



“Cholamandalam Investment and Finance Company Limited
Q3 FY 2017 Earnings Conference Call”

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

Moderator: Ladies and gentlemen, good day and welcome to the Cholamandalam Q3 FY 2017 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 now hand the conference over to Mr. Nischint Chawathe from Kotak Securities Limited. Thank you and over to you, sir!

Nischint Chawathe: Hello, everyone. Welcome to the 3Q FY 2017 Earnings Conference Call of Cholamandalam Investment and Finance Company Limited. To discuss the financial performance of Chola and to address your queries, we have with us today, Mr. Vellayan Subbiah – Managing Director; Mr. Arul Selvan – Executive Vice President and Chief Financial Officer; Mr. Rohit Phadke – President and Business Head (Corporate Finance, Home Equity, and Home Loans); and Mr. Ravindra Kundu -- Executive Vice President and Business Head (Vehicle Finance).

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

Vellayan Subbiah: Nischint, thanks a lot. Basically, we will just go through the quarter number and nine months numbers as on 31st December. Just some highlights for the quarter, we have declared a dividend of 35% that is an interim dividend which is Rs. 3.50 per equity share. The PAT for Q3FY 2017 was Rs. 163 crores that is a growth of 12% over Q3 FY 2016. And for the nine months’ period, our PAT is at Rs. 499, a growth of 33% over the same period last year.

Disbursements for the quarter were at Rs. 4,373 crores which is a margin growth of about 3% over the same quarter last year and NIM has grown by 12% during the quarter. On the ratings front a piece of good news is that Brickworks has assigned us a credit rating of AA+ for NCDs which is good because it is our first AA+ rating.

In terms of GNPA on a four-month overdue basis marginally increase to 3.8% compared to 3.5% and a big driver for this was demonetization. And our NPA recognition process is basically continue as per our existing norm so, we have not taken this additional time that RBI is allowing people to take.

In terms of just getting a bit of business mix – we disbursed about Rs. 3,491 crores in vehicle finance and that was versus Rs. 3,245 crores in the comparable quarter last year and we did increase both heavy’s, on cars and MUVs during this quarter.

Home Equity disbursements I think last quarter itself we had guided that we will be tightening on that front. And Home Equity disbursements were Rs. 619 crores as against Rs. 882 crores so, we have actually come down on the Home Equity disbursements and I think there we will continue to remain slightly tight till we see improvement in the portfolio quality front.

Aggregate disbursements for the quarter were Rs. 4,373 crores like we said. NIM was at 8.4% for the quarter which is marginally declined compared to the same quarter last year that is about 0.1% decreased, that is also a bit due to the business mix because in vehicle finance, we had lesser use on Shubh volumes and less used trucks basically kind of a bit of a yield decline on that front as well.

The GNPA we finished at 3.8% which was slightly higher than 3.5% at the end of previous quarter. OPEX includes a one-time provision of Rs. 28 crores which is towards estimated VAT liability both the tax and the interest components in respect to sale of repo vehicles during the period for 2008 to 2016 in Maharashtra. They still are to raise a demand on us then we will contest it. As you know, some of the banks have taken the matter to the Supreme Court as well but we have provided for it but we will continue to contest and fight that.

The PBT-ROTA reduced to 3.5% as against 3.6% in. For the nine-month period, the ROTA has improved it is at 3.6%, versus 3.2% for the nine months in the previous year.

In terms of demonetization, what has actually resulted is fairly flat disbursement as you can see. And like I said, we have had a slight increase in vehicle and we have seen a decrease in Home Equity. Delinquencies in early buckets has increased due to temporary cash crunch but like we said, we are not changing anything in terms of the provisioning norms which we are keeping at 122 days, without basically taking shelter under the RBI circular. Thus, the NCL for the company for the quarter is at 1.4%.

Capital adequacy ratio is at 19.2% as against the requirement of 15%. The subsidiaries made a profit of Rs. 1 crore for the quarter and therefore the consolidated PAT is at Rs. 163 crores which is a growth of 10% quarter-on-quarter and for nine months it is Rs. 498 versus Rs. 381 which is a growth of 31%.

So, with that, I will stop my commentary and I will be happy to turn it over to the group for questions. Thanks a lot.

Moderator: Thank you. We will now begin with the Question-and-Answer Session. We take the first question from the line of Sunil Tirumalai from Credit Suisse. Please go ahead.

Sunil Tirumalai: I had a few quarter questions. Firstly, just wanted to understand the thinking behind this additional Rs. 5 crores provisions you made for the 90-day transaction?

Vellayan Subbiah: Yes, so, Sunil what we have been doing is every quarter we are starting March 31st last year. We basically started providing for how much we would need to provide were we to move to 90-day so that, we would not have a huge hit at the point when we move to 90 days. So, if we move for example to 90 days and I am not stating that we will but if we were to move to 90 days during March, then the only quarter for which we would have to kind of provide the incremental provision would be for the JFM quarter, for the January, February, March quarter.

So, this is the incremental provision required for 90-day provisioning due to the performance in October, November, December, is that clear?

Sunil Tirumalai: So, because I think the last time we got a sense that Rs. 55 crores you have been carrying was sufficient so, this additional Rs. 5 crores is because of demonetization?

Vellayan Subbiah: What happened in October, November, December.

Arul Selvan: Sunil, the gross NPA at 90 days has also moved up marginally. So, it has moved from 4.59 to 4.78. So, towards that this Rs. 5 crores is the number.

Sunil Tirumalai: Right. And if things do not change much by end of March there should be anything more is that the right reading?

Arul Selvan: Yes.

Vellayan Subbiah: If the GNPA remains the same and the book remains the same then that is the case. GNPA that is the case they join the book size.

Sunil Tirumalai: And any thoughts on I mean have you take and a call if you do it this March or wait for some time?

Vellayan Subbiah: No.

Sunil Tirumalai: And secondly, in the Home Equity segment so, the NIMs are seem to be under pressure, growth is slow and it seems like you in the credit cost are inching up. So, what is the outlook there and why is there even disbursements happening should not the disbursements be even slower if there is problem over there?

Vellayan Subbiah: Obviously, it is a very kind of a naive approach to basically say that turn off the tap fully because that does not make sense at all. What does make sense is, if you look at it right at the margin you got basically understand, it is a same thing that we went through vehicle finance for almost like two years. We basically are just getting more cautious and who we will lend to and ensuring that we are taking a much more conservative stands there, right. Especially in a situation like this, we do not want to be too aggressive but that does not mean that we basically turn off the tap fully either that has never worked. I mean if you basically have a whole operation and then basically you say we are not going to disperse more that as a strategy will never work.

Sunil Tirumalai: Yes. And what is driving the NIMs low, are you facing pressure people coming back for lower rates or losing business to others what is happening there?

Vellayan Subbiah: Yes, I think that is something that you are well aware of, and it is a kind of stuff you have covered in your report as well. I do not think there is anything significantly new. There

continue to be supply side pleasures where people have started dropping rates in the market. So, our response to kind of to move away from the more major markets, right and move to smaller towns. So, now we are going to almost 90 different locations where we are dispersing Home Equity loans from and we are seeing better performance in the smaller market. We are also seeing better performance on smaller ticket sizes, right where the ticket sizes are less than Rs. 1 crores so, we have started shifting our buyers towards smaller ticket sizes. The smaller ticket sizes are also not as price sensitive in terms of the yields that they look for. The larger ticket size is where we are seeing the risk to be most mispriced so, in loans that are more than Rs. 2 crores to Rs. 3 crores they tend to be extremely price sensitive in terms of the yields they want and their performance tends to be worse than the funds that are smaller, right. So, from both perspective we are changing our buyers. So, basically the kinds of things we start doing are going where our credit model tell us that the performance is going to be better and that is the whole focus of that business but what is causing the compression are the points that you highlighted which is you have increased supply side pressure that is then pushing down yields especially in larger ticket size loans and in metros.

Sunil Tirumalai: Got it, sir. Sorry, the last question is so demonetization currently as we speak end of January any effect is there at all? Is there any slackness in collection that is still visible and any outlook on that?

Vellayan Subbiah: See broadly, is it back to 100% no, and I do not think we have a crystal ball that tell us when we will back to 100%. But broadly, there are two things that are happening – we are seeing transactions drop off both on the Home Equity side and on the Used Vehicle side we are beginning to see a drop as well. So, we have to see when the market lifts and comes back to total normalcy. I do not think we have prediction on that. But like we guided before, we do not think that will have a significant negative impact on near-term performance.

Moderator: Thank you. We take the next question from the line of Rajesh Kothari from AlfAccurate Advisors. Please go ahead.

Rajesh Kothari: Just two questions from my side. Can you just give us disbursement growth segment wise within vehicle finance or?

Vellayan Subbiah: Yes, usually we have never given that level of segmental information. But broadly just to give you a sense I think we articulated that more of the growth has come on the heavys and on the car and MUV segments and especially on the new side. And used has grown slower than it has traditionally grown.

Rajesh Kothari: And within the segment since you said that use is growing a little bit slower, how do you see the dynamic because of the demonetization? Do you think the used segment will be impacted in a bigger way?

- Vellayan Subbiah:** Yes, definitely. It is a near-term impact on the use segment is going to be higher because that is a segment that would have been more informal in its operation. It is only a matter of time before it normalizes.
- Rajesh Kothari:** And the proponent of demand in M&HCV, do you think it is there or it is more of a hope or what is the actual trend? Are you witnessing real trends?
- Ravindra Kundu:** Yes, so, this is Ravindra Kundu. Heavy Commercial Vehicle as against the Q2, in Q3 has improved a little bit if you see that it has gone up by 2% as against the Light Commercial Vehicle which has gone down by 5%. So, Heavy Commercial Vehicle I think BS-IV implementation from April probably will prepone the sale either in the end of February or in the end of March what is what the Ashok Leyland and Tata Motors or other manufacturers are also expecting this is what we have been discussing with them.
- Rajesh Kothari:** From your outlook perspective for FY 2018, any change in outlook compare to what we are talking before this demonetization or do you think everything is intact?
- Vellayan Subbiah:** I think we have guided broadly that our outlook remains the same.
- Moderator:** Thank you. We take the next question from the line of Adesh Mehta from Ambit Capital. Please go ahead.
- Adesh Mehta:** So, sir, my question is something more fundamental. So, historically we have seen that the narrative for an NBFC in financing LAP or SME loans that they had this ability to appraise cash income which made them very adept in doing this loans. Now, with the GST coming in and demonetization also resulting in increasing tax compliance, over the next five years how do you see the narrative for NBFCs evolving in that space?
- Rohit Phadke:** Adesh, Rohit here. If you are talking about the long-term five years is too longer period. But my guess is that we as Indians have adjusted to any policy and there will be a new normal. What the new normal will be is difficult to tell now. But my feeling is that that our SME sector will adjust to the new normal considering more tax compliance as well as the GST which is going to be rolled out and I do not consider it as a threat. What is happening now is only a temporary phenomenon due to the demonetization and it might last a little longer but that is my take on it.
- Moderator:** Thank you. We take the next question from the line of Peran Engineer from Motilal Oswal. Please go ahead.
- Peran Engineer:** Firstly, I noticed that out of the 166 new branches that you all opened in the last two quarters, 158 branches are in rural areas. So, 95% of incremental branches in rural areas versus an average of 70% so, is there something to read into this? Will this change your profitability dynamics, if you can just give some color on the thought process behind this that would be appreciated?

- Vellayan Subbiah:** So, first of all, if you look at it there are not any more non-rural area to go to. So, once you have got branch that is more than 700, you have covered all the non-rural areas. So, the only areas we can expand obviously, the density will keep moving more towards rural because you have covered all the towns and cities.
- Peran Engineer:** How does this impact your profitability then going forward?
- Vellayan Subbiah:** So, obviously, there are two things to it. One point that we always maintained is that the CAPEX and OPEX in new branches are maintained very low, right which is in the 10 lakhs to 15 lakhs range is basically where we tend to be spending for new branch. So, the overall expense to create, branches is not very high. And from a profitability perspective, we have seen almost 80% to 90% of these branches get profitable within the first year of operation. So, even from that perspective we do not see any negative impact from profitability because of new branches.
- Peran Engineer:** Okay. And could you also give some details on MSME financing business as in what is the ticket size, the geographies, the yield, and how many branches do you disburse these loans out of?
- Vellayan Subbiah:** I think, that is already available in the Presentation. But we disburse the loans about out of 88 branches average ticket size on the loan is about Rs. 50 lakhs.
- Peran Engineer:** This is MSME or LAP?
- Vellayan Subbiah:** Sorry, you were asking more about MSME.
- Peran Engineer:** Yes. What is growing really fast 40% so, Yes.
- Rohit Phadke:** MSME is primarily bill discounting and we have only five branches; it is a very small business.
- Peran Engineer:** Okay. What will the ticket sizes be?
- Rohit Phadke:** This is a 60-day or a 90-day loan; average ticket size will be about Rs. 2.5 crores to Rs. 3 crores.
- Peran Engineer:** And just lastly on your bank borrowings are they still at base rate or have you move them all to MCLR?
- Vellayan Subbiah:** Mostly it is MCLR.
- Peran Engineer:** When could we expect to reset to kick-in and lower your cost of funds or is it broadly across all the tenure?

Arul Selvan: See, we take it three years' loan mostly so, the maturities will fall on different period. And in the MCLR we also have reset at six months or one year period.

Moderator: Thank you. We take the next question from the line of Avinash Singh from Jefferies. Please go ahead.

Avinash Singh: A few questions from my side. First one on a 30 DPD basis what has been your experience, you said that okay, it slightly was but in January where do you see is it back to normal level or is it still seeing some sort of inflation there? And segment wise if you provide a color which segment is most affected in terms of on a 30-DPD basis and also how long you see this will take to recover to a normal collection level? And my second question related to that RBI relaxation, I understand that you have not taken any sort of discount in your provisioning but the other part to it is that the relaxation provided to the customer. So, how are you going to report to that agencies like CIBIL or others?

Vellayan Subbiah: So, I think let me answer the second question first. So, I do not think there is any issue in terms of civil because CIBIL already all the NBFCs in banks have had a conversation with CIBIL we have already agreed in terms of how we are going to show the data to them because what we are showing to CIBIL is actual performance, right. So, I think there is no question there. People have it option as to where they want to take the benefit or not. To your first question on what is happening to the (+30)? Basically, you are seeing different performances for vehicle performance and for Home Equity. The vehicle finance if we look at it, the (+30) obviously it did start getting worst in November, December but in January we have begun to see an improvement in terms of (+30) so, our general sense is that things will start getting better. On the Home Equity, I think on the LAP portfolio will take a bit longer to normalize. So, that is a quick take. I do not know any specificity you are looking for, I am happy to answer.

Avinash Singh: Yes. So, within the vehicle if you can provide a color like you have the new CVs and also sort of Passenger Vehicle. So, within these categories are there some sort of differences and if yes, can we expect say a March ending quarter to be totally back to normal levels?

Ravindra Kundu: So, actually in vehicle finance, we have Tractor, CE, and CV, and PV, there are four segments to it. So, what we see that there is no difference in the performance of either in CV or CE or PV. Within the vehicle finance, the difference is only to Tractor. So, Tractor went up in the month of November and it has improved into December and started improving. It has gone bad because the Tractor customers are typically depending on crops to sell it to adatiyas and they could not buy it in the month of November and they started giving them payment in December. So, our 30 DPDs is mix of this Commercial Vehicle, Passenger Vehicle, Construction Equipment, and Tractor. And therefore, what I am saying is that our 30 DPD which has gone up is because of Tractor not because of CE, or CV or PV, which will start improving in next two months' time.

- Avinash Singh:** Okay. And so, at the moment, if I see a 30 DPD versus October is it like higher by 10%, 15% on a blended basis?
- Arul Selvan:** Yes, 30 DPD as compared to September it has gone up by 200 bps.
- Moderator:** Thank you. We take the next question from the line of Ashish Sharma from Enam AMC. Please go ahead.
- Ashish Sharma:** Just one question on the LAP book. Can you just throw some color on the granularity of the LAP book I know the average ticket size is lower but there would be some portion in the LAP book which will be higher ticket size. Where do you think there would be some lagged impact because of demonetization in the ensuing quarters. Some just color on the LAP book?
- Rohit Phadke:** So, our average ticket size is Rs. 50 lakhs and our maximum ticket size is about Rs. 7 crores but we have very few cases where we have funded Rs. 7 crores. Most of the tickets that we have funded in the larger ticket sizes lie between Rs. 3 crores and Rs. 4 crores. So, what we see you know the book is performing very well and we have certain stress in the smaller portion of the higher ticket size book and this is primarily because of SMEs facing problems and due to demonetization. All these loans are bagged by SORPs and after the SARFAESI we are quite confident that we will be able to get closures faster. We have not booked any loss so far. And actually, we have started SARFAESI in October but because of demonetization there has been impact in the secondary market sale of property. Once that picks-up, I think things will get back to normal.
- Ashish Sharma:** So, we do not see any too much of a lagged impact on the asset quality? I mean there would be some impact but nothing material?
- Rohit Phadke:** Whatever impact is there is what you are seeing as of now.
- Vellayan Subbiah:** I think, if your question is when is it going to get better? I think we have guided a couple of times that we do not see significant improvement in that book and I would say that is probably going hold true for this quarter and next as well.
- Arul Selvan:** Actually 30 DPD has moved in Home Equity only by 30 bps. So, you can see that the comparatively impact is much lower and even in the next two months, even if these things move up it would not have a bigger impact.
- Ashish Sharma:** Sure. And where do use the ROTA for the Home Equity sort of normalizing I mean FY 2016 we were at 3.2% I mean we had come off from the highs of 3.8%. Will it take time now to go back to the 3% levels, I mean given the pressure on the yields?
- Vellayan Subbiah:** Yes, it will take time, it could take up to a year to get back to those levels.

- Ashish Sharma:** And then just lastly, on the formularization question, I think Adesh asked also. Do we envisage a scenario where the formularization of the economy and more people coming in with the credit history, does it really being too negative for NBFCs or NBFC sort of can leverage that?
- Vellayan Subbiah:** Year, I think this is a question that we have answered several times including on a couple of Investor Calls in the past right which is the whole thesis that everybody has a bank account and why will they ever come to an NBFC. The point we have articulated is 100% of our customers both in vehicle finance and in Home Equity all have bank accounts. So, the reason they are transacting with us is not because they do not have a bank account. So, were they already formal, yes right. So, that is the point, they all have bank accounts, most of them increasing have CIBIL scores. So, you are talking about a profile that is already in the formal systems. The reasons why we get our business and we have articulated this several times before is basically for example how we originate in the channel, how we work quicker. If it you take more spansks they do not have that focus on distribution of vehicle loans or LAP loans like we do. And we have gone through the advantages, the credit modeling our relationships with the dealers, manufacturers. It is basically what the company has built up over time, right. And that I do not think is replicable or how many banks have jumped into both the vehicle loan business and LAP and got in and got out and I think that is not because they were not formal. So, this point I have discussed in a fair bit.
- Moderator:** Thank you. We take the next question from the line of Amit Premchandani from UTI Mutual Fund. Please go ahead.
- Amit Premchandani:** Hi, I am Amit Premchandani. Sir, you mentioned in the earlier part of the call, that the growth in vehicle finance had come from HCV, Heavy Vehicles. While if you look at the Slide #24 of your Presentation. The product mix and the disbursement mix suggest that disbursement was much more in re-financed and Used Vehicle. Am I reading that slide correctly, is there some other catch?
- Vellayan Subbiah:** Yes, that slide is Y-T-D, year-to-date slide.
- Amit Premchandani:** Okay. So, you were just talking about this quarter and generally growth have been more higher in the re-finance and older vehicles?
- Vellayan Subbiah:** Yes, in general, most of the commentary I give will be for the previous quarter.
- Amit Premchandani:** Okay. And sir, similar question was asked on LAP front, generally the profitability of the product has gone down significantly. So, from NBFC perspective does it make sense to be in this segment at 1.5% to 2% ROA?
- Vellayan Subbiah:** Guys, let me put it in this way, in my family I am the fourth generation of our family business. So, when I look at the business, I am not looking at what happened to last quarter neither I am looking at what is going to happen to it next quarter. just like a year and half ago when this

business was running at a 3.6% pre-tax ROA everybody was telling us what a great business it was. Now everybody is like boss why are you in this business, right. Basically, if we ran a business like that and basically have to close down 33% of our book every quarter and bring it up in the next quarter I do not know where businesses run like but you know for sure, that is not the business we want to run. The way we look at our business is whether it is going to be a good business when my kids are around. When I look at the LAP business, will it evolve over time potentially, yes but will property as an asset. I mean over 70% of the property in India is unleveraged and will that property be a useful collateral leverage and therefore, will it be a good business for us to be in? Our answer is definitely yes. So, I think there is no question about our commitment to the business and our commitment of the business is not for a quarter or for a half year. Our commitment of the business is long-term.

Amit Premchandani: The question was more from the perspective of margins going out sharply, credit cost we can take it more cyclical in nature but the margins are down almost 100 basis points for this business.

Vellayan Subbiah: Yes, but margins have also been cyclical. See, basically what happens and this has happened in both vehicle finance and in Home Equity what causes margins to be cyclical there is a supply side rush, right. When there is a supply side rush invariably risk gets mispriced. So, all other guys who are lending with Rs. 3 crores, Rs. 4 crores at 10% once they see the loans non-performing then they realize they should have priced the loans higher than they do one or two things. Like you said, they might get out of the business which may not be a bad thing. They might say listen at 10% this loan does not cover my risk adjusted return on capital and then pricing gets more rational. We have seen two cycles in the Home Equity business in the last seven years to eight years where risk has gotten mispriced because of supply side rush and it has come back up. So, even if you see the nature of our margins in or business over a year you will see some of that cyclicity playing out. And the same story exists even for the vehicle finance business.

Amit Premchandani: And sir, are you seeing any signs of people moving on the Home Equity front except say someone like Bajaj Finance more cautious now?

Vellayan Subbiah: No, we are not seeing any signs yet.

Moderator: Thank you. We take the next question from the line of Dhaval Gada from Sundaram Mutual Fund. Please go ahead.

Dhaval Gada: Just a couple of questions actually. One you mentioned the change in strategy in the Home Equity business so, just wanted to get a sense of what would be incremental ticket size in that business like just for this quarter just to understand, which segment now we are catering to or looking to cater to more versus what we use to do earlier.

- Vellayan Subbiah:** We can try and get the specific quarterly movement obviously, I mean you would not see a huge reaction because we have started tightening more and more especially in the month of November and December but...
- Dhaval Gada:** Qualitatively Yes.
- Vellayan Subbiah:** I mean, we can try to the number by the end of the call.
- Dhaval Gada:** Okay. And secondly, what would be the yield differential that one is looking at between the two segments, I mean it is from just to understand that part?
- Vellayan Subbiah:** The yield differential will be about 2.5% right 2% to 2.5%.
- Dhaval Gada:** Second question, if I understood correctly, you have mentioned 200 bps increase...
- Vellayan Subbiah:** May I understand your yield differential question wrong. Is your question what is the yield differential between a high ticket of LAP or VF & HE?
- Dhaval Gada:** No, high ticket LAP versus low ticket LAP.
- Vellayan Subbiah:** High ticket LAP versus low ticket LAP. It would be 2.5%, it might be 1.5%.
- Arul Selvan:** 50 bps to 1%.
- Management:** See, Dhaval, what you have to look at is that your loan looking at the yield, you look at the spreads; our spreads because of our cost of funds have also gone down.
- Vellayan Subbiah:** He is comparing LAP to LAP.
- Arul Selvan:** The spreads are painting at 3.7%-3.8% which we have always done that is what you need to look at.
- Dhaval Gada:** Okay, perfect. Second question, if I understand understood correctly, you mentioned a 200 bps increase in 30 DPD you mentioned that LAP there has only been about 30 bps increases and Mr. Kundu mentioned earlier that problem in the VF portfolio is mainly towards the Tractor segment. So, can I sort of interpret this is more transitory and if it sorts of see normalization in this overall situation by the next quarter, is that sort...
- Ravindra Kundu:** I think, I also mentioned that it went up in November and then started coming down in December and we are seeing that. Now customer started getting the Tractor, farmers have started getting the currency and they are able to pay us and so, we hope that in this quarter itself it will improve significantly.

- Dhaval Gada:** Right. So, basically, can I sort of conclude that this problem of spike in early bucket will sort of normalize by the end of the sort of fourth quarter I mean is that a fair assessment?
- Ravindra Kundu:** We are hoping that actually, that is what we are trying.
- Dhaval Gada:** Okay, perfect. And lastly, can I get the GNPA of the Home Equity and the VF business?
- Vellayan Subbiah:** It is there in the Presentation.
- Moderator:** Thank you. We take the next question from the line of Roshan Chutkey from ICICI Prudential Asset. Please go ahead. Excuse me, Mr. Roshan. Your line is unmated please proceed with your question.
- Roshan Chutkey:** Just wanted to ask you about this 30 plus number. Is that 30 plus has gone up by 200 bps for the entire portfolio as compared to September is that right?
- Management:** You should actually not look at 30 plus because 30 plus the in vehicle finance a lot of cash customers will be there so, there will be cheque bounce so that will reflect immediately on 31st. If you look at 60 plus it has gone by 50 bps. So, 30 plus numbers get influenced when a lot of people are moving from cash to cheque and new modes of digitalized payments. So, this is purely on vehicle finance.
- Vellayan Subbiah:** And so that number was really for vehicle finance.
- Roshan Chutkey:** Okay. And for the LAP book it is 30 bps?
- Vellayan Subbiah:** That is right, Yes.
- Roshan Chutkey:** Okay. And how many LAP accounts do we have sir?
- Management:** 20,000.
- Roshan Chutkey:** Okay, all right. And which are the growth segments for us going ahead you are mentioning this last item around quite a few IT innovations that you are doing, if you can talk a little bit on the growth segments going ahead for us?
- Vellayan Subbiah:** We talked about the trip credit...
- Roshan Chutkey:** Yes, trip credit ones.
- Vellayan Subbiah:** We have already discussed this last time.
- Roshan Chutkey:** Yes, so more or less the same thing, how is attraction there? Is there are any new developments I just wanted to check.

- Vellayan Subbiah:** We have started dispersing in that segment, like we have said. I do not think it is going to make a material impact on this year's number at all but we have started dispersing and we are very bullish about that business.
- Roshan Chutkey:** Along with trip credit, any other new segments, anything else that we are doing?
- Management:** We are to actually also aggregate the used car dealer like in trip credit we are trying to aggregate the transporter and transport owner and the load provider here we are trying to aggregate the used car dealer. Both the businesses will actually one that it will solve the problem of there in transport owner and here it is used car dealer and at the same time, we will also be able to actually increase our engagement with our customers and will able to get the used car business as well as the used CV business.
- Moderator:** Thank you. We take the next question from the line of Dhaval Gada from Sundaram Mutual Fund. Please go ahead.
- Dhaval Gada:** Thanks for the follow-up, so just one thing which I missed. If I just exclude the one-off in the OPEX, I think still the OPEX was sort of quite surprising for me. So, could you just explain is there a specific reason why the numbers are sort of soft or something which has strained structurally and one should assume into the modern Yes. Thanks.
- Vellayan Subbiah:** If you exclude the one-off then our OPEX to assets is at 3.4% which means it has not gone up if you exclude the one-off, right. We were 3.4% before and that is 3.4%.
- Dhaval Gada:** I am looking more from the growth perspective.
- Management:** Denominator there has been no impact.
- Moderator:** Thank you. We take the next question from the line of Subhranshu Mishra from Anand Rathi. Please go ahead.
- Subhranshu Mishra:** I just want to understand the funding mix that we are going to see going forward.
- Vellayan Subbiah:** Obviously, you can see the funding mix moving. We are seeing two set of things happen. We are seeing banks get active on money market instruments NCDs and CPs that is one mix we are seeing. Than we are also seeing we started borrowing a lot of foreign currency loan, we saw comparative pricing on that. So, overall turn loans at the end of the quarter were 33% and so, we had debentures at 37% and CPs at 16%. We can broadly, I would see these term loans would continue into the range of about like may it will drop to 30% and we will see some more increase in the commercial papers and debentures. The other interesting thing obviously is that now it seems like the banks are under a lot of pressure to drop their MCLR as well. And so, if that behavior starts then that can be positive for us on the term loan front.

- Subhranshu Mishra:** So, in terms of quantification what and how many bps do we see lowering of the sometime in this quarter?
- Vellayan Subbiah:** It is always a good question. Basically say what number should you put in to the model. I think Arul, do have any answer? After this we will have our discussion with Arul.
- Arul Selvan:** I think, I would put it somewhere between 15 bps to 20 bps.
- Subhranshu Mishra:** 15 bps to 20 bps, right sir.
- Arul Selvan:** We have already reduced by almost 40 bps if you look at.
- Subhranshu Mishra:** And in terms of your IT foray driven post demonetization, can you please throw some light on it, if we are going to be more aggressive.
- Vellayan Subbiah:** Yes, absolutely. I mean, the good thing is that we have started off a lot of the initiatives in terms of digital payment and all that earlier including we are basically launch more likely this quarter a co-branded credit card as well. Basically, it is a co-branded card, I should put it that way that we will basically give to our customers and that will allow digital payments. We have got a customer facing app we have been working with UPI we have been working with IMPS before and we have been working with UPI so, we have got two banks and that customer facing app is something that will allow both our customers to pay us. We got both push and pull transactions are going to be enable through that. And then we have a dealer app that basically makes the interaction with our dealers fully digital as well. So, all of these are actually luckily for us were almost complete in terms of development well, two of the three are complete and are in testing. So, everything will roll out in this quarter itself.
- Subhranshu Mishra:** Right. And I just want to slip in one last question. Once we have all this in the IT foray what is the tangibility in terms of OPEX how much do you see that reducing?
- Vellayan Subbiah:** I think that we have guided before. Obviously, the challenge is that at a certain level it is linked to asset growth as well. But it is we do see the asset growth, we are expecting next year, we can see OPEX come off by about 20 bps.
- Subhranshu Mishra:** By 20 bps. Sure, sir.
- Moderator:** Thank you. Next question is from the line of Umang Shah from Emkay Global. Please go ahead.
- Umang Shah:** I just wanted to understand what would be our strategy in terms of branch expansion, we have already added 166 branches in two quarters. How many more to come?
- Vellayan Subbiah:** Yes. So basically, we are going to add another 100 branches or so most likely next year.

- Umang Shah:** And that would happen next year?
- Vellayan Subbiah:** Yes, next year.
- Umang Shah:** Okay, all right. And just second question, our margins are pretty much protected, we are looking at probably some reduction in OPEX to asset and if HE asset quality starts improving next year, we should see some reduction in credit cost as well. So, a 4% PBT ROTA target, do you think that would be more or less achieved in FY 2018?
- Vellayan Subbiah:** Yes, I think lots of question today what numbers to put into models. But broadly like you are saying I mean we do expect cost of funds to go down. I think the biggest question there going to be whether market demand picks back up. If market demand picks back up then yes, I do think its
- Umang Shah:** Sure. And just two data points, if you could just help me with the segment wise growth NPAs I could not find that in the presentation, VF & HE growth NPAs.
- Management:** Yes, VF's growth NPA is 3.56 and HE 4.4.
- Umang Shah:** Sorry, 4 point?
- Management:** 4.4, this is of 120 days.
- Umang Shah:** Perfect. And what would be our outstanding employ base?
- Vellayan Subbiah:** One second, we will get it to you. Okay, we will take the next question. He gets the data, I will answer it.
- Moderator:** Thank you. We take the next question from the line of Sameer Bhise from Macquarie. Please go ahead.
- Sameer Bhise:** Just looking at VF margin. So, first-half we did around 8.1 and the nine months' number is a little higher. So, what explains that given that we have seen lower yielding products getting disbursed more?
- Vellayan Subbiah:** That is the cost of funds coming down.
- Sameer Bhise:** Primarily.
- Vellayan Subbiah:** Primarily, yes.
- Moderator:** Thank you. We take the next question from the line of Harshit Toshniwal from ICICI Securities. Please go ahead.

- Harshit Toshniwal:** So, one was that employee strength as of the close of the quarter. So, you said, that we will giving that. And just wanted to know that you in your LAP portfolio how much would be in the northern region may be NCR, Punjab, Uttar Pradesh, at that particular belt?
- Vellayan Subbiah:** So, the employee strength number by the way is 14,000 somebody asked for that. The LAP percentage...
- Harshit Toshniwal:** Around.
- Management:** 25% to 30% will be there north.
- Harshit Toshniwal:** And how has that performance been for that particular 25%, 30%, what would be the average ticket size and the quality in the last three months? Any asset quality pain which you are foreseeing over there?
- Management:** Say our book in north will be about 25% to 30%. Our Rajasthan book is quite clean. We face stress only in Delhi that is NCR and a little bit in Punjab. And if you are talking about the ticket sizes, the majority of the ticket sizes, the small ticket size but there is about 10%, 15% large ticket sizes where we feel certain amount of stress.
- Harshit Toshniwal:** And this employee base this is both on roll and off roll?
- Vellayan Subbiah:** That is right.
- Harshit Toshniwal:** Can I have that break-up.
- Vellayan Subbiah:** Half and half.
- Harshit Toshniwal:** Half and half, seven and seven.
- Moderator:** Thank you. We take the next question from the line of Ritika Dua from Elara Capital. Please go ahead.
- Ritika Dua:** Sir, I missed the number on 90 DPD what is our overall GNPA as of the quarter end?
- Management:** 90 DPD or 120 DPD? 120 DPD we gave.
- Vellayan Subbiah:** Are you looking for 90 DPD or 120 DPD?
- Ritika Dua:** Sir, 90 DPD.
- Vellayan Subbiah:** 90 DPD, we did not give that number. What is that number?
- Management:** 90 DPD company as a whole was 4.78.

Ritika Dua: 4.78, all right, sir. And sir, secondly, during one of the questions, when it was regarding how would the customers actually behave post demon and after GST. If I am not wrong, that you said that your SME customers largely would be able to normalize to the new normal. Sir, any other color you want to help us with that what are you really seeing or what you think this would be able to cope up with that? Any particular customer characteristic that is there that you think because of which they would be able to cope up with the normal which is like post demon and GST coming into for?

Management: See, if you look at the majority of the customer segment in India is self-employed and this self-employment segment essentially the biggest driver in business is profits and nobody would comprise his profits come what may be GST or they will find new ways of doing business which we are already seeing a lot of customer when the second generation comes into play they take loans and try to declare more income try to show more turnover, try to bill more rather than under invoicing that is a customer characteristic that we have been seeing. Secondly, you have to understand that we are in a unique position. We have about 600 and odd branches across the county today and the LAP portfolio is basically only 105 branches and we intend to we have this opportunity to get into the remaining branches and ensure that we close to the customers, cater to the customers in the Tier-II and Tier-III cities. I think no other NBFC has that advantage. Secondly, if look at our OPEX. Our OPEX is at 1.1% which is fairly low and it is only the delinquency that is distorting the ROTAs. So, one we get back to a normal delinquency cycle I think it would be business as normal. I hope I have answered your question.

Moderator: Thank you. We take the next question from the line of Anand Laddha from HDFC Mutual Fund. Please go ahead.

Anand Laddha: Sir, just wanted to understand sir, on the bank loan which you have taken is it linked to MCLR and is it linked to what six month MCLR or little longer duration MCLR or when it repriced? So, the moment banks cut MCLR get repriced?

Management: No, mostly it will be one year MCLR in some cases it is six month MCLR and it gets re-priced mostly annually. There is reset date we will have to do.

Anand Laddha: Okay. And if you can give some color on the incremental cost of borrowing?

Management: As Mr. Vellayan was saying, we will be progressively moving further into taking more of debentures, the good thing is we have got a AA+ rating which could help us more debentures. Other thing is banks are themselves offering debentures through their treasury desk which is where we get bigger quantum at market price. So, both these put together will help us do more of debentures and look at reducing the bank term loan further. The bank term loan also incidentally the rates are coming down, at least many of their banker will reduce their MCLR significantly.

- Anand Laddha:** Okay. And last question on the home loans, a new segment which you have started I think was like two years back the disbursement were pretty steady this quarter so, any color on that? How is the competition shaping or how do you see growth trend in that segment?
- Vellayan Subbiah:** Yes, so, we definitely see opportunity to grow that segment. Like we said, we are not growing it as aggressively as some of the other guys have. But we definitely see opportunity I think next year will be good year. My sense is obviously the numbers are going to be somewhere Rs. 600 crores and Rs. 1,000 crores of disbursement next year.
- Anand Laddha:** Okay. And what could be out ticket size in this segment?
- Vellayan Subbiah:** About Rs. 15 lakhs.
- Moderator:** Thank you. We take the next question from the line of Digant Haria from Antique Stock Broking. Please go ahead.
- Digant Haria:** Sir, just one, if can give some color on how have been the number of trips that your SRTO segment has managed over the last 40 days, 50 days? And secondly, what on the repossession dates like have they been softer in the last 40 days, 50 days or so? Thank you that is all from my side.
- Management:** So, number of trip in the month of November went down. Actually it came down to less than six actually. Normally truck owners they need around eight trips per months. And some of them actually the long haul came down to four also. So, that has improved in the month of December and in the month of January what we are getting the information on that it has slightly further improved. It is directly proportional to the consumption demand. Consumption demand is actually going down. It also impacts on the number of trips of the transporter and if it started improving, it will definitely improve the number of the trips of the transporter. I think, by March it should actually improve to seven that is what is my guess.
- Moderator:** Thank you. We take the next question from the line of Tejas Gutka from Tamohara Investment Managers. Please go ahead.
- Tejas Gutka:** Just wanted to check is there any change in the LVs that you have seen in the industry, in the last quarter or last one month specifically on the Commercial Vehicle side?
- Vellayan Subbiah:** Sorry, just explain me what LV is there?
- Management:** LTV.
- Tejas Gutka:** LTV I mean sorry.
- Management:** Okay. LTV there is no change, it is actually standard. See, Heavy Commercial Vehicle normally every customer need 100% on chassis because they built the body and the big fleet

owner they go for body funding also. So, that remain same, you cannot do more than 100% on chassis neither you can give less than 100% that is at the standard level only. And as far as the fully built vehicles are concerned, Light Commercial Vehicles ICVs or Small Commercial Vehicle the LTV goes max to 90% because some of the market actually, it is one-time tax wherein the tax component comes to as high as 10%. So, therefore the equity of the customer goes to 20% in those market so therefore, it goes up to 90 and in few case which is fast moving item like some of the pick-ups are very fast moving and delinquency levels are very low. So, wherein capital finance company goes up to 100% so therefore, we have to fund up till 92%, 93% and even after financing 7% down payment and around 10% your equity from the RTO side it goes up to more than 15% that remain the same. There is no change in that.

Moderator: Thank you. We take the next question from the line of Arvind Kumar from Postrain Bank. Please go ahead. Mr. Arvind Kumar your line is unmuted. Please proceed with your question.

Arvind Kumar: My question was on the LTV on the Home Equity segment. Is it same or have we changed the value based on the market feedback?

Management: As well as the valuation is concerned, obviously, it is dynamic process and as value is correct in the market the valuation reports will capture the same. Our average LTV is steady at 50%.

Arvind Kumar: 50%, okay, sir. Sir, the other question is on the CRAR, does that also include the dividend that you are proposing or does it excluding the dividend?

Management: That will be excluding the dividend because the dividend payout will happen on in January

Moderator: Thank you. Well that was the last questions, I now hand the floor over to Mr. Nischint for his closing comments, over to you, sir!

Nischint Chawathe: We thank the management for giving us an opportunity to host the call.

Vellayan Subbiah: Thanks, Nischint.

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