



“Cholamandalam Investment and Finance Company Limited Q2 FY '26 Earnings Conference Call”

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MANAGEMENT: **MR. VELLAYAN SUBBIAH – EXECUTIVE CHAIRMAN,
CHOLAMANDALAM INVESTMENT AND FINANCE
COMPANY LIMITED**
**MR. RAVINDRA KUNDU – MANAGING DIRECTOR,
CHOLAMANDALAM INVESTMENT AND FINANCE
COMPANY LIMITED**
**MR. ARUL SELVAN – CHIEF FINANCIAL OFFICER,
CHOLAMANDALAM INVESTMENT AND FINANCE
COMPANY LIMITED**

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

Nischint Chawathe: Hi, good morning, everyone. Welcome to the Earnings Conference Call of Cholamandalam Investment and Finance Company Limited.

To discuss 2Q FY '26' performance and share industry and 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 CEO 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 will take the Q&A's.

Vellayan Subbiah: Thank you, Nischint for hosting the call. Good morning, everybody. I am happy to take you through the performance for the quarter.

Just in terms of a quick backdrop:

Obviously, there were a lot of changes in the quarter with rationalized GST rates, repo rate reductions, actions taken by the government which are quite proactive. I just like to say and actually they are quite positive overall for credit offtake. I just like to say while the impact of these changes was not fully visible in Q2 due to basically transitional issues. In the medium term, we feel it looks quite strong, especially for players like us because of both the multi-product and cross-country presence. So, I think that makes me quite bullish.

In terms of performance for the quarter:

The loan growth aggregate disbursement stood at Rs. 24,442 crores taking AUM to Rs. 2,14,906 crores which is a 21% growth over the previous year.

Vehicle finance registered an AUM growth of 17% and LAP AUM grew by 33%. Home loans disbursement continued to be negative in the quarter, impacted due to procedural changes in the registration process in a few key markets. The AUM growth continued to be healthy at 28% and the AUM of SME also grew by 28% with increased focus on business loans and equipment financing.

CSEL, which are consumer and small enterprise loan businesses, registered a degrowth due to stoppage in disbursement through our Fintech partnerships. NIM improved substantially from 7.5%-7.9% during the quarter. We expect another 10-15 bps improvement in NIM levels in the second half of the year. Credit cost and asset quality have already been broadly stable though select segments experienced some stress. Unsecured business loans portfolio under CSEL witnessed higher delinquencies in certain markets coupled with our exit from the partnership business. However, credit losses in CSEL have peaked and we expect this impact to be moderate going forward. We have tightened underwriting norms and enhanced borrower monitoring in the segment, which is expected to bring in better results.

As highlighted in our Q1 Earnings Call, NCL performance has shown sequential improvement across other business segments resulting in credit cost ratios at a company level improving by 10 bps in Q2 FY '26 over Q1 FY '26 and we remain confident of continued progress in H2. PBT for Q2 FY '26 stood at Rs. 1,561 crores which is a growth of 20% year-on-year. PBT ROA for the quarter stood at 3%, which is at similar levels compared to Q1. As you know the business typically witnesses strong traction in the second half and we expect that will also translate into growth and profitability metrics in the second half. Obviously, we are a bit concerned about the extended monsoon and its impact on harvest that we will continue to look at in the coming quarter. The ROE for Q2 was at 18.11% and for H1 was at 18.47%.

In terms of liquidity and capital adequacy:

We hold a strong position with total liquid assets being Rs. 17,516 crores including G-Secs and T-bills. ALM is comfortable with no negative cumulative mismatches across all time buckets and our capital adequacy stood at 20% in September 25 with Tier-1 at 14.59. As highlighted earlier, we think that hopefully we will be looking at a stronger second half, but Nishint, I will stop with that and be happy to turn it over to the participants for questions. Thank you.

Nischint Chawathe: Participants, if you have a question, do press the raise hand button on your screen. The first question comes from Kunal of Citigroup. Kunal, your line is unmuted.

Kunal: So, can you hear me now?

Nischint Chawathe: Yes, go ahead.

Kunal: So, firstly, again on the growth side, you indicated like second half would be relatively better but if you look at the disbursement's growth now, it is almost like say flat for the first half. Last time, you had broadly indicated that we will try to grow disbursements by 10% in FY '26. Would that be possible? Would we see the improved run rate in the second half which can take disbursements to almost like a 10% growth? And you had clearly indicated that you will try that the AUM doesn't fall below 20% odd from the lower level of the guidance, but the run rate this quarter has not been that great. So, would we see some risk to both of the disbursements as well as the AUM growth target?

Vellayan Subbiah: So, Kunal, I will start in reverse. So, definitely, I think that I do not see the 20% being at risk in terms of AUM growth. So, then I do think the second half is going to be quite a bit stronger. So, second, then, see there are two sets of things that happen with disbursements in Q2. If you take some of the loans in property business, basically, with some of the festive holidays towards the end of September, a lot of the registration got pushed out. And so, we are seeing that registration basically would then come into the October, November, and December quarter. So, I see strengths from that perspective. And then, the GST cut, the transmittal of that. So what happened was from August 15 to September 22, the entire market was in wait and watch mode. But since then, we have obviously seen a lot of transmittal benefits coming on the GST side which is also

going to help both our vehicle finance and some of our other businesses as well in the October, November, December quarter. And then I would say the additional kicker we have got is since we started the gold business, there we have got Rs. 500 crores in disbursement. So, that will also start coming into the October, November, December quarter. So, Kunal, that is why I am fairly bullish on both. Now, whether we get to that 10% number, we might be a bit shy of that number. But definitely, we are going to see good disbursement growth in the second half. And definitely, I don't see the AUM growth greater than 20% being at risk.

Kunal: Sure. And secondly, on the credit cost side, so again, new businesses have shown some stress. Otherwise, commercial vehicle, we had seen some kind of a decline out there. And maybe life has been steady. So, when do we see this CSEL credit cost stabilizing? Because I think, it has been a big one in the new businesses. And across the board, the Stage-3 numbers have gone up, I think, at all the product segments. So, how do we now view the overall credit cost trajectory for the second half and what would be the guidance on that front?

Vellayan Subbiah: So, Kunal, so I think there are two things, two trends we should look at. So, definitely, first half, on your question on CSEL, like I said, my belief is kind of, it has now peaked. And from now on, hopefully, we will start seeing moderation in that book. That is kind of what we are working towards on the CSEL side. If you actually see the company overall, when you start looking at what is happening, the net increase in Stage-3 is actually kind of, the net increase has gone down in Q2 versus Q1, right? So, that is a useful trend. We are also seeing Stage-2 stabilize. So, if you take those two things combined, right, we really feel like we are beginning to see the peak and from now on, we are basically going to see improvement going forward coming in at least for the next 6 months, definitely. That is our belief. Now, obviously, the one thing with credit performance is it is always a bit environmentally driven. And so that is why there is some of the wait and watch around the monsoon and some of the factors like that. But broadly, if we just look at the data, and we look at how we are seeing trends, we do see and how we are seeing things on the field, we see a certain level of peaking and an improvement coming in on the second half.

Kunal: Thanks and all the best. Yes.

Vellayan Subbiah: Thanks, Kunal.

Nischint Chawathe: Thank you. Next question comes from the line of Priyanshu from IIFL. Priyanshu, your line is unmuted.

Viral: Thanks, Nischint. This is Viral here from IIFL. Vellayan, two questions. One, I think you partially referred to the sequential say drop in kind of net slippages. I just wanted to pick your brains on so when I look at the net slippages, both at a Stage-3 level as well as the increase in, I would say, the Stage-2 on a sequential basis that has been trending lower. So, is this a leading indicator of say a substantial improvement in, say NCLs in the second half? That would be my first question. Do you want me to go one by one? Or should I put all the questions together?

- Vellayan Subbiah:** Sure. So, definitely kind of when we look at the stage numbers, right, kind of like you said, Q1 to Q2, there has been an improvement, right? So, overall, it comes down to about 2.5% versus the 2.8%. That is a net slippage, kind of when we look at the net slippage numbers. So, that is why, like I said, I do see that as a positive trend kind of going forward. And like I was answering with Kunal, from Kunal's perspective, so if you look at what we are seeing, just in the individual businesses, right, we definitely see an opportunity because if you look at what is happening with vehicle finance, now we have got net Stage-3 at about 2.24%, right? And so we just see some of these factors continue to kind of to moderate kind of going forward. And that has been quite positive in terms of the movement quarter to quarter as well. So, basically, we do see kind of that improving in the second half.
- Viral:** Thank you, Vellayan. The second question, just more of a, I would say, a data question, given a lot of our peers have already disclosed this number. Can you give us a sense of how the growth trends are going on in the month of October? Or it has already happened in October?
- Vellayan Subbiah:** In general, we have not given kind of current quarter data. But like I said, we are definitely seeing that GST impact and the transferal kicking in on quite a few of our segments. And like I said, kind of what happened in LAP and HL was more of, it was more the SRO problem that basically kind of created some, SRO kind of holidays that created a bit more of a push there. So, on both fronts, we see this being more positive this quarter. So, to your question, October is definitely looking better.
- Viral:** Got it. And last question, Vellayan, from my end is, when I look at CSEL, right, of course, I think when we started this business, the regulations were different and we had a different thought process. What is the lessons that we have, say, now kind of learnt over here? And say, what would we look to say, do differently when we say embark on growing this portfolio, maybe over the medium term? The reason why I ask this is that, on the other hand, we see some of our peers kind of materially scaling up all these partnership businesses. And they keep talking about that this is one of the best portfolios out there. So, if you could just help us understand the kind of, say, probably the different approach and how do you see this playing out in future?
- Vellayan Subbiah:** So, I think each firm has its own culture, right? I think if we were to take learnings, then definitely one is that and perhaps kind of some of this normalization needs to happen, right? So, one is that the partnership business basically is an area that perhaps, it was a partner selection kind of issue as well, but we have been generally, I think we are better off when we are fully in control of our process, right. And I think our learnings was that some of the partner processes were very different. And so I would say that there is a strong preference to keep total control over origination, underwriting and collections, in-house versus working on the partnership side. Anyway, the second thing is that from how tight, usually we have always taken the approach of kind of being like collections first, right and building out our collection strength first. This is a business where we thought would not be as collections led and therefore didn't build out that collection strength upfront. So, that has been a real challenge and what we have been doing, obviously, since then is building out that collection strength. And I think that is very critical for

us as well. And then the third is that honestly, I didn't think we estimated correctly the implications of the massive supply side rush. So, what started happening is that there were a lot of customers that started getting loans from multiple people. And that massive supply side rush is something that should have been a significant warning signal for us, where we tightened underwriting much quicker. And that is perhaps in hindsight, a mistake, because we didn't do that quickly enough, right and we are paying the price for that now.

Viral: Got it. That is really great. Thank you so much, Vellayan.

Vellayan Subbiah: Yes, absolutely. And again, I am not questioning whether partnerships are the right approach or the wrong approach. I am just saying for us, I think kind of there were learnings from that, right, kind of that when we spread out we saw that there weren't in our control. So, for others, it could be an approach that works.

Viral: Got it. Thank you.

Nischint Chawathe: Thanks. Abhijit Tibrewal from Motilal, you go next.

Abhijit Tibrewal: Yes, thanks, Nischint. So, two questions. The first one is on vehicle finance. While we have seen some asset quality deterioration, which was acknowledged as well, I am just trying to understand which segments in vehicle finance have exhibited higher stress and which segments continue to do well. Also, during the opening remarks, Vellayan Sir said.

Yes, sir. So, sir, I was just trying to understand in vehicle financing, which segments have exhibited higher stress and which segments in vehicle finance, which products to continue to do well. Also, in your opening remarks, Vellayan sir said that extended monsoons is something we would kind of closely monitor. All of October, we continue to see rains. So, what impact it would have on the 3rd Quarter? And sir, second question I had was on unsecured business loans. Again, Vellayan sir said that we have seen higher delinquencies in certain markets. So, just trying to understand which ticket sizes are these, which markets are these, if you can give some nuance around maybe the customer cohort, right, or geography for that matter? And lastly, in terms of property, which is essentially home loans and LAP, I heard that there were again, certain markets where registrations were a problem. This is something geography specific or which Vellayan sir later said that this was more holidays, and which is why registrations could not happen?

Ravindra Kundu: So, just to start with vehicle finance, just to clarify that or give you some data points, that even after having monsoon impact on the overall portfolio of vehicle finance, from Q1-Q2, the Stage-2 has been flat, it has not gone up. In terms of Stage-3, if you see that, the absolute value increase in quarter 1 over Quarter 4 and quarter 2 to quarter 1, that there has been improvement. And obviously, because of the monsoon effect, the capacity utilization get impacted for commercial vehicle and construction equipment. And that has been the reason for little bit increase in terms of whatever has been increased. And that is what we are expecting to improve over Quarter 3, Quarter 4, because now capacity utilization from here, it will start improving and that will

improve the overall portfolio vehicle finance behavior. So, it is across commercial vehicle and construction equipment, wherever it actually depends on get impacted because of the monsoon got impacted a little bit. And in spite of that, we have been successful in keeping Stage-2 at the same level. Now, coming to the registration, yes, HL affordable housing registrations got impacted for last 2-3 quarters due to the changes in the norms, especially in the southern zone. And also because of the festival holidays across the country, the SROs were not performing. So, therefore, lot of disbursement has moved to October. And in fact, that disbursement spillover has been for even vehicle finance due to the GST implementation happened during the last 10 days. So, in nutshell, October has been fantastic month to start with the Quarter 3 and we are expecting that that should continue in terms of the growth point of view.

Abhijit Tibrewal: Got it. And sir, on the unsecured business loans?

Ravindra Kundu: The unsecured business loans, as Vellayan sir said is exactly right. There are two things.

Vellayan Subbiah: I think the question is, what are the specific geography?

Ravindra Kundu: So, in the case of unsecured loan, which is CSEL, we have three businesses. One is the personal loan, the business loan, and the professional loan. So, business loan across the country, the behavior is same. And in fact, we have done some analysis with the CIBIL data, bureau data. It is actually appearing across the industry, across the ticket size. The main problem is the business loan alone, which is irrespective of the geography, irrespective of the ticket size. It is because of more of the leverage issue, where the customer wanted to take 2-3 loan and the DSAs have actually done it with the multiple finance company simultaneously. So, therefore, those customers have failed and therefore, there is an issue and which entire industry has taken note of it and then taken the decision that the number of inquiry, number of loan, existing loan. Based on that, the credit term have been now tweaked and therefore, we are now quite comfortable that is going to improve our CSEL business. Within the CSEL business, the fag end of the rundown which is happening now with respect to partnership has got higher NCL in terms of percentage, which is showing up into entire NCL of the CSEL. That is also a reason for overall in terms of percentage increase in CSEL, NCL quarter-on-quarter over last year to this year. And both the thing get corrected, business loan quality improvement has already started. We have seen that early default & non-starters come down in during last 2 quarters and also CSEL partnership book is running down. In the Quarter 3, Quarter 4, we will be seeing the improvement in terms of overall NCL coming down of CSEL book.

Abhijit Tibrewal: Got it, sir. Thank you so much. And sir, just one follow up question, have you made any PLR changes in the home loans and LAP book in the second quarter?

Suresh Kumar: So, for the LAP book, we have done a PLR change of 15 basis points and which we have passed on to the customers, specifically to the customers.

Ravindra Kundu: Both LAP and HL we have done that.

- Abhijit Tibrewal:** 15 basis points. All right, sir. Thank you so much.
- Nischint Chawathe:** Raghav Garg from Ambit, you go next.
- Raghav Garg:** Thanks, Nischint. Good morning. I just have a few questions. One, I think you have partly answered in your previous question that I think the October month has been pretty good. I just wanted to get some more definite color, whether the vehicle utilization has improved in the month of October or so far in November. What are some of the trends that you are seeing on the ground? That is my first question.
- Ravindra Kundu:** Yes, vehicle utilization has been improving for last 30-40 days. From the festival season, it started improving. But the best result will come only from December because still it is raining in some part of the country, especially in South, eg in Tamil Nadu the rains comes in the winter season. So, therefore, the capacity utilization improves some market and deteriorate in some market in the month of November. But December is the month from there up to say April, May, June, the capacity utilization peaks up. So, we are expecting that further improvement will happen.
- Raghav Garg:** At one point, I think you had also indicated couple of quarters ago that M&HCV is one segment which is more impacted because of the, it is highly, it is more vulnerable to the industrial cycles. Any color you could give between the heavier vehicles versus what you are seeing in the SCV and the LCV segment. That will be helpful?
- Ravindra Kundu:** Yes, if you go through the call and also I said that the heavy commercial will get impacted. Now, today you see the number, the heavy commercial vehicle growth has been flat. It has come up from minus 2% and small commercial vehicle has picked up. It has now gone up to 2%-4% and light commercial vehicle also gone up. So, the improvement will start now. It has already started. So, the improvement will come with a lag effect. First, the Lights will improve, heavy commercial will improve and it also depends on the macros because the industrial production improve, that will improve the commercial vehicle sale. GST cut has come which is actually creating definitely positive sentiment in the market, but we have to see that also. Post agricultural harvesting period after the Kharif price comes in the market, then that will also improve the capacity utilization and because of that purchases will start. Mining also will support the heavy commercial vehicle to further start the purchases in terms of HCV and also quality of the HCV portfolio will start improving from there.
- Raghav Garg:** Understood. Another related question is, I think, last quarter you had highlighted that in your conversations with vehicle OEMs, they were saying that volumes were below expectations. This was obviously before the GST cut happened, but after the GST cut, when you conversed with the vehicle OEMs, what are they indicating? Is there a pickup or do you expect a substantial pickup in 2H in volumes?

Ravindra Kundu: No, it has not been so far good. So, the pickup, they are expecting in the second half only because the commercial vehicle has, as I mentioned, actually grew up by 4%, wherein the changes, the passenger vehicle and two-wheeler are little better and that is why I am saying that the quarter 2 to Quarter 3, the improvement will start coming from Lights and small commercial vehicle and then after that heavy commercial vehicle. As of now, for the commercial vehicle industry, every manufacturer put together, they are expecting higher single digit growth in this year. So, as of now, we are at 4% as at industry level. That might go up to, say, 7%-8% by the end of this year.

Raghav Garg: Understood. My last question is on cost of fund. So, I think a couple of large AAA rated NBFCs have indicated that the cost of funds benefit they were to get from the 100 basis points repo cut, that is more or less already come. What are your thoughts on this and how much more cost of funds reduction do you expect? And I think that there is some warrant conversion which is pending for you. So, when you say 10-15 bps NIM improvement in the second half, does that include the benefit of that warrant conversion? If yes, up to what extent? That is all from my side.

Arul Selvan: Yes, there will be some more small improvements coming through because we are yet to get the full MCLR pass through happening from the banks. This is what we spoke last quarter also and a large part of it has come. There will be a little bit more that should come in. The CCD conversion will have a little bit positive impact. It is a Rs. 2,000-odd crores number on which the cost of funds will come down and it will move to equity. But that will be spread over the next 3 quarters. So, the first conversion has happened around 300 crores in October. Balance 1700 will get converted over the next 3 quarters. Progressively as it converts, we will get that small benefit coming.

Raghav Garg: Thank you. That is all from my side.

Nischint Chawathe: Next question from Bunty Chawla of ASK.

Bunty Chawla: Yes, thank you Nischint. One data keeping question. Can you share the write-off number for this quarter as well as Q1 FY '26? This was on data and secondly, as you rightly said, now we are seeing the improvement on the ground and the credit cost which has slightly improved in Q2 should improve in next first half. So, can you share just in first in FY '25, it was around 1.5, it just came up to 1.8 and 1.7. Can we say the second being the improvement in second half, it should equalize to FY '25 number and how one should see the FY '27 similar growth and credit cost guidance? Thank you.

Arul Selvan: Yes, the write-off numbers in Q1 was Rs. 514 crores and in Q2 it is Rs. 639 crores.

Ravindra Kundu: You are asking that the improvement in NCL.

Arul Selvan: So, that is because on the provision, ECL is slightly lesser on the incremental volume being lower. So, that is the reason why it is reduced.

- Ravindra Kundu:** And NCL is which is actually improved from 1.8 to 1.7 is likely to further improve in Quarter 3 and Quarter 4 and obviously, we will reduce it from overall like at the YTD level, we are at 1.7 or 1.8 from there I think it should come down for the full year, it should be, I think we are expecting closer to 1.6. Let us see that how it pans out in Quarter 3, Quarter 4.
- Bunty Chawla:** And on FY '27 if you can share some thought process?
- Vellayan Subbiah:** I think you are asking for guidance for FY '27, I think it is too early to give right now.
- Bunty Chawla:** No, sir, just a color, nothing as a number but as a color per se?
- Ravindra Kundu:** The standard, this thing we likely to keep our growth level between 20%-25%. Sometimes it comes down towards closer to 20, sometimes it goes up. So, if we continue to see the growth, like what we have seen in October, obviously, the growth will be higher than where we are.
- Bunty Chawla:** That was very helpful. Thank you.
- Nischint Chawathe:** Thanks. Next question from Piran Engineer of CLSA.
- Piran Engineer:** Hi. Thanks for taking my question and congrats on the quarter. Firstly, I just want to understand this conceptually. We have had a few quarters of CV stress and obviously, then your contractors and all are not buying new trucks. Is it fair to say that first we should see CV stress normalize and then we start seeing a pickup in growth or is there any reason why growth should precede asset quality improvement?
- Vellayan Subbiah:** No, in general, what we have seen is that you do see growth kicking in, even though stress does not fully correct. In general, Piran that is always been the way it has been. So, just because, when you have a combination, right, new buyers coming in, people wanting to kind of change their fleets. So, it is not that one has to correct fully before the other happens.
- Piran Engineer:** And is it like two different cohorts? Like, for example, the large fleet operators will be the ones buying while the small fleet operators are the ones still under stress?
- Ravindra Kundu:** Depend upon situation. For example, now, GST cut benefit will be more towards the retail customer because they do not take GST input and they would like to take it because then EMI burden will go down, cost of fund has come down. So, rate of interest charged to them will be lower. Wherein for the large fleet operator depend upon how many contracts they get it and it depends on the infrastructural development and the mining and construction, how that is happening in the market. So, if the consumption goes up, the industrial production goes up. Agriculture growth kicks in, the retail customer buys the vehicle and if the GST cut reduces the cost of vehicle, also the cost of the down payment and also the interest rate has come down, it will improve their capacity to utilize the vehicle and pay it in time. So, therefore, those people will come forward and they are the core customer of Chola and therefore, we are likely to benefit.

And as I mentioned that happens first small commercial vehicle and then light commercial vehicle, then heavy commercial vehicle.

Piran Engineer: Understood. So, for HCV, it is probably sometime away, maybe a quarter

Ravindra Kundu: Growth is sometime away, but improvement has started.

Piran Engineer: Understood. That is clear. Just secondly, our tractor book has been declining now for 3 or 4 quarters and that is actually been the segment for the auto industry which has seen the best volume growth. So, what exactly are we missing here? Is it that competition has heated up? Are we taking some conscious stance of something back corrective actions?

Ravindra Kundu: No, we have taken conscious call. In the past also, we said that there are two problem in tractor, we have seen. Because it is a PSL asset, there is a supply side rush, we have seen in the CSEL business. Here also, all financiers have started doing it and the rate has come down. In the sense, the yield of the business has come down and with that yield, if we continue, then therefore, the ROA which we normally deliver in tractor get impacted. Therefore, we said that and the payouts for dealer also gone up. So, that is the reason we started driving the used tractor more and then we also completely revamped the tractor vertical and then top to bottom we have now people. So, from here onwards, we start driving the tractor new disbursement also and 2 years, there were monsoon deficit and therefore, there were problems. So, this year onwards, tractor started growing. So, now, it is the right time to basically increase it.

Balraj Menon: And in some markets, you have this government run schemes, which is not supporting the NBFCs. This Anna Saheb Patel scheme in Maharashtra, some schemes in Gujarat and all those things, it is only for the public sector banks or banking. So, it is difficult for NBFCs to participate and whatever the leftover are coming in, we have taken a call to keep away from that because of the portfolio related issues. So, tractor, yes, you can see some improvements in the coming months. We have corrected it and we are on the way back in that particular segment.

Piran Engineer: That is clear. And just lastly, I know it is early days, but indicatively, how are gold loan yields looking like? Are we pricing ourselves below say, Muthoot, Manappuram or similar sort of yields?

Ranjith Ramachandran: If you look at our yield, definitely we are not looking at pricing lower than the industry peers. We are on par as far as the pricing is concerned. And we do not want to dilute our yields on that. We have a very healthy marginal yield, which is yield at origination, which I think is slightly better than the incumbent players in this segment. So, I think the focus is on providing easy access, great experience in terms of availing a gold loan with ease and also offering a lot of digital processes so that the loans are disbursed quite quickly so that the customer starts seeing a better experience at our gold loan branches. So, in terms of a pricing strategy, we do not want to get into any kind of pricing war with competitors, because we just started our operations in

gold. We are doing well. We are slowly building a customer franchise, and slowly and steadily building. And our marginal yields, which is yielded origination is quite healthy.

Piran Engineer: Understood. That is it from my end. Thank you and all the best.

Vellayan Subbiah: Thank you, Piran.

Nischint Chawathe: Shubhranshu Mishra from Phillip. You can unmute yourself and ask your question.

Shubhranshu Mishra: Thanks, Nischint. Hi, good morning. So, three or four questions. The first part is on heavy commercial vehicle. If we can split it into 3 parts, buses, haulage, and tippers, where exactly are we seeing growth and how do we look at it going forward in the next 3-4 quarters? Small commercial vehicle and light commercial vehicle, we had alluded to slightly heightened asset quality and delinquency in the early quarters. How are we looking at the asset quality in that specific segment? In terms of passenger vehicles, the largest OEM, Maruti, they have spoken about higher guidance in FY '27. They are also seeing higher realizations. So, how are we geared up, especially in terms of market share growth in Maruti, and possibly in Hyundai as well? And the fourth is if you can speak about the net value transfer out in LAP as well as home loans?

Ravindra Kundu: Shubhranshu, good morning. Thank you. So, the M&HCV has improved 1.9% at the overall level, but the buses have been higher in the M&HCV segment. Light commercial vehicle, 5.1% during the April to September period. So, both the product line, M&HCV and lights have gone up. But as you asked that which segment of M&HCV, it is the buses who are actually driving the HCV number. And on the contrary, we do not do HCV buses. So, we are able to do HCV haulage numbers, but there are market where we are seeing that the participation by our competitors are slightly lower. And therefore, we have gained our market share in heavy commercial vehicle. And in the case of light commercial vehicle, small commercial vehicle, we have done well. And as I mentioned this is what going to be the trend also. So, first small and light will happen and then HCV will start growing over the period. What was the second question, Shubhranshu? Can you repeat?

Shubhranshu Mishra: Maruti has increased its guidance for FY '27. They are also getting much better realizations?

Balraj Menon: So, as far as Maruti is concerned, we are now in the top 4 of the financial metrics. We have done our highest ever numbers last month. The last 4 months, we have been continuously doing. We have the best now. As far as Maruti is concerned, we are quite aggressive. We have done well in that segment. And coming to Hyundai, we are slowly getting, but the initial focus was to grow our market share and numbers. And we just reached a reasonably good at par with the best in the industry. So, Maruti, we are focused, we are month on month.

Suresh Kumar: So, for LAP, out of the total closures, 45% is BT out. Rest are all from the old funds and say LAP assets and so on and so forth. So, it is about, this trend remains the same almost in all the quarters.

- Ravindra Kundu:** But BT in is more than the BT out.
- Suresh Kumar:** Yes, our BT in is good. We have always been maintaining a good BT in.
- Shubhramshu Mishra:** And if I can have just one clarification on Maruti and Hyundai, what we are seeing in passenger vehicles is that PSU banks are super aggressive, both in terms of tenor as well as rates. What is our strategy in terms of countering PSU banks to gain more market share in both Maruti and Hyundai, which are two large PV OEMs?
- Ravindra Kundu:** No, we are not countering the PSU because they are focusing on salaried and we are focusing on self-employed, non-professional. We are into Tier-3, Tier-4, Tier-5 market and they are into 1, 2, 3. So, the segment and the customer segment of the market are both different between us and them. So, there are NBFCs who are doing their job and the banks doing job. So, we are also not offering that kind of tenor or that kind of pricing. So, our pricing and our tenor are to our customers and we have been financing them. And we are seeing that segment is growing and we are also seeing that the manufacturers are also interested to equally increase salaried class as well as self-employed, non-professional category buying the vehicle. Especially in this smaller segment, entry-level car, and mid-segment car, they are more working with the NBFC and the salaried class people are buying both the categories, premium segment as well as mid-size car.
- Shubhramshu Mishra:** Understood. This was very helpful. Thank you so much. Best of luck for ensuing quarters.
- Ravindra Kundu:** Thank you.
- Nischint Chawathe:** Next question comes from Kaushik Agarwal of Haitong Securities. Kaushik, you can unmute and ask your question.
- Kaushik Agarwal:** Yes. Hi, sir. I hope I am audible and thank you for the opportunity. I have a couple of questions. So, firstly, can you please explain what explains the steady pressure on the yields in the SBPL segment? So, should I ask other questions or we will go one by one?
- Ravindra Kundu:** One by one is better. But what type of pressure you are saying?
- Ravindra Kundu:** He is saying that why it is steady yield. Steady yield.
- Ashish Potulwar:** I thought pressure.
- Vellayan Subbiah:** Can you please repeat your question?
- Kaushik Agarwal:** So, I am referring to slide number 58, where you have given the profit and loss statement of SBPL. So, the asset ratio shows that the income number has come down to 25.5 in 2Q. This was 25.9 in 1Q. So, just wanted to understand the yields movement over there?

- Ashish Potulwar :** It is because of the average asset movement. Because this business was started 3 years back. So, as the average assets are improving, the yields is slightly, initially it was looking higher, now it is coming to normal. But the normal yields have remained same over the last 3 years. Marginal yield is same only.
- Kaushik Agarwal:** There is no PLR cut as such we have taken in this particular product segment?
- Ashish Potulwar:** No, this is a fixed rate.
- Kaushik Agarwal:** And sir, my second question is on the OPEX front. How do you see the same panning out in the medium term? There is some jump in the second quarter as well, so is it more of a seasonal impact?
- Ravindra Kundu:** For SBPL or overall?
- Kaushik Agarwal:** This I am asking for the overall business?
- Ravindra Kundu:** Overall business just gone up by 10%. We mentioned that in the previous quarter that during this year, we do all salary increment and incentive payment because of that is gone up. And you have to also consider that we have been continuously investing in the new businesses like gold and consumer durable. And in spite of that, we have been successful in keeping it at 3.1%. And as Ranjit has mentioned that he is also doing good job in terms of gold as it goes up, their operating expenses will further come down. So, that will improve our overall cost of operating expenses in time to come.
- Kaushik Agarwal:** Understood. And sir, my last question is relating to CSEL business. Since you have pulled back from the partnership channel, can you throw some light upon how do you plan to scale the same and is there any target which you have set in terms of how will this number be in terms of overall AUM mix in the medium term?
- Ravindra Kundu:** Yes. So, as of now it is 7%-8%. So, it will remain at that level only. But entire, all other businesses are going to grow. So, therefore, the percentage mix in terms of the CSEL to Chola will remain as it is. However, overall disbursement in AUM growth will start kicking up from Quarter 3 because we are also parallelly investing on the consumer durable and D2C which is the direct to customer digital lending by Chola which is coming under CSEL as of now. And CSEL business also, now they started improving in terms of their direct loan business, their personal loan business has improved and they are smoothening their disbursement overall. And then Quarter 4 onwards, you will see that the base effect of stopping the partnership business will go up and therefore you will start seeing the number also, the growth number, positive number.
- Kaushik Agarwal:** Understood. That is it from my side. Thank you.

- Nischint Chawathe:** Yes. So, there is one question which has come up and it says that while you expect the second half to be better than first half and you already seen some improvement in October, given the fact that we have higher exposure in Tamil Nadu and Karnataka which have their own set of problems, is there in the vehicle side, risk to utilization levels in Tamil Nadu and on the HL lab in Karnataka because of e-Katha issues and all?
- Balraj Menon:** See, as far as Tamil Nadu is concerned, in fact, the portfolio has improved and it is continued. Even September, October has been good. So, Tamil Nadu, we are back on track. In fact, we are fully ready to gear up any market improvement, we will be the first to hit the block. So, Tamil Nadu we are not seeing any concern. Karnataka, because of this rains and mining segment some delays here and there we are seeing, but things are improving. As far as South India is concerned, vehicle finance book and the disbursement everything is improving. So, we do not see any concern even if this is part of the regular, as far as Tamil Nadu rains are all concerned, this is a part of the regular this thing and absolutely, we are not expecting any surprises there.
- Ravindra Kundu:** In fact, HL and LAP also likely to grow in Karnataka.
- Suresh Kumar:** E-Katha is only a procedural issue which is causing delay. However, , it does not have any portfolio issue or risk it is not rating and it is only the transaction spillover which is happening and which is delaying the whole thing.
- Prashant Kumar:** For HL, Tamil Nadu remains the best numbers for HL business and we keep on doing these numbers in Tamil Nadu. Karnataka, there were issues on the e-Khata conversions. Slightly, the registration process was getting delayed on that front. As far as delinquencies and controls are per se, Karnataka the reduction has started kicking in and we see now all the South Indian states from here will do better and accordingly, the disbursement and the book will also show that signs.
- Nischint Chawathe:** Sure and just one more is I think there is some clarification for credit cost. You are guided for around 1.6 that is around 20 basis points Y-o-Y rise, right? I think that is one clarification?
- Ravindra Kundu:** So, we are at actually 1.8 as of now. So, from there if we come down to 1.6, so obviously that will be the achievement for us and obviously, we will try to do more but let us see that. That is what I am saying here. All depends on how the Quarter 3 improves. The Quarter 3 and Quarter 4 will be definitely improvement will come over quarter 2 and how much improvement comes that is what is something we need to wait and watch and one important thing which Vellayan also mentioned in the beginning itself that little bit there is a monsoon which is getting extended is a cause of concern, but therefore but that is what we have already factored and started working on it.
- Nischint Chawathe:** Got it. Next question from Nidhesh Jain of Investec.

- Nidhesh Jain:** Thanks for the opportunity. Two questions. Firstly, how do you see the GST led deflation impact on our disbursement in the vehicle finance segment? Do you think that 10% reduction that in value of vehicle which has happened you will be able to negate through volume? Secondly, what is the long-term strategy on SBPL? We have seen some stress in that book. Do you plan to scale that book further from the current levels?
- Balraj Menon:** See, the first month and the month of October, the ticket size has come down by almost 8%, but our volumes have gone up by 14%. The disbursements have gone up by 14% and units have gone up by 18% in the first month. So, we will see that. I think that is it. For the time being, we are not much worried about it.
- Ashish Potulwar:** As far as SBPL is concerned, we plan to continue the growth. Only thing is that the growth will happen on those areas where we are already becoming stronger. So, the strong will become stronger and wherever we are having some issues like what you have seen in that, there we will just maintain the status quo.
- Nidhesh Jain:** Sure. That is it from my side. Thank you.
- Nischint Chawathe:** Next question comes from Shweta Daptardar.
- Shweta Daptardar:** Thank you for the opportunity. Sir, I have two questions. First, there is quantum jump in disbursements on the LAP front first half of this year vis-a-vis the corresponding period. Is this attributable to home loan competitive intensities flaring up and also that larger part of branch expansion has stabilized for us? And if you could just throw color upon the whole LAP product dynamics right from origination, ticket size, yields and any change in strategy on the LAP front?
- Vellayan Subbiah:** I am just trying to understand. Basically, we are talking about disbursement growth has been 14% H1 on H1, right? So, is that what you are saying as a quantum jump?
- Shweta Daptardar:** Yes.
- Vellayan Subbiah:** That is actually lower than the increase in disbursement growth last year, Shweta.
- Shweta Daptardar:** If we observe in past 3 quarters, the disbursements in AUM growth has been stronger on LAP higher than home loan segment. So, if you could just lay out?
- Vellayan Subbiah:** You are comparing it to a home loan?
- Shweta Daptardar:** Yes.
- Vellayan Subbiah:** So, you are comparing it to home loans. So, I think it is better to look at them individually at a segmental level because both businesses are at a different stage of growth. So, just look at it from, look at LAP, do not compare it to the home loan business and loan against property business had a higher growth rate last year. That growth rate has moderated a bit on the

disbursement fund because you got a higher balance sheet this year, a higher starting kind of level from last year. But obviously, the intent there is that we feel like these are achievable disbursement levels and we will continue in time.

Suresh Kumar: And these are prime. So, HL is an affordable segment where the average ticket size is 13 lakhs and here the average ticket size is about 65-70 lakhs. So, they are completely not a comparable.

Vellayan Subbiah: So, you should not compare these two businesses.

Shweta Daptardar: Sir, no change in origination strategy or ticket sizes on the LAP front?

Vellayan Subbiah: No. Like we said, we have had a drop from last year's growth. So, we are asking if we are going more aggressive.

Shweta Daptardar: Yes, exactly that is the point.

Vellayan Subbiah: But Shweta, the data does not reflect that.

Shweta Daptardar: Sir, my second question is, we have dealt in greater detail on volume pickup on the CV side and also capacity utilizations gradual uptake. But how is the operator economics shaping up for SRTO segment considering that even freight rates at Pan India level aggregate basis have seen some interrupt?

Ravindra Kundu: Yes. As we mentioned that September end onwards, the activity on ground has improved and capacity utilization also improved. And even in October, that has continued. Now, after November, we will get a Kharif crop on ground and therefore, that will further increase the capacity utilization of the retail customer. And therefore, the capacity to repay whatever delinquencies are there in Stage-2 or Stage-3 will improve. And therefore, we are expecting better result in Quarter 3 and Quarter 4. So, things are improving on ground.

Shweta Daptardar: Sure. Thank you, sir.

Nischint Chawathe: Sure. Next comes in Avinash Singh from Emkay. Avinash, you can unmute yourself.

Avinash Singh: Yes. Hi. Thanks, Nishant. So, the question is on that home loan business, two things. One, of course, with the base effect coming into picture and also seasoning happening, it is clear that there will be kind of some increase in the GS3. But over the last 4-6 quarters, probably the pace of this accelerated GS3 is a bit on a heightened side. So, can you provide some color, if it is specific to particular geography or particular customer segment that is kind of affecting this piece and also gradually the coverage has been coming down on this, so is it kind of some of your ECL model let change where, you have a different time period, different kind of past experience data that is affecting it. So, what explains this sort of a reduction in the PCR? That is it.

- Ravindra Kundu:** So, we mentioned that in the past also in the case of affordable housing, we have 50% SARFAESI, 50% doesn't cover SARFAESI. So, the non-SARFAESI asset, we need some time to see our efforts are actually getting result or not. And therefore, we don't do immediately asset sale and wait for some time. And you have seen that in the case of past also, in the LAP, we have benefited by not acting so harsh on the NPA cases. And then after that post-COVID, when SARFAESI come down to 20 lakhs across all entire portfolio of LAP were covered, the NPA reduction has been fast. So, for some time, it goes up and then after that, once we see that there is a sale need to be done with the ARC who are actually having a SARFAESI for all these cases, then our NPA comes down. So, that is what is the strategy in general in affordable housing being managed by the NBFC because we have a different norm as compared to the HFCs and banks. So, that is one. Second is that it is not impacting as of now anything in terms of the ECL also for that matter if you are asking that. And the early bucket increase in the NPA, if suppose cases move from Stage-2 to Stage-3 and it is getting into the Stage-3, automatically the provision coverage for the overall Stage-3 goes down because it is a new asset. Our overall Stage-3 is most of it is a new, therefore the provision coverage comes down.
- Prashant Kumar:** And as far as growth is concerned, we are with AUM growth of 30% and geographies we have spread. We have seen slight de-growth in Southern states, as I said, for Q1 and Q2. But from here on, the leads are good and we will see the disbursement going up for the Q3 and we will maintain the steady rate of 30% AUM growth as commented earlier.
- Avinash Singh:** And this, if you can just help, this GS3 growth over last 4-6 quarters in absolute terms, are these issues some specific to certain geographies ?
- Prashant Kumar:** No, the indicators are not indicating. It is because as I was said, SARFAESI, non-SARFAESI, we take time for a non-SARFAESI pool and then gradually it will take a moderate shape.
- Ravindra Kundu:** It is related to non-SARFAESI, SARFAESI, not related to the geographies.
- Avinash Singh:** Got it. Thanks.
- Nischint Chawathe:** And the last question comes from the line of Aravind Ravi Chandran.
- Aravind Ravi Chandran:** Hi, team. Thank you so much for the opportunity. In respect to SBPL business, are we seeing any issues there like which could affect short-term growth of prospects in that business? That is my first question.
- Ravindra Kundu:** SBPL is looking very solid in terms of growth. They are growing higher than 30%. In fact, they are growing 57%. Though this is in early, therefore the growths are so high, but we will definitely grow this business more than 30% over the longer term also.

Aravind Ravi Chandran: Sure. My question is particularly related to like this particular segment has seen some other quality issues with other players. Are we seeing any like short-term issues because of that, like and that is affecting the growth in the shorter term?

Ravindra Kundu: SBPL, when we started, we thought it is a secured business and personal loan, but we have not done the secured personal loan so far. So, that is the advantage for us and therefore, we are quite comfortable that we continue to do business loan and maintain the equality in terms of both net credit cost and pre-tax ROA what we are delivering.

Ashish Potulwar: No, as far as shorter term you are asking, it will not affect. Whatever we are maintaining for the first half, that will be maintained for the second half also, the growth rates.

Aravind Ravi Chandran: Sure. And just one last question, like, when you mentioned about CSEL business, you said the mix would be somewhere like closer to this only. Then are we saying that it would not be a big growth driver in the medium term, like we have seen like LAP and HL being a big growth driver for our businesses, like which is growing above the overall credit growth. Like, are we saying like, in medium term, CSEL will not grow beyond, let us say, the overall business growth, whatever we say.

Ravindra Kundu: No, we are not saying like that. What we are saying that the mortgage business will be growing maybe at the rate of 30% and non-mortgage business will be growing at 20%. So, obviously, we will try to do better than 20%. That is the endeavor. And that is what we are saying always.

Aravind Ravi Chandran: Thank you.

Nischint Chawathe: Thank you. That was the last question for today. Thank you very much participants for joining us. Thanks management for giving us an opportunity to host the call.

Vellayan Subbiah: Thank you, Nischint.