"Cholamandalam Investment and Finance Company Limited

Q1 FY '25 Earnings Conference Call"

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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 '25 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 the conference call, please signal the operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I will now hand the conference over to Mr. Nischint. Thank you, and over to you, sir.

Nischint: Good morning, everyone. Welcome to the Earnings Conference Call of Cholamandalam Investment and Finance Company Limited to discuss 1Q FY '25 performance and share business updates we have with us, the senior management today. The senior management is represented by Mr. Vellayan Subbiah, Chairman and Non-Executive Director; Mr. Ravindra Kundu, Managing Director; and Mr. Arul Selvan, President and CFO. Let me start by first of all, congratulating Mr. Kundu on the elevation.

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

Vellayan Subbiah: Okay, Nischint, thank you so much. So quick results for the quarter. Disbursements were at INR24,332 crores, which is up by 22%. AUM stood at INR1,68,832 crores which is up 38% year-on-year. And net income for the quarter was at INR3,033 crores, which is up 43% year-on-year. PAT is at INR942 crores for the quarter, which is up 30% year-on-year.

So, I'll just go through quick performance highlights. The Board approved the unaudited financial results for the quarter ended June 30, 2024. Aggregate disbursements, as I said, were INR24,332 crores as against INR20,015 crores in Q1 for a growth of 22%. Vehicle Finance disbursements were at INR12,766 crores in Q1 as against INR11,301 crores in the same quarter last year, which is a growth of 13%.

LAP is at INR3,874 crores of disbursement as against INR2,679 crores for the same quarter, which is a growth of 45%. So that has grown strongly. Home loans have disbursed INR1,778 crores in Q1FY25 as against INR1,454 crores, which is a growth of 22%.

SME business disbursed INR2,160 crores in Q1FY25, which is a growth of 6% over INR2,045 in the same quarter last year. Consumer and Small Enterprise loans disbursed INR3,486 crores in the quarter as against INR2,355 crores, which is growth of 48%. SBPL, Secured Business and Personal Loans disbursed INR268 crores as against INR182 crores, which is a growth of 48%. Assets under management as of 30th June 2024, stood at INR1,68,832 crores as compared to INR1,22,755 crores as of June 30, 2023, which is a growth of 38%. PBT for Q1 FY '25 was INR1,268 crores, which is a growth of 31%. And PBT-ROA was 3.2%. ROE for the quarter was 18.9%.

The company continues to hold a strong liquidity position with INR14,324 crores as cash balance at the end of June 2024, that includes INR1,551 crores in GSEC, INR1,606 crores in T-Bills and INR611 crores in Strips shown under investment, with a total liquidity position of INR14,767 crores, including undrawn sanctioned lines. The ALM is comfortable with no negative cumulative mismatches across all-time buckets as per regulatory norms. Consolidated PBT for the quarter was at INR1,275 crores as against INR956 crores in Q1 FY '24 with a growth of 33%.

Stage 3 levels representing 90+ dues increased to 2.62% as of June '24 from 2.48% at the end of March '24. GNPA percentage as per RBI norms increased to 3.62% as of June '24, as against 3.54% as of March '24. NNPA as per RBI norms also increased to 2.37% as against 2.32% of March'24. NNPA is below the threshold of 6% prescribed by RBI as a threshold for PCA.

The capital adequacy ratio of the company was at 18. 03% as against the regulatory requirement of 15%. Tier 1 capital was 14.76% with common equity Tier 1 capital at 13.63% as against a regulatory minimum of 9% and Tier 2 capital was at 3.27%. I would also like to firstly congratulate Ravi Kundu, who will take over as MD, effective October 7. Ravi has been with us for 24 years. And I'm really glad that somebody that has been kind of grown in the company from within has taken over as the MD. And I have full faith that Ravi and Arul and the entire team here will continue to grow Chola over the foreseeable future as we see.

So, I'll stop with that and thank you. I'll turn it over to you for questions.

Moderator: Thank you very much. The first question is from the line of Avinash Singh from Emkay Global.

Avinash Singh: Congratulations to Mr. Kundu for his elevation to the position of MD. A couple of questions. The first one, if you can help us understand, if we see the PCR in LAP and SME segment, you have taken down materially. So, what is driving this sort of -- what gives you, in this quarter, particularly, where you see some kind of rise in delinquencies and also, I mean, so the PCR reduction in these 2 segments or the LAP and SME material, what is driving that? And the ECL in the vehicle seems to be inching up, I mean, of course, the Q4 to Q1 is typically seasonality, but even if I take on longer-term trend also there's a jump. So, this bit if you can clarify?

Second, yield in the vehicle segment seems to be sort of had come off. Is it because of some mix of vehicles that had changed in your portfolio this quarter or something else?

Arul Selvan: Yes. I'll address the ECL part of LAP & HL. In both these segments, what is happening is we have been resolving a lot of these old cases which were running with much higher provisioning percentages. And that's what you saw over the period that the resolutions have come down, and we have been able to resolve them. So as this book runs off, that is there are old cases with higher provisioning runs off, you will see that the provision coverage seemingly coming down. But basically, the LGDs are very, very low, actually, and we are still following a percentage which is not even as per the LGDs given as per the trend of this portfolio, but much higher than the numbers which we need to adopt. So, this is the status, and we are comfortable with PCR of these segments. Ravi, do you want to talk on that?

Ravindra Kundu: Yes. So, the yield of Vehicle Finance, as we mentioned in the past also, is a fixed rate book and it requires time to grow. And today, also, if you just compare the marginal book yields, we have increased it by almost 60 basis points and NIM has gone up by 3040 basis points. So, there is still some room for NIM increase, which is going to be done partially this year and then something will be coming in next year also. As far as delinquency is concerned, you have seen that it is a seasonal effect, and it normally goes up from Q4 to Q1.

The Vehicle Finance or even in Chola, if you see that, the total delinquency is actually 5% between Stage 2 and 3 and is at rock bottom level. In fact, it has gone up by 30 basis points for the company in Stage 2 and 15 basis points in Stage 3. And it is much lower than the quarter 3 closing of 3.06% in 2023. Over the period, we will definitely reduce it. Last year, quarter 1 and quarter 2 to take Vehicle Finance, it went up from 1.5% to 1.7%. And then from there, it started coming down and we closed the year to 1.20% in terms of net credit cost.

So, this year, I'm expecting that the trajectory will be, from Q2, it will come down and then Q3, Q4 further it will come down and will reach to the level of 1.2 or 1.3. And the NIM will go up. So, at a ROTA level, we are going to get benefited. Our profit and disbursement growth in terms of Vehicle Finance will be much better than last year.

Moderator: The next question is from the line of Raghav Garg from Ambit Capital.

Raghav Garg: Just to have a bit more on the credit cost for the Vehicle Finance business. So, if you compare it to last year, there is still an increase and the opex ratio for the Vehicle Finance business have also increased. What's leading to this increase? Especially when I noticed that your disbursements have been higher for the larger ticket size vehicles because I would assume if that's the case then the asset base is larger, and at the margin, the opex ratio should not increase as much. Some colour on that. That's my first question.

Ravindra Kundu: In the case of Vehicle Finance operating expense, were at 3.12% as compared to 3.18% level until March closing and as compared the same period, it has gone up by 20bps. And if you compare the quarter 4 number, it was 3.18%. So, we are well within our plan as far as number is concerned. As for the NCL is concerned, we are actually up by 30 basis points of 1.45 last year to 1.87. But the Stage 2, Stage 3 are actually lower than the quarter 3 closing. We are, as I mentioned, that both Stage 2, Stage 3, historically, for Vehicle Finance as well as the company, we are at the rock bottom level.

So, in the Q1 because of the seasonality, it has gone up by 20 basis points in terms of Stage 3 and 30 basis points Stage 2. If we are going to reduce it over the period, I mean we come back to the normal level last year and we closed the year with NCL at 1.20%. We will be near to that level this year and with the help of the NIM growth and also in terms of Opex level where we are, we will definitely increase the ROTA to the last year's closing. We closed with the ROTA at 3.35%, we'll be near to that or will improve from 3.35% ROTA.

Raghav Garg: And sir, my second question is on the Home Loan business and so on. I see that the number of branches that are there, the incremental addition has been coming down over the last 3, 4 quarters. And essentially, that was one of the things that was driving the disbursements growth also for us in the Home Loan business. So now as the branch addition has slowed down quite materially, does this mean that you have penetrated in terms of distribution fairly well, and it will be a more stable and established state growth run rate on the disbursements front from here on?

Prashant Kumar: Yes. As far as Home Loan is concerned, last 2 years, we have ramped up and scaled up volumes substantially. As I said in the earlier call, this year will be a period of consolidation, increasing productivity, seeing everything is in order in terms of delinquencies, control, putting consistency regarding governance. So, this year, first quarter, we have seen that we are in fact, you can see the numbers, the delinquency levels are under control. ED is also improving.

So, we have maintained the consistency. And now the scale up will happen towards the second part of the year. And accordingly, we have placed the manpower for the current year. Lastly, we will see the ramp-up in volume in Home Loan business during the second half of the year.

Raghav Garg: And this ramp-up in volumes will be led by the employee addition or…

Prashant Kumar: We have also introduced 1 more project in terms of going more rural. So that will help us to increase our numbers, penetrating more into rural market.

Raghav Garg: So, your incremental ticket has around 1.5 million of 3 Lakhs in Home Loan business?

Prashant Kumar: –The growth will be stable, and we will do better than industry growth.

Ravindra Kundu: And ticket size also will be similar.

Raghav Garg: Do I have time for one more question?

Ravindra Kundu: Go ahead.

Raghav Garg: Just your write-offs and slippages have also been elevated this year and comparing it to Q1 of FY '24 because I understand that Q1 is not the right comparison, right? So, when I look at Y-o-Y business increase, which product segments are leading to the steep increase in slippages and write-off?

Ravindra Kundu: So actually, write-off and settlement of our Vehicle Finance out of 1.9% and last year, 1.5%. It is the same level of 1%. Increase is only in the ECL from 0.25% to 0.9 % in terms of Vehicles Finance and that is a major book. So, when Vehicle Finance is consistently maintaining for the company also write-offs and settlements are at the same level.

Raghav Garg: Your write-off at INR320 crores right, versus INR200 crores last year…

Ravindra Kundu: That's the absolute value, but in terms of percentage. Percentage remains as it is constant.

Raghav Garg: Right. But sir, at the same time, your AUM has also increased. So mathematically that is bound to come down. But if I look at write-offs as a percentage of opening NPAs, then it's fairly elevated compared to last many quarters. So that's the reason why I asked?

Arul Selvan: So, in CSEL, for example, last year, we started doing write-off and recognizing FLDG not in Q1, but subsequently. So that difference will keep coming until you come to the same level of representation happening in both sides.

Raghav Garg: Sure. So, it's majorly driven by CSEL, right?

Arul Selvan: Yes.

Moderator: The next question is from the line of Abhijit Tibrewal from Motilal Oswal Financial Services.

Abhijit Tibrewal: Congratulations, Ravi sir. My first question is for you. How should we look at opex not just in the near term but slightly, I mean, over the next 2, 3 years, why I ask this is, I mean, we have led out new businesses, which are doing well. And I'm sure, I mean, they are in the investment mode. Just trying to understand over the next 2, 3 years, I mean, then maybe you'll kind of look at a few more product lines. By when can we expect this investment mode to get over and we kind of transition to improvement in productivity, as to say?

Ravindra Kundu: One is that in the new businesses, we have been continuously expanding across the country in terms of putting up more branches for them and putting more number of manpower. That's one. Second is that our experiment in terms of expanding the businesses like Vehicle Finance from CSEL to financing mobile and then CD is also on. So therefore, as of now, we are focusing on growth and keeping the NCL down and increasing the NIM.

The opex will start coming down. Obviously, the opex level of the new businesses, if you see that, it started coming down and their ROE will start improving. CSEL has come down from 5.1% to 4.8%, and they are expecting it can go down as low as 3%. So, there is an upside there, but it will come in next 2 years' time. Similarly, if you see the SBPL, where opex is down from 13.5% to 9.7%. Their ROA is 8% level. And he is afraid that if I ask him to reduce further, ROA will go up.

But there is a scope to improve it. But at the same time, we continue to increase the branches and increase the manpower. Our disbursement growth will go up and ROA will continue to be there, slightly improvement is there. So, if you continue to do this exercise, maybe the best result will come in 3 years' time. But every year, we will improve the opex.

Abhijit Tibrewal: Okay. Ravi sir, I mean, is it fair to say that maybe in another 2 years' time, we should even start seeing an improvement in our ROA profile, PBT-ROA profile, not just some margin expansion but also from improvements in opex?

Ravindra Kundu: Yes. And Home Loan also if you see that in the past when they were only focused to South zone, they were delivering more than 5% ROA. And now we are at 4.7% ROA. And their opex went up to 4.3% in Q4FY24, which has come down to 4.1% in FY24 and it has come further down in quarter 1 at 3.8%. And Prashant is saying that you've mentioned that it should come down further. So, it will help us to increase our ROA in HL business more than 5% again.

Abhijit Tibrewal: Thank you Ravi sir. And my last question is for Arul sir more near term I mean cost of borrowings seem like stabilizing now while there is narrative of a rate cut now kind of building in the second half of this calendar or Fiscal year. Just wanted to understand how we have positioned ourselves on the bank of borrowing side particularly in terms of our MCLR borrowings. I mean are we positioned in such a way that whenever the rate cuts are there it will start benefiting us quicker than maybe some others?

Arul Selvan: Our bank borrowings are predominantly driven by priority sector on lending by the banks. And here we try to do it benchmarking with the T-Bill or any of the benchmark indices because the MCLR rate is higher. So if the liquidity position improves and T-Bill rates come off then we should see the benefit. We are seeing that already in part of the portfolio where it has been benchmarked in such indices. Of course, public sector banks we do with MCLR. There we are still seeing some increase happening in MCLR, but that is something we need to manage between these two to get the overall rate steady at the current level.

Abhijit Tibrewal: Okay, sir. Sir, just to conclude I mean in the near term if repo rates remain status quo, cost of borrowings are now stabilized except for those PSU-linked MCLR borrowings?

Arul Selvan: Yes. You can keep it like cost of borrowings will be at similar levels.

Ravindra Kundu: Just for more clarity Abhijit first is the yield and NIM will go up. Second, the opex will start coming down or maybe cost of funds will start improving and then our ability to finance and vehicle finance to big ticket size will go up and then NCL start coming down. So, in general, everything will improve don't worry.

Abhijit Tibrewal: Yes, sir this is very comforting. Thank you so much and all the very best to you.

Moderator: Thank you. The next question is from the line of Shweta from Elara Capital. Please go ahead.

Shweta: Thank you, sir, for the opportunity and congratulations to Kundu, sir. I have two questions. One does we have capital raising plans and therefore how are we positioned on our growth targets for next two years? And second sir my question is to Kundu, sir. Sir although you explained the ROTA to be maintained or increase on the vehicle finance side, but could you just give a drawdown on how you perceive credit costs which increased quarter-on-quarter this quarter to 1.55%. So how do you perceive this number and therefore the console ROA?

Arul Selvan: On the capital, let me answer. We are comfortable on the Tier 1 after doing the raise where we are above 14%. And this is before converting the compulsorily convertible debentures which should happen sometime in FY '26. So, between these two Tier 1 would be comfortable. We are raising the Tier 2 capital by way of subordinated debt and perpetual debt and that would sort of supplement the capital. So, we would be comfortable for the next two to three years, considering this growth.

Shweta: How about the growth targets, how are you positioning vis-a-vis this capital position? Sorry, I interrupted.

Arul Selvan: We will be growing in the range of 25% to 30% and that level we still hold and if we keep achieving pretax ROTA of 3.5% plus that should be self-sufficient by itself. Only if the growth exceeds beyond that and we don't have the profitability at these levels then we will have a problem, but we shouldn't look at it on a quarter-on-quarter basis. We should look at it more on a year-on-year basis.

Ravindra Kundu: Regarding NCL of vehicle Finance we've been closing the NCL for the year, the last three years at 1.20% level. And last year also we started 1.45%, 1.5% and it went up to 1.7% in the second quarter. So, from quarter 1 to quarter 2 was 1.7% and we are at 1.9%. From quarter 2 from 1.7% we closed the year at 1.20%. This year the trajectories we are expecting that from share it will go down in quarter 2 because the monsoon has been very good and evenly raining across the country and there is no problem.

And between July and August it will complete and then September we'll get a best collection. And therefore, it will come down and then from there it will be quarter 3 and quarter 4 which we have been doing and we have been seeing the results last three years, same thing will happen. So, the NCL expected is at the same level or maybe 1.3%. And the NIM which is going to go up further, will help us to increase the ROA.

Shweta: That is helpful sir. Thank you so much.

Moderator: Thank you. The next question is from the line of Viral Shah from IIFL Capital. Please go ahead.

Viral Shah: Thank you for the opportunity. I have a few questions. So, one in terms of the credit cost. So while we have a changing book mix which is there I would say that from a medium-term perspective your credit cost could be a bit higher, but do we see also the fact that the recoveries in the home loans and LAP piece now that will moderate your credit cost where will it kind of say not for this year, but say '26, '27 where it would kind of settle on a BAU basis?

Ravindra Kundu: HL & LAP we have been doing the write-backs till last year. Now they're at 0.2%, 0.3% level.

Suresh Kumar: So, the LAP as you can notice that in last year for all the quarters the credit cost was negative primarily because of our write-backs on the Stage 3 and as we come to a steady state in current quarter, LAP credit cost is about 11 basis points. I think at best level it will be about 20 basis points.

Prashant Kumar: **In case of HL,** we are at lowest ever in Stage 3 and Stage 2 numbers trying to control upside, as of now we are 0.30%. Going forward, we will try to maintain this based on increase in book percentages we'll try to maintain this. On the upside will be 10 bps higher in the scenarios which we see is difficult rest is going to go down.

Viral Shah: So, sir my question is that while you're in Home Loans and LAPs, there will be a bit of upside from where we were in FY '24. Plus, of course, the new businesses they are even despite the higher credit costs they are still ROA-accretive. So where will be the kind of normalized credit cost settle? Will it be like 140 basis points levels and I'm not asking for FY '25, but more like say '26, '27 how one should look at it?

Ravindra Kundu: So, we mentioned that 1% to 1.20% the range. We still see that, that range we will be there. We are at 1% level now. On worst case scenario 1.2% the best-case scenario is 1%.

Viral Shah: Okay. You're saying the total credit cost, right?

Ravindra Kundu: Yes, overall, for the company level.

Viral Shah: Got it. Sir, the next question is in case of the new businesses as you mentioned that we have seen, of course, improvement in our profitability both driven by opex moderation as well as NIM expansion. And consequently, our ROAs have kind of improved, what further scope over there in these new businesses is there say in terms of further improvement in profitability?

Ravindra Kundu: So, each business has at least 1% between CSEL, SME & HL. We see that top side is good. SBPL is actually peaked I mean it is at 8.1% and opex is also high, but we'll keep it at this level only. The CSEL, SME, HL, these three businesses there is upside of 0.5% to 1% ROA.

Viral Shah: And in terms of the book mix now we are at 13% of the new businesses where should we settle, say 2 years out seeing FY '26?

Ravindra Kundu: 15% max.

Viral Shah: 15%.

Vellayan Subbiah: Unsecured will stay at about 8%.

Viral Shah: Sorry can we just repeat the last piece?

Ravindra Kundu: Three new businesses, CSEL, SBPL, SME put together is at 13% and it can go up to 15%. Vehicle Finance is at 57%, which can go down to 50%. LAP and HL, which is at 30% can go up to 35%, so 35%, 50% and 15%.

Vellayan Subbiah: And just to clarify, unsecured part of CSEL business will remain at 8%.

Viral Shah: Got it. And finally in terms of the overall growth, last quarter you had mentioned the disbursement growth to be in the range of 20%, 25% for this year. Now are we seeing a bit lower than that in this year?

Ravindra Kundu: No. Actually, in fact, it is higher than the expectation. We thought in election period, the disbursement will get impacted. In fact, we have done better than that. Both the asset growth and disbursement growth are higher than our expectations for the quarter 1. And actually, from quarter 2 onwards, it should further improve.

Viral Shah: Got it. So basically, we're confident of 20%, 25% kind of disbursement growth and 25% to 30% AUM growth for this year?

Ravindra Kundu: Yes. That is correct.

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

Kunal Shah: Yes. Congratulations, Kundu sir. So again, touching upon this growth, in fact, when we look at it, the traction, as you mentioned on the disbursement side, is better than what you expected plus almost like 8% sequential growth in a seasonally weak quarter. Doesn't it give the confidence to be like relatively higher on the AUM growth, you seem to be slightly conservative with this 25%, 30%? Or you are clearly seeing that in some segments, you would tend to pull back on the growth, if any asset quality issues come up?

Ravindra Kundu:

Vellayan Subbiah: Yes. I mean we always will guide in what we have a high confidence in delivering.

Kunal Shah: Okay. But otherwise, there is nothing because in terms of credit cost also, you are confident that it will come off, okay, maybe at least yields will also improve. So that is nothing which worries us on the growth side, considering the traction which has been there on Q1.

Ravindra Kundu: That's correct.

Kunal Shah: Okay. And secondly, in terms of the opex, so again, you indicated how it would pan out. But just like in 1Q, it's been quite low across the product segments. So, when we look at it, in fact, is there a revision maybe you indicated that you would keep on investing into the branches and the manpower. But compared to what we have been highlighting earlier in terms of where it should settle, now given the growth trajectory, is it giving us the confidence that opex to assets may be at a relatively lower level, maybe mainly because of the denominator effect or maybe whatever we are seeing positive surprise on the denominator will get offset by the increase in the opex as well?

Ravindra Kundu: So, we are always working on increasing the productivity within the people who are there. And then we are increasing the manpower and giving them opportunity to settle down and give them some time so that they start delivering. So that is what is the opex, nothing else. In the quarter 1 to quarter 4, the opex slightly move up because quarter 2, we have a salary increment coming up, then quarter 4, the incentives are basically factored. So that happens.

So, the range of the opex is between 3.1% to say 3.5%. That is what is actually happening because we are in growth phase. And once all the businesses are actually up like in for home loan, just we want to give you an example that when they were only focusing on South, their opex came down less than 2% and ROA went up to more than 5%.

Now they are growing in rest of the country. So obviously, opex is high. And when they complete the growth part, then obviously opex will start coming down. So opex is actually the factor of growing across and investing in their expenditures, what we do for the people in the branches as well as moving from bigger ticket size to small ticket size.

Kunal Shah: Okay, sure. And one last question in terms of the positioning in the vehicle segments. So, when we look at it in terms of the disbursements, particularly in the used, it's still been like steady, somewhere closer to 32%, 33-odd-percent. Would we be seeing in terms of the increase in this maybe given that most of the players are highlighting that there is a huge demand as well as increase in the prices as well for the used vehicle? Do we see that proportion inching up?

Ravindra Kundu: So that's what. If you focus more of used and 2-wheeler and 3-wheeler and tractor, then opex goes up. It requires more manpower; ticket size is small. So, we need to balance the entire portfolio by focusing heavy commercial vehicle, light commercial vehicle, cars & MUV as well so that opex is also stable.

We cannot just get the ROA by increasing the yield. And we have been considering that. And that's the reason growth is coming from across all segments. So as of now, used vehicle is at, say, 33%. If you take within the vehicle finance itself, the portfolio mix is 27%, but the disbursement mix is 33%. So obviously, our used vehicle mix of the portfolio from 27% to 33% will go up and disbursement continue to be at 33%.

Kunal Shah: Yes. But otherwise, disbursements might continue because you still want to make it slightly more broad-based growth?

Ravindra Kundu: Yes.

Moderator: The next question is from the line of Bharat Shah from ASK Investment Managers Limited.

Bharat Shah: Raviji, hearty congratulation. This elevation was waiting for a while and most deserving.

Ravindra Kundu: Thank you, Bharat bhai. Thank you so much. Thanks a lot for your kind words.

Bharat Shah: Absolutely. I just wanted to understand the sense of our distinct. If I look at the past, Chola, if I had to describe it as Chola 1.0 was more about decent ROE good enough ROE and reasonable growth while keeping quality and other parameters impeccable, given the context of the verticals that we finance. Chola 2.0 of the recent period, which is still I think is going on, is more about enhanced growth rate. While ensuring that our quality and capital efficiency parameters don't suffer, in fact, it appears subject to opex is to enhance that.

Now you have talked about moderation of expenses and operating leverage kicking in, so given the effect of that happening in some time, given the fact that in any case, we have always remained focused on quality of the assets and the emphasis on the capital efficiency, both ROA and ROE, what kind of, in the 3 to 5 years sustainable growth you would think you need to have and you target to have?

Vellayan Subbiah: Bharat bhai, this is Vellayan. So, Bharat bhai, I think kind of like you said, there has been a shift. But obviously, one of the reasons we made the shift and added the new businesses was to add more growth sectors. So even if you see disbursement growth that happened, vehicle finance has been a bit lower, but the overall company disbursement growth has not changed. So basically, the mix is changing at two levels. The mix of the overall level is changing because of the new businesses. And the mix within vehicle finance is changing as we basically move, like we said, more towards used and products like that.

Some of these products tend to be more intensive operationally and hence, the shift in operating expenses also. If we take a five-year view, we see no reason if we look at the macro in India to be able to continue to grow at this stage. So basically, if you ask kind of broadly the engine is designed to perform at that rate now kind of. So, each of the businesses kind of individually make their adjustments and fixes. So, I do believe that this growth rate is sustainable over that period.

Obviously, in any business, especially in kind of some of ours like Vehicle, we are going to have cycles and we will have to we usually take a 5-year period in around a 5- to 6-year period; you tend to have 1 down cycle. So that will be to be expected. But otherwise, I would think that growth rates can be sustained. It is an intentional shift.

And always, we kind of work around those parameters to say, what does it take to achieve that median of about 3.5% ROA that kind of swings depending on the interest rate environment and NCL performance it goes down a bit down to the 3.1%, 3.2% levels and then goes up as high as 3.8%. So that will continue to be the performance band in which we continue to operate. I don't know if that answers your question, Bharat bhai.

Bharat Shah: No, you did. I mean, of course, clearly deepening the products is a very worthy exercise we have taken. So is to reduce overall risk on the business as well as improve the growth quotient. So, my question, emanating from that was given our penchant for maintaining quality, efficiency parameters intake over the cycle, of course, there can be variations in the swing of the cycle in between but that is to be expected.

My question was given all of that and now our verticals are setting, our capital operating leverage is expected to kick in. And given the credit cost control that we typically have in a stringent way is really the capital efficiency parameters. In Chola, so to say, 3.0, what kind of given all of these sustained 5-year kind of growth, can we look at more in the band of 30%, 35% or it will be more like 25% to 30% kind of bracket?

Ravindra Kundu: Bharat Bhai, we are actually envisaging to basically conservatively target 25% to 30% CAGR growth with aspiration to reach 4% ROA.

Bharat Shah: And which means there will be at least one instance of capital dilution in 5 years because our growth rate obviously will exceed the return on equity and at some amount of dilution, it will call for it, we aim to grow at 30% over 5 years.

Vellayan Subbiah: Yes. You're correct.

Moderator: Thank you. The next question is from the line of Pranuj Shah from JP Morgan. Please go ahead.

Pranuj Shah: Sir Kundu, one question I had on your branch expansion, it has been pretty fast over the last couple of years. And especially, I think in other sectors, you look at the performance in Vehicle Finance but in Vehicle Finance in particular before expanding, what the parameters that you look in a particular market or a district for setting up a branch over there? And my second question is just on the CSEL disbursement the mix between unsecured business loan and unsecured consumer loans?

Ravindra Kundu: Yes. So, we have increased our branch network from 1,387 to now 1,438. So last year, we increased it by almost 200 branches and this year, we increased it now from 1,387 to now 1,438. So that is 51 branches. So, this year, I think, again, we will repeat a similar number of branches, what we added last year. In addition to these like the branches, we have also given how many touch points we are working in addition to the branches. For example, last year, we were working 545 RLH, which is resident location in addition to 1,387. So, some of these 545 locations are getting converted into branches and wherever we get the threshold achieved and see the portfolio is supporting us, we converted to brick and mortar branches.

As of now, we are working on 594 branches in addition to 1,438. 594 resident location in addition to 1,438 branches. So obviously, out of 594 the best locations, which are reaching to the level of threshold, what we set up for internally, maybe 150 to 200 will get converted to branches in this year. So, all depends on penetrating more into Taluka level and seeing them performing for 1 to 1.5 years and reaching to the level of the disbursement threshold and early default and non-starters being under control and then converted to branches and provide them with more manpower so that they can take it up further.

Pranuj Shah: Understood. On the CSEL part?

Ravindra Kundu: The CSEL actually consumer durable is very small.

Vellayan Subbiah: No, he is asking business loan versus consumer loan.

Balraj Menon: See, last quarter, we have disbursed INR3,486 crores. If you look at the overall disbursement, the traditional business has been around INR2,000 crores and out of that amount 72% is business loans. Then around 15% is professional loan, which is to the doctors and chartered accountants and 13% is personal to the salaried sector.

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

Nidhesh: First question is on again the CSEL. So, the credit cost that we are seeing is net of FLDG income or it is gross of FLDG income?

Arul Selvan: Gross.

Nidhesh: The quantum of FLDG income that we poked in this quarter?

Arul Selvan: Around INR12 crores to INR13 crores.

Ravindra Kundu: INR13 crores.

Nidhesh: INR13 crores. Okay. And secondly, are there any plans to add further products in the new initiatives over the next two to three years? And what all those products can be?

Vellayan Subbiah: Sorry. Your question was you were going to add new products. So as and when kind of many products are kind of board approved and we initiate them and we discuss them, obviously until that happens, we don't discuss them in public domain.

Nidhesh: Okay. But in the aspiration of 20%, 30% growth over the next 5 years, are we also building in new product additions or from the existing products itself, we can build that sort of growth?

Vellayan Subbiah: And like I said and kind of we are constantly looking at opportunities. If something is board approved, we come then we will obviously kind of bring it to you at that stage.

Moderator: Thank you. The next question is from the line of Shubhranshu Mishra from Phillip Capital.

Shubhranshu Mishra: Congratulations, Kundu sir. I have 2 questions. First one is the fact that we are speaking about a 25%-30% growth. Our focus would be majorly on higher ticket items especially Vehicle Finance because that is what will propel growth at those levels. Is that a fair understanding?

Also, is there an infinite market for used vehicles because almost everyone is doing that, like we have our NBFC competitors that are small finance clients there are certain banks, which are also entering. So, what is the total market size according to our estimates and where are we in the market share? And where do you think that we would be in market share? And just one last data keeping question. What were the number of loans that we did in Vehicle Finance this quarter versus 1 year ago?

Ravindra Kundu: So, first of all, the growth is coming from across all segments including LAP, HL. In fact, between the Vehicle and LAP, HL, if you see HL and LAP are growing much better, much faster. And that's the reason I mentioned that the mix of vehicle, which is at 57% likely to go down to 50% and mortgage will go up to 35%. And new businesses will go up to 15%. So, we are growing all the businesses, but mix is moving towards LAP and HL because of the long tenure also. That is also the advantage the mortgage business gets.

The vehicle finance business is four years and therefore the rundown is high. In spite of the disbursement growth in the same level, if the asset growth will be always higher than the mortgage business. That's 1 point. And second is that the number of customers, 2.65 lakh versus 2.40 lakh. The number of customers has gone up more this incremental. Vehicle finance has gone up by 16%. The total number of loans that we did this quarter was 2.65 lakhs.

Shubhranshu Mishra: The total number of loans that we did this quarter was 2.65 lakhs.

Ravindra Kundu: Yes, versus INR2.40 lakhs last same period last year.

Shubhranshu Mishra: And what is our market share in used, sir? That is one question.

Ravindra Kundu: Market share is very difficult to assess because, we don't have any public data that's the reason we don't mention it, but we can say that we are one of the largest players in the used business.

Shubhranshu Mishra: But maybe what is the total market size if we don't have a market share. So, we would be doing some kind of math to understand that, okay, this is going to contribute to our growth, right?

Ravindra Kundu: Actually, it's difficult to assess. There is no authentic data available. Therefore, guessing it, I'm telling you is not appropriate. That's the reason we're not bringing that number to here. We know that number.

Shubhranshu Mishra: Got it, sir. Sure, I'll take that off-line, sir.

Moderator: Thank you. The next question is from the line of Sanket Chheda from DAM Capital. Please go ahead.

Sanket Chheda: Congrats on a good set of numbers and pretty many congratulations to Kundu sir, very well deserved. My question was to just a comment that you alluded that 25%, 30% CAGR is what you intend to do. And you mentioned 4% ROA target. If here by when you think we would be…

Ravindra Kundu: Aspiration. It will take like in response to Bharat Bhai's question, is 5 years.

Sanket Chheda: Okay. Sure, sir. And the credit cost guidance stays at 1.2%, right?

Ravindra Kundu: That is an aspiration. We are trying to keep it. We have been doing it 1% at the company level for the last 3 years. 1.2% is a max level. We are having an internal target and depending upon Suresh and Prashant how they handle it.

Sanket Chheda: So, then it's fair to assume that it would be pulled back in second half?

Ravindra Kundu: Yes.

Sanket Chheda: Thank you. Sir.

Moderator: Thank you. The next question is from the line of Bunty Chawla from IDBI Capital. Please go ahead.

Bunty Chawla: My question has been answered. Just a data point if you can share write-offs for this quarter?

Ravindra Kundu: INR322 crores. Yes.

Bunty Chawla: INR322 crores, Q1 FY'25. And a similar number for the last year, Q1 FY'24?

Ravindra Kundu: INR204 crores.

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

Nischint: This is actually on Vehicle Finance. I'm just trying to understand as to how do you see the growth going forward for this segment? I believe most of the auto analysts are sort of having very muted or moderate growth expectations this year and specifically, the tailwind that was enjoyed by the sector in the last 2 years because of the vehicle prices going up, I believe some of the companies are probably expecting some discounts as well. So, in the backdrop of this, which segment of Vehicle Finance probably grow this year? And what are you really stepping up? And in that sense, how does it change your overall yield profile.

Ravindra Kundu: So, on the contrary, the wholesale number published by SIAM shows that they have gone up by 16%. But FADA said that the retail has been up by 9%. So, we are up by 13%. And we are also saying that there is an inventory piled up to 65 days. So obviously, wholesale number can go down. But because of the piled-up inventory, the retail has to go up from 9% to 11% or 13%.

So that is the genesis of our disbursement plan, which is at 13% level in spite of election and heat wave and all, we are expecting that to move up to higher level during Q2, Q3. And obviously, that is actually driven as of now by the high-yield businesses because we are trying to increase our yield. The marginal book yields are higher by 40 basis points than the book yield.

So that effect will get normalized within, say, 3 quarters to 4 quarters. And then we will have the opportunity to further start doing the big-ticket size, which are funded at a lower rate and obviously, we are also expecting that some point in time, cost of fund will start coming down. So majorly, the focus is on high yield businesses small ticket size and keeping the yield high and then move to the higher high-ticket businesses in the second half.

Nischint: And in that sense, the increase that we saw in HCVs this quarter could be sort of more transitionary and next quarter onwards when you see the other businesses or the share of other businesses and disbursement increasing?

Ravindra Kundu: **HCV,** basically we reduced it significantly last year, and we are getting now low base effect, and that is what is happening.

Nischint: But do you see that base effect continuing in the next 3 quarters?

Ravindra Kundu: We are not intending to do that. But if our customer segment like we mentioned that the large ticket size and medium ticket size and the large fleet owner and medium fleet owners, are buying the vehicle. Now the small transport operator, will start purchasing as and when they come, we will focus and see that number. But we don't have a target to increase as such.

Vellayan Subbiah: It's difficult to predict also.

Ravindra Kundu: Predict, also. Yes.

Nischint: Sure. My second question is actually on business loans. And we have seen some signs of stress in unsecured loans with some of the lenders and typically, there is a concern that this kind of marks into stress for some of the other segments. So, are we seeing any increase in bounce rates or anything that kind of flags in these segments, which probably be sort of change business or shift business segments in this particular product?

Balraj Menon: See, as far as the business loans in the quarter 1, the industry-wise, there was a spike in the month of April, and that is basically because of the election, 2-3 holidays and all those things. But if you look at the industry-wise trend and what we have done, our bounce rates are still sub 10%. Our semi bounce rates are better than the previous quarters.

And we have not seen any major spikes in our portfolio behaviour. Yes, this book is around 30 months to 33 months only. So during the course of maturing, we will see a slight movement up down, but that as such, Nischint, we are not seeing much of any abnormal behaviour or the kind of things the news which is spreading in the market, that kind of behaviour, we have not seen in the quarter 1.

Ravindra Kundu: And also in the business loans, we are actually distributing in the select market and select customer segments. We mentioned that all our business loan customers are mostly 700-plus.

Balraj Menon: Just for your information, in our business loans booked, 83% of our customers are with a credit score of more than 725 and 13% of customers are with credit score of 700 to 725. So, you can say that 97% of our business loan customers, which contributes to almost 73% of our book is with a credit score of 700-plus.

Nischint: Sure. Got it. This was actually the last question for the call today. Thank you, participants, for joining us today. And thank you very much, the management of Chola for giving Kotak, an opportunity to host this call. Thank you very much.

Ravindra Kundu: Thank you, Nischint.

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