"Cholamandalam Investment and Finance Company Limited

Earnings Conference Call"

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

Nischint Chawathe: Good evening. Welcome to the earnings conference call of Cholamandalam Investment and Finance Company Limited. We discuss 1Q FY27 earnings today. The senior management of the company is represented by Mr. Vellayan Subbiah, Executive Chairman; 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'll take Q&As. Over to you, Vellayan.

Vellayan Subbiah: Thank you, Nischint, and thank you, Kotak, for hosting the call. Good afternoon, everyone. I'm happy to take you through our performance for Q1 FY27. Chola continued its strong growth trajectory in Q1, reporting aggregate disbursements of INR29,612 crores, up 22% year-on-year, reflecting healthy performance across all major businesses. As a result, our AUM expanded 23% year-on-year to INR2,54,392 crores, underscoring the strength of customer demand and effectiveness of distributing and operating model.

The vehicle finance business maintained its growth momentum with disbursements increasing 21% year-on-year during the quarter. Growth was aided by healthy demand trends across key vehicle categories and deep market penetration, resulting in auto AUM growing 19% to INR1,24,132 crores.

The MSME portfolio also demonstrated continued resilience with disbursements growing 6% year-on-year and AUM increasing 26% year-on-year. The segment benefited from sustained customer acquisition and continued expansion in underpenetrated markets. Within the segment, LAP AUM grew 23% year-on-year to INR54,130 crores. SME AUM and SBPL AUM recorded robust growth of 39% and 40%, reaching INR9,923 crores and INR3,730 crores.

Consumer segment delivered strong growth during the quarter with disbursements increasing 52% year-on-year, reflecting sustained traction across all product categories and continued customer acquisition momentum. As a result, AUM grew 24% year-on-year to INR41,671 crores. Within the segment, the home loans continue to scale steadily with AUM increasing 22% year-on-year to INR23,644 crores. CSEL AUM grew up 12% to INR15,884 crores, while gold loans witnessed strong expansion with AUM reaching INR2,143 crores, supported by growing customer acceptance and network expansion.

NIMs improved by 42 bps year-on-year in Q1, supported by lower funding costs. Credit costs declined by 24 bps year-on-year, aided by healthy collections and continued stability in portfolio performance. Continued improvement in margins and asset quality drove stronger profitability with ROA increasing to 3.7% in Q1 FY27 from 3.1% a year earlier, while ROE stood at 21.2%, reflecting the company's disciplined growth strategy and efficient capital deployment. Company continues to maintain a strong liquidity and capital position with liquid assets of INR23,984 crores, including undrawn sanctioned lines.

As of June 2026, the capital adequacy ratio of the company stood at 19.81%, with Tier 1 capital at 14.81%, providing ample headroom to support future growth. Of the INR2,000 crores CCD issuance, INR1,370 crores were converted into equity during FY26, followed by a further INR200 crores conversion in July 2026. The remaining INR430 crores of CCDs is expected to be converted in October 2026, further reinforcing the company's capital base.

Nischint and team, with that, I will stop and turn it over to participants for questions.

Nischint Chawathe: The first question comes from Kunal Shah of Citi.

Kunal Shah: Yes. So firstly, if you can just highlight in terms of the overall macro environment, the -- any business impact that we are looking in any of the product segments? And would there be any risk to the credit cost guidance, which we had given earlier of, say, almost like 1.5-odd percent for FY27 because this quarter, we have seen increase across the board, say, in Stage 3 for most of the product segments, except for CSEL.

Ravindra Kundu: Yes. So first of all, the net credit cost has already come down to 1.5% from 1.8% of the last year. So, we have achieved the target. I don't know why you're saying it has gone up.

Vellayan Subbiah: No, he's concerned about GNPA as well.

Ravindra Kundu: GNPA, you're talking about?

Kunal Shah: Yes.

Ravindra Kundu: GNPA is basically it is a seasonal effect. It normally goes up from quarter 4 to quarter 1, and it went up significantly higher last year. as compared to that, it has gone up by only 25 basis points. So that way, our start has been fantastic in terms of Stage 3 and Stage 2 movement from quarter 4 to quarter 1. And that is the reason there has been an improvement in net credit cost as against the last year of 1.8% to 1.5%.

Now coming to the disbursement and market, what we are seeing with respect to the businesses what we are doing. As of now, we see that all the business line, whether it is vehicle finance or loan against property or housing loan or SME or SBPL or CSEL or gold and even consumer durable for us, we are seeing quite a good trend even in the month of July and likely to be better in the coming quarters also. We haven't seen any adverse impact on our disbursement or the growth, whatever we have been discussing that 22%, 23%, we're still holding it.

Kunal Shah: Okay. And no product segments wherein you see any risk cropping up in second or third quarter because of be it a below-average monsoon or maybe the geopolitical conflict, any product segment wherein you could see maybe a slightly higher stress?

Ravindra Kundu: So currently, that visibility is not there what is going to happen in quarter 3. as the rainy season is not yet over. So, we are expecting that in July, whatever days left out and in August there will be good rain. And as you know that the prediction is 92% rain, which is slightly below average as against the 96%. If that happens, then it will not be so bad. And therefore, we are continuing to hope that the quarter 3, quarter 4 also will be good with respect to all the product segments.

Kunal Shah: Sure. And just a couple of data-point questions. One is on the used vehicle disbursement side. Is it again more of a seasonal? It's down maybe sequentially as well as in terms of the proportion in the overall vehicle finance disbursements. And second, in terms of home loan yields, that's also down like almost 60 basis points quarter-on-quarter. So, would this be more like a Q4 to Q1 phenomenon? Or is there anything to read into this, yes?

Ravindra Kundu: No, no. Actually, the vehicle finance disbursement has been up to the mark. Obviously, quarter 1 growth is slightly lower than quarter 3 and 4.

Kunal Shah: On used vehicle, particularly?

Ravindra Kundu: Yes, yes. It is the same line only used vehicle or new business they put together, they have grown more than 20% in disbursement. So, their growth has been good only across all segments in the vehicle finance. Coming to the point that mortgage business, whether it is home loan or loan against property or even SBPL and even in the case of used business, we have moved to recognize the disbursement by the cheque clearance from this quarter onwards.

So, to that extent, wherever we issue the cheque and complete the formality, whether it is used business or it is home loan business or loan against property and the SBPL business, the disbursements are slightly lower. But like-to-like, if you see that they have grown more than 20%.

And from next quarter onwards, you won't see this gap coming up because this is a onetime call we have taken, and now overall the disbursement will be aligned to the cheque clearance date instead of cheque disbursement date or cheque handover date. And even after this, overall disbursement has been over and above 20%. That is also you have to consider.

Kunal Shah: And even interest income would be lower because of this maybe -- and that's the reason like home loan yields is lower 60 basis points quarter-on-quarter in terms of when do we start booking the interest income? Would that have impacted the interest income line item in home loan in particular?

Ravindra Kundu: No, no. See, in the case of home loan, they are now moving to the slightly bigger ticket size also and branch expansion, which they started now, which is going to take over in next 6 months' time. So, if you see that their interest income has improved from 15.5% of last financial year to 15.9%. So, in a way, their yields are higher than last year. So, the yields are not going down. And their ROA also has improved from 3.9% pretax ROA to 4.7%. So, I don't see what data you are referring to?

Kunal Shah: Quarter-on-quarter. Sorry.

Ravindra Kundu: Quarter-on-quarter, always across the company, across all products, what happens is that in last quarter, we do very good collection and collection income goes up. So overall disbursement goes up, the other income goes up. So, because of that, overall income always quarter 4 is higher than quarter 1. And then again, from quarter 1, it starts picking up towards quarter 4. That's a normal phenomenon.

Nischint Chawathe: Raghav Garg from Ambit. You go next, Raghav.

Raghav Garg: I just have one question. See, when I look at your slippage ratio and maybe if we round it off to just one decimal place, it's around 0.7, which is same as Q1 of FY26. I think the expectation may have been for a higher improvement. So, I just wanted to understand if there's anything to highlight in any of the segments, if you're seeing any asset quality pressure. Just a couple of more data points in LAP and the vehicle finance portfolio, your gross Stage 3 percentages are also up Y-o-Y.

And where I'm coming from is that last year, first half was probably much more intense in terms of flows into the NPA bucket versus what we've seen in the second half and what we were expecting for this quarter or maybe for this year. So, anything to highlight specifically in LAP and VF and in general overall? That's the only question that I have.

Ravindra Kundu: No, we have mentioned that from quarter 4 to quarter 1, it is always a slight jump in there. And then from quarter 1 to quarter 2, quarter 3, it is always improving and you have seen that. In the loan against property, they have already delivered 0.3% of net profit.

Suresh Kumar: For the LAP business, the loan losses have been at about 30 basis points. For this first quarter, it is 37 basis points and on an annualized basis, this will be maintained at 0.3%. The other thing on a Stage 3 on LAP is it's been at the same levels, while the percentage increase in the Q1 of '26 and '27 remains almost the same in the same range between 2.3% to 2.5%. So, we are not seeing any specific stress or trend, and we are pretty confident that this will be resolved.

Raghav Garg: Understood. Just one more question. If you guys can give the vehicle finance slippages, the absolute numbers for this year and the same quarter last year, if that's possible. And that's all from my side.

Ravindra Kundu: See, even if you see the vehicle finance number, vehicle finance as on 31st March 2025, the number was actually lower than the March closing of 2026. So, March number was 3.84%. And even the previous year, it was lower.

So now if you compare the March to June 2025 last year, it was 3.52% to 3.89% which is almost 45 basis points increase from the annual closing to quarter 1 closing. As against that, it is only 20 basis points increase from 3.84% to 4.05% in June 2026 as compared to March 2026. That is what we are trying to say that the last year increase was 45 basis points, and now it is the only 25 basis points. So, it is easy for us to basically reverse it over the year.

Nischint Chawathe: Next is Piran Engineer from CLSA.

Piran Engineer: Congrats on the quarter. Just firstly, on asset quality, is there scope for further reduction in NCL just simply because the share of CSEL is much lower today, and we've cleaned out the fintech part of it and vehicle is on a recovery mode.

Ravindra Kundu: See, first of all, we said we will be trying to reach 1.5% in this financial year. Luckily, we achieved it in first quarter itself. It is achieved because of the lower increase in Stage 3 compared to the last yearend hence we were able to achieve that 1.5%. So obviously, if we achieve 1.5% in the quarter 1, by end of this financial year, it will only improve.

It is not only CSEL, but other businesses are also going to reduce their NCL, including the vehicle finance. So that scope is there. CSEL itself is going to further reduce because they are continuously improving their NCL, and we are in the process of improving further in this financial year. So that part is also available.

Piran Engineer: Understood. And sir, my next question is for Arul, sir. When we speak with the banks, they say that now they have much more pricing power on corporate loans, especially NBFC loans than they had, say, 6 months back. Do you also see that in your dealings with them? And what does this mean for our cost of funds going forward?

Arul Selvan: The cost of funds has been low, especially from banks where we borrow, we borrow mostly the priority sector loans. So, there we have a better bargaining power over them. But on the market side, cost of funds has been slightly hardening, and we are worried whether the second half, there will be a rate increase. If that happens, cost of funds may go up in the second half.

Overall, cost of funds may go up by around 10 basis points. But my guess is for the full year, we will be same as last year number as a percentage to average assets. This is primarily because last year, first and second quarter were high and the third and fourth quarter were low. This year, first and second quarter will be low and third and fourth quarter may be higher.

Piran Engineer: Understood. But sir, this is assuming no rate hike, the cost of funds will be flat.

Arul Selvan: We are assuming rate hike of around 25 to 50 basis points. I'm talking rate hike on the repo.

Piran Engineer: On the repo.

Arul Selvan: Yes.

Piran Engineer: And today, between a bond and a bank borrowing, the non-PSL bank borrowing, what would be cheaper?

Arul Selvan: Right now, the bank still is cheaper. But sometimes it would be MCLR linked. If it is MCLR linked, then it becomes a little. We don't know where it will ultimately land because if there is a price increase which means the repo rate goes up, then they hike the MCLR, it can be a problem. But the bond is fixed rate. So, to that extent, we have more visibility...

Piran Engineer: Understood. And just lastly, in the home equity business, our yields are up 30 bps Q-o-Q and Y-o-Y. Is there some one-off DA income booked in that?

Arul Selvan: No. No, DA income doesn't get booked in the individual businesses. DA income is shown separately. So, DA income is not part of that business.

Ravindra Kundu: It is business income.

Arul Selvan: Business income only.

Piran Engineer: So, 30 bps, it has improved. Okay. So, we've hiked the internal rate?

Ravindra Kundu: But they are continuously building both the products.

Arul Selvan: No, no, no. We are continuously doing business and yield income, both put to this LAP also.

Suresh Kumar: Yes. So, the composition of the small ticket LAP increases as well as going deep Tier, so which is also helping us in increasing the yields.

Nischint Chawathe: Next, we have Zhixuan Gaofrom Schroders.

Zhixuan Gao: Congrats on a good quarter. Just want to follow up on your comments that disbursement number that we see this quarter is impacted by definition change on timing of recognizing disbursements. So, I just want to understand on a like-for-like basis, what kind of disbursement growth are we seeing this quarter for that?

Arul Selvan: Yes. See, the disbursement, there are different ways we have been recognizing. One is at the time of loan sanctioning itself, that was the initial way of doing it. Then we made a change that it will be at the time of handing over of the cheque. To be more conservative to make sure because this handing over of a cheque cannot be established with any specific date, which is validatable.

What we have done is now we have moved from this quarter to debit in the bank account itself of the respective cheque. So that is a provable validatable data. So that way, that has moved the disbursement number slowly. From next quarter, you will see them as per the same way we are doing it now. Once we start doing it in the same fashion, we will see the growth happening correctly.

Zhixuan Gao: Got it. So, this impacts HL, LAP, and SBPL?

Arul Selvan: It is more pronounced in LAP and HL because there is a time lag between the cutting of the cheque versus the customer depositing. For example, in vehicle finance, what happens is it is a trade advance given to the dealer and then it's only a delivery order that's given. So already, the money is given to the dealer. So, there is no need to prove that this money has gone to the dealer or for the customer. The DO date will be the delivery date.

Whereas in the case of LAP, there is a time lag between the time the cheque is cut versus it gets honored because it needs to be entered into the registration document and which takes some time at the registrar office, etcetera.

Zhixuan Gao: So, you are saying used vehicle also is impacted by this definition change?

Arul Selvan: Yes. In used vehicle also, it happens because there, again, there is a time lag between the time we cut the cheque versus the physical registration or the hypothecation of the vehicle happening.

So wherever there is a shift of asset from one individual to another, there will be some time lag. Whereas it is a purchase of a new asset, then it flows through immediately.

Zhixuan Gao: Does this also impact the timing of the start of recognizing of our interest income in the P&L also?

Arul Selvan: In all the cases, now we will follow the debit into the bank account as the modus.

Zhixuan Gao: I see. So just adjusting for the definition changes, what's the like-for-like organic disbursement growth for home loan?

Arul Selvan: Around 20% in the case of LAP and HL.

Zhixuan Gao: Okay. So...

Arul Selvan: Yes. That's why the AUM growth is a better measure to watch for, and that is where we have been consistently growing because the time lag gets absorbed.

Zhixuan Gao: Okay. So, the difference is -- so organically, it's 20% for HL and LAP?

Arul Selvan: Correct.

Nischint Chawathe: Nischint here, just curious, is this because of any new regulation or something that has come in for NBFCs that you have changed this?

Arul Selvan: No. See, what happens is the delay between the cheque cutting date or the loan booking date and the cheque honor date is slightly larger. Then RBI says that the customer is losing interest on the intervening period and they want us to reverse the interest. So, we started reversing the interest more than a year back.

But what happened was still the asset is lying in the book and then it is seen as an asset lying in the book without earning interest because you're reversing the interest. So, we needed to not recognize the asset itself in the first place. So that is the reason why we are now saying we will recognize the disbursement only after the cheque is honored in the bank.

Ravindra Kundu: This is not based on any RBI regulation. It is our call that we have taken in order to be more prudent. It's good for customers.

Nischint Chawathe: And very technically, this could just mean that maybe at a margin, your yields could look a little higher?

Arul Selvan: Yes. In a way, yes, because last year, the AUM carried some of the disbursed assets without the interest being recognized because we have been reversing the interest manually. So, to that extent, you will see some flip on the yields because the denominator is marginally coming down.

Nischint Chawathe: Next is Viral Shah from IIFL and just one request to all participants just stick to two questions because we have a long queue.

Viral Shah: Sure. Thanks, everyone, for a good set of results. Just a couple of questions. I'll try to restrict it into two. Sir, just from the perspective of the guidance for this year, right, in this quarter, as you called out, there were some realignment changes with regards to the disbursement recognition. But despite that, we have delivered a 22% disbursement growth. Even in the VF, we are at close to 21%.

On the credit cost front, we are starting the seasonally, the weakest quarter for us at 1.5%. I understand there is basically second half seasonality more so or not seasonality, I would say, the risk given the El Nino, etcetera, but we are also carrying a INR200 crore of buffer provisions. So, with regards to your guidance, both on the growth as well as on the credit cost front, do you see some risks to the upside for this year or, say, at the higher end of it?

Ravindra Kundu: So, as I mentioned earlier also, Viral, to someone that we are still hoping that we will continue to do well in this financial year. And in terms of disbursement, second half is challenging because last year, the growth started happening from the second half only. But having said that, market is still looking very buoyant, and we are also in vehicle finance and in other businesses also, we are getting little bit market share benefit in terms of like new businesses, CSEL, SME, they are doing good business.

So, considering that and also now Loan Against Property, housing loan, SBPL, mortgage businesses and vehicle finance, used businesses, where from next quarter onward, there is alignment done with respect to disbursement date and disbursement recognition. So, we don't have any problem in terms of delivering the number what we are seeing as of now other than the base effect in the quarter 3 and quarter 4. So, quarter 2 will definitely be better or as good as what we have done.

But after that, we have to see the market is supporting or not. If market continues to be what it is now in the current quarter or it is slightly around that, we can still deliver 22% disbursement growth even –in quarter 3 and quarter 4.

Viral Shah: Right. So, does that mean, sir, from an AUM standpoint, this year, like 23% kind of number looks more doable for you?

Ravindra Kundu: Yes, 23% we have already achieved, I think it is doable. We'll definitely be not going down.

Viral Shah: Got it. And sir, the second question, Arul, sir, more so for you. You mentioned that after baking in some bit of repo rate hike, you are expecting not more than 5, 10 basis points kind of a cost of fund increase from here on, which means on a full year, it will be kind of flattish.

But when I overlay this with, say, the yields wherein our mix is changing favourably with the CSEL business also now starting to grow, plus the fact that we will get the CCD conversion money close to INR630 crores, the effect of it will come after this quarter. Do you think that on the margin front, we can actually see a meaningful margin expansion in this year on a full year basis?

Arul Selvan: I mentioned about the cost of funds first. That's what I said, it will be flat. NIM will improve. On the other side, you are right, CV is improving, gold will improve. So those should bring but let us see. I mean, let's not count the chicken before.

Ravindra Kundu: As of now, NIM is 8.2% and we are hoping that we hold it either with the help of Arul sir or with the help of the business heads sitting here or both put together, they will help us to basically continue to achieve this growth in terms of NIM.

Arul Selvan: See, there are other sides to it. The insurance IRDAI is coming with some things that I don't know what the impacts of that are. So let us not -- let's see as it goes.

Viral Shah: Okay. And now that, sir, you mentioned that piece, would you also want to basically just call out, I think...

Arul Selvan: Let the circular come, we'll decide about it. It's not going to happen for this financial year is what I hear. So, I don't know about it, let us see what the impact is.

Viral Shah: And just on that point in terms of data, like what is the associated kind of opex that is related to that income. So, if you have to assess what can be the risk to the bottom line, if at all?

Arul Selvan: No, no. I don't want to comment on it because without knowing what is the circular and what is the implication, we should not talk about it.

Nischint Chawathe: Next is Abhijit from Motilal.

Abhijit: Thanks, Nischint. Ravi sir, first question is for you. I mean, we would have seen, right, I mean, all through the course of this call, a lot of questions on asset quality. I think, I mean, predominantly, what people are trying to understand is that among all the NBFCs that have reported until now, we have generally seen good credit trends. In other words, maybe the deterioration that we are typically used to seeing in the first quarter was maybe not as pronounced as what we saw in Chola's results this time.

Having said that, we heard you that, I mean, the kind of deterioration, which was there from 4Q to 1Q last year, this time, it's much lower from 4Q to 1Q this year. But just trying to understand, I mean, this is just normal, what you have said earlier? Or is there something that we would look forward to in terms of the various developments which are there, it could be this U.S. war, the West Asia crisis or for that matter, El Nino, or weak monsoons?

The only reason I ask is over the last 1, 1.5 months, the NBFCs that we have met, very often, they say that even if this year, if the monsoons are relatively weak, despite that, the impact of weak monsoons will only be felt next year and not this year. So, if you could help us understand this please, why is this the case? And what are your thoughts here?

Ravindra Kundu: Yes. So first of all, Abhijit, you need to see that what is our Stage 2 and what is our Stage 3. These are the 2 delinquency points. Stage 2 has improved from June '25 to '26 by 33 basis points. And Stage 3 has been increased from 3.16% to 3.29%, which is 13 basis points. So, these 2 data points should be added and see that what is our delinquency level. Our delinquency level is only 6%. That means 94% are current.

Suppose you're comparing with any other NBFC, see that what is their delinquency level. What is their current and what is their noncurrent. That means how much is delinquent and how much is nondelinquent. If the company has 96%, 94% of the account is actually paying on time, then there will be seasonal effect a little bit.

What I'm saying is that even after that, our numbers have improved from quarter 1 to quarter 1 in terms of overall delinquency. So, 33 basis points has improved in Stage 2 and 13 basis points has deteriorated. Put together, the overall delinquency has improved by 20 basis points year-on-year. And that is why it is reflecting on the net credit cost. Otherwise, net credit cost would have not improved because our target to achieve 1.5% of net credit cost was for the full year, wherein we have achieved that in the first quarter because we have improved significantly better.

So, we have to see why we were saying 1.5% for the year and why we have achieved 1.5% in the quarter 1 without comparing with anyone else. Suppose you compare, then compare what is their Stage 2 plus Stage 3 versus what is our Stage 2 plus Stage 3 and then see where they have gone up and where we are. That is the delinquency comparison.

Now coming to three problems. One is the West Asia crisis, then your El Nino effect and then you have some macro-related issue, which can come up in the second half. That's what people are talking about. What we are seeing that and last time also when we were discussing with the investors, we said that quarter 1 is looking better, and it will deliver better number for the industry itself. Similarly, what we are seeing, quarter-by-quarter only, we can only talk, we cannot predict so long. Therefore, what we are seeing in this financial year -- in this quarter, that July has been better till now, and it is likely to be better.

We are expecting to improve credit cost from here further. And that means, we are considering all kind of a problem and saying that. Now if any ill effect comes out at a later stage, at that point in time only we can say that. But till now, we do not have that visibility that how much it can impact. According to us, it is not impacting as of now. And therefore, we are very confident about quarter 2 and quarter 3.

Abhijit: Got it, sir. So, sir, just to sum that up, whatever we have seen in this quarter is just seasonality at play. And given the visibility that we have today, we are still confident when we get to, let's say, March '27, that asset quality numbers will be better than March '26.

Ravindra Kundu: See, in fact, first point, what you're making, 1 or 2 people also said that is the seasonality. What I'm seeing that even after seasonality, our performance has been good. With that, please note it down. But definitely, the quarter 4 to quarter 1, there has been some deterioration. It happens every time. In terms of delinquency, there is a U type of shape happen. It goes up from quarter 1 and then quarter 2, quarter 3 is flat and quarter 4 comes down. This time, the U is slightly started with small, and therefore, the delinquency level by quarter 4 going to go down better than quarter 4, what we have seen last quarter.

Abhijit: Got it, sir. And then the last question that I had was on gold loans. I understand still very early days. But I mean, how are you seeing traction in that business? What are the plans there? Or I mean, just trying to understand how is the competitive landscape in the gold financing space?

Ravindra Kundu: Gold loan, we have decided to open up another 360 branches. We have reached to INR2,000 crores plus AUM now and likely to hit INR5,000 crores in this financial year. And the branches are doing well. Our per branch AUM has been now INR12 crores to INR15 crores, which is going up continuously. That reflects the people and the productivity in the new branches.

And also, the branches which we are planning to open up, they will also start to deliver. INR12 crores to INR15 crores in this financial year itself. That means by the next year-end, all the branches what we are opening this year will become profitable.

Nischint Chawathe: Next is Mr. Aravind Ravichandran from Sundaram Alternatives.

Aravind Ravichandran: Actually, I'm just continuing on the previous question asked by Viral. Like -- so most of my questions are answered in other -- with respect to other segments. Only with respect to SBPL, like even there, like actually like we have seen deterioration in that business for the entire market.

And from there, like we saw continuous improvement for the past 2 quarters. And suddenly, you again see like increase in NPA. So that one segment, I was not able to understand why that happened. Is there anything to be worried about in that particular segment? And with respect to CSEL, can we expect that business to start doing ROE at PAT level above our group consolidated numbers?

Ravindra Kundu: So first of all, you see that their PAT is much higher than the group. Their PBT itself is at 7.9%.

Aravind Ravichandran: CSEL, CSEL...

Ravindra Kundu: CSEL, you're talking about?

Aravind Ravichandran: First question is about SBPL...

Ravindra Kundu: Okay. First is I'm talking about the SBPL. So first is that SBPL numbers are much better than the company performance in terms of ROA and their NCL is at 2.3%. So more or less, they will be in the range of 2.5% even in the future also because this is a high-yield business, we are actually catering to very small merchant who are into smaller town and where the yields are also higher. So, this business is designed like that.

And as of now, the pretax ROA is 7.9%, which is much higher than our expectation. That means they are doing very well. Now coming to the Stage 3 number, their Stage 3 number totally depending on the ARC because they don't have SARFAESI, because a small ticket size, NBFC doesn't have SARFAESI facility. So, we do it with the ARC and they work with us and then they recover it, which is like when whichever quarter we do it, their NPA goes down and then it is actually maintained.

So in last quarter, we did. And then next quarter, we will do it. And as and when we do it, our collection efficiency goes up because those cases which are already in Stage 3, you need to do some legal action and that legal action actually is possible through SARFAESI, which is available through ARC. So therefore, we are quite confident that their delinquency level in terms of Stage 3 and the net credit cost is in line with the business plan, and they are delivering more than 7% ROA. In fact, their 7.9% pretax ROA is much higher than that. And we will continue to grow it.

In fact, the disbursement growth has been fantastic. They are growing more than 30% growth. which you will see they will continue to grow. In this quarter, there, again, because of the alignment between the disbursement date and disbursement cheque clearance, the disbursement is slightly lower. But in general, they are doing 30% plus disbursement. So, this is from SBPL.

In terms of CSEL, they have already improved their ROA significantly. And very soon, you will see that their ROA will be much higher than the company ROA. That is what we designed the business in the beginning when we thought about it. They are at 3.3%. And this 3.3% was also not expected in the first quarter.

We were thinking that they will start hitting 3% from the third quarter. But luckily, they have reduced their net credit cost by 2% from 6.7% to 4.7%, which is very, very good sign that very soon, they will start catching up to 3.6%, 3.7%, and then they will start delivering more than that. So, both SBPL, CSEL are high return business along with the loan against property and affordable housing, all 4 businesses are meant for delivering more than the company ROA.

Nischint Chawathe: Next is Renish from ICICI Securities.

Renish: Am I audible?

Nischint Chawathe: Yes, yes.

Renish: Congrats on a good set of numbers. Just one thing on the PBT-ROTA item, which stood at 3.7%. And now obviously, you all are sounding quite optimistic about the rest of the 3 quarters. And naturally, there are tailwinds also in place in terms of credit cost being lower even in a seasonally weak quarter. So naturally, second half should be much better. So how should one expect PBT-ROTA by, let us say, exit of Q4 FY27?

Ravindra Kundu: This is one of the best questions.

Renish: I mean, directionally, obviously, it suggests that it will be definitely higher. But would you like to put any number to that?

Ravindra Kundu: . See, we have been talking about 3.5% pretax ROA. We should be happy that we have delivered. It has been delivered because net credit cost has come down, cost of fund is down, income has gone up. So, it has delivered because of 3 different line items supporting that. Always all 3-line items don’t support because of various reasons, isn't it? That is the reason we need to consider some conservativeness in our forecasting.

So why we are saying 3.5%, that's a minimum number we have said, and we will continue to do it. But at the same time, as I mentioned, the credit cost can improve from here because the first quarter itself, we have delivered 1.5%. CSEL also want to deliver much better than that. So therefore, there is a scope. And as Arul sir mentioned, this cost of fund benefit of 30 basis points, it cannot be there for full year. It can go down. So, as and when...

Renish: But the CCD conversion will also help, right? So...

Arul Selvan: CCD conversion is very small. Was exactly coming around at INR2,20,000 crores borrowing. It's not a game changer.

Ravindra Kundu: So, what -- in short, I'm saying that we will try to hold it or try to improve it.

Renish: Got it. Got it, sir. And sir, just last thing on the gold loan space. So, all the new products which we entered over the last 2, 2.5 years, I think the strategy or the idea is to generate better ROA, ROE than the consol book. So, is it fair to assume that the gold loan will be designed in a way that it should generate, let us say, more than 4% PBT-ROTA in a steady-state basis?

Ravindra Kundu: From after 3 years.

Renish: Yes.

Ravindra Kundu: We cannot deliver that number.

Renish: Yes, obviously.

Ravindra Kundu: All other gold loan companies are delivering. So obviously we have given higher target, better target. So, he's saying that we'll deliver much better than the incumbents. Isn't it?

Ranjit Ramachandran: On par.

Ravindra Kundu: He's saying on par.

Nischint Chawathe: Next question comes from Sanket from DAM Capital.

Sanket: Kundu sir, I think the question was on growth and margin you kind of answered. But just I wanted to see that in the first quarter, you are seeing such growth versus what we have seen in the last 2 years where you have been fairly conservative and the positive or the on the credit cost as well. Generally, this happens whenever this happens, next 2 years are likely to be an up cycle. Do you see that or do you share that view? How do you see along there on?

Ravindra Kundu: Yes. But it is very difficult to say at this juncture because of these 2, 3 other uncertainties are also there. But what you said is right, after the 2 to 3 years of down cycle, if things start improving, it actually lasts for another 3 to 4 years. That is correct. That formula has been right so far. But we are going through a different scenario.

El Nino is there, then you have a war going on and the tariff issue going on. All those things we need to consider. We are hoping that we should continue to do well what we are doing for a longer period. But that is the reason 1 or 2 quarters, I can predict as of now.

Sanket: Very good set of numbers.

Nischint Chawathe: Yes. Next question comes from the line of Shubhranshu.

Shubhranshu: Three questions. The first one is on the CSEL. Now that we have knocked off fintech originations. So, what are our approval rates and SME numbers in the new book for personal loans? Second is that now Mudra loans are allowed up to INR20 lakhs, essentially, the unsecured loans up to INR20 lakhs. So, what is the impact that we see in our small ticket LAP or even the home equity business till that -- what could be the disbursement impact there?

And third is in terms of our bank loans, what is the pricing, say, blended above MCLR? What are the banks generally charging us? What's the premium above that? If you -- these are my 3 questions.

Sucheth Bharathan: Starting with the CSEL, FEMI rate, it is hovering around 3%. It continues to be at 3% for the last 15 months. So, there is no deterioration on the FEMI part. I previously also mentioned that FEMI is not the right metrics which I track. I normally track the 6 MOB and 12 MOB criteria. That is showing good improvement after our implementation of credit checks.

Ravindra Kundu: Approval rate.

Sucheth Bharathan: Approval rate is around 35% to 40% for business loan. And for salaried loan, it is around 60%.

Ravindra Kundu: And then...

Suresh Kumar: On the Mudra loans, our logins have improved on the small ticket loans. These borrowers, while they want a faster turnaround time and so they want a long-term repayment. So, these customers prefer and then the kind of distribution we have, we are able to penetrate these kinds of customers, and we are not seeing any trend as of now on this segment.

Shubhranshu: Third one.

Ravindra Kundu: MCLR.

Arul Selvan: The bank loan is around 25% to 30% of bank loan, which bank loan by itself is around 50% of the overall borrowing. It will be MCLR linked. The balance is benchmarked. The rate will be lower.

Shubhranshu: What's the premium on the MCLR blended?

Arul Selvan: No, we don't pay any premium on MCLR. We take it at MCLR.

Shubhranshu: We are basically borrowing that ballpark 1-year MCLRs?

Arul Selvan: No, it will be 3 months or even 1 month in MCLR.

Shubhranshu: 3 months to 1-month MCLR. Can I squeeze in just one last question, if it's, okay?

Arul Selvan: Sure.

Shubhranshu: Right. So, can you spell out our collection architecture? How many people do we deploy in collections and ballpark if it can be given business-wise?

Arul Selvan: We have around 30,000, but we can't give business-wise.

Ravindra Kundu: 30,000 people are working and every business has different, different model to basically follow their collection. Good thing about CSEL is that 55% collection is happening digitally. Like that there are different, different way of doing collection. Prashant is doing it. We have 3 teams, one for soft team, one for hard, and then recovery team. Like that different, different team has a different strategy with respect to the product.

Nischint Chawathe: Yes. Next is a follow-up from Viral. Viral, you can ask your question.

Viral Shah: Sir, just wanted to basically clarify, I think with regards to the credit cost for this quarter, right, we have also seen that our -- the Stage 2 and 3 PCR has kind of declined sequentially. But is this a function of the texture of the delinquent accounts and the segments also being different and has the PD, LGD kind of changing? Or have we also consumed any part of the buffer provisions?

Arul Selvan: Buffer provisions have not been consumed. We have stated that also. The entire INR200 crores management overlay is still intact. We'll watch it and then take a view on it at the end of this financial year. In VF, we have written off some of the 100% provided cases.

So, the PCR will look slightly moderating because of that because you're removing the 100% provision on the GNPA, whereas the average rate is around 48% out there. So that is the reason why you will see some mild variations in the PCR.

Viral Shah: And has there been any change in the -- like experiential change in the PD, LGDs in any of the segments?

Arul Selvan: No, we don't change it every quarter. We do it once in a year. We do it in December quarter. We used to do it in the March quarter. From last year, we started in December, so that we have some runway to make adjustments if anything is required in the fourth quarter.

Nischint Chawathe: Next, we have a follow-up from Piran, CLSA.

Piran: Actually, my question is more broad-based on your gold loan business. Can you just broadly tell us whether we've done some analysis of our customers in vehicles, home loans, etcetera, how much of gold loans they have from the system, which we can easily tap because it's a cross-sell customer and how we are really thinking about that opportunity? Or are most of our customers open market?

Ravindra Kundu: Yes. First of all, we are not trying to basically cross-sell with our own business. But we have done the analysis and found that around INR700 crores, INR800 crores loans have been taken by our customer across the country. Because our network and number of customers spread across the country is much higher, wherein the gold loan, as of now, we are focusing on a concentrated market where we are opening the branches and totally depending on open market customers.

Ranjit Ramachandran: Correct. So, 90% of customers that we have acquired so far is new to Chola. Because in gold loan, what happens is we did not have an overlap with our existing set of customers because we open branches in places where we find opportunity to lend against gold. So, since we operate in a very limited micro market with, let's say, within 3 kilometres of the radius of the branch, our focus is to entrench deep into that micro market and acquire customers in that micro market. There is a big opportunity to leverage on our existing set of customers, which we are planning to do in the days to come.

Vellayan Subbiah: Of course, there will be the opposite opportunity also. There will also be the reverse opportunity given that a lot of gold customers are entering Chola for the first time and the volume number of customers are high, cross-selling into them also over time can be good.

Management: No, that's a fair point. But then Vellayan, what's our right to win there for the new to Chola customer? Is he also new to gold loans?

Vellayan Subbiah: That's what we were saying.

Ranjit Ramachandran: See, if I do a breakup of the customers who are coming in, roughly new to gold loans would be about 20%, 25%. The remaining would be existing to gold loans. The right to win in that market is typically you look at it, see, Piran, you need to understand one thing. See, Chola has a brand name, okay? So, we are riding and in gold loans, trust plays a very, very vital role. And we are riding on the trust that customers have on Chola as a brand in that micro market.

And see, in this market, what I'm saying is if you're offering a more transparent and better experience to customers because all our journeys are digital journeys that we have currently in all our branches, right? And combined with an experience plus trust, we are able to -- we have a right to win in every market that we operate.

Piran: Understood. And our yields would be how much in this business?

Ranjit Ramachandran: Our yields are on par or slightly a shade better than our competitor or peers in this industry.

Piran: So, like 16%, 17%, we take it at that sort of ballpark range?

Ranjit Ramachandran: Yes, yes.

Nischint Chawathe: In the interest of time, maybe we can just take one question per participant. Raghav, you can ask a question.

Raghav Garg: Just one question from my side. On your ALM mismatch for the last few years, we've seen that at a negative 4%, 5%. But when I look at FY26 annual report data, it seems that, that negative mismatch has increased to about 10%. So, any thoughts on your liability strategy, if you would like look to borrow more longer term, which may come at a higher rate, but also helps in containing the mismatch? Or generally, if you can comment on how you're thinking about the liability strategy ahead in light of this mismatch and your AUM growth targets? That's the only question from my side.

Arul Selvan: Annual report is not a full-fledged ALM. It's a column which is determined by the regulator, that's what is given there. We do not have the exact ALM. What you are seeing in the investor presentation is the right one because there is a defined way of presenting where you will see some differences between that and the statement out here. So, there is no mismatches and you have to look at the mismatches one day as a cumulative mismatch.

Cumulative mismatch is what matter because in buckets where you have in earlier buckets, if you have a positive mismatch, then it helps to address the negative in such a way. There is no negative cumulative mismatch in any of the buckets, and that's been our trend right throughout.

Raghav Garg: So, you're saying based on the investor PPT data, there is no negative mismatch, right? That's what you're referring to?

Arul Selvan: Investor PPT?

Ravindra Kundu: Investor deck.

Arul Selvan: Correct.

Raghav Garg: Maybe I'll come back offline on that.

Arul Selvan: You always refer the cumulative gap there will be no mismatch.

Nischint Chawathe: Next question comes from Shreepal Doshi of Equirus.

Shreepal Doshi: My question was on the gold loan side. So, within that, do we have the vanilla bullet repayment as a product? Or do we also have income-generating gold loan products as a product bouquet?

Ranjit Ramachandran: See, bullet, or EMI are 2 options that typically is available in the market at a product level. if your question is whether are we doing consumer and also income generating loans? Yes, we do both. And we've just started our income-generating loans recently. But largely, it is consumer loans.

Shreepal Doshi: Got it. And sir, so in the income-generating loan that you've recently launched, what would be the typical tenure there?

Ranjit Ramachandran: See, we are looking at a tenure of in the range of around anywhere between 6 to 9 months.

Shreepal Doshi: Got it. And will that be the same for consumer loans as well?

Management: See, consumption loans typically would be in the range of around 6 and 12 months.

Shreepal Doshi: Got it. Got it. I just have one more question, if I can just squeeze that in. It's on the branch expansion strategy for our products like vehicle finance and gold loans. If you could give some highlight on that?

Ravindra Kundu: Vehicle finance, we are continuously putting up our resident location place. We are already having 600-plus resident locations. And there is a threshold which internally we are following as and when they start hitting the disbursement number, we start converting them into permanent branches.

Balraj Menon: We will be shifting around 125 resident locations into full-fledged branches by the end of this year.

Ravindra Kundu: Yes. So, this is the number on an average, we are doing it every year. Not only vehicle finance, even for affordable housing, loan against property, they are also moving in the same trend of 100-plus branches, at least they are opening it up.

Shreepal Doshi: Got it, sir. And on the gold loan side, that number would be higher. Is that a trend?

Ravindra Kundu: Gold loan is specific. So stand-alone branches. Rest of the people are working together from one premises, but gold loan people are separate. They are this year operating, starting 360.

Ranjit Ramachandran: Yes, we are opening 360 more branches.

Nischint Chawathe: Thank you very much. That brings us to the end of this call. Thank you, everyone, for joining us today. Thank you, management, for giving us an opportunity to host the call.

Vellayan Subbbiah: Thank you very much.