"Cholamandalam Investment and Finance Company Limited

Q1 FY '24 Earnings Conference Call"

August 02, 2023

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MODERATOR: **MR. NISCHINT – KOTAK SECURITIES LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to Cholamandalam Investment and Finance Company Limited Q1 FY '24 Earnings Conference Call hosted by Kotak Securities. 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 this conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

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

Nischint Chawathe: Good morning, everyone. Welcome to the earnings conference call of Cholamandalam Investment and Finance Company Limited. To discuss the 1Q FY '24 performance of Chola and share industry and business updates, we have with us the senior management of Chola represented by Mr. Vellayan Subbiah, Chairman and Non-Executive Director; Mr. Ravindra Kundu, Executive Director; and Mr. Arul Selvan, President and CFO.

I would now like to hand over the call to Vellayan for his opening comments, after which we will take Q&A.

Vellayan Subbiah: Nischint, thank you so much, and good morning, everybody. I just want to go through the unaudited financial results for the quarter ended June 30, 2023. Our disbursements were at INR20,015 crores for the quarter. Total AUM was at INR122,755 crores, which is up by 42% year-on-year. NIM was up at INR2,127 crores, which is up 30% year-on-year, and PBT was at INR968 crores for the quarter, which is up by 27%.

The NBFC retail industry AUM growth is expected to be 18% to 20% in FY '24. Secured NBFC retail loans consisting of Vehicle Finance and other secured business loans is forecasted to grow at 14% to 16%. Chola's growth momentum continues in Q1 FY '24 across its diversified business segment.

In terms of our quick performance highlights, aggregate disbursements are at INR20,015 crores. Vehicle Finance disbursements were at INR11,301 crores as against INR8,562 crores, registering a growth of 32%. Our Loan Against Property disbursements were at INR2,679 crores as against INR2,036 crores, which is a growth of 32%.

Our Home Loan, which includes our affordable home loans and Affordable LAP, dispersed INR1,454 crores in Q1 FY '24 as against INR611 crores in Q1 FY '23, a growth of 138%. Our SME business disbursed INR2,045 crores in Q1 FY '24, which is a 98% growth compared to Q1FY '23. And Consumer and Small Enterprise Loans disbursed INR2,355 crores in Q1 FY '24 as against INR1,055 crores, which is a growth of 123%.

And Secured Business and Personal Loans disbursed INR182 crores in Q1 FY '24. So, like I said, the total Assets Under Management stood at INR122,755 crores compared to INR86,703 crores, which is a growth of 42% year-on-year.

The PBT growth is at 27% as compared to our overall asset growth of 42%. This is primarily due to two reasons; one is the fact that the cost of funds was lowest in Q1 of FY '23 and progressively increased over the quarter of the last year. So, on a quarter-to-quarter comparison, that swing is fairly significant. And then, the second is that Vehicle Finance book is a fixed rate book. So, repricing of that portfolio happens progressively as the proportion of new book is replaced with higher yields. So, we're beginning to see that. And so, I think that this will begin to adjust in upcoming quarters.

The PBT ROA for Q1 FY '24 was at 3.3%, PBT and ROE was at 19.9%. The company continues to hold a strong liquidity position with INR7,069 crores as cash balance at the end of June 2023(including INR1,500 crores/ INR1,600 crores invested in Gsec and T Bill, which is shown under investments), with a total liquidity position of INR9,479 crores (including undrawn sanctioned metrics). The ALM is comfortable with no cumulative negative mismatches across all time buckets.

Our consolidated PBT was at INR956 crores as against INR764 crores, reporting a growth of 25%. Asset quality wise, Stage 3 levels have marginally increased to 3.06% in June '23 from 3.01% in March '23. GNPA as per RBI norms has reduced to 4.3% as against 4.63%. And NNPA has also dropped to 2.82% as against 3.11%. NNPA is below the 6% threshold prescribed by RBI for PCA. The details, we will basically share with you. The capital adequacy ratio for the company was at 17.44% as against regulatory requirement of 15%. Tier 1 capital was at 15.14%, and Tier 2 capital was at 2.3%.

The Board of Directors at the meeting, which held yesterday afternoon have subject to the approval of shareholders, approved a proposal for Capital raising by way of QIP (equity and/or CCD) at a price to be determined under the SEBI Regulations 2018. We are targeting to raise INR4,000 crores by way of these instruments, subject to necessary approvals.

I will stop with that Nischint, and then we'll be happy to turn it over to the audience for Q&A

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Suresh Ganapathy from Macquarie Capital.

Suresh Ganapathy: I have question on the credit cycle itself. I mean, that is, how do you read this? You have grown at 40% and growth across all categories, whether it is banks, NBFCs is so strong. How do you see the situation on the ground? What explains such strong demand and asset quality outcomes?

Vellayan Subbiah: Yes. So, Suresh, I mean, I'd say it's a good question. So, if we take the different businesses the kind of advantage, we've had in some of the smaller businesses, at least for us is that our starting position is very small. So let me take Vehicle Finance. If you see Vehicle Finance overall, obviously, kind of there, it's a more mature product. It's also a product where we have larger penetration. And we do see strong demand still kind of across segments in that business as well. But obviously, growth for us is limited compared to the growth we've seen in some of the other segments.

Now what's interesting in the other segments is that I would say kind of first off, Home Loans continues to kind of see very strong potential for growth, because the segments we're going into, we see as significantly underserved, and we're seeing a lot of good demand in those segments.

Theone area where obviously kind of there are concerns, actually kind of like once you get to the smaller loans, right, kind of both unsecured and secured loans. There are certain pockets where we are seeing a certain caution that we're developing because in certain pockets, we are seeing kind of a bit of over lending and therefore, we are getting more cautious.

So, we're taking the same micro market view that we used to take with vehicle finance and bringing it out to these other segments. And so, taking a fairly cautious view in areas where we're beginning to see a little stress. The stress is actually there's not really a demand slowdown, but we're seeing kind of a bit of oversupply into a couple of areas to, let me put it that way.

Suresh Ganapathy: Okay. But coinciding with this, we have also seen your other business NPLs actually having gone up. I mean, I know it's a small day, 0.7% that's gone to 1.1%. Anything that we should read into it or just a seasonal thing or will you slow down this segment which will be going forward how to be read into it?

Vellayan Subbiah: So, Suresh, I'll give my commentary and then I'll have Ravi add with his comments as well. See, basically, the other businesses, like you know kind of at least the ones that I mean, the newer book is just building, right? So, we've always said that which is like kind of having an extremely small NPA is not going to be kind of sustainable in that business. Some of it is just the book building. We continue to kind of have a high degree of confidence in terms of the segments and our ability to kind of grow in them. So, we don't see any concern from what we're seeing as like you said, a movement from 0.7% to 1.1%. And Ravi, why don't you add your thoughts and comments.

Arul Selvan: Yes, it's Arul here, Sir. So here, we expect, and we have also articulated that it will be in the range of around 1.2% to 1.5%. And I think we are still well within that figure, in the new businesses. They will tend to have slightly higher NCLs as compared to other major businesses, because they are of a slightly risky nature, which is more than adequately compensated by the FLDG.

But we are still running them at a much tighter levels and even lower than existing products because we are being very selective about the customer profile right now, we are working on.

Moderator: Next question is from the line of Abhijit Tibrewal from Motilal Oswal.

Abhijit Tibrewal: Sir, even a bit of next quarter, which is where, there are two or three points that I need your help to understand why they happened. Can you just touch upon NCLs in the newer businesses being higher but being compensated by higher yields. Sir, again, when we look at the reported numbers, the gross credit cost in the newer businesses works out to somewhere around 5%. Again, this is your overall credit cost, and have removed the Vehicle, Home Loan and LAP credit cost and divide it by the average loans outstanding order book, outstanding new loans. It works out to about 5%.

So are these gross credit costs and are there some recoveries from your partners under some FLDG arrangements, because of which the net credit cost in the newer businesses was lower than what they are looking like.

And sir, a related question here, I mean, in the newer businesses, particularly CSEL, what is the collection efficiency that you're seeing today? What is the bounce rate that you are seeing in the CSEL business growth? Sir, why I asked this is, in the past, you have articulated that we will not shy away from slowing down in the newer businesses if the delinquencies are higher than what you have budgeted for.

So are you seeing some early signs of stress and also given the fact that we simply around some of the peers acknowledging, stressing rural personal loans. Sir, are we as Vellayan Sir was explaining, taking a cautious in personal loans now and concentrating more on professional loans, business loans? Or how are you thinking about the CSEL business?

Arul Selvan: You're right. In the extent what I think I did in the NCL, what is happening is, there are two parts in the NCL. One is we have a FLDG recovery of around INR35-odd crores, which is shown at the gross level in NCL and FLDG recovery comes in as income line. So, this is under the IndAS. So, around INR35 crores. It should be lower in the NCL numbers for the new businesses.

The second part is as the new businesses scale, they need to be also provided with standard assets provisioning equivalent of standard assets provisioning under the PD, LGD norm. So that would also add up to the overall number.

So, between both this, your provisioning number will look higher when you see these numbers, as a reduction of the total NCL minus 3 businesses we have reported. But for it, we are not seeing any significant increase in our credit risk and from that angle, we're not slowing down in any of the new businesses.

Vellayan Subbiah: I think I don't know if you interpret it as kind of, we are going cautious on the new business. What I said is that this is true always in kind of vehicle or any other businesses we're in, like we said, there are always some micro markets, which we will be cautious on. But overall, so we continue to be very optimistic and see a lot of growth potential, and we will see kind of growth in new businesses, absolutely. So, I don't think that they should be interpreted as kind of turning overly cautious, right, which could be one of those.

Abhijit Tibrewal: Got it. Got it, sir. Sir, I mean, just a follow-up question before I ask my next question to Ravi sir. So basically, what I inferred is, we are not seeing any higher delinquencies in the newer businesses, which will kind of make us cautious. And at the same time, what Arul sir was explaining, there is that component of FLDG recovery standard asset provisioning. So, nothing outright alarming in the newer businesses is what you are seeing is, is what I'm referring here.

Vellayan Subbiah: Correct.

Abhijit Tibrewal: Hope for that is correct. Sir the next question, and the last question that I have is for Ravi sir. Sir, how should we look at the yield trajectory in Vehicle Finance, the fact that we are not seeing yields picking up in Vehicle Finance, not just for you, but I think at the industry level today. Is it a combination of your competitive intensity that you're seeing or product mix or what some of the peers have explained, some higher yielding books running off, which is kind of leading to this? And sir, what could be the difference today between all your book yields and disbursement yields doing in Vehicle Finance?

Ravindra Kundu: So, in the Vehicle Finance because of the nature of the business is income, you have to see the 4 factors. One important is that book yield versus the marginal book yield. So marginal book yield is as of now higher by 1%. So that is one thing. But in the case of the book yield, it is lower by 15 basis points. So that's point number one.

And why it is because the business what we booked in 2018, '19, '20 at that point in time because the cost of fund was high, we were actually booking at much higher rates. Those agreements are running down. So therefore, after that, what is actually booked was the lower rate, and we are pouring the new businesses, which is at the higher rate. So, the mix is as of now catching up. And it will take 2 quarter to reach to the level of what we want to basically see from the interest income line or pure yield line. So that's 1 thing.

Second is that the other income line. The other income line is also lower by 15 basis points, because other income is actually the bad debt recovery, the fee income, the insurance income, the cross-sell income, the additional finance charges, CBC, FVC collection. All these things actually start from Q1 at a lower level because of the collection is a lean period and then it picks up during the 3 to 4 quarters. And third and fourth quarter, you will see that, that will also start delivering at a higher level. That's the point number two.

Point number 3 is the product mix. Now if you see that continuously, the new vehicle businesses are actually high, higher level, and we are maintaining our market share in that business. And so there is a mix between the high yield versus the low yield. And as long as the new businesses are doing well in terms of the industry sales, we need to continue to participate and maintain our market share. At the same time, we are trying to increase our yield through increasing our focus on the used businesses as well. Those businesses are growing much better. But at the same time, the Car sales was up by 10% at the industry level. And we have been participating in 1 of the major manufacturers.

We have also gained a little bit market share. So that needs to be continued because of the business strategy. So, product mix is also as such that it is not allowing us to increase the marginal book yield significantly. We have increased it 100 basis points by June quarter. But in the month of July, it has gone up by 130 basis points.

So, it's going up quarter on quarter and month-on-month. And you will see that we will start showing up those numbers in the book yield in the quarter 2 end or maximum quarter 3 end. So that's the third thing.

And fourth one is that the cost of fund itself. So, cost of fund was the lowest in the June quarter of last year. And subsequently, you will see that the cost of funds started going up. So, the difference between the cost of fund now and the previous quarter will start coming down. So, the overall NIM will also go up that way.

So, what we are saying in the Vehicle Finance business, we are down, say, 14.9% to 14.6%. There is a 30-basis point reduction. And the cost of fund has gone up from 6% to 7.3%. So, 1.3% increase. So, 1.6% of the gap in the NIM is getting reduced by reducing the opex from 3.3 to 2.9 and the losses have come down from 2.1 to 1.5. So therefore, at the end, our ROA is looking down by 60 basis points.

Now the 60-basis point is our problem, not that the 150 basis points total. So, this 60-basis point in the subsequent quarter, you will see that the gap will continue to go down because the losses will further go down, because we are starting from a 1.5%, we will be ending at 1% or less than that. So that way, you will see that the losses line will start showing reduction and the ROTA will go up.

And at the end of the day, we have been always saying that if you go line by line, it is difficult to manage. We should always see the ROA. As of now, we are 60 basis points lower than the ROA. That is because of the fixed versus the floating book concept, which will get covered up in next 2 to 3 quarters.

Moderator: The next question is from the line of Gaurav Kochar from Mirae Asset.

Gaurav Kochar: Couple of questions. Firstly, just extending the question on credit cost. You mentioned there are certain cohorts and micro markets where the stress is visible. So, if you were to split, let's say, your stress or the credit cost where it came from, from your in-house source customer book and the partnership source customer book. Will it be more skewed or largely skewed towards the fintech and other partners?

Ravindra Kundu: See, actually, I think you have misunderstood the point of what Mr. Vellayan is making -- was making it. He said that we have introduced the similar micro market model of managing the predicting the probability of default. That doesn't mean that we have seen that problem. In our case, in the new businesses, the partnership business, which is a small ticket, small tenor loan, where the FLDGs are something which is coming up. And that is getting accounted in the income line. To that extent, we are actually booking the losses. That is one, okay? That will continue to happen, which is a small portion.

The majority of the net credit cost, which is being shown under the new business line is actually the provision created for the standard asset. So, the standard asset provision is actually almost 60% of the total NCL which has been considered now, because we have not given any page on that, but all of you are working on total minus, VF minus, HL minus LAP.

So that is what I'm trying to explain you that these are PL or BL book of the CSEL is actually behaving in the same manner. Our bounce rates are lower than the market. It is still at 5 to 6%. Basically, in the market, it is 13% to 14% bounce rate, we are much lower. Our collection efficiency is 99.5%. So, the losses, which you are seeing it on the NCL line on account of the new businesses, majority of the business is actually coming from the either standard asset provision or the counter entry of the FLDG contract.

Gaurav Kochar: Okay. Understood. And the second question is on the cost of fund.

Ravindra Kundu: Yes, please go ahead.

Gaurav Kochar: Yes. On the cost of fund side, sir, there is a 40-basis point increase in cost of funds. Is that largely done now or the repricing of your borrowings, which were linked to MCLR or otherwise, is that largely done? Or you believe there could be further increase of cost of funds from here on in the second and third quarter?

Arul Selvan: See, it is largely done. The only caveat I would say is if there are further increases that's happening because of any external events, yes, then there would be a fallout of that. But as of now, it looks like there will be no further increases by the regulators. So, if that continues, we should see some improvements there. So, I don't see further increases more on the cost of funds.

Gaurav Kochar: Okay. Just to be a little more specific, roughly half of your borrowing is bank borrowing. What percentage of that would have already repriced? Or what would be the gap between the marginal cost of bank borrowing and the stock cost?

Arul Selvan: If you look at my total borrowing, 55% to 60% will be bank-related borrowings. The rest are all fixed rate borrowings. The bank-related borrowings have got, out of the 60%, around 10%, which is fixed rate itself. So, there is no movement that is forecasted on that.

The rest are either repo rate linked or MCLR linked, or TB linked. So, in the case of the repo linked rates, we are negotiated to the spreads on the repo and because we would have agreed on a higher spread in the earlier period when repo was lower. So, we are renegotiating with many of the banks, and we have built in clauses with the banks to repay in case their negotiations fail at the times of every reset. So, wherever resets are coming up, we do renegotiate with the banks.

I'm not saying in all cases, we'll be successful. But in some cases, wherever they are successful, we have been able to pull down the rates. So, the new loans are coming at fairly decent rates because we are now, as you would have also seen that we have now shifted our focus on to doing more of securitization. And when we do securitization, we do priority sector assets, which gets us better rates than simply borrowing at MCLR rates from the bank. So, the securitization route adopting the priority sector as our key factor to negotiate has helped us. And so, we have done almost like INR8,800 crores in Q1.

So, this impact of this would also flow through. Another reason why the cost of funds has also impacted marginally is we consciously built up our Tier 2 during the Q1 by issuing certain amount of perpetual debt as well as subordinated debts, because we wanted to build the Tier 2 part of it. So that impact of it is all is showing up. But that would continue because that's a fixed rate book. But it's a small number. It's around INR500 crores.

Moderator: Next question is from the line of Prashanth Sridhar from SBI Mutual Fund.

Prashanth Sridhar: Two questions, sir. One is on the retail unsecured piece and the new businesses. If you could just help us understand how you are tracking? How is the customer getting over leveraged? And what do you do when you find out that is over leveraged? And number two is just a technical question. So, the loan book has grown at like 40% and the ROE is around 20%. So how has the Tier-I capital adequacy increased versus last quarter?

Arul Selvan: Yes. So, from a capital adequacy point of view, securitization is not treated as debt. It is adjusted out of the risk-weighted assets because under the capital adequacy, when we are securitizing the book, we can adjust the securitised assets. And that's where you're seeing a good amount of Tier 1 improvement happening.

Again, as I said, some amount of perpetual debt has also been done. This has helped us. So, in the leverage ratio, we don't consider it that way, because under IndAS securitization is shown as borrowing now earlier in under the IGAAP, it was shown outside the book. So, it keeps changing. So, from that angle, now the leverage we will look, because the securitization does not move the needle on the debt equity ratio.

Ravindra Kundu: In the case of underwriting of the personal loan business, see, one important thing is that we have to understand what we are doing under the CSEL division. They are doing 3 types of business. One is that the partnership business, which is a small ticket size, small tenure book. And that is purely going to be salaried class, and we have mentioned that these are all, will be getting disbursed 720 plus scores.

Then the business loan, which we are doing it with the self-employed non-professional customer and also doing it with the professional like doctor, engineer, chartered accountant, which is basically again, we are doing 720-plus customers, majority of the customers are there. 96% customers have 720 and 4% customer between 700 to 720 plus.

Now third customer is the personal loan, which we started recently, and we have not done much personal loan, because in the personal loan, it is mainly salaried class who gets the personal loan. And we categorize industry categorize the employer in a Cat A, Cat B, Cat C type. And all Cat A, B, C get funded by the banks at a much lower rate.

D, E type of employer where employees are working, the salaries are lower. They're getting funding by the NBFCs. So, we saw that it is actually one that the yield is lower as compared to the business loan. And second is that the, why we should take the risk for the E and F category of the employer where the employees are working.

So therefore, we have not done the personal loan business. We are only going to do directly with the direct sales team and also with the existing customer, mainly. So now coming to the evaluation, whether the leverage or not leverage is depending on, one is that the credit score itself that the customer is taken the loan and paying it in time. Second is that how much EMI customer is paying and what is the total income of the customer.

So, what Mr. Vellayan was also trying to say that, if there is an over dependency or our customer has taken a loan and paying more instalment, obviously, that will not get through in our system. And obviously, it is getting rejected.

But in some market, it is found that the customers are having a little higher leverage. And obviously, we are not reducing our credit bureau score and credit score, which is required for clearing the proposal from 720 to 700 for PL loan. And that is what is the basis of underwriting. So, the leverage is actually taken care by evaluation of the income to the EMI burden of the customer plus the credit score, which is coming out from the bureau and from the underwriting tool, what we have developed for our system.

Moderator: The next question is from the line of Umang Shah from Kotak Mutual Fund.

Umang Shah: Sir, just one thing on ECL provisions, especially on the standard assets. So, if I look at our Stage 1 and 2 provisions, they have kind of pretty much normalized, back to pre-COVID levels. So, I'm talking about Stage 1 and 2 provisions combined. However, given that the overall AUM mix is shifting now in favour of new businesses, which inherently have higher forward flow rates, should we expect that our standard asset provisioning requirement might actually increase going forward? How should we look into it?

Arul Selvan: Yes, it will marginally increase because we are evaluating it. What we are doing right now is, we don't have enough traction on the existing book to arrive at PD LGDs for the new businesses. So, we are adopting a very conservative way of looking at it, either in the case, for example, in SBPL and SME, we are following the LAP model. And in the case of CSEL, we are trying to put provision, which is more stringent than what is there either for the VF or the secured businesses.

But by end of March, we would have around 24 months plus of the businesses, which would give us the traction to arrive at the PD LGDs. So, by March end, March '24, we should arrive at PD LGDs for these businesses. And thereafter, it will change accordingly.

Umang Shah: Okay. But despite that, we believe that we would be able to contain our credit cost within our guided range.

Arul Selvan: Yes. As I said, actually, in my opinion, at that point in time, there could be, reversals because we are now pursuing an aggressive provisioning norm with regard to the new businesses. The PD LGD should show a reduction in my view. But let us wait for the numbers to come up rather than take a call notionally on this.

Moderator: Next question is from the line of Kunal Shah from Citigroup.

Kunal Shah: So last time, you highlighted that in terms of the credit cost, it should be in the range of 0.75% to 1.1%, 1.2%. We have seen a slightly higher credit cost in 1Q. So how should I actually pan out because, vehicle has been higher as well as on the new businesses, it's been upwards of 4.5-odd percent. So, do we still stick to that kind of a guidance? Are we confident that it will still sustain below 0.9%?

Ravindra Kundu: If you see that in the Vehicle Finance, we started actually showing up lower NCL than the Q1 FY23. It has come down. I have mentioned previously while answering the last question itself. If you see that in our investor presentation itself is very clear that it has come down from 2.1% to 1.5%. So last year, at the overall level, NCLs was 1.2% for FY '23. We started from 2.1% and ended up for the entire year at 1.2%. If you start at 1.5%, obviously, it will go down below 1% this year.

Kunal Shah: Yes. Okay. Okay. So, in fact, it's more of a Q1 thing and then…

Ravindra Kundu: Yes. It's a Q1 thing and also it is from where you're starting, you're starting 60 basis points lower than the Q1 number, isn't it? And as of now, if you see that in last time, the Stage 3 of the vehicle finance in the Q1 FY23, it went up significantly at that time. But here today, in this quarter, Q1 compared to Q4FY23 is the increase in Stage 3 is only from 3.20% to 3.35%, which is hardly 15 basis points. So as against the increase of 70 basis points earlier years

Ravindra Kundu: 15 basis points.

Ravindra Kundu: For now, it is only 15 basis points, 3.2% to 3.35%. So, we have 2 advantages here. One that the NPA is not going up, Stage 3 is not going up and Stage 2 is actually showing a much better situation. It is actually, now Stage 2 has come down, in fact, from the same way if you compare it.

So, if you take the 2 important points, one is that the NCL of Q1 2.1% to 1.5% now is coming down by 60 basis points. And at the end when we started with 2.1%, we delivered 1.2% for the year. Obviously, the NCL will go down. And again, second thing, the Stage 2 and Stage 3, where we are in now as compared to the Q4 and similarly, if you go Q4 to Q1 last year, you'll see that our book is also behaving much better than what it was last year.

Kunal Shah: Sure. And secondly, in terms of this FLDG. So, no doubt, it's P&L neutral because it's there in the other income as well as in the provisioning. But does that really show that maybe the stress in that pocket is higher than what we would have anticipated and that's where this entire FLDG is coming through?

Arul Selvan: No. Actually, this is actually not that all of these FLDGs happened during the current quarter. What has happened is we had been pursuing this with the partners, and these have been accounted it out this year. Because this quarter, because of the new norms of RBI where we needed to consider them as write-off on one end, and then only recognize the FLDGs on the other side. So that is the reason why we needed to bring them into books. Otherwise, it's not like all of them had happened in this quarter.

Kunal Shah: Okay. So, this is cumulative.

Arul Selvan: Cumulative, yes. Cumulative, FLDGs based accounted, yes.

Moderator: Next question is from the line of Viral Shah from IIFL Securities.

Viral Shah: I had two questions. So again, just going into the new businesses. So, you mentioned, of course, it's a function of the standard asset provision. Can you give a breakup of what is the standard asset provisioning, what was the NPA provisioning? And what was the write-offs for the new business?

Arul Selvan: I don't think at this juncture, we are giving that breakup. When we start presenting the new business P&L, we will start giving this information.

Viral Shah: Okay. But as you mentioned, majority of it is due to standard asset provisioning and not write-offs?

Arul Selvan: Yes. I still stay by that. But I'm saying I don't have to give you the breakup, because we have not yet started presenting the individual profitability of these businesses. So kindly wait for the end of the financial year, once we will start presenting this one.

Viral Shah: Sure. So then, sir, how should 1 look at the profitability of these new businesses? Because earlier you had mentioned that the ROAs for these businesses are significantly higher than the current business. Does that still remain?

Arul Selvan: Yes. ROA of these businesses will be higher than the existing businesses. As of now, they are still either equal to or marginally even lesser than the existing businesses because they are on the growth phase. And cost is high. The operating costs are higher.

Viral Shah: Got it, sir. And just one last question from my side. Can you give some colour on the digital platforms that you are building, basically, the Gaadi Bazaar and the CholaOne app that you are building for the Personal Loans?

Ravindra Kundu: Yes, sure. So Gaadi Bazaar app we have built quite a few features in that. One is that all our repo stock, which is almost close to 3,000 units per month, we are selling it digitally on by listing it and by putting it up with photographs and valuation and everything and customers can evaluate the buy and then they can quote.

And quoting and bidding is happening online. So, we are doing that part. So that way, we are able to, one that realize the best value of the thing. And it is also transparent and there is no chance of any kind of wrong dealing happening in the branches because we are working from 1,150 branches and we have resident location close to 500. So, all 1,600 branches are doing this thing, but all the vehicles are getting sold in the same manner. One is that.

Second is that we have more than 5,000 dealers are there in Vehicle Finance division, where we are dealing with them. And all the people who are taking the credit advances and close to INR1,600 crores of credit advance is getting disbursed every month, that is getting done. So, empanelment of dealer, request of the credit advances and replenishment of the traded demand, everything is online, digitally done, which used to be done earlier completely file-based manner. That's the second thing.

And third important is that we have also created a used vehicle marketplace. And across the country, we have close to, say, 10,000 used vehicle dealers all of them are basically doing the transaction with us. So, their stock is getting listed in our platform. And to that extent, we are generating the lead for buy and sale, and we are helping their stock to dispose of. And therefore, we are also able to generate the revenue from them. So one is that the used vehicle marketplace where we are generating revenue by helping them to generate the lead and sell the vehicle.

Second is that we are also able to do the dealer credit advance through our portal. And third is that the used vehicle marketplace repo vehicle market where we are disposing our vehicle at a much better price, and we are also generating revenue through that. The fourth one is the customer service. The customer service is, again, 2 type of services we are giving. All the customer grievances or request, which is coming through physical mode by through branches or through the call centre.

Now today, they can actually approach us in the digital way. And almost 96% of the customer request, the customer services are now getting delivered digitally. And they're also able to pay digitally using our Gaadi Bazaar app, almost INR150 crores collection is happening through the Gaadi Bazaar app. This is what in the Gaadi Bazaar, which is vehicle finance ecosystem. Digitally, we are enabling customers and our dealer and our broker and our used vehicle partner to work with us.

In addition to that, we have also given this app to our repo agent who can actually get the details of the vehicle where to need to be repurchased, they can submit the bills, notably bills can be paid. So that's the additional services we have given.

In the case of Chola One app, which we have launched for CSEL. We are doing digital lending similar to what we are doing it with the partner, but it is actually internally done for the employers as of now and for the Murugappa Group ecosystem. And it is actually done almost INR4 crores to INR5 crores. We have started doing it in this platform. We are testing this platform and it is trying to see that what is the delinquency, what is the bounce rate? And then slowly, we will open it up for the market.

Moderator: Next question is from the line of Kaitav Shah from Anand Rathi.

Kaitav Shah: Sir, I just wanted to understand more at the macro level. If you can help us understand about the sustainability of the growth rates that you are seeing over a 3-to-5-year period? I know your businesses are very small. But is there any structural change that you see at the ground level that you can make us more aware about?

Ravindra Kundu: As Mr. Vellayan mentioned that affordable housing is something which we see that it is very less penetrated across the country. Even in the case of Chola, whatever business we use to do 1 year back, 80% business is to come from South zone. East, West, North was under penetrated from Chola's point of view also. So, we have started doing it. And as of now, our presentation in non-South is 40% and 60% we are doing it in South. That is one.

Second is that we need to also see that what are the type of product which you can give it to the customer who are going for affordable housing. So, we see that only a few customers profile is only their needs are addressed. Almost 60% of the customer profiles are still not getting addressed in affordable housing because of the properties within the municipal limit or out of municipal limit type of property, what type of income they are generating from, what is the source of income they are generating?

Are they getting income through bank-to-bank or is getting through cash salary. There are many ways to basically increase the penetration both from a geographical point of view and as well as customer profile point of view. So, home loan is affordable home loan is something which we are we are expecting that to grow continuously, much higher rate for the next 3 to 4 years or maybe more than that.

Now coming to the loan against property, where we have seen that significant growth coming up during last 1 year, 1.5 years. That is because we were operating from 350 branches and now, we are operating from 600 branches. And still, we have another 600, 700 branches to go up. And we have launched the micro-LAP also in the LAP businesses, which is basically a small ticket size loan, because our surface is now available up to INR20 lakh. And as you may go in Tier 2, Tier 3 towns, those customers who are having a small property, will be coming up. And they are also paying much better than what bigger LAP customers are paying.

So, both from growth and then the delinquency levels are also much lower. We have seen that the bounce rates are lower. The collection efficiency is very good. So, we see that the second largest business, which is going to grow within the existing businesses is going to be the LAP.

And third is the vehicle, you see that the industry itself has not reached to the peak level of pre-COVID, and it will continue to go up to reach over there. And we know that the penetration in vehicle finance in terms of cars or tractors or 2-wheelers, much lower in India. So that will increase the vehicle, but vehicle finance growth will be lower than LAP initial obviously. But we are expecting that it should be 20% for the next few years.

Coming to the new business, it has just opened up. And since they are in growth phase, they will continue to grow because of the lower base. So, in a nutshell, Chola as a whole, all 6 business lines put together, we are quite confident that we will be delivering at least 20% disbursement growth conservatively, we are telling you. But it can actually go up as we further talk and discuss.

Moderator: Next question is from the line of Bunty Chawla from IDBI Capital.

Bunty Chawla: Just one data point, if you can share. As we are not highlighting much in the presentation about the restructure asset. So, are there any restructured assets left in our books? And also, I believe that moratorium of these restructured assets is completely now out for the move, and now they are kind of a standard asset for us.

Arul Selvan: We have around INR2,200 crores of restructured assets, of which around INR300 crores is in Stage 1, the INR1,500 crores continue to be in Stage 2. That means they are performing, but they are not moving back to Stage 1, because they have not yet come to 30% level as per RBI norms, where we can move them to stage 1. And I think at residual INR500 crores is in Stage 3, because they are not performed and they're moving to Stage 3, and they have started providing for them as per the normal PD LDG services.

Moderator: Next question is from the line of Avinash Singh from Emkay Global Financial.

Avinash Singh: Sir, one question on your newer businesses particularly. The kind of customer segment and credit cost, who you are sort of competing? So, what kind of yield, because your growth, of course, from a smaller business will be strong. So, what kind of a yield if you want to compare versus your peers in that segment? Is the yield sort of at parity or I mean, there is some sort of a differential in yield, particularly given the fact that you are more focusing on that 720-plus customers?

Ravindra Kundu: Our yields are actually almost in line with the market. And in fact, slightly better than that, both yield and fee income put together as of now. Because we are not aggressively growing. And when we see aggressively, it is the market potential versus what we are doing. But when you see our comparison with what we have done versus what we have done in the past, obviously, you see that the percentage are high.

So, I'm again and again saying that as against the market size of the personal loan or business loan or SBPL business, we are quite small. And therefore, we are able to maintain both credit score at a higher level and the yield and fee income at a higher level. And by that, still we are able to deliver lowest bounce rate and highest collection efficiency.

Moderator: Next question is from the line of Pranav from Rare Enterprises.

Pranav: Yes. Sir, I joined the call late, so forgive me if someone has asked this question already. Sir, your ALM is very, very tightly matched for the next 2 years? And second thing is that if we just see the new business NPA on a 12-month lagging book. So, 12 months ago, whatever the book was, I think, it was around INR2,200 crores and current NPAs around about INR100 crores. So, it's almost around 4% of 12-month lagging book. So that is second point.

The disbursement in that area is very high. So actually, how you see this situation? Because the area where if the growth slows down in that area, eventually, it will have 4% to 5%, 6% NPAs.

And Chola is always known for a very conservative group. So even if you just say, raise capital, why not just improve ALM rather than have a growth in the new areas where whatever theoretical PGD is, system PGD will also be tested. So why not slow down the growth?

Arul Selvan: I'm a little confused. You were mixing ALM and NCL and NPA percentages.

Pranav: Yes. Because what happens if 5% GNPA becomes to the NPLs. That is also...

Ravindra Kundu: 5% GNPA is not there actually. That is a wrong number. Stage 3, we have given in Page 28 for the other businesses where the new businesses are included is 1.01%.

Pranav: That is on the current book, so I am calculating it on the...

Arul Selvan: We can notionally say any number and then assume, first of all, let me address your ALM question. You were saying ALM is tightly matched. ALM as per regulation, also, you can have cumulative mismatch of 10% for the first year. And thereafter, actually, cumulative mismatches are also low. But internally, we follow much more aggressive policy that there will be no mismatches in any bucket. But that is on the cumulative number. And I think it is well understood that you need to track cumulatively because the surplus of the earlier time buckets should flow to the subsequent time buckets. So, if you look at it, at any point in time, over the cycles, we have shown that our cumulative mismatches are never negative.

I mean, notionally, we can keep assuming, can I be better than this, we can work on it. But there is another side, efficiency angle to it, because then you have to create more and more of reserves or cash reserves, which are not going to be cost of funds accurative for you. It will have a negative impact on your cost of funds.

So, we have gone through various cycles, and we have never ever faced an ALM issue. And I think the way we are managing it is quite optimal, I would say, if not conservative by itself. So, beyond this, I assume, and we have our risk team putting different stress testing analysis on this at moderate stress, high stress and so that stress testing is also being done to ensure both from an ALM perspective and purely from a liquidity perspective, things are well managed. So, sitting from outside, assuming a 10% NPA and then what could happen to the ALM is a little long shot, I would stop there.

Pranav: Right. So, sir, on a trailing basis, there is some merit in considering current GNPA on a 1 year back book rate, because you are not lending this quarter and it is becoming GNPA in the same quarter. So, am I wrong in thinking that?

Arul Selvan: We do all these analyses, by following the static pool analysis. And actually, 1 year back, the issue is a different issue COVID, which is more onetime phenomena. We have to look at periods where it is of a normal trend, and we factor in a certain way. But even if you take the PD LDG, these factors in, even the COVID period and then considers it, that's what I was explaining earlier, then the provision coverage will look higher because the PD LGDs are calculated with 2 years of the COVID period which also coming into play. So, I think, we take care of all these, and we try and build the book as well as our accounting in a very conservative way. Yes, views are welcome.

Moderator: Next question is from the line of Piran Engineer from CLSA.

Piran Engineer: Just a couple of them. Firstly, any one-off in the employee expense, which has dropped 15% Q-o-Q. Have you moved people to off-roll or something like that? And secondly, the Tier 1 ratio has increased Q-o-Q, sir, you were mentioning something about securitized assets not being counted in capital adequacy or something like that. So, are these 2 related?

Arul Selvan: They are not related.

Piran Engineer: No. No. I mean, the increase in Tier 1 securitization?

Vellayan Subbiah: Securitization is related to Tier 1. Yes. Okay. So, I think you already answered that, but he's asking the same question that was asked.

Ravindra Kundu: Securitization.

Arul Selvan: Yes. See, we did securitization. Securitization impacts Tier 1, because under the RBI regulation, CAR needs to be calculated in the erstwhile method. So, there we take away from the risk-weighted assets with the securitized book, because these have been sold off to somebody. The loss levels that are expected on securitized book is to the extent of the cash collateral, which is adjusted straight out of the Tier 1, and that is the way the CAR is calculated. And factoring in that, we have improved the CAR.

Piran Engineer: Got it. Got it. Okay. That answers the second question. And the first one on employee expense?

Arul Selvan: Employee expenses if you compare Q4 versus Q1, yes, there would be reduction because in every Q4, we will have the full performance of the teams being evaluated and the incentives being factored in at the highest performance level.

Ravindra Kundu: An additional incentive.

Arul Selvan: And any additional incentives, increments, etcetera, would-be factored in. In Q1, it will be not there because as such, we are in the starting mode, and we will be providing them at a normal pace. In Q2, what will happen is certain amount of increments promotions, etcetera, will be factored in. From July onwards, the impact will start coming in but that should not be a significant number from an overall perspective. It happens every year.

Moderator: Next question is from the line of Ashwini from Edelweiss.

Ashwini: I've got a couple of questions. So, in the month of July, we had seen some heavy rainfall and floods. So, is it going to impact the disbursements loan growth or collections for this quarter?

Ravindra Kundu: So, this time, if you see the rains are actually good, there are some markets, if you have seen that. It was slightly higher than that. But according to me, against the El Nino effect was what people were worried about, entire countries having a good rain and it is almost 95%, 96% of the level. And a few markets where we have seen that, a little deficit was there like Bihar, Bengal, Jharkhand, and some market. There also now rains are expecting. So, coming back to the growth, our July numbers are good. So, no need to worry about it. We're maintaining the momentum.

Ashwini: Okay. And we will continue to maintain the current overall growth rates in the AUM and the ROE, right?

Ravindra Kundu: Yes, yes, yes.

Moderator: Thank you. I now hand the conference over to Mr. Nischint for closing comments.

Nischint Chawathe: Thank you very much for joining us today. We thank the management of Chola to give us an opportunity to host this call. Thank you.

Management: Thank you, Nischint. Thank you all.

Vellayan Subbiah: Thank you. Thank you so much.

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