



“Cholamandalam Investment and Finance Company
Limited Q1 FY 2018 Earnings Conference Call”

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

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Cholamandalam Q1 FY 2018 Earnings Conference Call hosted by Kotak Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone.

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

Nischint Chawathe: Hello, everyone. Welcome to the 1Q FY 2018 Earnings Conference Call of Cholamandalam Investment and Finance Company Limited. To discuss the financial performance of Chola and to address your queries, we have with us today, Mr. Vellayan Subbiah -- Managing Director; Mr. Arul Selvan -- Executive President and CFO; Mr. Rohit Phadke -- Business Head (Corporate Finance, Home Equity, and Home Loans); and Mr. Ravindra Kundu -- Executive Vice President and Business Head (Vehicle Finance).

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

Vellayan Subbiah: Thanks, Nischint, thanks a lot. Basically, the quarter has been very good for us. We have had a PAT growth of 25% over the same quarter last year. So, we finished with a PAT of Rs. 207 crores for this quarter. PBT was Rs. 318 crores, again a 25% growth over the same last year. Our closing assets are at Rs. 36,079 crores which is a growth of 14% over Q1 of FY 2017; and our NIM has improved. We are now at 8% compared to 7.1% NIM in Q1 FY 2017. The GNPA and NNPA is at the same levels as it was last quarter, at 4.7% and 3.2%.

So, overall, we dispersed Rs. 3,800 crores in our vehicle finance business as against Rs. 3,300 crores in the first quarter FY 2017 that is a growth of 15%. Home equity was Rs. 740 crores as against Rs. 991 crores, this is in line with what we have already indicated which is we have tightened our stance in that business till we see a bit of reduction in the supply side rush. And aggregate disbursements for the quarter were Rs. 4,853 crores as against Rs. 4,561.

We continue to enhance our focus on collections. Basically, first quarter is traditionally quite difficult on the collections front and we have been able to maintain our GNPA and NNPA. So, I see, both those numbers will start coming down over the next few quarters and we are quite confident of basically an improving portfolio on both of the fronts. That has helped us improve our pre-tax ROTA to 4.4% as against 3.8% in Q1 FY 2017. The capital adequacy continues to remain very strong. We are at 19.3% versus the requirement of 15% and Tier-I at 14.27%. The subsidiaries basically together made a profit of Rs. 1 crores as against Rs. 2 crores for the same quarter last year and so our consolidated profit after tax is at Rs. 207 crores, it is a growth of 24%.

So, I will stop with that commentary and I be happy to turn it over to all of you. The other good point that I want to end with is that both EPS and ROE have started moving up. ROE is now 18.8% and I actually feel fairly confident that we will cross the year with 20% plus at least on the ROE front. So, I will stop with that and turn it over to you for questions.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin with the Question-and-Answer Session. We take the first question is from the line of Digant Haria from Antique Stock Broking. Please go ahead.

Digant Haria: So, my questions are pertaining, we have seen that vehicle growth has still not been so great, in fact Q1 has been quite soft. But still we have been able to grow our disbursements. Improve our margins and improve our asset quality. So, like it is just as if all the things are working very well for us. So, can you just throw a little bit more on how are we doing all of this?

Vellayan Subbiah: So, I would say the biggest thing clearly Digant is that we have been able to broad base this business a whole lot, right? Which is previously we used to have dependence on let us say light commercial vehicles because it was a large part of our portfolio or a particular segment. Now, we have two-wheeler business, we have a huge business, we have a tractor business, we have a construction equipment business, so we have car business, MUV business. And within commercial vehicles basically, we have almost 40% of our portfolio is now used, right 35% to 40% is used. So, there is a huge diversification. Now what is happening in new CVs or new PVs does not really affect us a whole lot because we have the ability given the field distribution to shift and get growth in sectors that have growth, right? So, for example if there is more growth in the used business which is what happening now a day, we can push more towards use, there is more growth in tractor we can push there. And across that diversification allows us to grow without being very exposed to the pitfalls, kind of good fortunes of one particular sector.

Digant Haria: Right. And in terms of your LAP business, I see that the ROAs have dropped below 2%. So, obviously we have been pulling back not growing very aggressively. So, here, like have we changed our strategy like in terms of the kind of customer that we are targeting now because obviously, we are not growing very fast, but we are still trying to grow a little bit.

Vellayan Subbiah: Yes, there is a change, like I said we have tightened credit. And we have also started focusing on like customers, there are different types of income that customers have, right so any customer that we see that could be potentially exposed more what I would say kind of income that we do not want to deal with. That might be we basically kind of stayed away from those kinds of businesses. So, we are consciously doing that in terms of our mix as well.

Digant Haria: Right. And then last question is that our bank borrowings have almost dropped from 55% six quarters back to 34%, like do we have more room of reducing this or we like to maintain at least some part for liabilities in bank borrowings?

Vellayan Subbiah: So, we answer both those questions as yes, which is we do have more room but we do want to maintain some base there.

Moderator: Thank you. We take the next question from the line of Karthik Chellappa from Buena Vista Fund Management. Please go ahead.

Karthik Chellappa: My first question is essentially on our vehicle finance disbursement mix, it seems as of the share of the HCVs has come down and whereas the share of the other segments are starting to pick-up. So, can you give us some color on the competitive intensive intensity you are seeing in HCV and whether that was reflective of your slowing down disbursements in that segment, and how do you generally see the competitive intensity among the various segments in the vehicle finance business? That is my first question.

Vellayan Subbiah: Yes, so, Karthik thanks for the question. Basically, that reflective is a fact that if you take June 2016 versus June 2017, HCVs are down 35%, okay. LCVs are basically 1% down and small which at Tata Ace is up 6%. So, basically what you are seeing that effect kind of playing out and so that is but natural. So, that is why kind of if you look at it for us HCVs were 11% of our total disbursements. So, basically, HCVs were down 10% compared to the same quarter last year. We have had growth in several other segments. But we are seeing a lot of growth in tractors, we are seeing a lot of growth in used, and in our Shubh product which is older vehicles which is also seeing 22% growth. So, basically that was my point to Digant's earlier question as well Karthik which is having this broad base is what allows us to grow despite the fact that the environment is not very conducive to growth in terms of new commercial vehicle.

Karthik Chellappa: So, I mean just to put it differently, if I may, that your disbursement mix is actually a reflection of the underlying volume growth in various segments rather than any rise in competitive intensity in any one segment let us say from the banks.

Vellayan Subbiah: So, let me put it slightly differently, which is like basically we will choose and we have the capability to increase in particular segments when there is no growth in other segments, right. So, in the end what we are trying to optimize for is a risk adjusted return on capital. But there is no growth in particular segments and we will go to other segments that offer us that potential growth. That growth might either come from increasing market share or from real growth in that segment.

Karthik Chellappa: Okay, perfect. Sir, my second question is on branch additions, we are at about 703 and I understand our plan is to probably go to about 800 let us say in the year or year and half, am I right?

Vellayan Subbiah: Yes, definitely, we will add over 100 branches this year.

- Karthik Chellappa:** Okay. Now, if that is the case, is this like a case where we are going slightly deeper and hence our penetration is getting more semi urban/rural? And hence, is there a case for a rise in yield in that sense simply we are going to geographies which is at the margin less competitive?
- Vellayan Subbiah:** Yes, absolutely. Basically, every time we push, we are pushing more into the rural hinterland. And that will continue to be the case. So, your assessment is accurate.
- Karthik Chellappa:** Perfect. Sir, just one data point if I may. Can you just give me what is like the number of two-wheelers that we finance this quarter and what was this let us say last year first quarter?
- Vellayan Subbiah:** We will get you that data. Two-wheeler is fairly small. Basically, for this month we did 3,558 two-wheelers in June versus 675 in June 2016.
- Karthik Chellappa:** Okay, it is like a fivefold increase basically?
- Vellayan Subbiah:** Yes, it is 400% increase.
- Moderator:** Thank you. We take the next question from the line of Rajesh Kothari from AlfAccurate Advisors. Please go ahead.
- Rajesh Kothari:** Just wanted to check that in terms of segment wise which are the segments where we are saying that probably over next at least three quarters to four quarters, it will be growing at a higher rate compare to other segment like for example, of course the home equity is growing at a slower pace. So, which are the segments which you think will give you more probably ROA and as well as more growth?
- Vellayan Subbiah:** So, it is a huge product which is our older trucks, tractors are definitely kind of growing more this year and then we will begin to see some growth on the construction equipment and two-wheeler side as well, and car and MUV.
- Rajesh Kothari:** But if I look at the used commercial vehicle then that segment is actually for example for one of your competitive they are not doing that well. So, are we gaining market share?
- Vellayan Subbiah:** Yes, we are doing both, I mean definitely in the used side we have a smaller market share, so if you are talking Shriram then yes, everybody is gaining share from them?
- Rajesh Kothari:** So, what is our used vehicle growth, I mean if you can just give a little bit segment wise growth in 1Q over last year 1Q?
- Vellayan Subbiah:** So, at a numbers level, so it is basically about 24% growth year-on-year.
- Rajesh Kothari:** In terms of disbursement?
- Vellayan Subbiah:** Yes.

Rajesh Kothari: For older vehicle?

Vellayan Subbiah: Yes.

Rajesh Kothari: Okay. And for car and MUV?

Vellayan Subbiah: 26%. Tractors 30%.

Rajesh Kothari: Okay. And two-wheeler?

Vellayan Subbiah: Two-wheeler, we just discussed it 500%.

Rajesh Kothari: Okay. So, basically, therefore, do you think that 18% to 20% growth which I mean if you look first quarter has been not that good in terms of the overall disbursement growth? So, do you think, we can probably go to 18% - 20% disbursement growth at the company level?

Vellayan Subbiah: Yes, definitely, it will hit that because like you saw I mean like there was no growth HCV kind of de-grew by 10% and all of that happened in the first quarter. Now, once GST settles down and all that the second-half will be very strong.

Rajesh Kothari: I see. So, in that case, by when do you think you may need funding in terms of the equity funding?

Vellayan Subbiah: We do not need capital this year, definitely we do not need capital.

Rajesh Kothari: Okay. Any target at what level you think you prefer to raise equity in terms of your capital adequacy? And when you think you may hit it?

Vellayan Subbiah: Yes, capital adequacy is very strong right now, right? So, we do not see kind of much of concern at this stage. So, potentially at the end of next year but not for the foreseeable future.

Rajesh Kothari: I see. And just last question from my side. You are moving to Tube Group, the TI, who is going to be leading Chola?

Vellayan Subbiah: A guy called N. Srinivasan.

Rajesh Kothari: Okay. And he is from within the group?

Vellayan Subbiah: Yes.

Moderator: Thank you. We take the next question from the line of Sanjay Shah from KSA Securities. Please go ahead.

- Sanjay Shah:** My question has been replied. But I have question that I was observing our last year growth to this year one that is the span of 12 months, our AUM has grown from Rs. 30,000 crores to Rs. 35,000 crores, am I right? And branches from 534 to 703?
- Vellayan Subbiah:** Yes.
- Sanjay Shah:** So, what I figure out that per branch business is going down.
- Vellayan Subbiah:** It will always happen Sanjay because when you start new branches, they start with very low disbursement, okay. And you are starting branches on smaller and smaller areas. So, there capability to disburse as much as a branch in Mumbai will, will obviously be less. But the branches expenditure is also less, the branch is also much smaller. You cannot compare it because this branch might have four people in it versus a branch that is in Mumbai that could have 150 people in it.
- Sanjay Shah:** Yes. Because I was looking per client business is going up actually, from Rs. 4 lakhs it is going to Rs. 4.5 lakh.
- Vellayan Subbiah:** That is right.
- Sanjay Shah:** So, that is the reason, we are going more into Tier-II, Tier-III and that takes time to get the business.
- Vellayan Subbiah:** Yes, but it is also more difficult to replicate.
- Moderator:** Thank you. We take the next question from the line of Abhishek Murarka from India Infoline. Please go ahead.
- Abhishek Murarka:** Sir, the first question is on branches. It has been about three quarters since we have sort of held off on branch addition. And we are allowing the branches opened before that to mature. How long can we hold on this before it starts affecting growth and we again need to invest in that?
- Vellayan Subbiah:** No, we are going to start. In next quarter, we will start kind of expanding the branches.
- Abhishek Murarka:** Okay. So, what is the target for the year?
- Vellayan Subbiah:** We will do at least say 100 more.
- Abhishek Murarka:** And these will be the smaller variety like you just described.
- Vellayan Subbiah:** Absolutely.
- Abhishek Murarka:** Okay. Sir, secondly can you just give me the break-up of GNPA between vehicle finance and home equity?

Arul Selvan: It is 4.17 for vehicle finance and 6.03 for home equity.

Abhishek Murarka: Sir, I was just noticing that your provisions in the home equity space has actually gone down if I sort of back calculate for quarterly basis also in the quarter. I mean last quarter to this quarter or even last year same quarter to this year same quarter, despite the NPA sort of inching up.

Vellayan Subbiah: So, Sarfaesi, basically we have repossessed a bunch of properties in Sarfaesi. We have got 19 properties back in Sarfaesi already and more also kind of significantly more in line. So, when we repossess a property then basically we pull that out of division.

Abhishek Murarka: Okay. And sir, lastly just another question on this segmental reporting when you are reporting the provisions and cost expense ratios and all, all of that is on average AUM or it is on average assets for the segment?

Vellayan Subbiah: Yes, it is AUM.

Abhishek Murarka: And the AUM is...

Vellayan Subbiah: We are saying average assets for the segment, we are talking about at the segmental level.

Abhishek Murarka: Yes, at the segmental level.

Vellayan Subbiah: Yes, at the segmental level it is AUM for the segment.

Abhishek Murarka: Okay. And it is the sequential AUM, as in last quarter versus this quarter or is it the last year's 1Q and this 1Q which average is it?

Arul Selvan: It is a month-on-month average.

Abhishek Murarka: Okay. Because I was just trying to do.

Arul Selvan: You need to consider the entire period. If you simply take the opening, closing AUMs it will be different.

Abhishek Murarka: Okay. So, it is monthly average.

Vellayan Subbiah: Yes, progressively the AUM grows and the expense grows in line with it. We may be able to accurately match it by doing the opening closing AUMs.

Abhishek Murarka: Yes, that is what was happening actually.

Vellayan Subbiah: It is a month-on-month AUM.

- Abhishek Murarka:** Okay. So, can you also give a little bit more idea about the cost ratios in individual segments, how they are likely to move in the next let us say year or two years?
- Vellayan Subbiah:** Basically, our expense ratio in vehicle finance, we see it kind of definitely could drop by at least I would say like 50 bps to 75 bps. And home equity obviously there is much less opportunity to kind of reduce that ratio.
- Abhishek Murarka:** Okay. So, in vehicle it would be mostly, a bit of margin expansion and growth both which would...
- Vellayan Subbiah:** No, it is efficiency.
- Abhishek Murarka:** Yes, I mean either productivity or.
- Vellayan Subbiah:** Yes, productivity mainly.
- Moderator:** Thank you. We take the next question from the line of Anand Laddha from HDFC Mutual Fund. Please go ahead.
- Anand Laddha:** Sir, just wanted to understand sir, we have started doing home loan a couple of quarters back and seeing a decent traction as well as the SME. Can you give some color like how has been the competition in this segment in both the segment and how much is the pressure on the intermediate yields on these two segments?
- Vellayan Subbiah:** Yes, so the good thing is we are growing it. We have grown it about 63% in this quarter compared to same quarter last year. There definitely is a lot of competitive pressure. So, we are seeing that in some of the other markets. But basically, the pressure ends up being in more on people once you are matured in to the product, people kind of try to take it away, right? So, once you are like 12 months - 18 months into the loan with a good repayment track then you try to see people trying to make people switch. So, there is less pressure at the point of origination, though even there is a decent amount of pressure. So, I think that will continue but the point is that we will have to use our geographic reach to overcome that, right and kind of go across a lot of geographies and be more selective in each geography.
- Anand Laddha:** Okay. And sir, what could be the average yield in the home loan side and on the SME side?
- Vellayan Subbiah:** Rohit?
- Rohit Phadke:** Home loans is about 14%.
- Anand Laddha:** Okay. SME.
- Vellayan Subbiah:** SME.

- Rohit Phadke:** SME is about 13%.
- Moderator:** Thank you. We take the next question from the line of Anitha Rangan from HSBC Asset Management. Please go ahead.
- Anitha Rangan:** I just wanted to understand on your home equity piece that typically most of the players in the market particularly our housing finance companies are not de-growing in risk book at this point, in fact most of them are growing. But like your strategy like I just want to understand what is your sense of the market because that is something which we are not hearing in a market like players degrowing in a home equity space.
- Vellayan Subbiah:** Actually if you look at that was what we had done that last year. Last year post-demonetization we had taken a conscious call to degrow. But if you look at our numbers compare it with quarter four then we have grown 24% over the last quarter. We are in a growth phase now. And H2 will be much better than the current this thing. So, we will grow the book,
- Anitha Rangan:** Okay. So, you have not taken a conscious call to like degrow the book or something like that?
- Vellayan Subbiah:** No, we have not taken a conscious call to degrow the book. We have taken a conscious call to slowdown disbursements post-demonetization. So, the last four - five months of the previous year last quarter we had slowed down. But this year again, if you look at our numbers compare it Q1 with Q4 then we have grown by 24%.
- Anitha Rangan:** Okay. And in terms of your asset quality like home equity you are showing a like higher asset quality versus your overall book. Again, this trend is like a little bit contrary to what the market is like showing because no one is reporting like significant asset quality pressures in this segment. So, what are you experiencing versus rest of the market?
- Vellayan Subbiah:** See, everybody had written-off their losses every year. We have not had a loss in this business and we have not written-off anything for the last 10 years. So, whatever GNPA that you see is a cumulative GNPA for the last 10 years.
- Anitha Rangan:** Okay. But incrementally how are you seeing this book going forward in terms of asset quality? Are you seeing any particular stress here?
- Vellayan Subbiah:** No, I think asset quality will definitely improve this year. I think we are more or less bottomed out and SARFAESI is giving us a lot of resolution.
- Moderator:** Thank you. We take the next question from the line of Sunil Tirumalai from Credit Suisse. Please go ahead.
- Sunil Tirumalai:** Sir, first question was how do you assess the impact of GST so far on the trucking market and month on month what should be look for, how is the informal segment behaving, etc.?

- Vellayan Subbiah:** Hi, Sunil. So, I mean like again we have got one of these things on medium-term P&L, I think this month there is a basic **trend**. So, there is almost a 25% of the trucks are idle and all of that truck is going on this month, right. But I do think that medium-term GST is going to be fantastic for the business, right. So, again, the question is there in the short-term there is a little bit of pain but medium-term it is going to be good. So, I think like moves like this, right which is everybody even in demon people said short-term pain then medium-term things will be good, now GST is another one. Honestly, the level of pain has not been so significant that people have seen huge earnings drop all of that stuff, right? So, I think it is definitely a very good thing for us in the medium-term. The bigger issues are going to be how you are get up the technology curve to actually be able to report for our small and medium size people.
- Sunil Tirumalai:** Okay. But I mean in terms of ideal 25% you mentioned that is mostly because tolls gates are not there. But otherwise what about freight availability, freight rates?
- Vellayan Subbiah:** How are you correlating the toll gates to ideal?
- Sunil Tirumalai:** So, basically waiting time at the toll is probably not there.
- Vellayan Subbiah:** It is not idle because of capacities and issues, it is idle be the loads are not there, right people are shipping less this month than they were because of all the GST issues. The product side is not there that much is one.
- Sunil Tirumalai:** Okay, got it. And the second question was on again, going back to the operating expense ratios, so it has been kind of flattish to slightly increasing from the last two - three years in both these segments. So, what is it that gives confidence? What can go right for these charts to start looking downward trajectory again?
- Vellayan Subbiah:** It is a good question. Basically, it is one of the things, it is the classic conundrum as you are growing, at what point you start getting any leverages from growth because you keep on adding kind of more and more infrastructure. I mean the biggest push is that now I would say that the technology that we are pushing has significant ability to increase productivity, it was delayed by more than a year like almost 18 months I would say. And now that it is getting rolled out we are going to definitely see a huge boost from productivity because gains I think will start getting baked into the system next year. So, next year definitely we will see a reduction especially in the vehicle finance side.
- Sunil Tirumalai:** Thank you. And just a last question. So, can you please clarify what are the change in the revenue line, I think you have moved some cost above the revenue line.
- Vellayan Subbiah:** Yes. So, basically what we have done is we have backed out the origination expenses and the origination revenue from those two columns accordingly, right? So, one goes out of NIM and one goes out of expense ratio.
- Sunil Tirumalai:** So, it is the same exact amount, right?

- Vellayan Subbiah:** Yes, so overall the number has to be same but we have reduced that number from those two segments.
- Sunil Tirumalai:** Right. And what are the employee count on roll, off roll that is for me.
- Vellayan Subbiah:** Yes, so the employee count is 17,800 people of which 7,000 are on-roll and 10,800 are off-roll.
- Moderator:** Thank you. We take the next question from the line of Adesh Mehta from Ambit Capital. Please go ahead.
- Adesh Mehta:** Sir, just wanted to understand how does this accenting for this reposition of LAP works? So, you have taken quite of LAP property as collateral in terms of possession. So, still you are seeing some spike in NPAs and it does not connect actually. If you can just run me through that?
- Vellayan Subbiah:** Only six properties were in there until the June number that is why you are not seeing any difference until June.
- Adesh Mehta:** Okay. So, then ideally your NPA should have been lower, right?
- Vellayan Subbiah:** Not a lot. It is around Rs. 6 crores, right so it is very small. As the volumes are going up is when you start see the impact.
- Adesh Mehta:** Okay. And in terms of provisions have we used certain floating provisions to basically charge off this?
- Vellayan Subbiah:** No, nothing.
- Adesh Mehta:** Okay. And sir, we have also written-off some bid this quarter if I am not wrong. So, we have written-off around Rs. 63 odd crores.
- Arul Selvan:** Where did you see that, Adesh?
- Adesh Mehta:** That is the difference between your outstanding provisions on NPA, and what you are actually charging on your P&L.
- Vellayan Subbiah:** If it is a small number then you can talk offline.
- Moderator:** Thank you. We take the next question from the line of Dhaval Gada from Sundaram Mutual Fund. Please go ahead.
- Dhaval Gada:** Just one question related to the home equity segment, we started this correction last year and you have mentioned that we will shift to small ticket business. So, just some color of how this

disbursement number looks in terms of average ticket size and how does the mix look? And secondly, have we changed something on the sourcing DSA versus internal sourcing?

Rohit Phadke: Hi, Dhaval, Rohit here. So, on the sourcing front, for the first time our DSA sourcing has come down to **50%** and now has crossed 40%, we are at 41%. So, that is the change that has happened right and on this ticket size, yes, our average ticket size today is still 50 lakhs. But the incremental ticket size has now fallen before 50 lakhs to about 46 - 47 lakhs. What we are doing is we are not entirely discontinuing funding in the larger case but we will be on selective now. We are quite selective about what is the income that is declared. So, undisclosed income we are slightly avoiding, we want more on disclosure, so those are the steps that we have taken.

Dhaval Gada: Okay. And Just on the sort of underwriting models have we made any investments incrementally over the last year or so just to improve something on the technology and module underwriting front?

Vellayan Subbiah: Yes, we are investing too much. Yes, but we are spending a lot on that side and now the good thing also is that we have a fully in-house analytics team that is developing out just more the brain power thinking on it. But from a technology perspective also I think we have invested and continue to invest significantly in that.

Moderator: Thank you. We take the next question from the line of Shweta Daptardar from Dolat Capital. Please go ahead.

Shweta Daptardar: Sir, this pertains to one of the previous question asked, so with this GST coming in and the chunk of India's truck pool line idle. So, will that impact your trip financing portfolio which you have been quite gung-ho for past couple of quarters, I mean although it is not meaningful as yet.

Vellayan Subbiah: Yes, I said they have been idle for this month. We have a chunk of India's truck go idle for like several years we have got much bigger problem but that would not happen, it is only for this month. And then next month onwards the volume will pick-up again. This month itself it will start picking up now.

Shweta Daptardar: So, also because 40% we are penetrated in the used CV portfolio, so even therein the impact should be right restricted to medium-term.

Vellayan Subbiah: Yes. So, all I am saying is that I do not think GST is going to have a big negative impact on us. It does not affect trip loans. Trip loans will continue to be and it is a very good product. So, over the things are looking very good from that perspective.

Moderator: Thank you. We take the next question from the line of Saurav Dhole from Trivantage Capital. Please go ahead.

Saurav Dhole: My query is with respect to the NIM. So, on a Y-o-Y basis we have seen some very healthy growth in NIMs. And sir, just wanted to understand from you is this because our product mix is experiencing some change or is there a general improvement in pricing power?

Vellayan Subbiah: The biggest driver has actually been a reduction in cost of fund. That combine with the fact that we have been able to keep up pricing in an environment where cost of funds has drooped has allowed us to expand the NIM.

Saurav Dhole: Okay. And do you expect this to increase going forward in the upcoming few quarters?

Vellayan Subbiah: How much do we want to push it up by. I think that these are fairly healthy levels. Basically, the encouraging thing about the environment and I do think something that will sustain for the rest of the year is that I think rates will continue to fall and that is going to help improve our borrowing capability and the rates at which we borrow. So, that is extremely encouraging. So, overall from a portfolio perspective, yes, will the cost of funds come down more? Yes, and so as long as we are able to maintain that and not pass that on kind of definitely, some of it does get passed on, so that is going to depend, right how much gets passed on and how much we retain.

Saurav Dhole: Right. And secondly, on the provision coverage ratios, so currently you are running at about 33%. What is the outlook on that front for the next few quarters?

Vellayan Subbiah: See, I have always maintained that is a mathematical outcome, we have clearly outlined our provisioning policy and therefore, it depends on how many fall in each of these buckets and then that determines what your provision coverage ratio should be. Provision coverage is not an input function, it is an output function of a policy.

Saurav Dhole: Right, okay.

Vellayan Subbiah: And we outlined that we have a more conservative policy than the RBI, significantly more conservative than the RBI.

Saurav Dhole: Okay. And sir, just lastly you said you will be adding about 100 branches in the next few quarters. So, how will that pan out in quarter wise, how is that expected to pan out?

Vellayan Subbiah: Last time our guy who drives the branch expansion opened up all the branches in 60 days. But if I had to kind of guess we will do about 30 in Q1 and then we will do the rest in Q3.

Moderator: Thank you. We take the next question from the line of Raunak Jain from Vibrant Securities. Please go ahead.

Raunak Jain: Sir, my question is there any plan for the financial of consumer durables?

Vellayan Subbiah: No.

Raunak Jain: May I know the reason?

Vellayan Subbiah: Because we view it as an unsecure product.

Raunak Jain: Okay. And do we have any financing on the infra side?

Vellayan Subbiah: No.

Raunak Jain: We have zero loan book on that side?

Vellayan Subbiah: Yes, I mean in sense we do construction equipment but that is small ticket, we do not do any large ticket infra.

Raunak Jain: Okay. So, this is not a significant portion of your loan book.

Vellayan Subbiah: No.

Lalaram: Hi, this is Lalaram, colleague of Raunak. Just want to pitch in, do we have exposure to LAP, loan against property?

Vellayan Subbiah: LAP is 30% of our portfolio.

Lalaram: Yes, so are we seeing any pressure on that on yields in light of the competition from new banks environment we have been leading is a bit heating up, so any comment on that front?

Vellayan Subbiah: Yes, definitely there is pressure on yield, there has been a lot of supply side rush and we have seen that pressure on yields cause a decrease in NIM in that business, and ROTA on that business over the past two years.

Lalaram: Okay. So, in light of that do we still want to focus on that asset class going forward or what is our view on that say next two - three years point of view?

Vellayan Subbiah: Yes, absolutely. I think over a 10-year timeframe it is a fantastic business we have grown well over the last 10 years and we definitely think there is a lot of growth over the next 10.

Moderator: Thank you. We take the next question from the line of Ankit Chaudhary from Equirus Securities. Please go ahead.

Ankit Chaudhary: I have couple of questions, the first thing in your branches in the previous quarter there were 118 housing finance branches which were co-located with vehicle finance and this time, it has moved to 134 from 123 to 134. So, where are the new locations which you have entered in the housing finance?

Ravindra Kundu: Gujarat, Maharashtra, Andhra Pradesh, Karnataka.

- Ankit Chaudhary:** Karnataka.
- Vellayan Subbiah:** And even Tamil Nadu also. All the six states in which we operate in we have opened up new branches.
- Ankit Chaudhary:** Okay. And as you have mentioned that you will be opening 100 new branches in the current year, so will there be branches particularly emphasize only on vehicle financing or it will be mix of housing financing also?
- Rohit Phadke:** Yes. All our branches are co-located. So, we have the opportunity of currently housing loans and LAP are in lesser number of branches, but we have that opportunity of going to all the 703 and plus whatever we had.
- Ankit Chaudhary:** No. As you mentioned that you will be opening 100 new branches. So, these new branches will be focusing only on.....
- Vellayan Subbiah:** On vehicle finance.
- Vellayan Subbiah:** Yes, those are vehicle finance branches.
- Ankit Chaudhary:** Okay, these will be only vehicle finance branches as of now.
- Management:** Yes.
- Ankit Chaudhary:** Okay. The other thing is in your disbursement side, new initiatives which have come out though the amount is very small, it is only Rs. 5 crores. So, could you just let me know which are these new initiatives.
- Vellayan Subbiah:** Trip loans.
- Ankit Chaudhary:** Okay, trip loans. And the last question is, the share of the vehicle financing in the whole pie of your AUM, though it has moved up just by 50 basis points quarter-on-quarter and as you said that home equity will be growing in the second-half of the year. So, just wanted to know what will be the pie of your vehicle financing going ahead? Will you be focusing more on the equity or it would be like vehicle financing be a core area?
- Vellayan Subbiah:** Vehicle financing is obviously is a core area and it will continue to be a core area.
- Moderator:** Thank you. We take the next question from the line of Piran Engineer from Motilal Oswal Securities. Please go ahead.
- Piran Engineer:** I just have one question, can you just talk a little bit about the securitization market because for the first-time off-balance sheet assets have increased sequentially in Q1, so what is driving that? And can we expect it to sustain?

- Vellayan Subbiah:** Two things, one is we have always articulated that securitization is a huge opportunity for us. Basically, there is a lot of demand for priority sector loans in the country and we have a lot of priority sector loans. So, from that perspective there is a huge opportunity and we can continue to do more of it. Second part, in terms of whether we are going to do a lot more. Right now, everybody is trying to wait to figure out what the implications are because there is some ambiguity in GST nomenclature as to what happens to securitization from a tax perspective. If that works out to be favorable we will definitely start increasing it.
- Piran Engineer:** Okay. And what sort of rates are you all getting now on PSR loans?
- Vellayan Subbiah:** Yes, so I think, it depends on kind of the type of transaction and the type of assets, so it can vary, but they tend to be fairly favorable rates.
- Piran Engineer:** Okay, sir. Can I presume like 100 bps below MCLR for PSR?
- Vellayan Subbiah:** I do not think we can discuss specific numbers.
- Moderator:** Thank you. We take the next question from the line of Pallavi Deshpande from Smart Karma. Please go ahead.
- Pallavi Deshpande:** Just two questions, one would be the tractor NPLs for this quarter versus last year's first quarter and secondly, on the employee expenses, the rise if you could explain?
- Vellayan Subbiah:** So, the employee expenses rising when you compare quarterly because we have been moving more and more people from our off rolls onto our on rolls. Okay, so that is what causing the numbers numerically to look like that. So, obviously, you are seeing that it is not having that same impact on overall expenses, right, because the same number comes down on the other segment.
- Pallavi Deshpande:** So, just continuing on that. So, on that side, if I look at cost-to-income excluding this business origination it has gone up to 33% versus 30% last year.
- Vellayan Subbiah:** Why has cost-to-income gone up?
- Pallavi Deshpande:** Yes.
- Vellayan Subbiah:** Kundu is not running his business efficiently. No, I think part of it has been that, so the way I look at it kind of we have constantly looked at that balance between kind of growth and what happens, right from income perspective. This year what we are planning for is kind of as the growth picks-up that cost to income will definitely come back down. The tractor 5.6% has come down to 5.1%.
- Moderator:** Thank you. We take the last question. We take the question from the line of Siddesh Mhatre from SPA Securities. Please go ahead.

Siddesh Mhatre: I guess, I did not get it, the break-up of your GNPA, can you just give that vehicle finance and home equity, I just miss that out.

Arul Selvan: Yes, vehicle finance is 4.1 and home equity is 6.

Siddesh Mhatre: 6?

Vellayan Subbiah: These all are 90 days.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to the management for closing comments.

Nischint Chawathe: Hi, this is Nischint here. Thank you very much for joining the call today. And Vellayan, best wishes for your new role.

Vellayan Subbiah: Thank you. Thanks, Nischint.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Kotak Securities, that concludes this conference. Thank you for joining us. You may now disconnect your lines.