



“Cholamandalam Investment and Finance Company  
Limited Q4 FY’18 Earnings Conference Call

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

**Moderator:** Ladies and Gentlemen, Good Day and Welcome to the Cholamandalam Q4 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 telephone. Please note that this conference is being recorded.

I would now like hand the conference over to Mr. Nischint Chawathe of Kotak Securities Limited. Thank you and over to you, sir!

**Nischint Chawathe:** Thanks, Stanford. Hello, everyone and welcome to the 4Q FY’18 Earnings Conference Call for Cholamandalam Investment and Finance Company Limited.

To discuss the “Financial Performance of Chola” and to address your “Queries”, we have with us today, Mr. N. Srinivasan -- Executive Vice Chairman and Managing Director; Mr. Arul Alagappan -- Executive Director; Mr. Arul Selvan – Executive Vice President and Chief Financial Officer; Mr. Ravindra Kundu -- President and Business Head (Vehicle Finance); and Mr. Rohit Phadke -- President and Business Head (Corporate Finance, Home Equity, and Home Loans).

I would now like to hand over the call to NS for his opening comments.

**N. Srinivasan:** Thank you, Nischint. Good morning, friends. I have great pleasure in presenting you the financial year ’17-18 performance of our company. At the outset, I am happy to state that the company ended the year with its highest ever disbursements and profits, preceded by a spectacular performance in Q4. The company registered a very good performance in all critical parameters, disbursement growth, net income margins, profit before tax, ROTA, return on equity and reduction in net credit losses and non-performing assets.

I will be presenting the “Company Performance” first followed by the “Performance of Vehicle Finance, Home Equity, and Other Highlights.”

I will also be providing comparative data with reference to the performance of last year. Comparative performance figures with reference to Q3 of current financial year can be separately provided.

Q4 Performance: The company had yet another stellar quarter with highest ever disbursements and profit before tax per quarter. Disbursements for the quarter were higher at Rs.8,007 crores registering a growth of 54% and profit before tax for the quarter was at Rs.439 crores registering a growth of 30%. The Vehicle Finance business grew by about 55% in terms of disbursements and 62% in terms of profit before tax. The Home Equity business grew disbursements by 48% and PBT by about 35%.

I will go to the Full Year Performance: Aggregate disbursements for the year were higher at Rs.25,114 crores compared to Rs.18,591 crores, registering a growth of about 35%. Assets under management grew by about 25% at Rs.42,879 crores compared to Rs.34,167 crores in FY'17. Total income for the year was higher at Rs.5,425 crores against Rs.4,660 crores, recording a growth of about 16%. Profit before tax for the year was also higher at Rs.1,483 crores compared to about Rs.1,106 crores, recording a growth of 34%. PAT grew by about 36% and was at Rs.974 crores. PBT ROTA for the year was at 4.6% compared to 3.9% achieved last year. For the first time PAT ROTA crossed 3% mark. Return on equity moved up to about 20.69% as against 18.07% last year the same time. Consolidated PAT is at Rs.976.46 crores and grew by about 36%. We also added about 170 branches during the year, taking the total tally of branches to about 873.

The highlights of this year's performance is reduction in non-performance assets: Aggressive collection efforts undertaken by us aided good results. The gross NPA at the end of FY'18 declined to about 2.9% compared to 4.7% at the end of last year. In absolute terms, the GNPA as of March '18 were about Rs.1,278 crores as compared to Rs.1,617 crores as on March 2017, a reduction of about Rs.339 crores. Likewise, net NPA was lower at 1.7% at the end of FY'18 compared to about 3.2% at the end of last year. Provision coverage ratio improved about 43.5% as compared to 31.6% last year.

I move on to the performance of Vehicle Finance: Vehicle Finance turned out a spectacular performance with an all round improvement in disbursements, asset growth, net income margins, profits and substantial reduction in non-performing assets. The profits of this business crossed Rs.1,000 crores mark for the first time. Disbursements for the year were higher at Rs.20,540 crores compared to about Rs.14,475 crores last year, registering a growth of about 42%. This was achieved through a strong growth across product lines, namely, HCV, LCV, Mini LCV and Used Vehicles, Tractor and other segments. The business recorded PBT of Rs.1,023 crores as against Rs.680 crores last year, recording a growth of 50%. Net income margin for the FY'18 was higher at 8.9% compared to about 8.4%. Net credit losses were lower at 0.9% as against 1.4% last year. The PBT ROTA moved to about 3.9% from 3.2% recorded a year ago. The GNPA declined to 2.04% from 4.18% with provision coverage improving to 44.4% from 32.7% on YoY basis.

Now, I move on to Home Equity Performance: Disbursements for FY'18 were higher at Rs.3,174 crores compared to about Rs.3,056 crores, registering a growth of about 4%. The business recorded PBT of Rs.238 crores compared to about Rs.207 crores last year, registering a growth of about 15%. GNPA declined to 5.36% from 5.98% with provision coverage improving to 40.2% from 30% on YoY basis. In this business, the recovery proceedings under SARFAESI and also the execution of several arbitral awards are in advanced stage in many cases and we expect most of these cases to be resolved in the current financial year. On the whole, it was a very satisfying, good performance by all the divisions. Capital Adequacy: Capital adequacy ratio at the end of FY'18 was comfortable at 18.33%, Tier-1 is about 13.2%.

Me and my colleagues would be happy to answer questions. Thank you.

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

**Digant Haria:** Sir, we have closed this quarter at literally 23.6% ROE. So this is probably the highest that a vehicle finance company has got in the last five years, so congrats on that. Wanted to know that, our growth rates have also accelerated like the last quarter we are at 25% kind of an AUM growth, so will we be needing capital because our tier-1 is now at 13%, I understand we have high ROE but like do you see a need for capital raise?

**N. Srinivasan:** For 25% growth next year, I think we do not require any capital because the entire accruals are being ploughed back, so we have to wait, as of now, we have no plans of raising capital.

**Digant Haria:** My second question is in our growth pattern I can see that East India has contributed very significantly to our growth like the East India has grown at a much faster rate than the other part of the country. Is it more of the geographic expansion we did in the last two years there, right, or is it something special happening there?

**Ravindra Kundu:** East and North has been a bigger growth industry for the vehicle finance or commercial vehicle segment for the country itself. We have mostly equal number of branches across the country; we have around 220-230 branches across all the zones. So therefore, it is equally distributed, but we get the benefit because East and North are growing faster in terms of industry.

**Digant Haria:** Ravindra, one more question for you is that, in 2011-12-13 we had great growth and we had some problems of overinvoicing and LTVs going up, do you think that Chola in specific industry as a whole is a little more mature this time or we are seeing some aggression now on the street specifically when it comes to HCVs?

**Ravindra Kundu:** In Heavy Commercial Vehicles now, the industry is basically mature, they are doing enough discounting and all the finance companies are also discounting to the overall invoice, and after the GST, that scope is also not there.

**Moderator:** Thank you. We will take the next question from the line of Anirudh Agarwal from AAA Investments. Please go ahead.

**Anirudh Agarwal:** Sir, my first question is, what is the outlook on the cost of funds going forward?

**Arul Selvan:** There is a lot of volatility in the market, but what will happen is that for the current year we still feel we will be in a better situation, because what is running down is most of the high cost loans taken two years or three years back, so we will still have some room for this, and we will also be leveraging on the securitization route, etc., to keep our cost down, but we need to wait and watch to see how it pans out.

- Anirudh Agarwal:** Because in this quarter I think we resorted to a lot more bank borrowings versus the debt markets, so...?
- Arul Selvan:** Yes, because as you know, this Q4 was very volatile, so we wanted to resort to bank borrowings.
- Anirudh Agarwal:** What will be your marginal cost of funds currently?
- Arul Selvan:** We are right now doing at around 8.28-8.3%.
- Anirudh Agarwal:** Secondly, currently what do you think is the biggest risk, I mean, on guidance and growth?
- N. Srinivasan:** As far as growth is concerned, it appears to be that there are lesser risks because the industry is doing well. The key risk maybe in terms of cost of funding, actually the inflation goes up and then the rates go up, there is a possibility that the funding cost may go up, to my mind, that seems to be the biggest risk.
- Anirudh Agarwal:** In a scenario let us say when our cost of borrowings are going up, do we see it has a possibility that we will be able to pass on some of that increase or the competitive intensity would not allow that?
- N. Srinivasan:** It is a very difficult question to answer because one is cost will go up for everybody and the cost goes up it does not go for me wrong. So we will try to pass it on where it is possible to pass on. Where it is not possible to pass on because you will compete with the SBIs, HDFC Bank and IndusInd Bank, along with the other strong players. Wherever it is possible, we will pass it on, wherever it is not possible we may have to absorb.
- Anirudh Agarwal:** So just harping on that a little bit, on the Banking side, in the last two or three years, have we seen a significant increase in competitive intensity from the banks?
- N. Srinivasan:** Not every bank is actually playing in this segment, there are some banks who are quite aggressive with this vehicle finance segment, they continue to play quite strongly.
- Anirudh Agarwal:** The final question on your OPEX going forward. I think this year is a little high, but what would be your anticipation going forward?
- N. Srinivasan:** We are reporting OPEX actually in the total expenses as a percentage of average assets. If you look at the expenses as a closing asset, actually does not come, it has not gone up. The last quarter actually disbursement has been about Rs.8,000 crores and then there is a lot of acquisition cost, etc., Going forward, actually we will redefine this ratio and then come back. The last year if you see our difference between average assets and closing assets was almost nil, both were about Rs.28,000 crores. So this year our average assets are Rs.32,000 crores, closing assets is Rs.37,000 crores. So actually we did not want to just change this right now at these points and we have been reporting like this. So OPEX is under control in my view.

- Anirudh Agarwal:** Right now we are at Rs.43,000 crores of AUM. So as we grow to 60,000 crores or 70,000 crores in the next couple of years, the size become a constraint in the NBFC form. Do we have to shift to ...?
- N. Srinivasan:** No, Shriram is actually Rs.90,000 crores. Do you see this a constraint? So, I do not think it will be a constraint. We will run the NBFC like a bank, so even Rs.2 lakh crores, I do not see a constraint.
- Moderator:** Thank you. We will take the next question from the line of Amit Premchandani from UTI Mutual Fund. Please go ahead.
- Amit Premchandani:** On the commercial vehicles front, there is a GST element when the borrowers find the vehicle and he is getting input tax credit also when he is giving the vehicle as a servicing. So how does this change the equity of the borrower in the overall vehicle given that he is getting a large credit over a two year period and does this impact the quality of the portfolio were a long-term given the equity that he has put in the vehicles, he is getting it back through input tax credit?
- N. Srinivasan:** Actually this is something which is not impacting us, I do not think we will be able to answer. You are asking a question from the perspective of an individual. Arul will answer this.
- Arul Selvan:** Actually in this case what happens is most of the freight forwarders do not have to pay service tax themselves, so for them the credit will be GST themselves. Even earlier end of the service tax regime as well as under the GST regime, it is a reverse charge mechanism. So for them this is the cost and there is not a credit for them available.
- Amit Premchandani:** For the captive customers who are having the...?
- Arul Selvan:** There it is.
- Management:** That is useful, but I have calculated because the freight which they are actually incurring the cost wherein this continue to be get adjusted, it gets adjusted in four to five months itself, so it is not going to be a bigger benefit to such customer actually, input credit for the fleet owners.
- Amit Premchandani:** So does it not change the LTV per se of the portfolio, realty as compared to...?
- Ravindra Kundu:** No-no, there is no change in LTV from the financier point of view to the customer, we are not changing any LTV.
- Arul Selvan:** We take the total invoice value for our LTV calculation.
- Moderator:** Thank you. We will take the next question from the line of Ashish Sharma from Enam Asset Management Company. Please go ahead.

**Ashish Sharma:** Sir, just on this vehicle finance performance, it has been a spectacular quarter for Chola. Just on sustaining the momentum, just some color on that. We have seen that the momentum has been across segments. Do you see this kind of momentum maintaining across segments in FY'19? We have done PBT of around 3.9%. Do you see sustaining these would be possible for us or could we see an improvement or could we sustain them? So, at this moment for FY'19 clearly, we do not need to raise capital, but FY'20 we might still have to raise capital?

**N. Srinivasan:** First question actually, our efforts will be to sustain this growth and profitability momentum. At this point of time, I can say that our efforts will be to maintain this. Second is for the following year, whether capital is required, it is too early to say. So '18-19, you yourself said there is no capital required. '19-20 we will require or not, it is too early to say, we will have to wait and see.

**Ashish Sharma:** On the PBT ROA performance for vehicle finance business, do you think we can sustain that?

**N. Srinivasan:** Our efforts will be to sustain that.

**Ashish Sharma:** On the segment wise, what are the segments where you think that the momentum is structural and will sustain, we have seen that CV segment has done well, so do you see these kinds of segments will sustain the momentum for Chola?

**N. Srinivasan:** CV industry as you know in '17-18 has grown by about 20%. If you speak to the OEMs, we are talking of the same or bigger growth number for the next three, four years. So similarly, construction equipment also has been growing and Tractor industry also has grown. Then we are not only into new vehicles, we are also into used. There are several levers, several segments, I think therefore growth should not be an issue.

**Moderator:** Thank you. We will take the next question from the line of Kunal Shah from Edelweiss Securities. Please go ahead.

**Kunal Shah:** Firstly, when we look at the fleet operators cash flow, so obviously with the recent hike which has been there in diesel and that is really difficult to pass it on by way of freight rate hike, so do we see any kind of concern on the asset quality going forward the way the behavior of the freight rates and the diesel prices have been?

**Ravindra Kundu:** One is that the productivity or the capacity utilization of the transporters improved and the transporters also using higher tonnage vehicles to compensate the diesel prices going up and a little bit freight also has gone up, so all put together as of now the transporters are making money, there is no concern.

**Kunal Shah:** So there is no decline in the cash flows for them?

**Ravindra Kundu:** No.

**Kunal Shah:** Secondly, across all the segments, is there any segment wherein the competition intensity is very high and we could see any kind of a change in the proportion of our overall portfolio, either be it maybe a higher competition or maybe the opportunities which are coming in because of the replacement demand either on the refinancing or the older vehicles, so do we see either the older vehicles and the refinance proportion also going up from say 26% as of now, so any change in the loan mix over two year, three year period?

**Ravindra Kundu:** We are trying to actually focus more on the used and the older vehicles segment, but as you mentioned that the competition is there, so we will try to maintain the mix, as of now the disbursement mix is around 30%, so we will try to actually maintain that. That is the product helping us to achieve the yield so we will try to do that.

**Kunal Shah:** Yes, so the only thing is if that proportion goes up, then should it help eventually in terms of margin expansion as well?

**Ravindra Kundu:** We do not want to increase very significantly also because it has got high risk as well, so we have to maintain at a point wherein we can maintain the portfolio quality.

**Kunal Shah:** Amid this entire growth which is coming in across the players, are we seeing any kind of a dilution in LTV or underwriting, maybe there is a pricing war, but has there been any kind of increase in the LTV maybe on chassis obviously it was 100% but now on body also it is moving up, are we seeing that kind of a trend?

**Ravindra Kundu:** Growth is coming because industry is growing, so therefore there is no dilution from anybody side. If growth would have come without the industry growing, then that question would have arrived. I think everybody is trying to ensure that the NPA book coming down and all the finance companies or banks are working hard, those who are bigger players in the commercial vehicles segment, if you see that somehow all of them are trying to reduce, focus more on collection and collection is only segment which is very important in our business, so we will continue to focus collection and as well as continue to maintain our portfolio quality, that will be our efforts.

**Kunal Shah:** Lastly, in terms of home equity, so you have touched upon it briefly, but now given that it is almost like 2.5% ROTA and given the credit cost has been quite low, so are we seeing this stabilizing and we should see the growth coming back into this segment or maybe home equity portfolio would remain kind of flattish on say for another 1.5-2-years?

**Ravindra Kundu:** Definitely, we see growth coming back...it has already come back, if you see the Q4, disbursements have crossed about Rs.800 crores actually and if you see the OPEX cost this year may be slightly higher because we have taken more people now. This product from 100 locations we will be offering in about close to 200 locations, so you will definitely see this segment growing from now onwards.

**Kunal Shah:** So when do we see it getting back to 15-20% trajectory?



- Ravindra Kundu:** In Q4, if you see it has already gone into that.
- Kunal Shah:** So maybe AUM would also move towards with the consistent disbursement growth?
- N. Srinivasan:** '17-18 drop in AUM because of lot of pre-closures. If the margins are coming down, for certain customers we do not hesitate to be closed because definitely the demand is coming back for this business, lot of working capital requirements are felt by the SMEs, so therefore we do not see any issue in seeing growth in disbursements.
- Moderator:** Thank you. We will take the next question from the line of Nishant Shah from Macquarie. Please go ahead.
- Nishant Shah:** Just any qualitative comments that you would like to give on pricing pressure, like a couple of other players, banks notably have really flagged off some competitive pressures which is driving yields downwards. So could you share your thoughts on which product segments are being affected, any geographies that are being affected disproportionately more? Who exactly is being very aggressive – is it the PSU banks which are coming back in a big way?
- Ravindra Kundu:** Commercial Vehicles side, if you see heavy commercial vehicles have been always the price sensitive product and it continues to be like that. When fleet owners and the captive customers are buying, there has been a huge competition especially among the private banks, followed by the two, three big NBFCs and captive finance companies. Heavy commercial vehicles will be remained as more rate sensitive product followed by light, in light, there are two, three categories, so intermediary commercial vehicles which is closer to the medium duty commercial vehicles, starting from 7,500 Kg to 16,000 Kg, that segment also is going to be slightly competitive and Cars, UV have been competitive. So these are the products which is going to be price-sensitive. The price where we can actually hold it are the older vehicles but then there also have been lot of new players have entered into it, let us see that how it goes out, and it is also associated with risk as well.
- Nishant Shah:** Any comments on PSU banks – are they being more aggressive in the personal vehicles segment or something?
- Ravindra Kundu:** They are only in car segment.
- Nishant Shah:** Not so much in CVs?
- Ravindra Kundu:** Not much in CVs.
- Moderator:** Thank you. We will take the next question from the line of Umang Shah from HSBC. Please go ahead.
- Umang Shah:** I have got two questions; a related question on OPEX is without getting into ratios, already Srinivasi has kind of touched upon that, but if I just look at our AUM growth this year, it is about 25%

and OPEX growth is about 27% and if we believe that our OPEX trajectory is pretty much under control, then is it fair to assume that going forward both these lines will kind of track each other?

**N. Srinivasan:** I think it is a reasonable assumption. I have gone on record earlier also that this year our efforts will be to spend whatever is required to bring down the NPAs under control and this year also we have added close to about 117 branches, the last which we have been doing in the last three, four years. So these costs and then some other costs are also being incurred on technology, analytics, etc., they are all initial costs. So we are looking at the medium-to-long-term picture, that for whatever is really required those expenditure need to be spent to build and take the company for growth. So that is the reason why the expenses have been slightly on the higher side and our aggressive spending, collection has paid off. But to answer your question, I think whatever you have said can be taken as correct.

**Umang Shah:** We have been opening about 170 branches for two years now. What is the branch expansion plan for this year?

**N. Srinivasan:** As of now, probably for the first few months, we will take a pause, whatever branches we have set up, we will try to bring it online because there is a good growth opportunity. Maybe in the second half we may think about setting more branches, that time we can communicate.

**Umang Shah:** The second question was on our credit cost. So clearly, our full year credit cost has come in at about 100-odd basis points and I think this is our best ever given the fact that we have migrated to 90-days NPL recognition. Do you believe that there is scope of further improving this or even sustaining this you think would be a good enough thing going forward?

**N. Srinivasan:** Our efforts will be to better this but unless finally money comes in and then it gets reduced, we would not be able to say anything.

**Moderator:** Thank you. We will take the next question from the line of Antriksh Banerjee from ICICI Asset Management Company. Please go ahead.

**Antriksha Banerjee:** I have two questions; the first is on your MHCV guidance that you are recently providing for the last three quarters, the guidance has gone up from 4% in FY'20 to two quarters back to 8% now. So what are you seeing different from last two quarters which is 4% increase in your guidance in CAGR?

**Ravindra Kundu:** Actually, this is the estimation for up to '22.

**Antriksha Banerjee:** To put it more qualitatively, have you seen the MHCV industry lot of momentum in the last two quarters made you more bullish for up to '22?

**Ravindra Kundu:** Yes, we have seen that three, four important drivers; one is that there has been impact on the overloading, there has been hub-and-spoke model is actually growing faster, then there is demand in infrastructure side, construction side, tipper side, there has been huge increase in the

tipper segment, there has been growth in trailer segment. So all put together, if GDP is also improving and sustaining at the higher level for next two, three years, we will...

**Antriksha Banerjee:** Overloading and all, you do not see it has already in the pace, so you think overloading will drive demand going ahead also?

**Ravindra Kundu:** Overloading has been banned, yes, will drive demand, this particular forecasting is based on the forecasting of SIAM and CRISIL report, it is mentioned in the bottom, and we have also given the details also on the bottom of the chart.

**Antriksha Banerjee:** On your securitization book which has been largely flat, so I assume you have been able to raise a lot of funds at lower rates this quarter. What do you look at this going ahead – will you expect the securitization book to increase if rates rise?

**N. Srinivasan:** It is a treasury decision. As you know, many of our assets qualify as priority sector. So we get opportunities to sell this and funds at a cost advantageous terms. Our requirements of borrowings 20-25% we can look at from securitization.

**Antriksha Banerjee:** How much do we typically make on securitization, what spread?

**Arul Selvan:** Around 100 bps to 120 bps depending on the nature of asset.

**Antriksha Banerjee:** What is our employee count as of now?

**Ravindra Kundu:** We do not give this number.

**Moderator:** Thank you. We will take the next question from the line of Shweta Daptardar from Prabhudas Lilladher. Please go ahead.

**Shweta Daptardar:** Sir, as far as the peculiar banks categorization is concerned, so this particular quarter, the momentum from D to E and C to D has been that sluggish. So anything to read into that?

**Ravindra Kundu:** The branches are new basically, we have just opened 170 branches in this year and last year also we opened around same number, because of that only. That is the reason we are slightly taking some more time to wait for these new branches to come up and start delivering up to that and then only they will move to E to D and D to C, our focus will be to convert most of the branches from E to D and D to C and that is going to be this year target for us.

**Shweta Daptardar:** As far as home equity GNPA's are concerned, so we started around 6% a year ago, it has come down to 5.4%. So also understand the fact that NPA resolution there takes a bit longer. But where do you see this GNPA number on the headline front going to?

- N. Srinivasan:** I have said in the opening comment also that there are several cases are in advanced stages of resolution. So it can go down by 1%, 1.5% or even 2% possible depending upon how speedily we are able to resolve this.
- Shweta Daptardar:** So you cannot quantify exactly where?
- N. Srinivasan:** Yes.
- Shweta Daptardar:** Definitely there will be a decline on this front?
- N. Srinivasan:** That is sure.
- Moderator:** Thank you. We will take the next question from the line of Dipen Sheth from HDFC Securities. Please go ahead.
- Dipen Sheth:** I have more of a qualitative question which has been partly addressed in one of the earlier queries. So the key thing here on the way I see is particularly in the vehicle finance slice of the business, in which sub-segments are we noticeably gaining market share, that would be very important qualitative data point to have?
- Ravindra Kundu:** In commercial vehicles, we have been a major player in light commercial vehicles and small commercial vehicles. We are maintaining our forte of light and small commercial vehicles...
- Dipen Sheth:** If you can take names, who is losing market share there?
- N. Srinivasan:** We do not have data and I do not know whether it is possible to say this.
- Dipen Sheth:** So LCVs, HCVs is where we are gaining market share is your sense?
- Ravindra Kundu:** We have gained in heavy commercial vehicles as well, but in light and small we are maintaining our strong leadership, that is what we can say.
- Dipen Sheth:** The Used Vehicles portfolio is also growing faster than system?
- Ravindra Kundu:** Yes, Used and Refinance has grown; the disbursement has been as against the overall portfolio of 26%, so it is growing faster than the mix of the portfolio.
- Dipen Sheth:** So I am assuming there is market share gains there as well?
- Ravindra Kundu:** In the Used as well, yes.
- Dipen Sheth:** I do not think it worries me, but it is just worth noticing, so we have had a fabulous year for Tractors in the country, but there are you consciously holding your horses?

**Ravindra Kundu:** Yes, we are doing it selectively in the select product, select market, so tractor is highly depending on monsoon and is also depending on the market dynamics, so we are cautious in selecting the fast moving item of specific manufacturer in specific markets, that is how we are building the book and we have been doing it this year, last year as well.

**Dipen Sheth:** If I look at your GNPA numbers, so after peaking out at about Rs.1700 crores in the first quarter of this financial, I am looking at absolute numbers, I do not want to get misled in view of the heavy growth that is happening, I am not looking at the percentage, so Rs.1700 crores to Rs.1261 crores or whatever it is at the end of this quarter, so when absolute GNPA's fall, without very large bump up in provisioning, so obviously your aggregate provisioning, so you are not even taking write-offs, there is obviously a very big healing which is playing out in your overall book if I may say so? I remember during the good times, this percentage terms this used to be as little as 1-1.5%, we are still at a headline number of 3%. So are these good times likely to continue for another three, four quarters, what is the sense you are getting from the business?

**Ravindra Kundu:** I think if the economy continues to do well or if the economy does not go under, our efforts may succeed.

**Dipen Sheth:** Yes, knowing the pedigree of the lending that is happening here, I think if the system begins to improve, then you will be one of the best beneficiaries and we are all getting excited from headline number of 4.73 going to 2.94 or whatever in four quarters, but I am saying maybe there is another 200 bps to lose here or maybe 100-150 bps over the next year, that is the sense I am getting?

**N. Srinivasan:** There are two aspects here – one is you bring in credit analytics much more stronger underwriting mechanism, therefore you apply a lot of filters, therefore, the yield flow to the NPA pool get reduced. That is we are doing actually, we are gradually improving I would say day-by-day, week-on-week, quarter-on-quarter. Still some more miles to go but certainly we are working overtime on that. But the existing pool have to be cleaned up, that is what actually matters.

**Dipen Sheth:** That is already visible because the GNPL number could not have come down unless the existing pool was doing very-very well. It is very exciting I can tell you this much.

**N. Srinivasan:** Thank you. This gives a lot of encouragement for us, Dipen.

**Dipen Sheth:** I will take a small liberty here which is that you have already said that vehicle finance is not a business where you are going to feel that you hit all that you could have hit or even that you are partly penetrated into this market and there are many-many years of growth to come. But beyond vehicle finance and home equity, are you seriously looking at other fat verticals to enter into even if in a small way over the next 6-12-months?

**N. Srinivasan:** No.

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

**Ankit Choudhary:** My question was regarding this AUM statewide. So QoQ basis, the AUM in Haryana and Gujarat has declined by around 10%. So any reason for that?

**N. Srinivasan:** I do not think we can answer this question now, we can come offline if you want, we can check and come back.

**Ankit Choudhary:** My second question was regarding this, though we have been saying that our focus is used and refinance, but the growth in refinancing used has been lower compared to 2Q and 3Q, it has grown by 4% only vis-à-vis 13% and 9% in 2Q and 3Q. So what was the reason for a slow growth in 4Q?

**Ravindra Kundu:** Our disbursement mix which is there in 'Investor Presentation' is showing that our disbursement mix is around 30% as against the 26% of the portfolio at overall level per year. So that means our disbursement has been higher than the portfolio mix.

**N. Srinivasan:** Secondly, we may like to maintain certain balance in the portfolio, so we would have taken some adjustments, some calls based on the status of the portfolio.

**Moderator:** Thank you. We will take the next question from the line of Nidesh Jain from Investec. Please go ahead.

**Nidesh Jain:** On the vehicle finance, we have been very bullish and the ground levels that we are doing has also indicated that the environment is very-very positive, but just understanding how is the economics for small fleet owners and SRTOs is going to work out especially when large fleet operators are expanding their fleets and also we have not seen increase in freight rates despite increase in diesel prices. So any view on economics for small fleet operators?

**Ravindra Kundu:** Small fleet operators are among the all commercial vehicle operators are only owning the maximum number of trucks and they will continue to do so because in India the contracts are given to the fleet owners and then to fleet owners supply it to the small transport operator, and small transport operators capacity utilization is better because they control one or two vehicles sometimes, they are travel-cum-owner. So they manage the economics of the vehicles better than the fleets. So therefore in my sense the fleet operators and the small transport operators will continue to be there in the market in the same ratio.

**Moderator:** Thank you. We will take the next question from the line of Alok Shah from Centrum Broking. Please go ahead.

**Alok Shah:** Sir, just a follow up with the last question on small fleet operators. When I look at the monthly data which is reported by SIAM, we have actually seen a strong surge in 7.5-12 tonnage

segment. What could be the factor that is pertaining to that increase and that is a very big increase even keeping aside the March number?

**Ravindra Kundu:** That is the vehicles comes under the light commercial vehicles, known as (ICV) Intermediate Commercial Vehicles and due to hub-and-spoke model growing and after the GST's mislead and due to the build-up demand also, light commercial vehicles sales has gone up significantly. There has been drop in sales in light commercial vehicles in last three, four years which is actually now getting covered. If you see the CRISIL and SIAM report, which we mentioned in the light commercial vehicle segment, it will further continue to grow in this financial year as well.

**Alok Shah:** So, this is more coming under the light commercial vehicles segment and not on the MHCV??

**Ravindra Kundu:** In LCV, there are three segments; 2.5-ton and above to 5-ton and then 5-7.5 ton and then 7.5-12.5 ton, this comes under the intermediary commercial vehicles which is growing faster.

**Alok Shah:** So the last mile connected is seeing the real good growth?

**Ravindra Kundu:** This is including all like post-GST it has improved...it is actually given in our 'Investor Presentation' all the reason for improvement in the demand.

**Moderator:** Thank you. We will take the next question from the line of Pallavi Deshpande from Smartkarma. Please go ahead.

**Pallavi Deshpande:** Just two questions here; one would be if you could share with us on the home equity business, what is the amount that is ascending under SARFAESI and that you file for? Second would be on the yields for the used vehicles, what are they currently?

**Arul Selvan:** About 40% of the total value of our GMP is eligible for SARFAESI. So major chunk of our GMP is eligible for SARFAESI, where SARFAESI process is at various stages.

**Pallavi Deshpande:** Used or older vehicles we saw that it is growing in line with the new vehicles because the transport operator who is changing his vehicle from say 31-ton-to-38-ton, he is selling it and then the older vehicle transport operator is also changing his vehicle, so there has been demand for higher tonnage vehicle. Both new and old vehicle customers, they are changing it because there is a need for higher tonnage vehicle because there is increase in diesel prices and customer also need to increase the productivity efficiency and specially the cost of operations. So both the businesses, whether it is new or used is actually improving further, same reason which is mentioned in our 'Investor Presentation.'

**Pallavi Deshpande:** Sir, would it be possible to share the yield on the used vehicles, how much is it used to be -20%, 22%?

**Ravindra Kundu:** We do not share the segmental data.

- Moderator:** Thank you. We will take the next question from the line of Paresh Jain from Bajaj Allianz. Please go ahead.
- Paresh Jain:** Just as a follow-up; did I hear you correctly that you said when you are speaking to OEMs, all you expect the MHCV industry to grow by 20% in FY'19?
- Ravindra Kundu:** No, not at all, we mentioned that in our presentation that for FY'22, as per the CRISIL and SIAM report, they are expecting CAGR growth of 8%.
- Paresh Jain:** But you also said na that FY'18 the growth has been 20%?
- Ravindra Kundu:** Overall CV, it includes heavy commercial vehicles, light and small commercial vehicles and the last year the growth was 20% and OEMs are expecting that next two, three years going to be very good for the CV industry.
- Moderator:** Thank you. We will take the next question from the line of Bunty Chawla from B&K Securities. Please go ahead.
- Bunty Chawla:** I have two questions, sir; first, as you said now you are bullish or you have said home equity is back to normalcy and in FY'18 that has not supported too much on the growth path, but in FY'19 home equity comes into the picture. So can we say in FY'19 should be more than 25% growth as well. My second question is in last you have given the SARFAESI number on the home equity participants. Are we seeing any recovery from that in Q4 because the headline numbers on the home equity has declined by 60 bps on QoQ basis?
- Ravindra Kundu:** Yes, you are right, that is the reason why we see a decline in GNPA and that is the reason why we are saying that GNPA will further go down as we see more resolution in there because of SARFAESI.
- Bunty Chawla:** Can you share the number of that recovery in Q4 we have seen on the home equity part?
- Ravindra Kundu:** I do not have the data as of now, I can share with you offline. On the second part, yes, the disbursements will now grow; we will be back to about 15-20% growth in this year for home equity.
- Bunty Chawla:** Vehicle finance will sustain overall we can say (+25%) growth by FY'19?
- Ravindra Kundu:** You can take, yes.
- Moderator:** Thank you. We will take the next question from the line of Jignesh Shial from Emkay Global. Please go ahead.



- Jignesh Shial:** Just two questions; firstly, on the used vehicles segment side, the demand is rising for which year bucket – is it 8-years old, 10-years old, 12-years-old, 15-years-old, where exactly you are seeing the demand is coming up or incremental demand has been rising?
- Ravindra Kundu:** It is between 7-years to 10-years.
- Jignesh Shial:** The second question would be again for the used one. Which tonnage vehicles are basically more into demand side now – is it the same LCVs or it is moved to some HCVs or the trend is similar to the new vehicles?
- Ravindra Kundu:** Almost similar to the new vehicles, but obviously, earlier the trend was the new vehicles, 25-tonners were higher, so 25-tonners vehicles are getting sold to the market as the used vehicles and after that it will actually go to 31-tonner, it will be in line with the same trend of new vehicles.
- Moderator:** Thank you. We will take the next question from the line of Arjun Pasumarthi from Acsys Investments. Please go ahead.
- Arjun Pasumarthi:** My first question is in an interest rate rising environment, floating rate interest scheme will allow you to pass on the higher cost of borrowing to borrower insulating margins. So could you please share data on the percentage of book under floating rate interest?
- N. Srinivasan:** The entire vehicle finance book is on fixed rate, that is how the industry operates. Only the home equity and home loans are on variable rates.
- Arjun Pasumarthi:** My second quick question is how long can you hold on without passing on the interest rate hike to a borrower?
- N. Srinivasan:** Not possible to answer, boss, depending on market conditions.
- Moderator:** Thank you. We will take the next question from the line of Sunil Kothari from Unique Investment Consultancy. Please go ahead.
- Sunil Kothari:** My question is we are seeing good times for vehicle industry commercial vehicles and we are very clear about creating a big size book over maybe next 5, 10-years. Are we thinking about diversifying to any other segment and if not why?
- N. Srinivasan:** First is we are not as of now doing anything else, we want to do something which we know correctly which we know reasonably well. So that is the prime reason which is driving our decision.
- Sunil Kothari:** Because this is a cyclical industry, so in good times you can build up other segment, will it not help you to sustain these types of growth?

**Ravindra Kundu:** There are no industry which has no cyclical implications, even software had cyclical implications, last four, five years have not been good for industry, but I thought we had put up some reasonably good performance. So there is certain amount of capital you can deploy, how effectively you can do. We have to reach certain size in whatever business you do, that is the name of the game today. So any way we will take your suggestion into consideration.

**Moderator:** Thank you. We will take the last question from the line of Harshit Toshniwal from Jefferies. Please go ahead.

**Harshit Toshniwal:** You talked a lot and we know that currently in the vehicles sales overloading norms and stricter overloading norms have actually played a part. What I really want to know that particular phase of this growth from the regulation change would be limited to a particular extent, mainly depending on how much overloading was it happening. So can you qualitatively suggest how long the demand from this particular region be like another 6-months, 10-months?

**Ravindra Kundu:** The demand is coming because of the overloading ban, it is also because of a lot of the infrastructure-related development going on in the country and also there has been steady growth in GDP as well and there is a strong correlation between heavy commercial vehicles sale and the GDP and industrial growth. If the GDP and industrial growth is steadily going up or actually maintaining at 7.5% level or slightly (+/-5%), it will support the commercial vehicles sale as well.

**Harshit Toshniwal:** But the vehicles growth have been much faster that is relative to the GDP even if I look at because of this reason also. So if I generally ask that previously how much was the overloading, so if it was a 25-ton, then on an average how much was the capacity we used to carry?

**N. Srinivasan:** 25-ton used to carry 30-ton. So general norm in the industry in the past was whatever is the (GVW) Gross Vehicle Weight, that used to carry the same. So 31-ton has been 31-ton load, but 31-ton has got the payload of around 25-ton.

**Moderator:** Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Nischint Chawathe from Kotak Securities Limited for closing comments.

**Nischint Chawathe:** Thank you for joining the call today. We thank the management for giving us an opportunity to host the call.

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