"Cholamandalam Investment and Finance Company Limited

2Q FY27 Earnings Conference Call"

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

Nischint Chawathe: Good evening everyone. Welcome to the interaction with management of Cholamandalam Investment and Finance Company Limited. We'll discuss 2Q FY27 Earnings today. Management 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 questions.

Vellayan Subbiah: Thank you, Nischint, and thank you, Kotak, for hosting this call. Good evening, everyone. I'm happy to take you through our performance for Q2 FY27. We continued to witness strong momentum across our lending businesses during the quarter with broad-based growth across vehicle finance, SME and consumer finance.

Aggregate disbursements grew by 47% year-on-year to INR35,872 crores, reflecting healthy demand conditions, execution strength and continued expansion of our distribution franchise. This translated into an AUM of INR2,68,009 crores, registering a growth of 25% year-on-year. In vehicle finance, industry volumes remained robust across key segments, supported by replacement demand, improving economic activity and healthy freight utilization.

We are particularly pleased that Chola continued to grow materially ahead of the industry, driven by market share gains, deep customer engagement, strong dealer relationships and disciplined execution on the ground.

Vehicle finance disbursements grew by 31% year-on-year to INR17,801 crores, resulting in an AUM of INR1,29,787 crores, a growth of 21% year-on-year. The secured SME finance business across all key product lines, including LAP, SME and SBPL continued its strong growth trajectory for the quarter with disbursements increasing by 42% year-on-year to INR9,345 crores.

This growth was driven by our focused market penetration strategy, strong on-ground execution and deep engagement with channel partners. We witnessed consistent growth across all product lines, resulting in an overall AUM growth of 27% year-on-year to INR72,356 crores with LAP at INR57,447 crores, a growth of 24%, SME at INR10,943 crores, a growth of 45% and SBPL at INR3,966 crores, a growth of 35%.

This reflects both the scalability of the franchise and increasing acceptance of our offerings amongst customers. Our consumer loans business, comprising housing loans, CSEL and gold loans continued to scale rapidly during the quarter, driven by our expansion of our distribution footprint and stronger relationships with channel partners.

CSEL and consumer durable financing continued their momentum, leveraging our digital lending platforms. These businesses are playing an increasingly important role in diversifying our portfolio while creating a strong runway for sustainable future growth.

Consumer loan disbursements grew by 103% year-on-year to INR8,726 crores, resulting in an AUM of INR45,902 crores, up 32% year-on-year. Growth was broad-based across product

segments with housing loans, CSEL and gold loans registering disbursement growth of 43%, 103% and 320%, respectively. AUM in home loans stood at INR25,240 crores, CSEL at INR17,216 crores and gold loans at INR3,446 crores.

The strong business momentum across these segments reflects our ability to leverage multiple distribution channels, deepen customer engagement and address a wide spectrum of retail credit needs. We maintained NIMs at healthy levels despite a volatile interest rate environment.

Our strong portfolio performance led to a reduction in credit cost by 37 bps. Consequently, our profitability improved with margins, our PBT ROA expanding by 40 bps year-on-year. This translated into a stronger return profile with ROE improving to 19.4% compared to 18.1% a year ago.

Gross Stage 3 improved to 3.25% in September '26 from 3.29% in June '26. GNPA as per RBI norms improved to 4.44% in September '26 from 4.50% in June '26. The company continues to maintain a strong liquidity and capital position with total liquid assets of INR21,974 crores, including undrawn sanctioned credit lines. As of September 2026, the capital adequacy ratio stood at 20.62% with Tier 1 capital at 16.02%. As on September 2026, the conversion of CCDs into equity shares were completed.

Given the strong growth momentum across our businesses, the Board has approved a proposal to raise up to INR5,000 crores of capital, subject to shareholder and regulatory approvals. The proposed fundraise will strengthen our capital base and provide adequate flexibility to support our future growth aspirations while maintaining healthy capital adequacy.

Nischint, thanks so much. I'll stop with that. We'll be happy to turn it over to all of you for questions.

Nischint Chawathe: We start with Viral Shah of IIFL.

Viral Shah: First of all, congrats on a great set of numbers. I would like to, first of all, congratulate, I would say, the -- for the delivery and the kind of, I would say, execution that all of you have done over the last, I would say, decade, 1.5 decades through the diversification, scale-up of ROA accretive segments.

Vellayan, if you can throw some light in terms of, say, the capital that we are planning to raise, like what would be the strategy for us, say, over the next 3 years? Are there any new sub-segments that we plan to enter and basically also some timing on that?

Vellayan Subbiah:

On the capital raise, our announcement should be viewed in the context of maintaining a strong balance sheet and adequate capital buffers. As you are aware, our last capital raise was approximately three years ago, and we continuously evaluate opportunities to strengthen our Capital Adequacy Ratio (CAR) and support the long-term growth. The proposed capital raise is

therefore primarily aimed at reinforcing our balance sheet and ensuring we remain well positioned to capture future growth opportunities.

Growth momentum across the business remains strong. While we continue to evaluate new opportunities, we believe we already have a comprehensive portfolio of business segments, and a significant part of our future growth is expected to come from scaling the existing businesses.

As seen during the quarter, Gold Loans are growing rapidly, while our Consumer Durables and Digital Lending businesses continue to deliver strong momentum. At the same time, our core Vehicle Finance business remains robust, reporting approximately 21% AUM growth. Overall, we are witnessing healthy growth across all business segments.

Given this backdrop, a key focus area is ensuring that our capital position remains strong enough to support this growth trajectory. The capital raise will therefore provide us with additional flexibility to fund growth opportunities while maintaining prudent capital adequacy and balance sheet strength

Viral Shah: Right. And just as a clarification, when you mean to say, of course, this is more from a, say, medium-term perspective is what you're referring to, right? Nothing kind of immediate in terms of the capital raising plans?

Vellayan Subbiah: The capital raise, we will do. It depends obviously on market conditions. So we'll be kind of conscious of market conditions, but we will do it kind of in the near to medium term, depending on market conditions.

Viral Shah: And on the related point, Vellayan, I think you also rightfully pointed out the consumer business that has been kind of scaling up now. It is almost 3 quarters wherein now we are seeing that the PBT, ROTA is now consistently crossing, say, 3%, 3.5% kind of a mark. And still, I think this is not the optimal profitability for the sub-segment given that there are various other sub-segments that are folded into this segment that we see over here.

Can you -- or rather, would you like to throw some light in terms of some of the sub-segments, consumer durable, mobile, PL? And what could be the, say, optimal profitability looking like over here from a medium-term perspective?

Ravindra Kundu:

Currently, CSEL comprises two key business segments: Unsecured Business Loans, Personal Loans and Professional Loans, and Consumer Durables (mobile and non-mobile) along with Digital Lending. These businesses are led by Sucheth Bharathan and Vijay Kini, respectively. As these businesses continue to scale and attain meaningful size, we intend to present their performance separately.

By the time we begin disclosing them independently, we expect both businesses to demonstrate strong profitability metrics. They are already delivering a pre-tax ROA of around 3.6%, and we

believe that, on a combined basis, they have the potential to sustainably deliver over 4% pre-tax ROA.

The key driver of further improvement will be the reduction in net credit costs, along with some moderation in operating expenses.

While we are not disclosing segment-wise financials at this stage, we remain confident that, together, these businesses can comfortably deliver a pre-tax ROA in excess of 4% over the medium term. The underlying business economics remain strong, and we expect profitability to improve further as the portfolios mature and operating leverage continues to play out.

Viral Shah: No, got it. That's very clear. And just last question, sir, if I may. Now at the halfway mark for the fiscal year, we are standing at 25% kind of growth, especially with now also the scale-up of the longer tenure mortgage book, right? Would you want to revise your growth guidance for the year?

Ravindra Kundu:

No, we are not revising our guidance. At the same time, it is important to note that Q3 and Q4 have historically been stronger quarters compared to Q1 and Q2. We will have to see the extent of the improvement this year, but our focus remains on consistently delivering on the commitments we have made.

At the beginning of the year, our objective was to deliver around 25% growth while maintaining net credit costs at approximately 1.4% for the full year. We are pleased that these metrics have already been achieved in the first half of the year itself.

However, we do not believe it is prudent to raise our guidance at this stage. Having said that, given the seasonal strength and historical performance of Q3 and Q4, there is potential for outcomes to be better than our current expectations. For now, we remain focused on sustaining our growth momentum while maintaining credit discipline and portfolio quality.

Nischint Chawathe: Kunal Shah from Citi.

Kunal Shah: Congratulations, good set of numbers. So firstly, in terms of the credit quality outlook, so this quarter, we have managed it pretty well in terms of GS2, GS3. We have almost 17%-odd exposure to Maharashtra as well as Karnataka.

And given this entire drought concern, how do we look at the vehicle finance credit cost in particular and the other segments, too, because a few of the players have indicated the buildup stress in a few of the geographies due to drought. So I would want to have your outlook and your assessment of the situation currently at the ground level?

Ravindra Kundu:

Historically, drought-prone regions such as Vidarbha, Malwa, Coastal Karnataka, and parts of Madhya Pradesh have been relatively challenging for us from a portfolio performance perspective. Recognizing this trend, we have consciously maintained a lower portfolio concentration in these markets, given that they have exhibited similar stress cycles in the past.

Another important factor is that tractor financing tends to be more vulnerable to drought-related disruptions. Over the last four to five years, we have consciously reduced our exposure to tractor financing, and our penetration in this segment has declined significantly, particularly in these geographies.

Considering both these factors, we do not see any meaningful cause for concern at this stage. Additionally, our Vehicle Finance portfolio is well diversified, both in terms of product mix and geographic presence. Our exposure is spread across multiple regions, which helps mitigate the impact of localized stress in any particular market.

That said, we have taken note of the concerns highlighted by some other finance companies and have evaluated the situation carefully. Based on our current assessment, we do not foresee any material issues in our portfolio. However, we continue to monitor developments closely, and if we observe any emerging risks or changes in the operating environment, we will keep the market informed accordingly.

Kunal Shah: Sure. So we would be pretty confident with respect to the overall asset quality generally like second half...

Ravindra Kundu: As of now, we are confident with the second half number better than first half. That's what is normally we have seen in the past. And we don't want to change our target. Whatever target we have given in the past, we will hold it as it is.

Kunal Shah: Sure. And second question is on home loan and LAP disbursements in particular, strong uptick both in terms of the sequential momentum as well as the year-on-year growth. So home loan from a low base has again gone up like LAP also compared to like 2%-odd disbursement growth, we are now almost like 39%, 40%-odd.

So you indicated in terms of the geographical expansion, but what are the other things which are really driving it and the sustainability of the same if we have to look at it, will this to be a major contributing factor to the growth as well going forward, apart from the new businesses and the continued momentum on the vehicle side?

Ravindra Kundu: .

As we mentioned in the previous quarter, both the Home Loan and LAP businesses have been growing steadily. However, we undertook a technical alignment of disbursement reporting with

asset recognition, which resulted in a portion of Home Loan, LAP, and to a smaller extent SME and SBPL disbursements, not being reflected in the reported numbers during the last quarter.

In reality, business volumes remained at broadly similar levels. Q2 performance was marginally better than Q1 across businesses, although the year-on-year growth appears stronger primarily because the base in Q2 of the previous year was comparatively lower. Therefore, there has been no material change in the underlying performance trajectory of the Home Loan and LAP businesses between Q1 and Q2.

Having said that, the businesses continue to benefit from consistently low delinquency levels and improved productivity from the network expansion undertaken over the last two to three years. As highlighted earlier, the previous year was marked by several regulatory and process changes, particularly around SRO registrations, which had slowed down business momentum and disbursement cycles.

With these transition-related challenges now behind us and processes fully streamlined, we have been able to complete registrations and disbursements within the prescribed timelines. As a result, disbursements are now getting reflected more efficiently, leading to better reported performance.

Kunal Shah: Sir, the question was like, say, in home loan, almost like INR1,800 crores of disbursements in Q1 getting to INR2,400 crores. In LAP also from INR4,800 crores now getting almost towards INR6,400 crores, INR6,500 crores. These are now more sustainable numbers, maybe what we saw in Q2 and the growth over and above that?

Ravindra Kundu:

If you look at the business mix today, a significant portion of the portfolio still remains concentrated in the South, although the businesses have been expanding steadily across the rest of the country. Currently, around 40% of the business originates from the South, while the remaining 60% comes from the North, East and West regions, supported by the branch network established across these geographies.

As a result, there is still substantial headroom for growth outside the South, particularly across our Home Loans, LAP, SBPL and SME businesses, where penetration levels in several markets remain relatively low. This provides a meaningful opportunity for expansion over the coming years.

We expect that over the next one to two years, the contribution from different regions will become more balanced as the branch network matures and scale improves across geographies. As this regional diversification progresses, the businesses should be able to achieve significantly higher volumes than their current levels.

Given the large untapped opportunity and the momentum we are witnessing across markets, we remain confident that the strong growth trajectory currently being delivered can be sustained for the next several years.

Nischint Chawathe: Next, we have Abhijit from Motilal.

Abhijit: Congratulations on a good quarter. Ravi sir, first thing on the vehicle segment, while you have already articulated that the second half seasonally is better than the first half. But except tractors, are there any segments within vehicle, which are vulnerable to droughts?

And the second question, a related one here in vehicle only is that, I mean, we've already seen Navratri, so if you could give some sense around the festive season. And I'm asking this because last year, the second half was a little heavy in terms of some pent-up that had built in. So how are we looking at the second half in vehicle finance this year?

Ravindra Kundu: Having had the opportunity to review the business trends through October, we are encouraged by the momentum we are seeing. The performance during October has been notably stronger, and the numbers are tracking well across our businesses.

Based on the current trends, October growth is trending at approximately 18% to 20% year-on-year compared to October of last year. While it is still early and we continue to monitor the trajectory closely, the initial indicators are positive and provide confidence in the underlying demand environment and business momentum.

Balraj Menon: Based on the trends we have seen so far, disbursements in October are expected to grow by approximately 18% year-on-year compared to October last year.

One advantage this year is the timing of the festive season. Last year, the festive demand was largely concentrated in October, whereas this year it is spread across both October and November, providing a longer runway for business momentum.

As a result, we expect the growth trajectory to remain strong through November as well. In fact, despite November being relatively subdued last year, current trends suggest that this year's November disbursements could be comparable to October levels. Consequently, we are optimistic about delivering around 20% to 22% growth in Q3 compared to the corresponding quarter last year.

Ravindra Kundu: From a growth perspective, the momentum continues to remain strong, and we do not see any reason for concern based on the base effects witnessed last year.

Coming to the specific segments you mentioned, namely tractor financing and small-ticket used vehicle financing, these portfolios are largely concentrated in smaller towns and rural markets, particularly in regions where customer cash flows tend to be more volatile and dependent on local economic conditions. As a result, these segments are more susceptible to disruptions

arising from factors such as inadequate rainfall or drought conditions. Keeping this in mind, we have already adopted a cautious approach towards disbursements in these markets.

With regard to concerns around El Niño and drought conditions, the situation remains mixed. Several regions have actually received good rainfall, and in many areas rainfall continues even now. Moreover, the rainfall deficit has been steadily narrowing over time. Therefore, it is still too early to draw definitive conclusions on the impact, if any, on customer cash flows and portfolio performance.

At this stage, we believe it is prudent to closely monitor developments and assess the situation over the next few months. The actual impact, if any, is likely to become much clearer only by **December**, once the post-monsoon trends and their effect on economic activity are fully visible.

Abhijit: Got it. Got it, Ravi sir. And what would you say about this MSME segment? Is there some cash flow mismatches that you are seeing already in this segment or this segment is also holding up well till now?

Ravindra Kundu: Within MSME, our portfolio comprises multiple products, including Loan Against Property (LAP), Small Business Personal Loans (SBPL), unsecured business loans, and SME term loans. Across these segments, we are seeing a positive trend, with delinquencies steadily declining.

The only area where we have observed some stress is in small-ticket secured loans below ₹5 lakh, particularly in a few select markets. However, this is not a new development and is something we have experienced and managed in the past. Encouragingly, even these pockets have started showing signs of improvement in recent months.

Overall, it is important to note that our MSME portfolio is predominantly secured in nature, which provides resilience from a credit quality perspective. As a result, we continue to see stable portfolio performance, with improving delinquency trends across most product segments.

Abhijit: Got it, sir. And last question for Arul, sir. Sir, given that we've already seen one repo rate hike and there are more expected -- just trying to understand what is the sensitivity of our cost of borrowings and margins to, let's say, a 50 basis points hike in repo rate. And the other thing is, sir, I mean, capital raise that we have taken Board approval for today.

In the past, we used to do it much closer when the Tier 1 used to be lower. So is there a thought process now that going forward, capital raises at Chola Finance will start happening at a lower leverage than what we used to do in the past?

Arul Selvan: With respect to interest costs, even if there is an increase of up to 50 basis points during the second half of the year, we believe the overall cost of funds for the full year may increase by only around 15 to 20 basis points on a year-on-year basis.

It is important to note that our current cost of funds remains lower than last year. Last year, the first half witnessed relatively higher funding costs, while the second half benefited from softer

rates. This year, the trend is likely to be the reverse, with a lower cost of funds in the first half and some upward movement in the second half.

From a borrowing mix perspective, approximately 25% of our borrowings are linked to the repo rate, while another 25% are linked to other market benchmarks. These borrowings are more sensitive to interest rate movements, particularly if rate hikes persist for an extended period. The remaining 50% of our borrowings are either on fixed rates or linked to MCLR-based bank funding. While MCLR has not increased materially so far, it is likely to trend upward gradually over time.

That said, we do not expect any significant impact from these movements during the current year. In our view, any meaningful increase in funding costs arising from higher benchmark rates is more likely to be felt in the next financial year rather than the current one.

On the proposed capital raise, we have currently obtained an enabling resolution from shareholders. We will continue to monitor market conditions, valuation levels, and capital requirements before taking a final decision. Depending on these factors, we may consider raising capital over the next six to nine months. At this stage, the proposal should be viewed primarily as a measure to maintain strategic flexibility rather than an indication of an imminent capital raise

Nischint Chawathe: Just one clarification, Arul. Did you say 10 to 15 basis points rise in cost of funds for the entire year or for the second half?

Arul Selvan: For the entire year.

Nischint Chawathe: Okay. So second half would be slightly high.

Arul Selvan: Second half will be higher, which will take the year-on-year rate by 15 basis points.

Nischint Chawathe: Got it. Got it. I think that's clear. Next, we have Abhishek from HSBC.

Abhishek: So the first question is on opex. There has been quite a bit of jump in branches, employees, all of that. And probably that has led to a jump in the employee cost as well. Is this a run rate now at roughly INR1,400 crores? I mean this should be a baseline or is there any one-off here and the baseline can be lower? I'm talking about employee opex in particular.

Arul Selvan: No, the increase you are seeing in employee expenses is primarily because we have moved a significant number of employees from our outsourcing entity to the main company payroll. As you may recall, we had initiated this transition about a year ago by moving a part of the workforce, and we have now completed the process by bringing the remaining employees into the company.

As a result, salary costs appear higher compared to last year. However, this is largely offset by a corresponding reduction in outsourcing expenses. You can see a similar decline in outsourced costs, with nearly Rs.100 crore reduction compared to Q1, which has effectively shifted into the employee cost line.

Overall, there has been no material change in the operating expense structure. Opex continues to remain in the range of 3.0% to 3.1%, consistent with the levels we have guided for historically.

Abhishek: Okay. And if I look at the overall opex also on a Q-o-Q basis, there's a 10% increase. So that -- what is that about? Because I can understand intra...

Arul Selvan: There are two reasons for this. First, our annual salary revisions and increments are implemented in July, which falls in the second quarter. As a result, Q2 reflects the full impact of the revised salary costs.

Second, we incurred expenses related to our annual business meet, for which we took employees to Australia. This is a one-time expense and has also contributed to the increase in operating costs during the quarter.

While the cost associated with the annual business meet is non-recurring, the impact of the salary revisions will continue going forward.

Abhishek: So how much would the onetime cost be so that we can...

Arul Selvan: That can't be shared, Abhishek.

Abhishek Murarka: Okay. Okay. So the other question is...

Ravindra Kundu: One point I would like to highlight from the investor presentation is that the Opex ratio increased from 2.9% in Q1 FY26 to 3.1% in Q2 FY26, representing an increase of 20 basis points. In comparison, the increase during the same period current year was only around 10 basis points.

The positive takeaway for us is that operating expenses in our mature businesses such as Vehicle Finance, and Loan Against Property have been trending down as these portfolios continue to benefit from scale and operating leverage. In fact, some businesses have delivered even better-than-expected efficiency gains, with the Vehicle Finance business showing a particularly significant improvement.

Despite continued investments in newer businesses such as Gold Loans, Consumer Durables, and Digital Lending, the efficiencies generated by our established businesses have helped offset a part of these incremental costs. We are now beginning to see the benefits of these productivity gains flow through, and we expect this trend to continue gradually over time.

As mentioned earlier, we expect the Opex ratio to remain broadly in the 3.0% to 3.1% range in the near term. However, over the next two to three years, our objective is to drive further operating efficiencies and gradually bring the Opex ratio down to around 2.8%.

Abhishek: Got it. So 3.1% should not be breached, right? So 3% to 3.1% for the next half is also something you see yourself achieving?

Ravindra Kundu: While there may be some quarter-to-quarter fluctuations and the Opex ratio could occasionally move slightly above the range, it is expected to remain broadly around current levels. More importantly, our ongoing focus and endeavour is to drive operating efficiencies and gradually reduce the Opex ratio over time.

Abhishek: Got it. Got it. And sir, the second question is on yield. So if I see your aggregate yield that you've disclosed, 14.9% to 14.6%, that is a 30 bps drop. But if I look at your individual segment yields, there, most of the segments, except maybe vehicle or something the yields have increased. So how -- why is this? Am I missing something here? Why is this trend diverging?

Arul Selvan: No. See, if you look at it, you are looking at the gross level, you have to see from the published accounts, because the gain on assignment, we stopped. We did only one deal this quarter, so that is 20 basis points, you will get a drop in.

Abhishek: Okay. So that should normalize next quarter?

Arul Selvan: That will normalize. Because we had committed to certain banks on the assignment deals, so we have gone through that till we could. We had to exhaust the limits set for it. So that, we have said, and we have exhausted. So we may not go again for that in the near future.

Abhishek: So on a full year to full year basis, Arul, the NIM would be flat still. Last year average was 8%, 8.05%. Now we are first half already at 8.05% roughly. So it would remain flat on a full year to full year basis?

Arul Selvan: As I mentioned earlier, we expect the cost of funds to increase by around 20 basis points. Our focus is on offsetting this impact by improving yields and enhancing income generation across the portfolio.

While we will make every effort to manage the spread effectively, it would be prudent to factor in the possibility of a modest decline in yields of around 10 basis points. However, in our view, this impact should be more than offset by improvements in credit costs, which are expected to remain favorable.

As a result, despite some pressure on funding costs and yields, we believe the overall profitability profile remains healthy, and ROTA should continue to be better than last year.

Abhishek: Right. So 3.5% ROTA, basically, that is what you're veering towards and that remains unchanged.

Nischint Chawathe: Next is Raghav Garg from Ambit. The only request that management has made is that maybe we can just restrict to 2 questions in the initial round.

Raghav Garg: I just have one question, and this is circling back to one of the questions which I think one of the participants asked. I just wanted to know if you can throw some light on what percentage of your

vehicle finance customers or the number of vehicles that you've financed is directly or indirectly engaged in agri and allied activities? And then what is that number for the industrial activity?

This is just to understand that if, say, the crop harvest is impacted due to deficit rainfalls, what could be the impact in terms of fleet utilization for the vehicles which are tied to those agri activities? I think you've called out tractors, but even within LCVs and SUVs, which could possibly be used to carry the agri produce from point A to point B, what would be the exposure in those sort of portfolios? That's the only question that I have.

Ravindra Kundu: We are only looking at one side of the picture. While the rainfall deficit is around 13%, sowing activity has remained broadly in line with last year. With better mechanization, irrigation pumps, and availability of electricity, farmers have been able to undertake agricultural activity at levels comparable to the previous year.

At the end of the day, what matters most is agricultural output and the income generated by farmers. Yield and realizations are equally important, and fortunately, higher inflation has been supportive of farm incomes, which should benefit customers.

Secondly, a large part of the rainfall deficit is concentrated in regions such as the Northeast, Kerala, and certain other areas where agricultural activity is relatively lower. Thirdly, some of the regions experiencing drought conditions are markets that have historically been drought-prone.

Therefore, at this stage, we do not see any reason for concern. Based on the data and analysis available to us, we have not observed any meaningful impact arising from the overall rainfall deficit so far.

Coming to tractor financing, tractors account for only about 3% of our Vehicle Finance portfolio, which is a relatively small exposure. Viewed in the context of our overall loan book, the share is even lower and therefore not significant from a portfolio risk perspective.

Balraj Menon: In these markets, we are relatively much lower than that also.

Nischint Chawathe: Next question from Shreya from Nomura.

Shreya: Sir, just circling back on the NIMs portion. My first question was, have we decided to hike our lending rates in which product from what time line? Or are we still looking at market practice before we take any decision over there? That's my first question.

Second is on the distribution reform on the insurance piece has been a big reform for credit life product. So what has been our conclusion? Have we come at some maths around how much of a hit can happen to our ROA, ROEs, etc.? Those are my 2 questions?

Ravindra Kundu: On yields, one important aspect is that overall yields tend to improve in the second half as collections and other income streams increase. As collection efficiency improves, income from AFC charges, bounce charges, shortfall collections, and other recovery-related revenues also

increases, which naturally supports yields. Historically, this trend is visible when comparing the first half with the second half.

On the increase in the cost of funds, our businesses continuously incorporate changes in benchmark funding rates communicated by the Treasury and Finance teams into incremental lending rates. In addition, wherever there is scope to reprice floating-rate portfolios, we will take appropriate pricing actions. As of now, businesses such as Affordable Housing and Loan Against Property are evaluating these actions and may implement them over the next one to two months.

This is how we are approaching the yield side of the equation. As far as insurance income is concerned, if there is any reduction in that revenue stream, we will have to identify other levers to ensure that the overall revenue line remains intact. Accordingly, we have already worked through various scenarios and action plans. However, we are awaiting greater clarity on the final outcome, and once that is available, we will share the details. The objective remains to maintain the profitability metrics that we have consistently delivered.

Shreya: Right. So just a clarification on the repricing. So you said these are the 3 -- which was the third segment, affordable housing, SME, where within 1 to 2 months you will reprice. Can you mention the third segment that you mentioned?

Ravindra Kundu: Loan against property.

Ravindra Kundu: All the floating book.

Shreya: Yes, yes, obviously. Yes, yes. All right. Okay. Okay. This is -- and insurance, you will let us know after the draft reforms are out, is it? How much hit on...

Nischint Chawathe: Yes. Next, we have Nidhesh Jain from Investec.

Nidhesh Jain: So DA income going forward, we will not do any DA income? Or is that a right understanding?

Arul Selvan: DA is a thing that if liquidity requires me to do, I will do if there is a bank which is a large relationship and they want us to also participate in some of their initiatives, we will do. See, it's not like a no or always yes. We try not to do as much as possible because it leads to upfronting of the profit and then the expense comes in the later year.

So to that extent, we have been avoiding. But broadly, we have also internally decided to keep anywhere between 5% to 7% of the book as an assigned book. That's what we will work towards to keep that level.

Nidhesh Jain: Sure, sure. And second, on the vehicle finance, if I look at the number of branches, that has been broadly flattish. So we have not added branches in vehicle finance for some time. What are the plans for next year in terms of branch addition in vehicle finance?

Ravindra Kundu: No, you have to see both branch and resident location. So resident location, they are continuously increasing it. And put together, they have reached to almost 2,600? What is the number to put together?

Ravindra Kundu: The combined count is 1,595 plus 689, and that number continues to grow. So, there is no issue from a distribution standpoint.

Our approach is to progressively convert these Resident Location Hubs (RLHs) into full-fledged branches as the business scales up. Once an RLH is converted into a branch, we then establish a new RLH in another location to support further expansion.

This is an ongoing process and forms a key part of our distribution strategy, enabling us to continuously deepen our presence while expanding into newer markets. As business volumes grow, this transition from RLHs to branches will continue in a systematic manner.

Balraj Menon: We are moving some 125 RLH to branches because they are already hit critical disbursement numbers. So that will happen. And then once that process continues, then we will add more RLH. So it is a work in progress item, and we see the numbers going up in the coming period.

Nischint Chawathe: We have Piran Engineer from CLSA.

Piran Engineer: Congrats on the quarter. Just going back to Shreya's question in another way, have we hiked PLR in home loans and LAP already or is there a plan to do it this month?

Arul Selvan: We have not yet done the quarter, this quarter. We have not done it...

Ravindra Kundu: We have not done. We will do it in this quarter, coming quarter, quarter 3.

Piran Engineer: Okay. Got it. Got it. And secondly, what explains the surge in disbursements in CSEL in the last couple of quarters? It's been fairly strong. Can you talk a bit about your sourcing profile, loan yields and how we've just suddenly been able to ramp it up so fast?

Ravindra Kundu: Not suddenly.

Sucheth Bharathan: This is not something that we ramped up overnight. We have been preparing for this over the last few quarters. During this period, we put the necessary building blocks in place, including our underwriting model and credit scorecards.

Having established these frameworks and gained confidence in the quality of sourcing and portfolio performance, we felt comfortable scaling up the business. The growth you are seeing today is therefore the result of the groundwork and disciplined execution undertaken over the last few quarters.

Ravindra Kundu: This is unsecured part.

Ravindra Kundu: **This is** unsecured part and you may talk about what you have done CD, mobile and...

Sucheth Bharathan: Yes. On the CD side, the growth has come in from the mobile financing. We had partnered with Samsung to begin the CD business. But however, over the last 12 months, we have ventured open market, and we have tie-ups with all the other OEMs on the mobile space.

And we've been operational across the country in majority of the Tier 3, Tier 4 markets, and that's when the scale of business is coming for us on the CD side.

Ravindra Kundu: There is also a base effect at play here. Last year, we had consciously moderated disbursements, whereas in the prior period, we were operating at monthly disbursement levels of around Rs.1,000 crore to Rs.1,200 crore. From those levels, we had scaled down for a period of time.

We have now returned to broadly the same level of business that we were doing earlier, including the partnership business. In fact, the volumes achieved during this quarter are comparable to those historical levels.

Therefore, while the reported growth appears strong, part of it is attributable to the lower base of the previous year. From an operational perspective, we are essentially back to the scale of business that we had achieved earlier, and that is making the asset growth look more pronounced.

Piran Engineer: No, no, correct. So without the partner and you are doing the same amount of business and the partner was big. So is it fair to say that a lot of the growth in disbursements on a Y-o-Y basis has come from CD financing?

Ravindra Kundu: Both. CD is majority.

Ravindra Kundu: 40% growth is because of the CSEL unsecured also.

Ravindra Kundu: Business loan and personal loan.

Piran Engineer: Okay. So 60% is from CD. Okay. Fair enough. And just lastly, sir, your views on CV and car demand going forward?

Ravindra Kundu: Yes, it looks very steady and growing very steadily. We just reviewed our vehicle finance business, the outlook we have given.

Piran Engineer: Actually, sir, because your outlook next 3 years in every segment is a lower growth number than the past 3 years, yes, the industry outlook that you've given. That's why I would prefer to hear your views from the horse's mouth.

Ravindra Kundu: Let me walk through the vehicle finance segments individually and share how the industry has performed.

The Heavy Commercial Vehicle (HCV) segment recorded strong growth of 40% in Q2 and 20% in H1, making it the highest-ever H1 performance for the industry. Demand has been supported by healthy freight movement, and the outlook for the second half remains positive. While sustaining the 40% growth seen in Q2 may be challenging, industry growth of around 20% to 22% appears achievable.

As things stand today, October industry volumes appear to be growing by around 18% year-on-year. November is also expected to deliver stronger growth than last year, aided by the festive

season. As a result, the market is likely to witness 20%+ growth in Q3, particularly in the HCV segment.

Looking at the other vehicle categories, Light Commercial Vehicles (LCV) recorded 25% growth in Q2, Small Commercial Vehicles (SCV) grew by around 26%, Passenger Vehicles (PV) grew by 31%, and Two-Wheelers registered 15% growth.

Taking all segments together, it appears that the industry should be able to deliver 15% to 20% growth in the second half even under a conservative scenario, supported by healthy demand trends across most vehicle categories.

Piran Engineer: So sorry, I'm referring to the charts that you've put on Slides 30 and 31, where you've got like a prior 4-year CAGR and then a future 3-year CAGR, that is what I was referring to actually?

Ravindra Kundu: Yes, that is industry number only we are talking about.

Piran Engineer: I'll take this offline. I don't want to hold up the queue.

Nischint Chawathe: Next, we have Sanket Chheda from DAM Capital.

Sanket Chheda: Pretty good set of numbers. I just wanted to get a sense on the capital raise. Historically, we have been pretty mindful on keeping our anchoring on ROE and likewise structuring the raise in equity and, say, convertible warrants or debentures. This time also, do we expect a similar structure?

Arul Selvan: Yes. We are looking at both options, either a full equity or a breakup. I mean we have been quite successful in the CCD conversion on that route, but we need to see the appetite in the market and decide. As we come closer to the date, we will decide.

Sanket Chheda: Okay. Sure. And just besides this, now this year, we are reasonably confident of, say, doing around 24%, 25%. And usually, whenever say after a couple of years of muted growth, we do well for the span of 2, 3 years. So do we expect a similar kind of a growth for next couple of years, if at all, you would want to spell that out?

Arul Selvan: We still hold to that 20% to 23% on a steady-state basis, because there are volatilities that is possible. As we go closer to the year, we will change...

Sanket Chheda: Okay. And sir, on cost of funds, I get a guidance for the second half and then for the full year. But this quarter, I think the reported cost of funds have moved 10 bps. But when you look at absolute basis, on a calculated basis, the uptick seems more like 17, 18 bps. So is there anything there particular borrowing would have cost more or it will get regularized or corrected in the following quarters? Just wanted to understand about the absolute finance cost being a little higher in this quarter.

Arul Selvan: No, it has moved up as compared to last quarter by 10 bps. I don't know where you are referring. Maybe you can take this offline.

Sanket Chheda: Sure, sir, I'll understand from you. And lastly, I wanted to ask speaking from the earlier questions on new businesses, likely to be ROA attractive. So if I were to take a view for, say, 2, 3 years, now our guidance is anchored on PBT ROA of 3.5%. But say, after 2, 3 years, when you -- when the new products also become reasonable size, do we expect this PBT ROA to converge closer towards 4% on an entity basis?

Arul Selvan: No, let's hold it. Let's see them and track thetraction on these new businesses and let them settle down and then we will change.

Nischint Chawathe: Next question comes from Harshit Toshniwal of Premji.

Harshit Toshniwal: Yes. Sir, the question was on the gold loan piece itself. I think a few ones that one, for us, like some of the peers called out the issues with respect to the short-term loan Stage 2, Stage 3 recognition and then therefore, shifting to the long-term loans. Are we also facing something like that? Or if you can help us that in our mix, what would be the portion of the short-term loans less than 4 months -- less than 5 months, 6-month loan?

Ravindra Kundu: No, this is not about short-term loans. The distinction is between EMI-based lending and bullet loans, where the loan is repaid at the end of a 12-month tenure.

Based on our past experience and portfolio analysis, we observed that customers in this segment were generally less comfortable with regular EMI servicing. Therefore, right from the beginning, we adopted a bullet loan structure as the preferred product offering.

In cases where customers specifically requested an EMI-based repayment option, we have accommodated them. However, such loans constitute a very small portion of the portfolio, accounting for only about 1% of the overall book. As a result, the portfolio remains overwhelmingly skewed towards bullet loans, which has been our chosen product structure for this customer segment.

Ravindra Kundu: Less than 1% book is EMI. So therefore, that kind of delinquency is not there. If you finance EMI based, then your delinquency will be higher.

Harshit Toshniwal: For us, the entire expansion this time has been on the bullet loan, base model itself, largely, predominantly?

Ravindra Kundu: Yes. Largely it isEverything is actually bullet loans

Harshit Toshniwal: Got it, sir. And sir, also if you can give some context of the gold prices started to moderate, but, we are there into the midway in our gold loan expansion journey itself. How should we look at this book growing? It is obviously growing at a much rapid pace today, but if you can help us with our branch expansion outlook, where we stand today, it will be easier for us to build that business out, and how can that be a growth lever for the next 2, 3 years?

Ravindra Kundu: No. We are selectively identifying the market and the branches and then looking for the people to run those branches, and then only we are deciding to open up the branches, not that we are

just having a thousand branch opening plan. Last year, we have opened 120. This year, we are opening some 360 branches.

Ranjith: 360 branches, so by end of this year, we should be at 480 branches.

Ravindra Kundu: We will continue to open up the branches, but not that we have to open a very large number of branches. We need to see whether the branches we have opened up are reaching to the critical AUM level. So like, for example, phase one branches as of now, per branch AUM is average.

Ranjith: INR21 crores.

Ravindra Kundu: INR21 crore. We need to see what is the phase 2 branches. So our branch opening is depending upon the achievement of the productivity level, and second important is that whether our processes are working very well or not. So as long as that is working, so it is like steadily and cautiously opening.

Harshit Toshniwal: Sir, if the 450 branches, what you mentioned, say, by end of this year, but INR20-odd crores per branch, it would be more around INR9,000 crores AUM approximately?

Ravindra Kundu: No, no. INR20 crores is from the first phase, phase 1 branches. Phase 2...

Ranjith: Which was opened last year.

Ravindra Kundu: Then Phase 2 also, we have to reach to the critical level, which is like a threshold between 15 to 20 Cr. And like that, we need to plan.

Nischint Chawathe: Next, we have Shreepal Doshi from Equirus.

Shreepal Doshi: Hi. Thank you for giving me the opportunity, sir, and congrats on a good set of numbers. My question firstly was on the growth side. Now given that last year 2H, second half, had a higher volume growth, especially in the vehicle finance segment, the VM growth. So in this year's second half, do we expect some slowdown there on a Y-o-Y basis?

Secondly, just to add to that, given the macro challenges and drought-like situations on the bigger markets, do you see any slowdown there if things worsen by December, as you are highlighting that you will get a better picture by then? So in that case, what is the range in terms of the growth that you would want to highlight?

Ravindra Kundu: First of all, when we refer to December, we are talking about a limited number of districts that have been affected. The impact is concentrated in a relatively small portion of the country, and the actual outcome in these regions will become clearer only by December.

As of now, despite the rainfall deficit, sowing activity has not been impacted, which is an important factor to consider. In most of the key agricultural markets where the Kharif crop is cultivated, we have not seen any meaningful rainfall deficiency. The deficit is largely concentrated in regions such as Vidarbha, Malwa, parts of Madhya Pradesh, and certain districts of Karnataka, which have historically been drought-prone areas.

Therefore, we do not believe this is likely to affect the overall growth momentum. That is the first point.

Secondly, given the higher base in the second half of last year, the growth rate may naturally moderate to some extent. However, that moderation is not visible at this stage based on the trends we are seeing in October. In fact, the momentum appears to be continuing into the second half.

While the percentage growth in the second half may be lower than what was seen earlier due to base effects, we do not expect it to decline to a level where it would indicate any meaningful slowdown in business momentum. The underlying demand environment continues to remain healthy.

Shreepal Doshi: Got it. So sir, our full year guidance of 20% to 23% holds, right, or it's now 24%, 25%?

Ravindra Kundu: We hold our commitment whatever we have given in terms of growth.

Shreepal Doshi: Got it. Just second part, since some of the smaller and high-yielding segments have started to grow at a much faster rate, what is the mix that you see by FY28 and especially products like CSEL and SBPL in terms of the overall mix?

Ravindra Kundu: We have said that vehicle is 52% as of now. HL is around 10%, 22% is the LAP. So the mortgage, which is close to 36%, 37% put together, which is likely to slightly go up by '28, '29. Exactly, we can't say which year, but within 3 to 4 years' time, we are expecting mortgage business to go up because they are funded for longer tenor.

And vehicle finance, which is financing for 5 to 6 years, obviously, they will come down from 52% to below 50%. That only the change will happen. As far as the small ticket size and consumer business is concerned, where CSEL, CD and gold is concerned, they are going to be within 15% max in the near term.

Nischint Chawathe: Next, we have Aravind from Sundaram Alternatives.

Aravind: I just had two questions. Actually, one question on the cost was already answered. Just one clarification, if I can ask. You mentioned the cost of funds could go up by 10 to 15 basis points for the full year basis. Is it assuming that another 50 basis points in rate hikes can happen or not assuming?

Arulselvan: Assuming another 25 basis points.

Aravind: Okay, another 25 basis points.

Arulselvan: 25 basis points done, 25 basis points hike may happen. So overall, 50 basis points. That is the assumption.

Nischint Chawathe: Next, we have Renish. Renish from ICICI.

Renish: Sir, just one thing, in the LAP business, when we look at the IRR, so last maybe 7, 8 quarters, there has been a steady increase in LAP IRR, from 12.5% to now almost 13.3%. Is there any mix changing within LAP book, like micro LAP share are driving this higher IRR or what is sort of driving this better IRR in the LAP business?

Ravindra Kundu: Yes, LAP business, we mentioned that they have started small LAP business also. They have now 2 products. One product is for the urban market and one product is slightly between urban and rural markets. So the product which they are doing at SLAP started doing almost 500 Crdisbursement per quarter, and their yields are higher and that is the reason the overall yields are maintained.

Renish: Okay. Sir, what will be the average ticket size in small ticket LAP business?

Suresh: Ticket size will be between INR15 lakhs. INR15 lakhs to INR20 lakhs would be the average ticket size.

Ravindra Kundu: INR20 lakhs is the average ticket size.

Renish: And the yield will be what? Upwards of 14%?

Ravindra Kundu: No, the yield as of now, we have not given as segment-wise.

Renish: Okay. Got it. Sir, just last thing, maybe slightly repetitive in nature, but just curious to ask. So all the events or challenges persist today in terms of the draft paper on the Insurance Commission, maybe likely a moderation due to rising rate cycle, plus and obviously you did clarify that we have limited exposure. And I can understand from a '27 standpoint, given first half being very strong, we are already in October, wherein things looks better.

But when we enter '28, right, and if some of these events might unfold, flip side versus what we are thinking right now. So do we have any levers in place to mitigate any adverse impact which can arise from this event in FY28, so that we can sustain the 3.5% PBT growth in '28?

Ravindra Kundu: If you look at the last 15 years, there have been several periods when the industry, and the country as a whole, faced similar uncertainties and challenges. These cycles of ups and downs are not new, and both the industry and Chola have successfully navigated such situations in the past. Therefore, while we remain cautious, we also remain optimistic and hopeful.

At this stage, there is still no clear visibility on the eventual impact, if any, from lower insurance income or concerns around drought conditions. These remain areas of discussion and assessment. As I mentioned earlier, based on the information available today, we do not believe the drought situation is likely to create any significant stress on farm incomes.

For the current Kharif season, farmer incomes do not appear to be materially impacted. The more important factor to monitor now is the reservoir water level and its potential impact on the Rabi season. Any meaningful impact from this, if at all, would be visible only in the next crop cycle.

That is why I referred to December as a key period for assessment. By then, we should have a clearer picture of Rabi sowing trends. If Rabi sowing remains stable, the immediate concerns would largely recede, and the focus would shift to rainfall patterns next year. Any significant impact would arise only if there were further deficiencies in the next monsoon season as well.

On insurance income, as mentioned earlier, we have already evaluated various scenarios and do not believe this will create a significant issue for us. We have alternative plans and revenue levers available. At this stage, we are waiting for greater clarity on the actual extent of any reduction in insurance income. Once that becomes clear, we will finalize the appropriate course of action and implement the necessary measures accordingly.

Renish: Got it. Maybe the increased share of this high profitable product might be a lever for us. Is that the right assumption?

Ravindra Kundu: No, that is not specifically to address insurance income or drought-related concerns. Those initiatives would be pursued regardless of these factors.

We continue to diversify our business and introduce new products to support sustainable growth and maintain earnings momentum. This is part of our long-term strategy to build a balanced portfolio and ensure that we are well positioned to navigate challenges that may arise from time to time.

By continuously broadening our product offerings and revenue streams, we improve our ability to sustain growth and profitability across different business cycles.

Nischint Chawathe: We will just take one last question from the line of Shubhranshu. Shubhranshu is from PhillipCapital.

Shubhranshu: So, 2 or 3 questions. The first part is, Maruti increased its guidance yesterday on its call. So, how do we look at the passenger vehicle growth going forward in the next 12-18 months? Second is, which are our largest states in terms of total exposure, which includes vehicle finance, LAP, and all other business that we do. If we can point out to the top 5 states. And how many people do we deploy in collections and CSEL? Thanks.

Sucheth Bharathan: We have a large number of team in collection. I can say that now it is more than the sales team.

Ravindra Kundu: Put together there are around 2,800 people working in CSEL collection.

Shubhranshu: This is on-roll or payrolls?

Ravindra Kundu: Half are on roll and half are agency. CSEL unsecured is entirely in the roll, which is like 1,800. Then around 1,000 people are basically in agency.

Shubhranshu: Understood. The first two questions?

Ravindra Kundu: You are asking about the overall disbursement by the state or...

Shubhranshu: Passenger vehicles especially. What is our market share in Maruti, and how do we think that it is going to increase with Maruti's own guidance going up?

Ravindra Kundu: No. One is that we don't want to give you segment by state and by market, but we would like to mention that we are one of the largest player in the Maruti, and we have been continuously increasing our market share with them, especially in the upcountry market, rural market, where whatever entry car we are selling, we are the partner with them. We are one of the preferred partner with them. As they grow, our number is likely to grow. But we are gaining the market share as well.

Shubhranshu: Right. Which will be our top 5 states in terms of total exposure?

Ravindra Kundu: That's what, as far as the Maruti, we don't want to disclose that.

Shubhranshu: No, not Maruti. Total. All business.

Ravindra Kundu: All that is there in the investor presentation itself. One second, we'll give you.

Shubhranshu: That's only for vehicle finance. You don't give it for the other businesses.

Ravindra Kundu: Yes. Correct. Vehicle finance, we have given. Maybe then we'll give you this number as and when we'll be ready with all the businesses put together.

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

Ravindra Kundu: Thank you, Nischint.

Vellayan Subbiah: Thank you, Nischint.