece and day in, day out, this action is helping us out. Last year because there is a lot of cherry picking which we did and we were able to resolve almost 100 crores of GNPA through SARFAESI. This year also the trends are positive, may not be the kind of pace and speed it was there during last year because the market trends and situation is not as conducive in that sense but definitely there is a lot of impact in terms of that you can see in financials also. Because of these support only, the ECL for this financial year is still under very well in control.

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

Umang Shah: I just had a couple of questions on the home equity business, so if we look the proportion of the self occupied residential property business has been going down compared to last year and commercial has gone up, so just wanted to understand is there any sort of change in terms of our business strategy or what sort of commercial business are we underwriting?

Rupinder Singh: There is no change in business strategy as such. If we see the SORP is 80% plus which was there, 1 or 2% comes basically when we are focusing more on retail side, so we have commercial shops and against that we funded up, so there is a small aberration. It is nothing like there is a change in strategy like that. It is only focusing on retail and that percentage of that commercial property which is again self-occupied, so there is no change in strategy we are moving away from something, so we will continue to maintain 80% plus SORP that is something which we always focus on.

Umang Shah: So the commercial property is also self-occupied?

Rupinder Sing: Yes, they are self-occupied. Ticket size is coming down, obviously that is the only change which is evolving as of now, but apart from that rest of the things, we are maintaining the same rate.

Umang Shah: So broadly what would be our ticket sizes in the commercial and SORP or the residential segment?

Rupinder Singh: We try to maintain less than 50 lakhs for the month-on-month ticket size and we see most of the places if property is already mortgaged for home loan somewhere and is a commercial shop which is already self-occupied, there we will also take a call but there we take a lesser LTV than the SORPs.

Umang Shah: And the second question is, in terms of the home equity business there is some 8% of our book is classified as others, is this the home loan piece which is being clubbed as others?

Arul Selvan: No, not home loans, these are like mixed properties, it is a residential plus rented.

Rupinder Singh: Residential mix along with commercial, so you can find many of the Tier-2, Tier-3 towns particularly. Ground floor will act like a shop and first floor will act like a residential property for them, so that gives basically combo of both of the things and on basis of that refunds, the entire LTV is taken care of that way, so we don't segregate separately their commercial and residential but as others property.

Umang Shah: And this is also self-occupied?

Rupinder Singh: Yes, most of them you will find self-occupied and this is the way, I gave you instance like "Niche Dukan, Upar Makaan Types" Tier-1, Tier-2, Tier-3. Sometime you may find that property is partially rented also, that you will find deep in South, so their portion of the properties with them as a residential, partially it is rented and partially as a shop. So categorically it looks little difficult, that is why we put it in other category.

Umang Shah: And my last question is that for the first half as you rightly highlighted that the credit cost for the home equity business has been fairly under control but given the fact that the resolutions, let us say on the SARFAESI kind of slowdown a little bit, in the second half should we expect some sort of pick up in the home equity credit cost or how should we look at that?

Rupinder Singh: We are finding same trend what it was last year also. Last year, first half was better than second half, so we expect that this time should go little up because second half is specifically in the property business, is always on the upper side, the sales/purchase happens largely and the property which is in possession we try to sell it off, so generally second half is always a little better than the H1 and we are hoping that this prevail to us also.

Moderator: Thank you. The next question is from the line of Ojasvi Khicha from Axis Capital. Please go ahead.

Ojasvi Khicha: Sir, my question is with regards to branch count, so while Q-on-Q, it has gone up by 30 branches, if you could just highlight in category D, it has come off 30 branches Q-o-Q, so what could be the reason behind that?

Arul Selvan: That moves on into the other categories. See, if you look at it, you are saying in Category D, it is 280, okay? From 226….

Ojasvi Khicha: I am sorry. Actually, I was referring to Category B, my mistake, category B, which has come off from 257 to 226 in the current quarter.

Arul Selvan: See, it is because what happens is, this is measured primarily based on disbursement, so when disbursement has dropped as we saw like the growth has been very minimal, some branches slip back into the Category C. So that is what will happen. This does not show up here because something has moved up from down to below also that has moved up from D to C. So you are not seeing that as a difference here.

Ojasvi Khicha: And if you could just also confirm the branch count guidance for FY20, you mentioned at the start of the call, I believe, 1100 or 1200, I just missed it?

Arun Alagappan: 1100.

Moderator: Thank you. The next question is from the line of Dipen Sheth from HDFC Securities. Please go ahead.

Dipen Sheth: Two to three questions actually, some of them have been kind of partly addressed, but I am not sure, so maybe I will give it another shot. So first, on this OPEX bump up, I think Arul or someone mentioned that it is a seasonal thing, but actually there is not much evidence that it is seasonal and in any case, the absolute amount now does look a little tough and the reason I am saying this is that this will now preclude meaningful uplift from kicking in further. So is it because you are opening new branches, you are keeping on opening new branches? Or is it that there are some slices in this cost which are different from what they used to be? You did mention about investments into analytics and all of that. So you also mentioned that once growth picks up, this would probably get lost in the denominator going up, but I don't know how to now interpret this?

Arul Selvan: Last year, what the way we did was we had branches coming up in the second half, so the first half improvements were low. You are comparing 290 versus 402, if I am looking at the company's expenses. You will see that the Q3, Q4 itself, our expenses has moved up a bit because we hired more and in Q1, we are at 350. Now I was comparing more from 350 versus 402, when I was talking about the explanation about that being the seasonal number. So it is not like 290 versus 402. So if you see the manpower counts, we would have moved up also in between Q2. See that is unfortunately last year, the way the whole thing is moving now is the first half versus second half seems to be always reversing in many factors, whether it is cost of funds, whether it is growth or similar expenses. In this case, it is more to our own performance. Here, if you see, correct me if I am wrong Ravi. The bulk of the hiring happened in the second half last year on the feet on street. So that is where you will see the feet on street increase happening in the second half.

Ravindra Kundu: That is also supported to diversify some of the product names.

Arul Selvan: Correct. So in two-wheeler, we went in where we needed more manpower on the ground. This is compensated by yield increase happening on the topline but this is like we need to pre-recruit and sometimes again, if the performance is not there, it will lead to attrition and that is what Arun was also talking a little while back. Between Q1 and Q2 to Q3 now, we have almost, we shifted some people to collections because more focus is needed on the collection also and on sales that is lesser activity. So we have moved them to collection whom we would like to retain and others whom we are not seeing performance either under a sales category or under a collection category, we let them move out of the system.

Dipen Sheth: So we will take this philosophically for now this OPEX bump up and we will watch it very closely. I mean that is all I can say. The second thing is on your broader strategic thing, not just slicing dicing the numbers, so on growth, so we know it is a tough world out there and things have slowed down a bit, but we have had a good monsoon, but we are looking at a good festive season. So first of all, I suppose you would have felt the first vibes of this in the festive season and based on that is the growth outlook getting a little better? Or is it that you are gaining market share and that is why you are confident on growth? What is happening out there? Can you perhaps even give examples, which might be anecdotal, but which tell us what is happening in the business?

Ravindra Kundu: So in the industry if you see that the number of vehicle sales has gone up especially in two-wheeler, 3-wheeler, cars and MUV and a little bit in tractor. We have been doing this product for quite some time, but we were maintaining ourselves very small player and cautiously, we are increasing the market share. So we have also improved our market share but these products are actually low in ticket size and high in the numbers. So it actually increases the cost and over the period, if you continue to do it without any failure in terms of the portfolio quality, then we start getting the good return as well. So this is going to continue due to the better monsoon and also the rural economy going to improve due to the better Kharif and better Rabi subsequently but ultimately, our overall business of like heavy commercial vehicle from the new side or used side or light commercial vehicle, we are depending on that product as well, so overall growth will come only when those products also start doing well. For ICV/LCV, I am comfortable and confident that it will start doing well from Q4, but HCV, I am not at all comfortable and confident that it will start doing well so early.

Dipen Sheth: No, I am confident it won't do well. I am with you there.

Ravindra Kundu: This might see that one at a time.

Dipen Sheth: But you are gaining market share from others, are you seeing some of the competition kind of withdraw and stuff like that?

Ravindra Kundu: So there are some players who have actually like whenever this kind of portfolio issue comes, some people starting actually getting occupied in that and in that sense, we are gaining a little market share but our gain in the market share is like what we lost during the up cycle, we will gain it in the bad cycle and then we lose it in the up cycle because they come back and start.

Dipen Sheth: Because then they come back in the euphoric lending takes over and all of that. Yes, I understand this. So I am obviously not going to ask you names at least not right now, but that is okay. And finally, this deterioration or at least apparent deterioration in the liquidity position, so it is there. I mean, the numbers are telling me this. So it is just that you are running a tighter liquidity profile for the immediate next 6 months, I am not saying it is alarming or disturbing. It is just that when you run that tighter liquidity profile, is that also one of the reasons for the slight impact on margins or should we not read it like that?

Arul Selvan: No, certainly, you should not read it like that. Dipen and actually I am telling you we have undrawn lines and today, vis-à-vis last September, when undrawn lines retaining them, it might not happen if we don't draw it and we were drawing and keeping it. Here, I am sitting with undrawn lines, which we can draw. Apart from that, I am having 7,000 crores of cash.

Dipen Sheth: Yes, that is true.

Arul Selvan: That is for my next 2 months requirement only I should hold. I can't always, irrespective of what my next 2 months requirement is, I cannot be holding like….

Dipen Sheth: Yes, I am just looking at the June-end arithmetic versus the September-end arithmetic, it looks a little tighter, but yes, if you have undrawn lines and so it doesn't make a difference from a liquidity risk management perspective but I am saying just that the fact that you are carrying that much lesser surplus means that arithmetically, it would have some positive impact on margins but I don't know, maybe that is not the way I should look at it.

Arul Selvan: No, we don't try to bring positive impact on margin by playing the ALM. I want to just keep that impression out of your mind. That is playing ALM to get margin improvement is not our game.

Dipen Sheth: And final comment, I know this hasn't been a big issue in terms of confidence on the way forward. It is not a question, it is a statement I would like to make, but now that whatever little gap was visible on the leadership issue and now with Arun's appointment, I must congratulate him and the rest of you guys for just putting that in order and you and he have my best wishes now for the next 5 years and much more.

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

Piran Engineer: I just have a couple of questions. Firstly, on the liquidity front, we are getting a lot of sanctions from banks, but what about from capital markets because I have noticed that our NCD borrowings have been continuously going down and some of the good players like HDFC and all are getting money much cheaper than banks right now, so are we getting money from the capital markets and if so, at what rate?

Arul Selvan: See, the money market behaves in a particular fashion. They just withdraw and then when they come out, they come out in a very progressive style, they come out first with doing only government or where they have a full or the presumed assurance that there is a lot more security available. Then they come on into AAAs and then they move on to AA+. More or less, it is a very progressive movement. So right now, they are now coming into the AAA side of the investor profile they have went ahead and attached it while they are testing the waters on AA+. They have done a little bit on the NCDs, but it is not coming in quantum. So the key is, today, I cannot be dependent on the NCD market when I want quantum. So I need to still go and borrow from the bank and banks, unfortunately, do not wait for a long-time sanctions remaining undrawn. While I can push the drawdown dates by, let us say, 1 month or 2 months, but beyond 2 months, it is difficult to push the bank. At this sort of a scenario, trying to rely on the capital market is not very advisable, so that is why we are not much on the NCD side.

Piran Engineer: But in your assessment, how far are we from mutual funds and capital markets moving to AA+ rated players like you? Is it more of a 2, 3 quarters phenomenon? Or it is probably sooner than that?

Arul Selvan: See, if all things remain stable, it should happen in 2 quarters but the problem is, every other month or every other quarter, we are getting some bad news, though it is not even some of them related to NBFCs per se, but any bad news sort of shakes the confidence and then the redemption pressures on the mutual funds increases. So the mutual funds are trying to hold much more on liquid levels rather than on trying to lock themselves up on a higher tenure paper. So to the extent what they are, whatever is happening in the NCD market is more from insurance companies rather than from mutual funds and the insurance companies because of their own investment committee and the investment criteria prefer to police and that what is the domain that you are seeing happening in the market.

Piran Engineer: But is our high leverage also hindrance to raising money from capital markets?

Arul Selvan: See, this higher leverage is more a reporting issue because today, we are having securitized book on the balance sheet. It looks like it is high leveraged. So we need to discount the securitized book out of this to find the right leverage. So if you look at it, yes, I am not saying we are very under leveraged or moderately leveraged. Yes, we are a little bit leveraged on the higher side even if you remove the securitization book, but that is why we are looking at some sort of a capital infusion in the near future but that will also depend on growth, etc.

Piran Engineer: And sir, last question, how has stage 2 trended over the past 1 or 2 quarters?

Arul Selvan: Stage 2, I can give you the numbers. Just give me a minute. Stage 2, today, we are at 4.68% on the overall.

Piran Engineer: Versus last quarter?

Arul Selvan: Last quarter or?

Piran Engineer: Last quarter, 1Q.

Arul Selvan: 1Q, we were at around 4.4 and last quarter we were at 5.6.

Moderator: Thank you. The next question is from the line of Shalini Vasanta from DSP Mutual Fund. Please go ahead.

Vivek: This is Vivek here. I think my question got somewhat answered, but congratulations on good performance. The one thing I wanted to know is you are able to swing between segments very seamlessly in the sense that two-wheelers go up now and the CV is being pulled down and then there is a related question on OPEX that was asked. How is your core infrastructure able to handle these swings between various segments?

Ravindra Kundu: So, this two-wheeler, 3-wheeler, cars and MUV, we have been doing it or rather learning it for last 5, 6 years and now the opportunity comes wherein we can increase the volume to compensate the drop in the volume from other segment. So we have been doing it and we have created separate collection, separate sales team, created underwriting model for each and every product. So as and when it is required, then only we expand it and till such time, we don't get a confidence that we cannot expand, we continue to learn the product. That is the reason for moving from one product to other product and second is that the OPEX, the OPEX when we go to the small ticket size product like two-wheeler, 3-wheeler, automatically, it increases the OPEX in the beginning and when you get the volume in line with the productivity defined for each and every person, then it starts coming down in terms of percentage of extra asset. So we are hoping that these products are going to grow from here and OPEX, which we actually gained in the time of expanding it, it will come down in terms of percentage of asset overtime.

Vivek: So, in essence, there will be no commonality of collection people, say, across, let us say, in HCV segment and there will be completely different teams. So if HCV drops in size, you will have staff or some capacity left in that, right?

Ravindra Kundu: So heavy commercial vehicle, we were not having so great focus on that product. We have been always doing lesser only, but the capacity get vacated from the drop in business in light commercial vehicle because industry is going down so and that manpower definitely we can actually move out to the collection, but getting the manpower for two-wheeler from the light commercial vehicle for doing the sales is not possible. We can use them for the collection of the same product.

Moderator: Thank you. That was the last question. I now hand the conference over to the management for their closing comments.

Arul Selvan: Thanks everybody. I know it has been a tough quarter and we had done our best and we expect to keep our performance up and running in the coming quarters and we will be coming up with better numbers as we go on into this financial year and thereafter. Thanks everybody for your interest in this company. Thank you.

Arun Alagappan: Thank you.

Ravindra Kundu: Thank you.

Moderator: Mr. Nischint, anything from your end?

Nischint Chawathe: No, that is it. Thank you everybody for joining us on the call today and thanks for the management to giving us the opportunity to host the call.

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