"Cholamandalam Investment and Finance Company Limited

Q3 FY '25 Earnings Conference Call"

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

Moderator: Ladies and gentlemen, good day, and welcome to Q3 FY '25 Earnings Conference Call of Cholamandalam Investment and Finance Company Limited, hosted by Kotak Securities Limited. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this call is being recorded.

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

Nischint Chawathe: Good evening, everyone. Welcome to the earnings conference call of Cholamandalam Investment and Finance Company Limited. To discuss the 3Q FY '25 performance of Chola and share industry and business updates, we have with us the senior management, represented by Mr. Vellayan Subbiah, Chairman and Non-Executive Director; Mr. Ravindra Kundu, Managing Director; and Mr. Arul Selvan, Chief Financial Officer.

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

Vellayan Subbiah: Thank you, Nischint, and good afternoon, good evening, everybody. Key financial results for the quarter and the year-to-date December 2024. Disbursements were at INR25,806 crores for the quarter, which is up by 15% and INR74,452 crores for the YTD, that's up by 16%.

The total AUM is now at INR1,89,141 crores, which is up by 34% year-on-year. And net income for the quarter was at INR3,541 crores, which is up by 37% year-on-year and INR9,812 crores for year-to-date, which is up by 39% year-on-year. PAT is at INR1,087 crores for the quarter, which is up by 24% and INR2,992 crores for the year-to-date, which is up by 27%. I'll just go through some of the disbursement data at a business level.

The vehicle finance disbursements were at INR14,390 crores in Q3 FY '25, which is a growth of 16%. And disbursements in year-to-date December 2024 was at INR39,492 crores, which is a growth of 12%. Our loan against property business disbursed INR4,205 crores for the quarter as against INR3,409 crores, which is a growth of 23%. And year-to-date, disbursements at INR12,374 crores, which is a growth of 33%.

Home loans disbursed INR1,820 crores in Q3 and that is a growth of 15%. And year-to-date, the disbursements were INR5,421 crores, which is a growth of 17%. SME disbursed INR1,911 crores and that is as against INR1,981 crores in the same quarter last year. And the year-to-date is INR6,029 crores, which is a growth of 1%.

CSEL, which is our consumer and small enterprise business, disbursed INR3,149 crores in the quarter as against INR2,773 crores, which is a growth of 14%. And the secured business and personal loans disbursed INR331 crores as against INR280 crores, which is a growth of 18%. And year-to-date, it was INR911 crores, which is a growth of 29%.

Assets under management stood at INR1,89,141 crores. PBT growth in Q3 was at 27% and for year-to-date, it's at 28%. PBT ROA for the quarter is at 3.2% and year-to-date is at 3.1% and ROE for the quarter was at 19.6% as against 18.9%.

The company continues to hold a strong liquidity position with INR15,159 crores as cash balance at the end of December 2024, (including INR3,421 crores invested in GSEC and SDL and INR1,694 crores invested in T-Bills and INR758 crores invested in Strips which is shown under investments), with a total liquidity position of INR15,677 crores, (including undrawn sanction lines). The ALM is comfortable with no negative cumulative mismatches across all-time buckets.

Our consolidated PBT was INR1,465 crores for the quarter, which is a growth of 27%.

In terms of asset quality, Stage 3 levels representing 90+ dues increased to 2.91% as of December '24 from 2.83% as of September '24 end. GNPA as per RBI norms increased to 4% as against 3.78% on September 2024. NNPA also increased 2.66% as against 2.48% on September 2024. NNPA is below the threshold of 6% prescribed by RBI for PCA.

In terms of capital adequacy, as of 31st December, we were at 19.76% as against regulatory requirement of 15%. Tier 1 capital was at 14.92%.

In terms of dividend, the Board of Directors approved the payment of an interim dividend of 65% being INR1.30 per share on the equity shares of the company for the year ending March 31, 2025.

So I will stop with that and be happy to turn it over to the audience for questions. Thank you.

Moderator: We'll take our first question from the line of Dhaval Gada from DSP.

Dhaval Gada: I had a couple of questions. The first one relates to asset quality. So last quarter, I think we commented that generally, we expect Stage 3 assets to improve in the second half of the year. If you look at Slide 29, generally, the improvement is less, and you've seen some increases, especially in the newer businesses. Could you talk a little bit around -- is it in line with what you expect and things should improve in the fourth quarter or what's sort of gone in the new businesses? So that's the first part.

And the second question relates to, if you look at Slide 67 and 68, which is on CSEL and SME, generally, if you look at the ROA improvement, the PBT ROTA improvement, we expected some bit of credit cost normalization as well. What should be the steady state credit cost in both the businesses in your view? And where it should be in the current year and then in the medium term?

Ravindra Kundu: Yes. So first of all, I mentioned last time that the quarter 2 to quarter 3, it will be flat, actually. And we have tried our level best and we see the little bit benefit in terms of NCL of vehicle finance is actually now seen to the extent of 10 basis points.

At the same time, the CSEL is actually showing a little higher NCL. That is because of the partnership is actually showing higher NCL. And we mentioned in the last time also that we are coming out of the partnership business slowly. We have already come down to 3 partners from 10 partners in the last 2 years' time and likely to go down further and will come out completely from the next financial year.

And as we come out of the small ticket size loan where the NCLs are high, you will see that the NCL of CSEL will start coming down. So stand-alone CSEL without partners is much lower, but if you add the NCL, it is actually higher.

And second is that even in the case of the partnership, we are getting FLDG in the income line. So overall NCL whatever you are seeing, it is inflated by 1% because that is added in the income line also. So your question is when the CSEL, NCL will come down? It will come down only when we start doing lesser partnership and when we completely come out from the partnership.

And we are likely to do that. Within next 1 year time, you will see that the partnership book will get run down because these are small ticket, small tenor book. And majorly will get run down and the balance will get run down in the next 2 years' time.

When it comes to the SME, it is basically similar to loan against property where the customer is having a collateral and then we have to do SARFAESI and resolution of the cases takes 9 months to 1 year. So there are SARFAESI which is lined up. And once the SARFAESI starts kicking in, then the NCL will start giving the reversal as we have seen in the case of LAP.

So next financial year, you will see those reversals coming, and you'll see our NCL in case of SME instead of negative, it will be positive, and therefore, the ROTA can go up. So this is what is the feedback on SME and the CSEL delinquency. Is there anything which I missed out?

Dhaval Gada: Sir, could I just follow up, in terms of the partnership for CSEL first, what is the NCL right now? Like it's sub 4% or even lower? So what should be our expectation for next year and beyond? That is one. And on SME, you said that reversal this year elevated and then next year probably reversal. On average, what should be the NCL that we should look at in this business on a more medium-term basis?

Ravindra Kundu: Yes. So one is that the reversal happen only when you start getting SARFAESI and properties started getting auction, those reversal will start happening. But in steady state, this particular book also will behave like loan against property. So 0.5% is the NCL, you can take it as a steady state for the SME business.

As far as the CSEL partnership and non-partnership, traditional we have never given the bifurcation and we have not disclosed that. So we don't want to comment on that as of now. But obviously, when it will start coming down, the significant amount of NCL, which is showing up like it is 5.75, initially, it will come down below 5, and then it will start coming down further.

Dhaval Gada: Got it. Just last question on growth. So last time, you mentioned that 25% growth expectation in the medium term. Does that sort of still hold true or any thoughts that you have for next year or beyond in terms of growth expectation?

Ravindra Kundu: No, we are holding on it. That 25% growth we are going to deliver that even next financial year.

Moderator: We'll take our next question from the line of Dhaval Gala from Aditya Birla Sun Life AMC.

Dhaval Gala: A very good set of numbers, congratulations to the management team. Sir, two questions. First, on net interest margins, if you could let us know the current movement or repricing of the borrowings? And how would we be placed, assume the rate cycle is peak and if there is any cuts, how should one look at next year?

And second question, on the asset quality front, if you could highlight, generally, that trend is that fourth quarter numbers look to be far better than the previous three quarters and there is better collection efficiency across the vehicle or all the auto financing book. Should one expect similarity in the current financial year? And maybe what could be the guidance for credit cost next financial year?

Arul Selvan: Firstly, on the borrowing cost, we are holding it at similar levels, and we expect if there are reductions coming through by the rate reduction, etc, then that would flow through. But that would be a lag of a quarter. But I think then it will come.

Ravindra Kundu: Yes. Yes, quarter 4 will be better than the quarter 3 and it has been like that. But if you see that in general, second half normally from quarter 3 onwards start doing better. And this year, we said that this year scenario is slightly different, things are not looking so good in terms of all the metrics and all the macros. So therefore, things will start improving slightly slow. And therefore, we said that quarter 3 will be flat. And the improvement in quarter 4 as compared to quarter 3 if you take the last year was very, very good.

So though it will happen definitely quarter 3 to quarter 4 improvement, it will not be to the level of the last year. And slowly, slowly improve because the capacity utilization of the vehicle still improving. IIPs are still improving. It has not come to the level of what it was last year. So it will take another 3 to 4 quarters to reach to the level of last year performance. So that is what is hitting. So from here, things should improve as far as the vehicle finance portfolio is concerned, we have seen that.

We have started actually delivering a slight reduction in the NCL over the quarter. And then quarter 4 will be definitely better than the quarter 3. We have to see quarter 1 because normally quarter 1 is slightly a lean period. And then obviously, the next year will be better than this financial year.

Moderator: We'll take our next question from the line of Akshay Jain from Autonomous Research.

Akshay Jain: I have two questions. One, your credit costs continue to remain in the post code of around 155 to 160 basis points for the last 3 quarters. While we see that elevated credit costs in vehicle finance fees and deterioration in new businesses. Can you please provide some more color on this as the stress in the vehicle finance is being seen across products, vehicles, geographies? Or is it restricted to some certain specific segments?

And also, you mentioned something on the new business side, but I guess you missed the SBPL piece. So if you can provide something on that also?

Ravindra Kundu: Yes, so first of all, before coming to vehicle finance, I'll tell you that it is not only the credit cost is basically coming up from the new business. It is also the reversal of the credit cost from the LAP, which was coming, which has now –stopped and then they started getting into the normalization of the credit cost. They were earlier, say, minus 20. Now they are plus 10 basis. So that is also a swing happening because they have also reached to the rock bottom level of Stage 2 and Stage 3 and reversals are now is not possible further.

So one is that the credit cost is coming from that. In the HL also, they were also continuously reducing their NPA. They have come down to 1.2% level and their NCL is at 0.3 level, though the NCLs are at same level, not gone up. But ideally, in the affordable business also, the NCLs are slightly higher than that. So it is not only coming from the new businesses, it is also coming from LAP and HL.

Now coming to the SBPL. SBPL is delivering 6% plus ROA and their NCL is likely to be 1.5% to 2% in a steady-state situation. So we are also getting NCL to the standard because now that book is getting settled down.

Now coming to the vehicle finance, which part of the market is basically not doing. We mentioned that last year, small commercial vehicle and light commercial vehicle for us were not doing well from quarter 2 of the last financial year itself, started increasing the infant delinquency, and we have taken the conscious decision to reduce the market share in the small commercial vehicle last year itself.

And now we are seeing that the early default and non starter started coming down from November onwards. So things are improving in the small and light is concerned. In addition to that, we have also seen the used commercial vehicle and also tractor were not doing well. But all those two products also now seeing that things are improving. So in vehicle finance, we can say that the last 2 years of non - performing products started performing better from quarter 3 onwards. The improvements are slightly not visible as of now. We are able to see from the infant delinquency only point of view.

Therefore, the Stage 3 is not visible. Stage 2 has come down in vehicle finance. And Stage 3 is slightly up by 9 basis points. So things are going to improve in next 3 to 4 quarters as similar to what it used to be, but we have to wait for that.

Akshay Jain: So is it right to call that you are calling a peak to the current stress and Q4 will -- definitely will be a strong quarter given the seasonality and Q1 should start seeing moderation further?

Ravindra Kundu: No. As of now, we should not use this strong and all. It will be better than quarter 3, definitely. We are trying strongly to get the better performance. But things are looking better now in terms of infant delinquency and also the roll forward rates have started coming down in the early buckets. The important is that the resolution of the higher bucket cases, which has already flown, that is taking time.

So unless the customer who have moved to Stage 3 start giving 2, 3 installments, they will not come back. So that is the reason I'm not using the strong performance coming up very soon. It will definitely come in 3 to 4 quarters, but not immediately. But going forward, it will continue to improve.

Akshay Jain: And if I may, last technical question on GNPA versus GS3. So your GNPAs are up 22 basis points in the quarter and 46 basis points in this year. Are the drivers here similar to what we can see in GS3? And what is the main difference between the GNPA and GS3 because one is at 2.91% and other is 4%?

Ravindra Kundu: Yes. When the market becomes very good, then all the GNPA customers who have actually come back from Stage 3 will become normalized. But what is happening there, the things have just started improving. So some people would have come back, but it's still showing up GNPA because once you touch the GNPA and it has come down to, say, 30 from 60 or 60 from 90, still the customer will be in GNPA, where in the Stage 3, once customer is coming below 90 DPD, it is coming out of the Stage 3. So during this kind of situation where things have started improving, there is always a gap in Stage 3 and GNPA.

Akshay Jain: Thank you.

Moderator: Thank you. We'll take our next question from the line of Harshit Toshniwal from Premji. Please go ahead.

Harshit Toshniwal: Thank you for the opportunity. Sir, the question was more on the headcount increase and more specifically that as you mentioned that the higher bucket cases this time are more sticky. So if you can throw some light about the collection, the allocation towards the collection within the employee count.

And also when we -- I mean, simple metric, if you try to look at more like disbursement per employee, so that number has not seen much efficiency over the last say, 3, 4 years. Now is it more sticky that the collection efforts are becoming tougher in this cycle? So to that extent, can that have any implication on the cost ratios in the next 3, 4 quarters for us?

Ravindra Kundu: Yes. As the market is actually not going up significantly or market is stuck at say 5% to 10%, the disbursements are depending on the number of vehicles being sold by the industry. So the productivity of the sales also get impacted. And also when there is a market, the portfolio is actually in a slightly challenging environment, sales executives are also responsible to do the early default follow-up and non-starter follow-up. So obviously, they are putting their efforts, but the number of units is not going up, which is going to go up only when the industry starts seeing the good number in terms of the percentage of unit being sold by the manufacturer and the dealer.

At the same time, when it comes to the collection, the collection executives are given more number of accounts during this situation. And this time, we have hired around 55% people in the collection only and majorly people have actually gone to the collection. Those people who are -- like you also asked that what is the strategy of collection?

So we have created a separate bucket-wise approach for the product like we have a separate bucket, Car & MUV, we have a different bucket, 2-wheelers too, we have a different bucket and soft bucket, hard bucket, medium bucket, like that we have broken up and given the allocation to different employees. -- Higher bucket executives are getting lower account of allocation and lower bucket executives are having a higher bucket. So there is a strategy on collection and it's getting implemented across all the businesses.

Harshit Toshniwal: Got it. Sir, just a follow-up to that itself. Now obviously, maybe the early bucket collections would be a responsibility for the -- mixed responsibility of the salesperson itself. But if we look at, say, 65,000 employees today, how much would be core collection or collection managers?

I think there will be a lot of agencies at the back end, which number will not be represented here, agency and the agency employees. But how much of the 65,000 would be core collection dedicated ones, maybe the harder buckets one? And if you can say compare that what percentage it was a year back, some direction to the number.

Ravindra Kundu: 31,000 is collection now.

Harshit Toshniwal: And earlier, what was the percentage, I mean, 1 year back?

Vellayan: It's the same ratio, it did not move much on the ratio.

Harshit Toshniwal: Thank you.

Moderator: Thank you. We'll take our next question from the line of Raghav Garg from Ambit Capital.

Raghav Garg: Thank you for the opportunity and congrats on the results. Firstly, sorry, I could not hear your commentary on truck utilization properly, what is that, if you can repeat very briefly? The other thing is that, also your view on vehicle finance stress taking about 3 to 4 quarters to resolve, right? So in light of that, what will be your credit cost guidance for next year? That's my first question.

Ravindra Kundu: Yes. So capacity utilization, if you see that the inflation of the vegetable has gone up during last 1 year, we have seen that very significantly. That is also because of the supply being less. So if supply is less then onion being transported by the small vehicle, small commercial vehicle between Nashik to Mumbai, the number of trips have come down. So it came down as low as 50% and then started going up.

The capacity utilization has started improving as the supply of the vegetable, supply of the food has improved. Last mile transportation has improved, the capacity utilization is improving month-on-month. But it has come to 70%, 80% now. And it's required to move further. I'm talking from the small commercial vehicle point of view.

Similarly, when you see that industrial production or the GDP is strongly correlated with heavy commercial vehicle capacity utilization, there, we see that the on-ground activity on infra, road, mining and manufacturing are slightly down. It has improved in November and December, but it's still not up.

So in the heavy commercial vehicle, the sales are down and the portfolio quality, capacity utilization is slightly getting impacted. Though Chola is not more exposed in the heavy commercial vehicle so we do not have that problem as far as the HCV is concerned. And HCV problem has started now. Small commercial vehicle, light commercial vehicle problem actually started last year, which is now coming down, and it is improving in fact.

So therefore, in order to basically see that the NCL will start coming down to the industry level, I see at least 3 to 4 quarters there. From Chola's point of view, since our exposure are less in HCV, our net credit cost should start coming down from quarter 4 onwards.

Raghav Garg: And what is your guidance for next year's credit cost?

Ravindra Kundu: It will be lower than the current year.

Raghav Garg: Understood. And sir, my other question is LAP portfolio. So there also you've seen some NPLs increase now. I've seen the numbers, but if you can give a more ground level flavour as to what are the reasons, why our customer is finding it difficult to make repayments? So that's another question, sir.

Suresh: So as far as LAP is concerned, in the last 2 - 3 years, we have significantly reduced our Stage 3. And these are all normal roll forwards, which is as a BAU roll forward. If you look at it still at the overall Stage 3 level, it's holding at 2.25%. So there is no significant change in terms of the movement in the Stage 3.

If you look at even December '23 Stage 3 of LAP book, it was about INR803 crores. And we are almost at the same level for the last 12 months. Maybe there is a dip because of some resolutions happening in between and then normal roll forwards happen. So it has remained stagnant for last 15 months, it's almost on the same level.

Raghav Garg: And one last question from my side. In the CSEL disbursement of about INR3,200 crores, how much of this was from the partnerships?

Ravindra Kundu: INR1,200 crores.

Raghav Garg: And this you're saying will go down significantly in next year, right?

Ravindra Kundu: Yes. Next year, it should not be there. This quarter itself it'll come down.

Raghav Garg: Understood. Thanks a lot and that's all from my side.

Moderator: Thank you. We'll take our next question from the line of Abhijit Tibrewal from Motilal Oswal. Please go ahead.

Abhijit Tibrewal: I have two questions. First one, a clarification question. Ravi sir when you say things will start improving from 4Q and maybe it will take three to four quarters for things to get normalized, what I'm trying to understand is, I mean, what is the underlying rationale when you say that? Is it more in the nature of seasonality that we see in 4Q or do we think that the macro themselves will start improving? And from maybe better government capex which will lead to an improvement that we're talking about?

Ravindra Kundu: No. So 4th quarter, I mentioned about the heavy commercial vehicle, where our exposure is negligible. So we are not relating to that one. I'm saying the GDP growth which has come down or IIP is showing lower, those data point is basically showing that the capacity utilization of heavy commercial have been impacted. The on-ground activity on mining, construction, road and everything has not gone up or picked up as similar to last financial year.

So therefore we will have to wait for heavy commercial vehicle capacity utilization to go up in next three to four quarter time as far as the small and lights are concerned, these are more strongly correlated consumption and rural economy, last mile transportation and all that has started improving.

And that's the reason we said that we are expecting things to improve slowly from Q4 onwards and next year, net credit cost will be better than –previous quarter in this financial year as far as the vehicle finance is concerned for Chola.

Abhijit Tibrewal: And sir, then the second question that I had was more on used vehicle and two-wheelers. Sir, I mean, people, other lenders, other NBFCs, some banks have talked about some stress that we are seeing in used vehicle business. I'm talking about more about the refinance part of used vehicle business which is often treated as a consumption loan. So what are we seeing there?

And sir, two-wheeler, again, I mean, we've heard some lenders talk about challenges in two-wheeler in terms of collections because the ticket sizes are low, given that whatever stresses are being seen in micro finance there are some spill over. So what is our assessment of the used vehicle refinance business and the two-wheeler business?

Ravindra Kundu: So two-wheeler, tractor and small commercial vehicle, light commercial vehicle and used commercial vehicles, all these five products the delinquency started or infant delinquency started moving up from the quarter 2 of the last financial year itself which is because of the consumption, because of the rural economy not doing well at that point in time, then consumption in urban also impacted, last mile transportation got impacted.

And now we are seeing that all of these are actually started improving, especially from November and December. And we have only seen 2 months, that's the reason I'm not able to say that. This will be cleaned up in the next one to two quarters. That's the reason I have said we have to wait for some time, but things are improving and next year will be better.

Now coming to the specific to two-wheeler, if we do all two-wheeler across all OEM, then there is a problem. There are select OEMs we have done it in the past and you know very well. And that's the reason our performance of two-wheeler is looking better now. And used commercial vehicle also improving and showing the better capacity utilizing therefore, portfolio just started improving.

Abhijit Tibrewal: Got it sir. Thank you.

Moderator: Thank you. We'll take a next question from the line of Pranuj from JPMorgan. Please go ahead.

Pranuj: Kundu sir one clarification. I think you mentioned the capacity utilization was 50% and now it's 70% to 80%. So are you comparing 3Q to 2Q or 3Q to 3Q last year for SCVs and LCVs?

Ravindra Kundu: No, I'm comparing Q1, Q2 versus Q3.

Pranuj: But doesn't that improvement generally always happen like 3Q is more active, so I assume that always be the case?

Ravindra Kundu: No, I'm saying this capacity utilization has gone down so badly. From there, it started improving. Normally, the capacity utilization doesn't go down so badly, it remain at 70% level during the lean period and comes back to 90% level in the peak period. So during this financial year, due to the heat waves and excessive rain, election, post election transition was taking time, the capacity utilization got impacted. And then from there, it is going up.

Pranuj: Okay. Understood. So it's 50%, 70%, 80% this year and that was 70% and 90% levels last year for an SCVs and LCVs?

Ravindra Kundu: Correct.

Pranuj: Got it. And second just on your disbursement level sequentially in the new businesses, even if I look at home loan is now flat, LAP has come down, even CSEL is not bad, but I think CSEL will be more because your partnership of higher disbursements, but on the LAP and HL the trend, how do you see it moving forward for you to achieve your 25% growth target for next year?

Suresh: So LAP if you look at it in the previous two quarters are okay, but last quarter we had a small dip. That's primarily because some of the market we have external process change in the SROs, we couldn't disburse the full. That is one of the primary reasons in some of the major markets there was a drop, but we are very confident and if things will stabilize this quarter onwards and the disbursements will come to the normal levels for LAP.

Prashant: For HL, the disbursement has increased, the overall numbers which we feel is around 15% growth on the Y-o-Y basis and going forward the AUM growth will be around 35%-plus. For the next 2 years this is a common point which we have been highlighting in the investors meeting.

Ravindra Kundu: Y-o-Y disbursement we are saying that 15% on disbursal and 35% with the closing asset that is fine for us in order to basically deliver 25% growth for the company. That is what is HL is promising where they are expanding and stabilizing.

Pranuj: Got it. Thank you sir. I will come back in the queue.

Moderator: Thank you. We'll take our next question from the line of Hardik Shah from Goldman Sachs. Please go ahead.

Hardik Shah: Sir, two quick questions. One is how much of our LAP affordable housing would be linked to repo? And how would the transmission look like if hypothetically rates were to get cut in February?

Arulselvan: We have our own internal benchmark for our reference rate and that's what we follow for this. And that is a combination of the tenor and the asset profile. So they have a transfer price to the business and basis the transfer price adding various components we arrive at the reference price. And because the transfer price takes the market pricing, if there are any reductions that gets passed on and the reference price will change.

Hardik Shah: Okay. So the transmission will happen not immediately, but with some kind of lag. So can you help us think through in terms of what that lag could look like for you?

Arulselvan: It depends on whether our borrowings are also getting the impact of the repo. So, for example, we have MCLRs which may not reduce. So then we will not be able to reduce it unless the banks pass it on, we will not be able to reduce it. So you need to understand month-on-month, we do this exercise and then we factor in what is the pricing for the book that needs to be done. It depends on how fast on the borrowing we get the impact, then it will get passed out.

Hardik Shah: Understood. And sir, second question on the credit cost. You mentioned that you expect credit cost for Vehicle Finance lower for the next year from the current year, what would that look like for the overall book? If you could guide on that front?

Ravindra Kundu: See, as of now, we are saying this sector which is now we are looking really better, is just the Vehicle Finance. Obviously, Vehicle Finance is actually 56% of that much impact, take of the overall. But obviously for the company also it will come down.

Moderator: We'll take our next question from the line of from Subramanian Iyer from Morgan Stanley.

Subramanian Iyer: I just had a couple of data questions. So one is in your P&L you have this net gain on derecognition of financial instruments of INR65 crores. Is this assignment? I just wanted to confirm that.

Arulselvan: Yes, it is an assignment. We have an opportunity to do. Normally, we have not been doing, but this time there was a request from one of the banks so we thought we'll do it.

Subramanian Iyer: Okay. And you mentioned about 1% of ECL in the CSEL being FLDG so that goes out to about INR35 crores, INR37 crores. Is that already in the other income this time?

Arulselvan: It is in the income line of CSEL.

Ravindra Kundu: Yes, yes, it is in the income line of CSEL.

Moderator: We'll take our next question from the line of Piran Engineer from CLSA.

Piran Engineer: Congrats on the quarter. A couple of questions. Firstly, how should we think about growth in LAP over a 2 - 3 year period? I was going to ask for Home Loans also, but you've already answered that. But on Home Loans, how confident are you to maintain yields at 16% and also grow at 30%?

Suresh: So we'll take the LAP first. So we have been growing last 3, 4 years consistently. And if you look at it earlier, because of the lower denominator effect, it was showing a higher percentage and we have grown to a certain state where 25% of disbursement growth and about 35% to 40% of AUM growth is what we look at it on a steady state. And that's what we're looking at, and that is what we are very confident and we are working towards in achieving that. So you can take 25% of disbursement growth and 35% to 40% of the AUM growth for LAP.

Prashant: For HL, I have already answered, we are looking at 15% disbursement growth and 25% to 30% book growth for next at least 2 to 3 years. And we feel that right now, we are stabilized and we have become a pan-India player in affordable segment. And for the current year, what we have also done, we have started increasing on the efficiency management. So the opex is going to be in reduction trend. That's what we are focusing to ensure that the efficiency levels goes up.

And also, going forward, we see there is still scope of at least coverage of 300 more branches pan-India in the next 2 to 3 years because we are operational right now at 700 branches, whereas vehicle finance is around 1,500 locations.. So there is still scope, headroom, for us to grow next 2 to 3 years and have coverage across all the locations everywhere. So right now, we are focusing on the stabilization and increasing the efficiency. Next, it will be on growth phase for next coverage for next 2 to 3 years in terms of book growth.

Ravindra Kundu: Income as of now, it is showing 15.9%. Obviously, when we start growing across the country, a little bit income will go down, but it will get offset by the better expense line because 3.9 as of now has come down from...

Piran Engineer: Sir, your voice is not clear.

Ravindra Kundu: So what we are saying is that the yield, which you said, how can you hold it at this level for how longer? We are saying that we can go down a little bit, but to that extent, opex also will improve. So at ROA level, there is no change.

Piran Engineer: Understood. And sir, just secondly, on the used car market, you mentioned that used commercial vehicle was under stress for the last 4, 5 quarters. But 1 of the other players also recently mentioned that used car market is seeing delinquencies. Is that also what you are seeing? And what is the sort of actions that you all are taking?

Balraj Menon: So for us, our used car business is doing well. It is not having any stress, like it is improving. As such, we are doing well in that segment.

Moderator: We'll take our next question from the line of Chandra from Fidelity.

Chandra: I had a couple of questions. I'm just trying to reconcile the 2 statements that you made. One was it will take up to 3 to 4 quarters for stability in credit costs, but your early delinquency you're saying are coming down. If you early delinquencies are coming down, why would it take 3 to 4 quarters for credit cost to stabilize? That's question number one.

And second was, at the start of the year, you were of the view that this is -- I mean, in the next few years, cost to assets will start improving for Chola with every passing year. I mean, far from improving cost to assets are actually going up. I understand, obviously, there is a little more investment into the collections.

But maybe just what's not happened on the cost side and how should we just -- over the next?

Ravindra Kundu: There are 2 things I said as far as the credit cost is concerned. One is that from the commercial vehicle point of view, what I mentioned, that small and lights are improving, but heavies are actually strongly correlated with IIP and GDP. And we see that those 2 data points are not showing so good results.

So for heavy commercial vehicle, it might take longer period. And Chola is not exposed to HCV so we are not having that problem. For the industry, it might take commercial vehicle is improving in 3 to 4 quarters. As far as Chola is concerned, we mentioned that we have seen a little improvement in November and December, and therefore, Q4 will be better.

And from here, it will be improving quarter-on-quarter. Barring quarter 1, which is a lean period, we have to see what would be the number, but we are quite comfortable that the things are improving much faster than the fourth quarter. As far as the opex is concerned, we have been mentioning that we are in growth phase, we are introducing product after products.

We are working on consumer durable now. And we have also developed our own digital platform where we have been doing the ELCS, and that is also the new investment. We are also going through a lot of changes in technology side, which is some are compliance related, some are like improving the efficiency related.

So therefore, we mention that currently, we are expecting our opex to be there at a 3% level. Not that year-on-year, it will come down. Year-on-year, new businesses will reduce the opex and the investment will continue to be there and which will hold the opex at the same level. When the investment on the new businesses will get over.

And then definitely, we will be reducing the opex, which is going to be after 2 years, not year-on-year immediate.

Moderator: We'll take our next question from the line of Suhas Hari from ICICI Prudential AMC.

Suhas Hari: I think there was a mistake. I don't think I really asked. There was some error in that. Sorry, sorry for that.

Moderator: There is no question. All right. We'll take our next question from the line of Abhishek M from HSBC.

Abhishek M: So sir, I think for credit cost, initially, you all had called out about 1.3% for the year. You're at 1.4% YTD. So do you still hold on to 1.3% because 4Q should be much better typically, even if it is higher than last year or do you think 1.4% is more the level to think about?

Ravindra Kundu: As of now, 1.4%. We are expecting quarter 4 to be better, but let's take 1.4% as our target.

Abhishek M: Okay. And next year should be better based on your commentary that on used CV tractor, the LCV, SCV, I think generally, your commentary on vehicle and then as you come out of partnership, etcetera, in CSEL, so it should be better next year?

Ravindra Kundu: Yes. That's correct. Absolutely. Next year it will be better than this financial year. We are banking on the vehicle finance more. And as far as CSEL is concerned, we will come out of the partnerships, and that will improve the net credit cost.

Abhishek M: Understood, sir. And margins, just quickly, you expect it to improve as rates come down or do you think that will have to be passed on and basically margins should remain flattish from here?

Ravindra Kundu: Vehicle finance is around fixed rate, that is 56%. If rate cuts come, then obviously, vehicle finance will be more benefited. And we have also mentioned that our marginal is still higher than the book rate and that is getting transferred slowly. So quarter-on-quarter, we get 10 basis points benefit on account of that. Next year margin will be higher because of that.

Moderator: Next question is from the line of Vikram Subramanian from Marshall Wace.

Vikram Subramanian: Just to follow up on asset quality. I know it's been discussed quite a bit, but just wanted to get a bit more clarity. A couple of things that I understand from what you have commented as 1H had quite a bit of systemic issues because of heat wave and election and all of that, which resulted in a significant drop in capacity utilization. And right now, there is a bit of stress in HCV capacity utilization as well.

But given that now in 2H, you say capacity utilization has increased significantly and our proportion of HCV is also quite low. Why isn't it that we won't see sharp credit cost reduction in 4Q, ideally, that should be the case, right, given that the base has so much stress 1H and 3Q, can you give some explanation or color there, please?

Ravindra Kundu: No. As I mentioned that the improvements are not sharply happening. It is seen that it is going up from 60 to 70, but last year, 70 was the base case and it went up to 90 in good time. That is the reason we are saying that this year, the second half improvement is lower than the second half improvement of last year and capacity utilization started improving for small and light, but for those customers who have already gone into this stage 3, they will not be positioned to come back and they'll not be in position to pay 2 EMI, 3 EMI at a time. So that is what is going to take time.

Vikram Subramanian: Okay. Okay. Fair enough. And just another follow-up on opex. I think one of the previous participants had asked about the investment phase and when opex will reduce. From your comment, is it right to understand for the next couple of years, opex to assets will be flat and then it will start to reduce?

Ravindra Kundu: That's correct. Absolutely.

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

Viral Shah: So sir, I have a few follow-ups on the questions that have been already kind of answered, but some bit of ambiguity. So one is on CSEL, you mentioned that the credit cost actually increased. And of course, it is because of partnership and FLDG in other income. But when I look at your yields, which includes other income, that has actually sequentially declined. So how should we think about it?

Ravindra Kundu: That is because of the reversal of income also when the customers are getting written offs and the interest income is actually coming down for that portion.

Viral Shah: Okay. Got it. And sir, your comments with regards to various sub-segments of vehicle have been quite helpful. Just one, I think the missing piece over there is how is the used heavy commercial vehicle doing? So while you mentioned heavy probably is now getting into the relative stress and will take now 3, 4 quarters to improve. But the used heavy how is it trending? And more so from a market perspective, I know we are not the big players.

Ravindra Kundu: See, used is also relatively now doing better in this November and December month.

Viral Shah: And you mean to say the used heavy, right? Not the used small and medium.

Ravindra Kundu: Yes, yes.

Viral Shah: Okay, sir. And sir, with regards to the home loan piece. So we saw a 20 bps decline sequentially in terms of yields, what was it driven by?

Prashant: The yields as we go to self-employed self categories, the yields are slightly being competitive and we are going to stabilize at the places. So at the same level, the yields we are going to maintain.

Viral Shah: Okay. And what would be the reason for, say, the relative moderation in the disbursements in home loans? Like it's flattish quarter-on-quarter, was it because of any localized disruption in any states or geographies?

Prashant: NoThe number as of now, we said 15% growth year-on-year basis and the book growth around 25% to 30%.

Moderator: Next question is from the line of Renish Bhuva from ICICI Securities.

Renish Bhuva: Just 2 things from my side, again, on the expense ratio side. So I do understand that in some of the new businesses, the expense ratio could be higher, but when we look at the vehicle finance business, the cost ratio has been increasing, which is now stands at 3.4% versus 2.8% in the first quarter of '24 and 3.2% in last quarter. So how one should think about it? It is the competitive intensity which is leading to higher payouts at the dealer point and hence the increase or there is some structural change in the business model, which is leading to higher cost ratio, sir?

Ravindra Kundu: So this quarter 1 '24, was actually 2.8%, after that, it started going up. As I mentioned from the last year, Q2 onwards, we started seeing the delinquency going up. And therefore, we started recruiting manpower in collection, created more vertical within the collection, that was one reason.

And at the same time, we have also started reducing the number of cases by the executive, because those executive who were doing 10 units in small commercial vehicles started doing 6 and 7. And over the period we have seen that there is a drop in sales in light and small and that also reduced the productivity of the vehicle.

So it is a productivity of the sales executive and which has come down during 2 years because of the market. And also because we wanted to further strengthen the collection, we have recruited more manpower in collection, so that activity, I think, is over. From here, next year onwards, you will see that the improvement will come with the vehicle in terms of opex.

Renish Bhuva: Got it. And sir, just last thing, again, on the housing loans. So at roughly INR17,000 crores of book at 15%, 16% yield, we are targeting 35% kind of a growth. So I mean, is there any huge white space available wherein we see this kind of a growth or we see sharp moderation in yields maybe a couple of years down the line?

Ravindra Kundu: One is that the growth is basically because of the stickiness of the portfolio for the longer tenure. So when you do the 15% disbursement, it normally will deliver 25% to 30% growth automatically. Second is that the incomes are higher because we are expanding into Tier 3, Tier 4 town where the yields are better.

So our expansion from South to non-South started 2 years back, and which has continued so far. And we are getting a better result in terms of the yield. The overall income also benefited when we started doing insurance and that also added. But now it is getting normalized.

So we're at 15.9%. So this 15.9% to 15.7% is the income we are quite comfortable and we are hoping that this will be maintained. And ROA is at actually say 4.3%. So this 4.3% can go up only when the opex will go down. So the previous question which was asked was that what would be the outlook of the NIM as well as the expenses? We said that the NIM can come down and expenses can also correspondingly come down. But ROA, we can hold it at this level.

Moderator: We'll take our next question from the line of Aravind R from Sundaram Alternates.

Aravind R: Congratulations on the good set of numbers. Sir, like you mentioned in a much about asset quality. I would like to get a qualitative view just like in vehicle finance, you mentioned there were system issues. MSME, LAP, affordable housing these are the segments actually have grown much faster not just for us but for the entire system. Do you see any leverage-related issues for the system level like in affordable housing segment or in the LAP segment that could cross out?

Ravindra Kundu: So actually, when we are financing LAP or affordable housing, we check whether the customer has an end use or not. So for affordable housing, the end use is either purchasing house or construction of house. And if the customer's income is such that he has taken loan and is not able to pay further loan, obviously, we are not approving the loan both in the case of LAP and HL.

So the capacity of the customer is always evaluated based on the income assessed by the people who are doing the GD and also GD and we are also seeing that what are the inflow coming in the bank all put together. So the overleveraging is not possible when we are financing.

Aravind R: No, understood, sir. But we are seeing different affordable housing portfolios are different companies because of the exposure to unsecured, there is some level of stress. I'm not saying a significant stress coming out yet, but I was just trying to understand like do you see any risks down the line in affordable housing or LAP?

Ravindra Kundu: So we are seeing that. I mean, in such situation, we are not approving the loan.

Moderator: We'll take our next question from the line of Roshan Chutkey from ICICI Prudential Mutual Fund.

Roshan Chutkey: Just one question, sir. At the system level, for the CV book, how are you reading the asset quality? What is your read of the asset quality for the system?

Ravindra Kundu: Sorry?

Roshan Chutkey: In the CV book, sir, in the CV book, what is your read of the asset quality at a system level?

Ravindra Kundu: Yes. We discussed that. It is moving from product to product. So now it looks like it is impacting more on the heavy commercial vehicle. And small and light, we have seen the portfolio how it is behaving for some time.

Moderator: We'll take our next question from the line of Kunal Shah from Citi Group.

Kunal Shah: So I understand on the home loan side, a 15% disbursement growth translating because of the stickiness of the longer duration, but in general, when we look at it, the overall disbursement run rate has been quite low over the past few quarters across the segments? So still, we are continuing with almost like 25% AUM growth?

So business loans, we have seen that there's hardly like 7%-odd growth and few of the segments have started to show stress. So why still being confident on the overall AUM growth or do we see any kind of a risk out there because disbursement growth in other segments is not suggesting that, yes.

Ravindra Kundu: No, we have seen that. In each and every segment, we have considered and after considering only then we are also with the planning stage so we are also seeing that what will be the next year. If we disburse at the rate of 18% our growth can be 25% can be achieved in terms of AUM. And we have considered all the run rate of the pre-closure, everything we have considered. and after that only we have seen that.

Kunal Shah: Sure. And secondly, in terms of the vehicle opex to assets so you indicated why it's been higher, but have we picked out and should we see the improvement going forward or will it again take few quarters and it will stay elevated?

Ravindra Kundu: It will be improving. And we are quite comfortable that the trends which we have seen in the last 2 months, it will be maintained in the coming months, and we are expecting that to improve in the next financial year as well.

Kunal Shah: Opex to assets in vehicles?

Ravindra Kundu: Opex to asset is going to be flat for some time. And then vehicle finance will start reducing because there the collection and main people what we have added in the last 1 years to 1.5 years, further, we need not increase it to achieve the next financial year. That will help us to reduce the opex in vehicle finance.

But at the overall level, what we said is that it will be flattish for some time because we are into growth phase and we're continuously working on both product launch as well as the technology improvement and the branch expansion as well as is going on.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I now hand the conference over to Mr. Nischint Chawathe from Kotak Securities for closing comments. Over to you.

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

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