



“Cholamandalam Investment and Finance Company Limited
Q2 FY '23 Earnings Conference Call”

November 02, 2022



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

Moderator: Good morning, ladies, and gentlemen and welcome to Cholamandalam Investment and Finance Company Limited Q2 FY '23 Earnings Conference Call hosted by Kotak Securities. As a reminder, all participant line will be in the listen-only mode and there will be an opportunity for you to ask questions, after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

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

Nischint Chawathe: Thanks, Michelle. Good morning, everyone. Welcome to the earnings conference call of Cholamandalam Investment and Finance Company Limited to discuss the 2Q FY '23 performance of Chola and share industry and business updates. We have the senior management represented by; Mr. Vellayan Subbiah, Chairman and Non-Executive Director; Mr. Ravindra Kundu, Executive Director and Mr. Arul Selvan, President and CFO.

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

Vellayan Subbiah: Thank you Nischint and good morning, everybody. Just a quick update on the quarter and then we will get into individual businesses. Disbursements for the quarter was at INR 14,623 crores, which was up by 68%. And for the half year, we have been at INR 27,953 crores, which is up by 126%. Total AUM is at now at INR 91,841 crores, which is up by 22%.

And our net income margin is at INR 1,697 crores for the quarter, which is up 21% year-on-year and INR 3,337 crores for the half year, which is up 20% Y-on-Y. The PAT is at INR 563 crores for the quarter, which is down by 7%. We will talk a bit more about that. And INR 1,129 crores for the half year, which is up by 21%.

Broadly, the macro environment continues to look at interest rate hikes in response to high inflation. So, there is all of this question around the global recession coming up, but in general, India seems to be in a good place relatively. Obviously, we are just kind of a bit dependent on trying to see what happens with global factors. But otherwise, when we look at Chola's performance, we have achieved our highest quarterly disbursements, which has really become possible because of our diversified product mix. So basically, a lot of the new businesses we talked about, the growth in housing loans, loan against property. All of that is basically helping this. And this will really help sustain the momentum moving into the festival season ahead.

Just a quick commentary on the profit number. Like we said, we were down by 7%. But basically, it is driven by what happened last year in Q2. Last year, in Q1, we were impacted by the COVID second wave, and therefore, we had huge forward flows into higher buckets and

higher provisioning. And then post release of lockdowns in Q2, we were basically able to roll back a lot. Therefore, Q1 of FY '22 had higher credit loss provisioning at over 3% and NCL of INR 563 crores, and Q2 resulted in just 0.37% and an NCL of INR 69 crores, which is what basically caused our profit in Q2 to be, I would say, a bit abnormally high, which is why if we look at the PAT for the first half of the year, we're at INR 1,129 crores, which is basically up by 21% year-on-year.

I will just give you some details on individual businesses. We said aggregate disbursements grew by 68%. Vehicle finance disbursements were at INR 8,502 crores for the quarter, which was a growth of 38%. The loan against property disbursed INR 2,246 crores, which is a growth of 38% again. Home loans, basically, disbursed INR 743 crores, which was a growth of 23%. Our SME business disbursed INR 1,473 crores which is a growth of 367%. Our consumer and small enterprise loan business dispersed INR 1,579 crores for the quarter. Our secured business and personal loans were at INR 81 crores, and that is what resulted in helping build the book to, INR 91,841 crores. PBT-ROA was at 3.4% for the quarter and 3.5% for the half year, and ROE was at 18.3%. We continue to hold strong liquidity, INR 4,841 crores of a cash balance and a total liquidity position of INR 6,573 crores, and ALM is comfortable with no negative cumulative mismatches across all-time buckets.

To talk about asset quality, at the end of September 2022, our Stage 3 assets stood at 3.84% versus 4.16% at the end of June 2022. So, we have come down by about 0.32%. And our provision coverage went up to 41.48% versus 40.69%. The total provisions currently carried against the overall book is at 2.73% as against the normal provision levels of 1.75% that we carried prior to the COVID-19 pandemic. And as per revised RBI norms, GNPA and NNPA as of September 2022, stood at 5.84% and 3.99%, respectively. And so, we carry INR 771 crores higher provisions under IndAS over IRAC. And as per prevailing IRAC norms, the GNPA will be similar to the statutory numbers we just gave you. And capital adequacy was at 18.4% as against the regulatory requirement of 15%. Tier 1 capital is at 15.77%.

So let me stop with that and we are happy to take it over, all of us are here, and we are happy to take it over for questions.

Moderator:

Thank you very much. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press star and one on their touchtone telephone. If you wish to remove yourself from question queue, you may press star and two. Participants are requested to use handsets while asking a question. Ladies and gentlemen will wait for a moment while the question queue assembles. Ladies and gentlemen in order to ensure that the management will be able to answer questions from all participants, please limit your questions to two per participant should you have a follow-up question please re-join the queue. Thank you.

The first question is from the line of Rajesh from Alf Accurate Advisors Pvt. Ltd. Please go ahead.

Rajesh Kothari:

Sir, I have just two questions, the first is if you can give color on the yield on loans, which has declined about 75 bps Y-o-Y. And of course, the cost of fund is up 13 bps, so this leads to 88 bps lower spread. Can you give your near term, how do you see that? And next year, how do you see the same? That is first question. And second question is with reference to the operating expenses, which is up about 28% Y-o-Y. How do you see this number and the cost to AUM ratio in the near term and in the FY '24?

Arul Selvan:

The yield has moved from 13.7% to 13.5% as compared to last year. This is primarily because we are again comparing the previous year. Actually, the yield in the Q3, Q4 have dropped further because of the prevailing lower interest rate scenario at that point in time. And from there, it has actually moved up if you compare the Q3, Q4 numbers versus what we are now doing at Q1, Q2.

Cost of funds has gained and on an year-on-year basis it is still lower than last year. That is what you are seeing here from 6% to still at 5.8%. While Q1 versus Q2, it has moved up. The expectation on cost of funds increase over the full year would be around 50, 60 basis points on a year-on-year comparison. What I have said in the last call also, and we still hold to that. While we would be improving the yield by way of increasing the yield on the floating rate book, which is for LAP on the entire book and for the vehicle finance book being fixed rate book, we would be increasing it on the marginal yield. We will see yield improvements happening aggressively as we move into the subsequent quarters. Regarding your opex question, we still hold that we would be in the 3% to average asset ratio. We will endeavor to keep it at that or slightly below that level.

Rajesh Kothari:

So basically, when I look at FY '24, the net yield, how do you see the yield as you move forward, particularly in FY '24? And same question for whether one should look at operating expenses in absolute terms, in FY '24, should we expect about 10%, 12% kind of a growth? Or do you think because of the lot of new business development, it can be higher?

Arul Selvan:

So, the yield will be a factor of the product mix. As you know, the strength of Chola is we have a wide product mix even within each of the product categories we handle, which is vehicle finance, LAP or the other new products. So that would dramatically be driven by which products we focus on, depending on the demand in the geographies we operate in. So, it is very difficult to say that will it be exactly what would be the FY '24 number right now on yield, NIM, etcetera. The way we operate is to make that product mix done in such a way that the ROTA of 3.5% pretax is delivered irrespective of wherever we are on the yield line or the cost of funds line or on the opex line.

When we do a higher yield product, the opex will be larger because this will be a small ticket, like, say, for example, 2-wheeler loan or our new businesses, like CSEL. But then the yield compensates for the higher opex. So individual line items will keep varying based on product mix. So, I would rather request that the focus be on the ROTA, which would be what we will continue to deliver in the 3.5% levels pretax.

Ravindra Kundu: To give you the yield trajectory for last few quarters, Q2 last year, we were actually for the marginal book, we achieved 13.77%. And then Q4, it went down to 13.38% for the entire cifer book. And now in Q1, it has gone up to 13.73%, in Q2, it has gone up to 14.25%. So, from the lowest bottom of 13.38%, our marginal book growth in the Q2 has gone up almost closer to 80 basis points. In addition to that, we have also done a rate revision for our home loan and loan against property, and that is going on. So that is also impacting improvement in the book yield. In the current year, if you see that from the Q2 last year in the vehicle finance, the new vehicle sales have picked up. And that is also a reason we have to participate in the market. And till Q1 of last year and even in Q2 the used component was high. The marginal book yield was higher. In spite of that, we have been successful in increasing the rates of the marginal book.

Rajesh Kothari: And my question on operating expense on an absolute basis, how should one look at it for FY '24?

Arul Selvan: We cannot tell on the absolute basis. We have given you on the average asset as I said that it will be less than 3% level. So, we stick to that.

Moderator: Thank you. We have the next question from the line of Rikin Shah from Crédit Suisse. Please go ahead.

Rikin Shah: Just had one question. So, the disbursements for the new businesses have moved to the quarterly run rate of INR 3,000 crores, probably even ahead of what was kind of guided earlier. So as these new products keep getting rolled out to the existing branches would you be comfortable sharing your growth guidance or what proportion of these new businesses will consist of the total book at around 5% in medium term?

Arul Selvan: We have reached to 5% now.

Rikin Shah: Yes.

Ravindra Kundu: So, see that is on the AUM level, 5% is the total size of the 3 new businesses, CSEL, SME and SBPL, and obviously, it will go up. Just to give you the direction of vehicle finance, how it is happening in terms of disbursement for a few quarters, last four, five quarters, vehicle finance in Q1, the disbursement was 78%.

In Q2, it came down to 71% and Q4, 69% and Q1, it is 64% and Q2, it is 58%. So obviously, the disbursement mix of the vehicle finance is coming down in spite of vehicle finance is also growing at the rate of 38% in quarter two and the overall growth has been 89% for the half year.

So, all the divisions are trying to basically grow their disbursement depending upon the market condition and the portfolio behavior. Obviously, the new businesses will take a little more share

as they go ahead and expand their operation because they are also finding out success in their last one-year operation. So obviously, they are confident and quite committed to grow in the rest of the branches as well.

Rikin Shah: Sure. Any number that you would probably point to in terms of % of AUM could settle in next two years?

Ravindra Kundu: As of now, we are not giving any number. I mean, we have to just wait another one year, to start giving the numbers because these are basically very huge in terms of the disbursement. And obviously, –as well as directionally, the new business mix is going up.

Moderator: Thank you. We have the next question from the line of Dhaval from DSP Mutual Fund. Please go ahead.

Dhaval: Just had one question relating to the new business. So, could you split the disbursement between CSEL, SBPL and SME and also give some perspective around what percentage of the CSEL book is via partnership channel? And just one more follow-up on that is, how do you see the rundown of the new businesses? Since right now, we are in the buildup phase, the runoff rate seems to be relatively low. If you could give your expectation, that would be useful?

Arul Selvan: Yes. So, if you see that in Q2, the quarter we ended now, we have done the disbursement in terms of SME is INR 1,473 crore and INR 81 crores came from Secured Business and Personal Loan. And CSEL had two channels. One is the traditional channel where we did INR 1,108 crores and partnership channel gave INR 471 crores. This partnership channel of INR 471 crores is having higher rundown. Rest of the volumes are normal rundown.

Dhaval: Understood. And sir, directionally, how do you see the runoff rate on the new business portfolio? Should it be around the current level? Or you would expect this to move much higher, especially in the consumer and SME?

Ravindra Kundu: No, it will be in the same level because our partnership book, which is small ticket size short-term PL is actually smaller, largely one third of the overall book. So therefore, that is not going to change anything. And also, we are growing in the home loan and affordable housing or affordable home loan and loan against property which is the longer book.

Ravindra Kundu: The MSME has some amount of bill discounting which be, again, one third of that, which will again run down faster. Rest of the books will perform in line with the similar rundowns like vehicle finance book.

Dhaval: And just one more broader level question in terms of growth. Do you see this momentum that we see in second quarter sort of continuing for not just FY '23, but into FY '24 as well. Given the contribution of new business will materially go up from the current level. Do you see 25% kind of trajectory even in FY '24 likely?

Ravindra Kundu: All depends on macro and even India is highly depending on monsoon. So, monsoon has been better, although it has been uneven. So, second half is going to be better. So, for the second half, we can actually expect better disbursement than what we have been expecting so far in terms of absolute value. So obviously, we will be growing. And as of now, our growth has been 20%, 22%, which can go up to even 25% in this financial year.

If next year, things are remaining as it is, then we will continue this momentum. But for the next year, we have to see the industry also having a higher base. So that is the reason we do not want to give any kind of forward-looking statement for the next financial year. As of now, for the year as we stand here, this year is looking very good.

Moderator: We have the next question from the line of Darpin Shah from Haitong India. Please go ahead.

Darpin Shah: Arul, sir. In terms of the floating rate for the home loan and home equity, we have not seen any kind of yield revision in this quarter. how do you explain that?

Arul Selvan: See, this year we have increased the floating rate on our LAP book by 40 basis points in June and 40 basis points in September, and we will be doing another 40 basis points in November. So, you would only see, or you would have most probably seen only the first 40 basis points impact in Q2. – As we move into Q3, the impact of the second 40 will be seen and then only in Q4, the third 40. So, we have been doing this increase in a staggered manner so that we also wanted to impact and assess the impact of preclosures and how the market and the industry is behaving.

And we are presently surprised that the foreclosures have not been actually impacted as we expected it to be. And the way the market has increased the rates like more than 100, 150 basis points in one shot, I think we have been more kind to the customers, if I may say so, in taking it in a staggered manner. The same applies for HL. We have done those changes and so you will see them progressively coming in.

Darpin Shah: But sir, the 40-basis point increase in June, we are not seeing any impact on the overall yields for second quarter as well because the reported number suggests that the yields are stable at 11.7% types for home equity?

Arul Selvan: Yes. See, that is also, to some extent, will be driven by the new disbursements that would have happened in Q1 and Q4 of last year and Q1 of this year. So, whereas we were talking earlier, the same principle applies because in those periods, the interest rate was benign and the cost of funds benign, we had also scaled down our lending rate. So, to that extent, it is offsetting the increase that you might be seeing here.

Darpin Shah: Impact, will start in the next quarter?

Arul Selvan: Next quarter you will see the results.

Darpin Shah: And sir, in terms of provisioning, any additional macro-related provisions you have done this quarter?

Arul Selvan: We have not increased the management overlay, we have held it there because actually, we do not see or as you can see, our NPA numbers are coming down, environment is more stable from the incremental or unexpected loss perspective. So, we have not either increased or have we consumed it. We will evaluate it as we go on into the next two quarters and take a call over, maybe at the end of this financial year or around that time.

Darpin Shah: Sir, lastly, Kundu Sir, how are we seeing things on ground? We are hearing that the numbers have been relatively slower in the month of October. Your thoughts especially on the vehicle finance side?

Ravindra Kundu: No, October has been one of the biggest months in the history for Chola as of now and for the industry also for that matter. The passenger cars picked up, 2-wheelers, 3-wheelers picked up. Tractor has also gone up. So, passenger and the commercial vehicle has been growing in a rapid speed. So, October, we have disbursed highest so far. So, market is looking better. Yes, there are some pockets in the market where there are some issues which are related to mining or construction. But at overall level, things are looking better. But in a specific market, there are some problems. But we need to consider as part and parcel of the business.

Moderator: Thank you. I would request all the participants to limit their questions to one per participant. Should you have a follow-up question, please rejoin the queue. Thank you. The next question is from the line of Shweta Daptardar from Elara Capital.

Shweta Daptardar: You just made a leading mention of management overly being held up almost with marginal increase quarter-on-quarter. So, against that backdrop, even if I look at ECL coverage that is also seemed to be normalizing. Like we saw 1.9% vis a vis 1.58% in March '20 quarter. So, do we see now declining trends in terms of coverage and credit cost going forward, factoring in the worst is behind? I also remember, last quarter, you are mentioning not much of stress on the restructured book side that stand smoother. So, can you throw some color there?

Arul Selvan: Yes. See, as you could see that our NPA numbers, even in absolute terms as well as the percentage terms are coming down both in Stage 2 and Stage 3. And if you go pre-COVID, if you remove the management overlay and look at it pre-COVID our average provision requirement, our provision coverage is in the range of around 32%, 33%, that is what is expected. So, we will try to maintain it while they may not go down to all that level, at least from the perspective as what we are seeing today. We will certainly not be increasing the management overlay because certainly we do not see that requirement coming up. However, regulations of keeping on changing market is very dynamic. So, we want to wait for the next one quarter or two quarters before taking a call on how to utilize this management overlay in the coming quarters.

- Shweta Daptardar:** Okay. Just a related question. You also mentioned that your Stage 2 is declining. So that is also rightly reflected in Stage 2b, which is also declining. So, any vulnerability left there both on Stage 1b and Stage 2b, in terms of repayments and one or two EMIs or more EMIs coming through now?
- Arul Selvan:** See, the Stage 2b and Stage 1b are a representation of what the new IRAC norms is wanting us to do it is with regard to ECL. I mean declaring them as part of NPA under IRAC norms. From an ECL perspective, we are showing them as separate categories because they are already showing trends of improvement. They had touched NPA sometime in the past and there has been collections of their outstanding, which have made them move into Stage 2b and Stage 1b, which means they are progressively moving towards becoming a zero delinquent book.
- But till the time they become zero, we need to categorize them in these two categories, and that is what is being presented. So, the overall NPA number is at Stage 1b, Stage 2b and Stage 3 put together is what we will be declaring to RBI. And actually, that we have early adopted this as against many others in the industry who are yet to adopt this which becomes effective from 1st October. So, this is a good trend only if the 2bs and 1bs are coming down, and that means they are moving out and becoming standard.
- Moderator:** Thank you. We have the next question from the line of Shubhranshu Mishra from Phillip Capital. Please go ahead.
- Shubhranshu Mishra:** So, the first question is on the employees. We have increased almost 12,000-odd employees over the last 2-odd years. Just wanted to understand where they are deployed, how many into the new businesses and now in the collection, sales, so on and so forth? And also, if you can give the collection architecture, how many on-roll employees are deployed into connections across verticals, if you can split that out? And if we have any collection agencies also doing our collections?
- Arul Selvan:** Shubhranshu, I think, this is too much of detail that we generally would not want to share. Broadly, I will give you almost like 1/3rd of our total population working for us is on on-roll and 2/3rd would be off-roll. And I would say that again, half of that would be in collection and half of it would be in the rest of the other activities at a very broad level. And your question on collection agencies, we do not engage collection agencies. We do use some of them to coordinate with RTO office, or the state police, parking yards, etcetera. But most of our collections are done by our in-house team.
- Shubhranshu Mishra:** Sir, you did not really answer my entire question. If I can just ask one last question. What is our active number of customers, we have given the total customer pool, but how many do we rely on a monthly basis?
- Arul Selvan:** 21 lakh customers are active, across all businesses put together.
- Moderator:** Thank you. We have the next question from the line of Piran Engineer from CLSA. Please go ahead.

Piran Engineer: Yes, congrats on the quarter. Before I get to my question just a clarification on Slide 14. In the pie chart for home loans, what is that 10% AL, what does AL mean?

Arul Selvan: Affordable LAP. It is a variant of the home loan, this is more like a LAP loan given to customer profiles which fit the home loan profile, which is like a very small businessperson who is taking a loan against an existing property. Now since the home loan team addresses this segment of customers, we have grouped it under that.

Piran Engineer: And just getting to my initial question and sort of overlapping with the previous guy, in the last two quarters, we have added 5,000 employees, but no proportionate increase in branch count. That has been largely stable. So just wanted to get a sense of so are we adding more manpower to the same branches and also in the future, do we expect more branch openings in the next few quarters, or this is where it sort of stabilizes? Because your peers are also around 1,200, 1,300 branches. So, is that the saturation points in vehicle finance, so to speak?

Ravindra Kundu: So, the overall count has gone up because we are adding manpower in the new businesses. And new businesses are all co-located in the vehicle finance branches. And that is the reason vehicle finance branch count is actually not going up and therefore there is a difference between what you are seeing. Otherwise, the headcount has gone up mainly because of the new businesses. Now in addition to that, we have also opened up around 500 resident locations, which does not have as of now the physical branch, and which will be getting converted in the branch as and when they start hitting the volume. That is also where the vehicle finance has actually increased the footprint and also increased the manpower. So, these are the two categories. One is the vehicle finance resident location and second is the new businesses which are underlying into the vehicle finance branches.

Piran Engineer: These are mini branches resident locations?

Ravindra Kundu: Yes, satellite branch you can say that.

It is not a physical branch. It is a person being operated from a certain location to assess the market and look at a few agreements being captured, then once we are confident about that location, then we open a branch.

Moderator: Thank you. Reminder to the participants to limit their question to one per participant. We have the next question from the line of Pranuj Shah from JPMorgan. Please go ahead.

Pranuj Shah: So, growth has been very strong, and second half is likely to be even better, as Mr. Kundu already highlighted. So, my question is how are you looking to fund this growth? Will you be looking to move away from bank term loans at rising rates? And also, at what level of Tier-1 would you look to raise additional capital?

Arul Selvan: See, we will continue to be dependent on banks for funding to a large extent. If you look at it, we need a AAA rating to become more dependent on market borrowings. And as long as we are an AA+, we will continue to be dependent on banks. Banks have large appetite for priority sector as well, so most of our businesses which we do, whether it is vehicle finance, LAP, CSEL etcetera, that is for the priority sector. So, we do a lot of securitizations of assets under the

priority sector's angle. So also depending on market situations, we do CP's. In Q1 we did some amount of CPs and we keep looking out for such opportunities.

There is no dearth of funding from banks on this, and we do not see a challenge in this. But we will keep evaluating this as we move forward to look at newer avenues of funding. In regard to the capital, we are very clear that until and unless we come to less than 13%, we will not be taking capital. Right now, we are on the Tier 1, the Tier 1 we are comfortable at around 15% plus. So, we will not be seeking capital immediately. And our growth takes us down to the 13% level, then we will certainly look at that.

Moderator: Thank you. We have the next question from the line of Shreepal Doshi from Equirus Securities. Please go ahead.

Shreepal Doshi: Sir, wanted to understand how would the cost of fund move from here? And what are the changes that you are looking on the liability mix side? Because if I look at your debentures, share has increased from 10%, like five quarters back to almost 18%. So, what is the thought process about going for debenture share in the liability mix?

Arul Selvan: Yes. See, the cost of funds, again, as I had mentioned earlier, we are looking at the cost of funds moving almost like 50, 60 basis point as compared to the full year of last year. So, I still hold to that unless something more drastically happens. We have a new MPC meeting tomorrow. So, I also know what shocks or surprises that are going to get thrown out of that. But as of now, our expectation is that it should not be more than 50, 60 basis points compared to last year. So, we will try and keep it at that level.

With regard to debentures, you will be aware that there is a SEBI norm that 25% of incremental borrowings needs to come through market borrowings. So, we consciously are capitalizing on whatever, whenever there is a rate benefits out in the market to try and do debentures. So, we need to fulfill that requirement. So consciously, we are increasing that. So, each has its own positives and negatives. But at the current level as at the current stage, we are going into any new change in the approach of SEBI, we are not looking at any great change in that.

Shreepal Doshi: Sir, second question was with respect to the pricing side. So, on the new business, on the non-vehicle finance book, how frequently does the loan book get re-priced? So, I understand that you have highlighted that you have been increasing the rates in LAP and SME segment and also the HL segment. But how does it get reflected in the customers' account? Does it get re-priced once in a year or as and when it gets increase and when you increase the rate, it directly gets reflected in the loan account?

Arul Selvan: Yes, as, and when it gets increased it will automatically result in the tenure increase or EMI increase depending on how the customer wants it.

Shreepal Doshi: Sir, just one last question on the vehicle finance side. So, on the growth for that segment, how do you see that in the second half? Like I understand you highlighted that the growth would be 22% to 23%, but if this segment also delivers a healthy growth, how do you estimate and what sort of range would you give in that case?

Ravindra Kundu:

See actually, if you see that the first half number for the commercial vehicle has been 453,000. And in the past, during '18, '19, we saw industry delivered almost 1 million vehicles sold. So actually, we have a cushion to basically grow. And whatever number we have seen industry delivered, we can double the number in this second half. The second half is always higher than the first half in the history also. And Rabi is actually expected to do better than Kharif because the first half was slightly uneven rate, but the second half there will not be any problem.

Mining and Construction activity also is going to improve. So put together commercial vehicle sales will be significantly better. That is what the manufacturers are talking about. Passenger car is still selling very high and there is a huge demand actually. The waiting period is varying from OEM to OEM, say, three months to six months to one year. three-wheeler, two-wheeler also likely to go up. So put together, we are expecting that the industry growth of all vehicle and tractor and construction equipment put together, which is as of now at 31% can be maintained at this level or slightly go up to 35%.

Now this is the unit number growth. Now if you convert into the value growth, ticket size has gone up because the prices have gone up from BSIV to BSVI. To that extent, the value growth will be higher. And for us, we can either maintain the market share or can look for improving the market share, which will be also a trigger point for having a higher growth. So that is what is the number in terms of vehicle finance. We are actually in line with that, and we are expecting that we will be better than industry in terms of both unit and value.

Moderator:

Thank you. We have the next question from the line of Ankit Patel from L&T Mutual Fund. Please go ahead.

Ankit Patel:

Yes. Congratulations on a good quarter. My question was around the asset quality and the classification you earlier mentioned on the GS3 and the GNPA numbers. Now once the RBI circular came in end of last calendar year, in the first quarter that you released, the difference between the two numbers was about 270 bps. And now that has come down to 200 bps.

Just wanted to understand so it has been almost a year and operationally, obviously, you would be trying to put in place your systems to try and see that these two numbers come closer. And earlier, we were seeing that a trajectory could be faster than this. What are your thoughts around how this could be moving in the future? And do you see any real challenges in actually trying to bring this down?

Ravindra Kundu:

See, the customer profile that we handle this variance will be there. The customers who we handle cannot move back from Stage 3 to zero delinquency instantaneously. That will always be a time lag between them because they cannot afford to pay two or three installments in one go. So, to that extent, whenever there is a movement of a customer to Stage 3 and then progressively, he moves back. It will take a few months or quarters to get over and come to the zero-delinquency level.

The large chunk which we saw was on account of the Stage 3 movement in Q1 last year, which had a larger impact. And as we keep moving off that Stage 3 book and resolving them, we will

see a good amount of traction in the reduction in the variance between the GNPA as per RBI and the Stage 3 as per what the ECL models are there. So, to that extent, you will see some more reduction, but I do not think the variance between these two numbers can be completely eliminated.

Arul Selvan:

Just to add, see, 1b and 2b, which is basically a Stage 3 at some point in time, they have come back to lower bucket. So, for such customers, we cannot do anything other than just riding them or educating them that you are considered as NPA. But till 30th September, as per RBI and as per bureau, they were not considered. From 1st of October, it is applicable, and Bureau also will start flagging them as NPA and if that is happening. That happened, then only there will be some pressure on the customer. Otherwise, customer will say that I was actually in 90 dpd, I have come down.

So, we cannot put any undue pressure on the customer. We can only just go and say that time come out of the flagging of 2b and 1b, because you have touched the 90 plus at some point in time. And during the previous period, there were a lot of good customers went up and we have to give some adequate time. Maybe after one year when things are actually better. Obviously, every customer who is actually has come down from, say, 90-plus to 60 and 30. Obviously, he would like to pay. He or she would like to definitely go down to 0 level of delinquency.

Moderator:

Thank you. Reminder to all the participants to limit the question to only one per participant. Should you have a follow-up question, please rejoin the queue. We have the next question from the line of Ashwani Kumar Agarwalla from Edelweiss Mutual Fund. Please go ahead.

Ashwani K. Agarwalla:

Sir, if we look at your spreads for last three, four years, the spread started increasing post Q2 FY '21 when we had ample of liquidity in the system. Now interest rate has been normalized. Liquidity has been spread out again. So, do we see the NIMs on AUM going back to 6%, 6.5% trajectory on a steady-state basis?

Arul Selvan:

See, the NIM improvement is when cost of funds comes down, there is also a pass-through to on the yield. So, to that extent, this thing happens and when again, the cost of funds moves up, we will again progressively increase it. We spoke about it a few minutes back at the same call. So, such cycle happens, but there will be a certain amount of time lag between these two happening.

So, to that extent, you will see some drop in NIM over the next few quarters, one or two quarters. And then as the book changes with regard to the marginal yield catching up with increase on the fixed rate book and with regard to the change in rate on the floating rate book, then we will catch up.

So, we will certainly not let go of the NIM aspect of a certain product. Again, as I said earlier, based on product mix, the NIM will change. For example, if we focus more on 2-wheeler the

NIM may look very attractive, because the yield is high. But then the opex will be higher because of the small ticket loan. And to some extent, the NCL will be high.

So, I mean my request is when we have such a wide product range with deferring yield levels, the focus is better to be on the ROTA rather than the individual line items of NIM yield, NIM, opex, etcetera.

Moderator: We have the next question from the line of Abhijit Tibrewal from Motilal Oswal Financial Services. Please go ahead.

Abhijit Tibrewal: Congratulations on a healthy quarter. Sir, my question is for Ravi, sir. Sir, I understand you might have covered it briefly when you were answering to the first participant my line had dropped off. So, in case it is a repetition please, let me know. Sir, just trying to understand, I mean the competitive landscape that is there today, is it allowing you to take increase in yields on your incremental lending? Or is there a reason to kind of watch out this space in terms of how the competitive landscape evolves and what kind of yield increases we will be able to take on the incremental lending in vehicle finance?

Ravindra Kundu: So, we have been successful in increasing the yield of the marginal book, because we are deeply rooted in small branches. Tier 2, Tier 3 town that competition is not there. And if the numbers have started growing further in this year to Tier 3 town, which is a reflection of the improvement in rural demand, obviously, we have been sufficient to sustain our growth in terms of marginal book yield, and it has been as far as of now.

But it is also depending on the product mix. It is the heavy commercial vehicle or light commercial vehicle, growing faster as compared to small commercial vehicle or tractor then we need to maintain the market share in each and every product line. Suppose if heavy commercial is growing faster and we maintain our market share, then it also starts impacting on product mix freelance. So, this is depending on the geography, product, and the mix of the product. Till now, we have been successful, and we are expecting that we will continue to do so at least for this financial year.

Abhijit Tibrewal: This is useful, sir. And then my last question is for Arul. Sir, while we understand that RBI has very clearly said that under the new RBI circular, IRAC norms and IndAS guidelines will be very, very different. Given that the implementation date of the circular was October 1 and given that now those loans will have to be tagged as GNPA, which they were not required to be done until, let us say, 30th September. Under IndAS, I am just clarifying, under IndAS, will there be any change in accounting norms in terms of recognition of interest income or the way you do provisioning?

Arul Selvan: No. The IndAS was on a loss given default or the probability of default, these are done based on the past history or past experience of each product line of the subproduct line that we do. So, we have to take the loss given default of each of the subproduct, and that is how we calculate what

is the LGD if a product touches 90, now if we can also take the same approach we have taken when we did the 1b, 2b also. When the product touched 90 and moved back to 60 or when you have between 30 to 60, how has been LGD and that how we have already calculated and put the differential provisioning under ECL also for the 1b and 2b.

Now there is differing views in the industry on how to treat this, should we align Stage 3 to gross NPA itself as per RBI is a view that the industry will and then the auditors and the other participants in the industry and maybe the regulator themselves may come up with. Because prior to these guidelines, the view of RBI has been to sort of align Stage 3 and NPA as per the old norm said. But here they have categorically mentioned that it need not be aligned. However, again, the regulator can take a stance differently. So, we are keeping our options open with regard to how to account this. But right now, if you look at pure IndAS, the way we have accounted is what it needs to be done.

Moderator: Thank you. We have the next question from the line of Umang Shah from Kotak Mahindra AMC. Please go ahead.

Umang Shah: Congratulations to the team on a good quarter. Just one question on the asset quality front. Now it might be a little early to call out on the asset quality performance of the new portfolio, but based on your initial experience, how should we look at the steady state credit cost going forward given the fact that the share of new businesses will only increase in the overall asset base? So, will our asset or the credit cost steady state credit cost experience be materially different from what we have seen in the past? Just wanted to understand that.

Arul Selvan: See, what we need to look at is each business, you need to look at the credit cost in line with that business so this is exactly why I said that even in the earlier context with regard to the yield and the NIM part, that each business will have a different yield and it will have a different opex and different credit costs.

Now the new businesses will certainly turn out a much, much larger yield as compared to the traditional businesses. But their opex will be more and their credit cost will be higher. So, the ultimate aim is to get a ROTA which is allocable to all its stakeholders. That is what we will endeavor to. And that is the whole point of having a diversified mix of products.

So, we are not getting impacted by one factor on the P&L line. So, we will work towards that. So, if you look at it as an independent line-item credit costs may go up as we move up the slightly higher risk book. But our ROTA will be better because these are actually ROTA attributed to the existing businesses, the new businesses.

And again, as Kundu was saying earlier, we are not going to scale up these businesses like how we have always been doing in any new product, we will be testing the market, experiencing the product, and then scaling them up as we go and get comfortable to product by product, customer

by customer, geography by geography. That is how we will scale up this business. And as we scale up, we will make sure that they give us the ROTA that we endeavor to reach.

- Umang Shah:** Perfect. And just one data point, what were the write-offs for the quarter?
- Arul Selvan:** Write-offs, one minute I will try and take it out. So, write-offs have been in the range of around INR 80-odd crores.
- Moderator:** Thank you. We have the next question from the line of Pranav from Rare Enterprises. Please go ahead.
- Pranav Tendolkar:** I just have two questions. One is that I understand that your LGD is much lesser in vehicles business. But why not just provide for whatever is due after certain days in that business also and take PCR to say, 60% to 70%? That is first. Also, second question is that what kind of precautions or questions the Board is asking management where the new lines of business have been growing very fast. And why not let them have some maturity and then take a call before scaling it up to a big level? Thanks a lot, sir. And congrats for the good set of numbers.
- Arul Selvan:** With regard to the first question, it is not unlike the earlier period under IndAS, the way we need to provide is much more determined by past experience, and we do not have that much independence to simply say that I will add up more provision or I will provide less. It is based on your book's performance in the past. So, we need to stick to that.
- Actually, COVID related period, we have kept this management overlay outside this, and that is how we are carrying the extra provision. And even now right from media, et cetera, there have been questions on how we need to fall in line with IndAS with regard to the management overlay by itself, on which we will work. I spoke about it in the early part of this conversation. Now on second question, I think the conservation of the Board with us I think that is private to us, I would not want to give that information.
- Pranav Tendolkar:** Right, I meant to say that what kind of precautions you are taking? So prudent we would be just to originate some book and then let it mature over to 1 or 1.5 years and then scale it up because whatever said and done...
- Arul Selvan:** No, we are in line with whatever is the direction of the Board and as the senior management we take this and implement it.
- Ravindra Kundu:** Yes. Just to add the way we are expanding, if you see that we have been given the front of the branches to reach in every business. In the vehicle finance, we have 1,100 branches. So as of now, in the CSEL business, we are now operational in the less than 1/3 of the branches. In the home loan also, first, we have done South Zone for last straight seven years. And now only we started expanding into East, West, North. And within the East, West, north also, we identified which are the states, which are the customer segment, what are the type of property.

So, it is not that we have just expanded, we are going by geography, going by the customer segment, going by the product offering. And once we are tested in a particular bigger town, then we go to a smaller town. So, all 3 new businesses like CSEL, SBPL and SME, the growth in terms of volumes are looking high because the industry size itself is very big.

Like for example, CSEL industry. Our market share as of now is 0.5% because that industry is very large. And if you want to do it in, say, 1/3 of the branches also this volume will come. And if we are going to in a town and if you are not addressing all the customers if you are going in a traditional way and if you are not attending all the DSA, then you will be negligible player in that town. So wherever, whichever town we are going, we are trying to basically reach out to all the lead sources for taking that loan.

And in terms of the quality, so like, for example, CSEL, they are bounced back because it is significantly lower than the industry and although it is yet to be matured in terms of the portfolio size and book, but we are far ahead in terms of quality. So, both quality and size of customer and in terms of growth, we are very cautious, and we are moving very slow.

Moderator: Ladies and gentlemen, that was the last question that the management could answer today. I would now like to hand the conference over to Mr. Nischint Chawathe for closing comments.

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

Vellayan Subbiah: Thank you, thank you everyone. Goodbye.

Arul Selvan: Thank you. Thank you.

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