



“Cholamandalam Q4FY19 Earnings Conference Call”
April 30, 2019



MANAGEMENT: **MR. ARUN ALAGAPPAN – EXECUTIVE DIRECTOR**
MR. ARUL SELVAN - EXECUTIVE VICE PRESIDENT & CFO
MR. RAVINDRA KUNDU – PRESIDENT & BUSINESS HEAD (VEHICLE FINANCE)
MR. ROHIT PHADKE – PRESIDENT & BUSINESS HEAD (HOUSING FINANCE)
MR. RUPINDER SINGH – SR. VICE PRESIDENT & BUSINESS HEAD (HOME EQUITY & CORPORATE FINANCE)

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

Moderator: Good morning, ladies and gentlemen. Welcome to the Cholamandalam Q4 FY'19 Earnings Conference Call hosted by Kotak Securities. As a reminder, all participants' 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 the operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nischint Chawathe from Kotak Securities. Thank you and over to you, sir.

Nischint Chawathe: Hello, everyone and welcome to the 4Q FY'19 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. Arun Alagappan –Executive Director; Mr. Arul Selvan -- Executive Vice President and CFO, Mr. Ravindra Kundu -- President and Business Head, Vehicle Finance; Mr. Rohit Phadke -- President and Business Head, Housing Finance and Mr. Rupinder Singh --Senior Vice President and Business Head, Home Equity.

I would now like to hand over the call to Mr. Arun Alagappan for his opening comments.

Arun Alagappan: Good morning, friends. I have great pleasure in presenting to you the Q4 and Full Year Performance of our company for the financial year FY'19. At the outset, I am happy to state that we have been consistent in delivering growth of over 25% in AUM, total income and PAT for the past few years and the growth has been phenomenal even during the current year across all major parameters in spite of headwinds such as liquidity crisis and auto slowdown. The company transitioned from iGAAP to IND AS during the year. Financial results for this year is prepared as per IND AS and correspondingly for comparable purposes previous year figures has also been reinstated as per IND AS.

Final Dividend: The Board of Directors of the company have recommended a final dividend of 20% being Rs.2 per share on the equity shares of the company for the year ending March 31, 2019. This along with the interim dividend takes dividend to 65% being Rs.6.50 per share for the year ending March 31, 2019.

Stock Split: The Board of Directors of the company have recommended subdivision of equity shares of Rs.10 each to 5 shares of Rs.2 each. Approval of the shareholders is being sought through a postal ballot for the proposal.

The Company's Performance in Q4 and Full Year Performance: Aggregate disbursements for the year ended March 2019 were at Rs.30,451 crores against Rs.25,114 crores in the previous year, registering a growth of 21%. The disbursements of the quarter-ended March 19 were at Rs.8,893 crores as against Rs.8,007 crores in Q4 of FY'18. PBT for the year ended March '19 was at Rs.1,823 crores as against Rs.1,401 crores last year, registering a growth of 30% and PBT for the quarter was at Rs.461 crores as against Rs.429 crores in Q4 FY18. We have provided additional provisions of Rs.50 crores during the quarter towards macro factors as per the

requirement of accounting standard. If you eliminate this one-time provision, the profit for the quarter will be at Rs.511 crores with the growth of around 20% over the previous year.

Assets under management stood at Rs.54,279 crores compared to Rs.42,924 crores in FY19, registering a growth of 26%. We have crossed the milestone in PAT by achieving Rs.1,186 crores as compared to Rs.918 crores in FY'18, a growth of 29%. Q4 FY'19 the PAT stood at Rs.292 crores. The PBT-ROTA for FY19 was maintained at 3.7% as in FY'18. ROE moved up to 20.9% in FY'19 as against 19.6% in FY'18. We operate out of 900 branches across 27 states and union territories and 100 additional branches will be operational by end of Q1FY'20.

Reduction in non-performing assets: As per IND AS, Stage-III assets at the end of March 2019 was at Rs.1,439 crores as compared to Rs.1,476 crores as on FY'18, a reduction of Rs.38 crores. Stage-III percent to total gross assets improved to 2.7% in March 2019 from 3.4% in March 2018. Coverage ratio for Stage-3 improved to 38% as of March 2019 from 34.3% in March 2018.

We would also present GNPA position as per iGAAP. GNPA at the end of Q4 FY19 declined to 2.3% as compared to 3% at the end of Q4 FY18. In absolute terms, the GNPA as of March '19 were at Rs.1,245 crores as compared to Rs.1,325 crores as on March 2018, a reduction of Rs.80 crores. Provision coverage ratio improved to 49.8% in Q4FY19 as compared to 44.2% in Q4FY18.

Vehicle Finance delivered spectacular performance with an all-round improvement in disbursements, asset growth and profits. The Vehicle Finance business grew by 21% in terms of disbursement and 28% in terms of PBT year-on-year. The business recorded PBT of Rs.1,278 crores as against Rs.996 crores last year, growth of 28%.

Home Equity Business: The Home Equity business grew disbursements by 21% and PBT by 38% year-on-year. The business recorded a PBT of Rs.305 crores for the year ended March '19 as compared to Rs.221 crores last year. Higher recoveries in NPA supported this growth. The company has been able to improve the ROA levels to over 2.8% for the year-ended March '19 as against 2.3% last year. Recoveries continue to be good, leveraging SARFAESI and this quarter also the division recorded higher recoveries than the charge on loan losses.

The capital adequacy ratio at the end of Q4 FY19 was comfortable at 17.56%, tier-1 being 12.57%. During the year, the industry faced liquidity constraints due to restrictive supply of market funds. Despite the market constraints, with effective banking relationships, we were able to tap the banking lines and deploy it optimally. Further, the company has been maintaining cash cover at approximately Rs.3,000 crores to meet maturities over the next three months.

My colleagues and I would be happy to answer your queries. Thank you.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Jignesh Shial from Emkay Global. Please go ahead.

Jignesh Shial: I had a couple of questions but primarily on the growth front, we are seeing some sort of a consolidation happening on the vehicle finance book specifically considering the higher base of the last year as well. But what is your sense on the growth for the next financial year FY'20 as well as if you give some color on your strategy for FY'21 but at least the growth numbers for FY'20 for vehicle finance as well as home equity business?

Ravindra Kundu: Hi, good morning. This is Ravindra Kundu. So this year going to be the year for pre-buying due to GST driven from 1st of April, but we do not know what happens after the election and when this prebuying start inched up. So as of now, we are expecting that we will try to achieve minimum growth in terms of disbursements and after the elections, the stable government comes and funds will also come at least average or favorable and diesel prices also do not go up, which is maintained at same level, and of course pre-buying assets, definitely during the third quarter and fourth quarter, we can think about doing better than what I am saying now.

Jignesh Shial: So my second question would be that as there has been growth happening on the home equity segment which is quite encouraging. So now is my assumption correct that probably you will have a base of FY'20 even better second half specifically on the vehicle finance side, but because your overall tenure improving because of the rise in home equity business, your AUM growth should remain stable even for FY'21 or healthy for FY'21?

Arul Selvan: The home loan will go into the new company. Home equity is clocking a decent number and I think that numbers will be continued. So overall they will be also talking on an average 15% growth and the outlook as overall AUM will be around 15% growth level. We have this lot of uncertainties around election and the monsoon. So until we get some stability around that, we need to be little conservative in our approach in making some forward-looking numbers. But I think we still will be good enough to clock 15% growth on the AUM.

Jignesh Shial: There is a sequential dip in margin as I understand if correct. That is also because you are sitting on little excess liquidity at this point of time. So is there any other reason behind this margin dip? What would be your guidance for this FY'20 margin as well as how long you are going to sit on this excess liquidity at least for a couple of quarters or how is that scenario going to play out for?

Arul Selvan: You are right. There are two reasons for this shortfall. The full impact of all these cost of funds increase has happened in this quarter because a lot of the reset of the bank loans in the current MCLR has happened in this quarter, so that has impacted and then the second is we have provided certain amount more for the macro event as per the IND AS and as we were talking in earlier question, the outlook looks little uncertain. We have kept aside Rs.50 crores sort of cushion for making macro event related provision. We need to wait and watch. This fact is macro event related provision we need to continue as per the policy under the IND AS. It will change

according to favorable predictions versus unfavorable predictions. It needs to be little bit more fine-tuned. As of now, we need to look at certain macroeconomic factors to become the benchmarks for ascertaining and future looking macro events, not macro indicators. So that is something we are working with. In the first place, because we needed to provide for this, we provided sort of base level at Rs.50 crores.

Jignesh Shial: Any specific reason for spike in OPEX, any one-off in that?

Arul Selvan: Nothing much. Branch expansions we have done. The numbers may not look right now because it is 891-900, but we have kept our branches completely ready which is going to get operationalized and that is what Mr. Arun spoken in his initial comments that another 100, would be up and running, for which everything at the infrastructure level has been completed and recruitments have also happened for this region. We have not clocked businesses where we will be starting to clock businesses from Q1.

Jignesh Shial: Last one data-keeping question. Can I get on-book and off-book for AUM, vehicle as well as home equity?

Arul Selvan: On-book and off-book for vehicle is same because right now all of it is securitized only in vehicle finance which is anyway part of the on-book balance sheet now. On the off-book, for the home equity, Rs.1,600 crores is off-book. It has given out there in Page #43.

Jignesh Shial: Understood. That is why I was confused. So it is zero for vehicle finance. Technically, there is nothing off-book, everything is on-book.

Arul Selvan: Right. We do not do assignments in vehicle finance. We do assignments only in off-book.

Moderator: Thank you. The next question is from the line of Darpin Shah from HDFC Securities. Please go ahead.

Darpin Shah: Sir, first, some data points. Can you provide the breakup of GNPA between Vehicle Finance and HFC? Just continuing about the OPEX part, we have added branches. So if you can throw some light how much will be towards say investment-related say addition of manpower or office infrastructure and how much you will be attributing towards collections?

Arul Selvan: Collections, there will be no specific increase in cost during the current quarter.

Ravindra Kundu: The branches which we are opening up 121, we have recruited like one branch manager, one back office executive, one credit office executive, one collection executive, five trainee executives. So put together, 6-7 people we recruit for the new branches. So 7 into say 121, that is the headcount we have to take plus whatever infrastructure, laptop and all those things we have spent and that is the cost overall.

Arul Selvan: Gross NPA numbers as per iGAAP vehicle finance is 1.65%, 675 crores, HE is around 3.82% at around Rs.447 crores. Both have come down from December level which was at 2.14% for vehicle finance and 810 crores is dropped to 674 crores at 1.65%. Home Equity was at 504 crores and 4.47% in December, that has dropped to Rs.447 crores and 3.82%. These are the major numbers. Overall, 2.27% with gross NPA number of Rs.1,245 crores. In December it was Rs.1,450 crores at 2.85%.

Darpin Shah: You mentioned you have provided Rs.50 crores for keeping aside looking at the macro events and other stuff. So would you continue providing for every quarter or this will be a one-off event for you?

Arul Selvan: No-no, it will be some incremental movements either upward or downward depending on the macro indicators we are going to benchmark this against. Suppose if monsoon is very good and then we see that it is going to be good collections and there is no expectations of NPA, then we will reach the provision. I am just giving one indicator, like that there are others.

Moderator: Thank you. The next question is from the line of Bunty Chawla from B&K Securities. Please go ahead.

Bunty Chawla: Actually, I missed the starting part. If you can share the margin guidance, what we are expecting because we have seen a good amount of dip in FY'19 and now the movement in the interest rates or expecting interest cut happening in second half from the banks on MCLR part?

Arul Selvan: We did not talk about margin guidance in the initial. So you did not miss it. You are the first one to ask. I think it is too early to predict margins or to bank on the interest rate reduction, etc., while there are talks I think when the new government coming and certain things will improve. I would conservatively say we will marginally improve from where we are. I do not want to commit anything more.

Bunty Chawla: Sir, you said macroeconomic factors which we have provided for Rs.50 crores. Is it purely on the basis of this election result and the monsoon or still more factors we are expecting, so can you share some thought process on that?

Arul Selvan: Macro factors would not be on this election, etc., it will be based on economic IIP, it will be based on consumer pricing index, it would be based on monsoon. So there are multiple factors. Frankly, we have not yet frozen down on which are the indicators to pursue and this maybe we will have to use different indicators for the different segments we have built in, like for example, for the purpose of the IND AS provisioning, we have segmented vehicle finance itself into multiple product lines to ascertain the probability of default and the loss given default, like for example, heavy, light, mini light, used, etc., the segment of vehicle finance has nine product categories and then similarly on the home equity into some five categories. The age of this segment will give different indicators to ascertain what will be the impact on their probability of default and loss given default if certain indicators move up or move down. So this is something

still work-in progress. But as there are principles for the accounting period closing FY'19, we needed to provide certain things for macro. So we have provided this.

Bunty Chawla: As you said we have nine months product line portfolio in the vehicle finance specifically and if I go through the numbers of SIAM for the vehicles is for the full year it tends to be in between 8-10% kind of a thing and with the branch expansion we are doing in FY'20, so what thought process has gone through because earlier we were expecting 20% kind of vehicle financing growth and now it is panned out to 15% kind of growth, so what has been the differentiation happening before and after now?

Arul Selvan: SIAM data is true but let me talk in value terms. So we right now been more conservative because there have been certain amount of headwinds on the auto industry. So we never give forward-looking statements. So if somebody is wanting from us, then I would like to be more conservative rather than committing something more and then disappointing.

Bunty Chawla: Lastly, a simple data point if you can share. Last quarter that H2 FY19 we have got recoveries from the SARFAESI under home equity. So what has been in Q4 specifically if you can share that number?

Arul Selvan: I think we had done around 119 cases recovery, of which 102 has been by cash settlements and 17 is on account of acquisition and auction.

Bunty Chawla: Roughly I can say 119 crores because roughly you are saying Rs.1 crore...?

Arul Selvan: Rs.107 crores and Rs.89 on settlement and around Rs.18 on acquisition.

Moderator: Thank you. The next question is from the line of Umang Shah from HSBC. Please go ahead.

Umang Shah: I just have a few questions. So one is clearly although we are kind of little conservative on growth and we believe that pre-buying will kind of help us grow in the second half but it seems that clearly growth is coming at the cost of margins, obviously cost of funds are also on the upper side. So is there any trade-off or any margin threshold beyond which we do not really intend to go or do we have any strategy in place to kind of protect any sort of margin compression, let us say if we have to increase our market share in the MHCV segment so to say?

Ravindra Kundu: Yes, that is what is happening. If you refer to Slide #34, you will see that we are progressively reducing the low yield businesses like heavy, in the book is at 17%, we have dropped it now, that is 14%. We have improved the used and refinance which are high yield categories; 13% book to 15%. Similarly, you will see that the three wheelers and small commercial vehicles which are again high yield businesses, having scaled up from 8% to 10%. But this movement will take its time to impact the yield on the book. So we spoke about this last time also that it will take some 2, 3 quarters. The high yield business becoming a larger part of the book to make a significant impact to move up the yield. So until that happen, you will have certain amount of NIM compressions which we will have to manage because whatever we are borrowing from

bank, on the reset date, they become slightly more expensive than what it was originally planned to be running at. So to that extent there will be some differences which we will have to manage.

Umang Shah: As far as OPEX is concerned, clearly, we are kind of expanding our branch network. So for FY'20 also, should we assume that we should not kind of expect any major benefits on OPEX ratios because if volume growth tapers down from 25%-odd levels to 15% sort of levels, then OPEX ratio should be stable on YoY basis?

Ravindra Kundu: OPEX, there are multiple ways, there are certain initiatives we are working on to improve productivity, etc., that should be stable, but then for the purpose of future growth, we keep building new branches, we recruit people and again depending on market conditions whether collections and sourcing cost will become more expensive is what we need to see. So again conservatively, I would say that we will certainly not try to breach this level and we will work beneath this level to push it down. So on a conservative basis, certainly you can consider that at the current level.

Umang Shah: Just two data keeping questions: One is on macro uncertainty related provision which we made Rs.50 crores in this quarter, what is the total on the balance sheet or this is all that we have?

Arul Selvan: Approximately Rs.50 crores you can take. I do not want to give specific numbers out here.

Umang Shah: This would be a part of our stage-III provision coverage or overall provision coverage or this is over and above that?

Arul Selvan: Actually it is being distributed between stage-III and stage-I and stage-II also. It is not focused on one segment alone because this macro can impact any of the stages. So we have distributed this across all the stages.

Umang Shah: In our Presentation on Page #17, where we have our AUMs of about 54,000-odd crores, 26% YoY growth, and on Page #23 we have our closing AUMs of about 57,000-odd crores, 32% up YoY, what is the difference?

Arul Selvan: That will be the investment portfolio. The cash in hand we are keeping almost like around Rs.3,000 crores which is to meet maturities, etc., that will be the difference.

Moderator: Thank you. The next question is from the line of Nidhesh Jain from Investec. Please go ahead.

Nidhesh Jain: Sir, first question is on home equity where if we look at the disclosure in presentation, there has been a decline in yields on a sequential basis, while we understand that you have increased the yields on home equity and it is a floating rate portfolio, so why the yields has declined? Secondly, why there has been a restatement in home equity presentation disclosure for previous quarters? And thirdly, if I look at segment wise profitability in the financials, there I see that on a PBT level in other segment we are making a loss which was a profit for last few quarters, so what are the reasons for that?

Arul Selvan: In Page #45 what we are showing is the reduction on account of the cost of funds impact. So there is impact as I spoke. So, if you see on Page #47, the yields have improved to 12.4.

Nidhesh Jain: Q3 '19 the income was 12.8%, which has declined to 12.4%?

Arul Selvan: You are talking Q3 versus Q4? Okay. In the current quarter, it is on book yield. So there is also certain amount have been assigned. So when that assigned amount goes out, you will have a reduction in the income. So that is the yield reduction. Your next question is on the other businesses. Because we used to always have pricing mechanism where the businesses have been built at the cost of funds at the transfer price and treasury gains will be there. In this current quarter, the treasury gains have been minimal. Also, with now what is happening is the securitization aspect of the profitability is also to the businesses because it is on balance sheet as well. So the securitization related gains which were being considered outside the business, some part of the business comes with that.

Nidhesh Jain: I believe the others will have housing finance and MSME loans rather than treasury I think will be allocated in unallocable revenue?

Arul Selvan: Other includes home loans and treasury and there is a small bit of SME and Agri. These are the three or four classifications that goes into 'other.' Actually our Home Finance(subsidiary) made profit for the first time this quarter. Now home finance (subsidiary) may profit during the current quarter. So that is because earlier till the first three quarters they were paying certain amount of consultation fees for making this business come on line and that is stopped in Q4.

Nidhesh Jain: What is unallocable segment in the segmental disclosure?

Arul Selvan: That is the other businesses which is mostly treasury and HO related cost or income, for example, we have some liquid investments income will come in the unallocated revenue because that is held by treasury as a part. It is not for any specific business. It is kept generally.

Nidhesh Jain: Lastly, there has been restatement in home equity profits that we are showing on Slide #47 Q3 presentation. So why there is a restatement?

Arul Selvan: What has happened is till last quarter, we were being presenting including the ten months gains as a managed business level. Now we wanted to think it with the segmental reporting that is happening because we found that segmental we are reporting when the on-book assets and not the managed assets. So we did not want to have two different numbers presented, in the SEBI format where the segmental is being presented versus the investor presentation where we were presenting on managed assets. So we removed. That is why we qualify it "on-book" if you see. Wherever the assignment is going to be, upfronting the profit, that has been mentioned and we have given that at the bottom, it includes assignment gains. Last quarter we had around Rs.31 of assignment gain. This quarter we had around Rs.12 crores of assignment gain.

Moderator: Thank you. The next question is from the line of Digant Haria from Antique Stock Broking. Please go ahead.

Digant Haria: So credit cost for this year were say 65 bps even if we include the Rs.50 crores which you did this quarter of prudential provisioning, that maybe it would have been around 57, 58 bps and we have always guided 1% as the long-term number which we should look at. We would want to stick by that 1% as the number again or we think it is time to put that number a little lower?

Arul Selvan: I am pleased to stick to the same number. Let us get used to this rather than...there will always be certain amount of fluctuation. Even if you go back in 2011-12, we had a very good years and then subsequently in '14-15 it went up a bit and then it comes down. So, I would say that we need to institutionalize this whole process and make it that, we are going to be used to it. Actually I really pity the teams. They have been constantly given differential targets from 180-days, 150-days, 120-days, 90-days, now suddenly all of it has been thrown out, now we say stage-1, stage-2, stage-3. Really the collection team to know where to focus, what to focus, we have been really changing, they are mostly driven because of the regulatory changes. But let us think this thing get institutionalized a bit before we take aggressive step on this.

Digant Haria: Sir, I was just thinking there were such tough years and we could still do this and hope is that now the years will be better once this whole clean-up thing in the NBFC space happen. Okay, sir, I think we will work with this 1% for now.

Arul Selvan: Works like that. Then you will be happy with what we give. Otherwise you will come back. Why unnecessarily? Conservative approach is good, ingrained into the Murugappa culture.

Digant Haria: Second question is on this home equity part. So, we have seen the market is pretty slow, liquidation of large properties is absolutely difficult but still we have been able to put up a great show there like from the highs of 6% NPAs we are down to less than 4%. Do you expect those chunky accounts trend to continue, which were not behaving well, will those liquidation continue for the next two, three quarters also?

Rupinder Singh: Hi, this is Rupinder. Till we are at GNPA level, so we think that there is a lot of scope going forward and process is very well said when we talk about SARFAESI, we learnt internally and through experience while possessing and selling the properties are all in last one year. So this trend will continue for few more quarters till we lead to the segment where we can say, yes, GNPA has reduced drastically to the next stage. So this stock also available and we are selling it. Good part is the LTVs were in control which is helping us out even in the stress time. Even most of the properties get a large cut when we go for selling in market specifically after SARFAESI execution and possession of property. But because LTVs were always in control on entire book if you have observed that, we have 50-52% of LTV on the portfolio, so that is helping us out whereas I cannot comment on how other book is behaving for other players, but for us that is helping us because we always focus that LTV should not be something which is aggressive into it. And most of these properties are residential properties which is under possession and that

is again where most of the customers' accounts they try to settle before they repossession. So these two factors are effectively helping us out.

Digant Haria: Thanks, Rupinder. My last question is for Kundu sir. We had probably raised the overall yields on the CV portfolio from say 14.5 to something like 15.1, 15.2. We still continue to hold that as the overall yield or have we taken any reduction in pricing in the last one or two quarters?

Ravindra Kundu: Yield we are trying to basically improve with the help of mixing the product towards high and that is what Arul tried to explain that if you see our HCV asset size, it is 15%, but on the disbursement mix it has come down to 14%, we have increased our used and refinanced business to 29% of our overall disbursement and similarly small commercial vehicles three wheelers also we have increased from 8% to 10%. So this is to basically increase yield. But the impact comes only after three or four quarters. That is the reason it is not showing as of now and our efforts are to improve the overall disbursement of high yield business versus the low yield business. That is the reason if you see heavy commercial vehicles which grew (-11%) against the growth of 15% of the industry. So, you will see that yield will go up.

Moderator: Thank you. The next question is from the line of Abhishek from Trivikram Consultants. Please go ahead.

Abhishek: So, I have a market related question. In the calendar year 2019, we have seen two rate cuts from the central bank. So I want to understand on ground situation like are we getting the new funds at a lower rate or how has been the situation in the market?

Arul Selvan: We have not seen much reduction. Yes, some banks have reduced it by 5 bps or 10 bps at most, but it has been not pass-through. Banks are taking advantage of the present opportunity because money market is completely dry. So that is the dearth and everybody is relying on banking sources to secure funds. Of course, opportunities are there in overseas and we have tapped the ECB market in a small way in FY'19 and we will see more of it happening in FY'20. So that is the other alternative to go in case we need to try and work on the cost. But as of now, pass-throughs are being very minimal.

Abhishek: How has been our loan book portfolio like is it fully floating rate or it is the fixed rate?

Arul Selvan: It is completely fixed rate other than the bank borrowings. The bank borrowings, I do not know whether to call them floating or fixed because they do not benchmark with any floating, it is for the banking chiefs to give a credit or not. Hopefully the industry will change benchmarking them with repo rates where some amount of such approach has been started by SBI. But until it really happens I do not think this pass-throughs are going to be very effective and I think until the new government comes. It has always been a case where government drive protection rather than it is driven by market.

Abhishek: And in terms of our portfolio, is it a fully floating rate portfolio or fixed rate kind of mix with both of them?

- Arul Selvan:** That is what I said. Almost 50% of our book is bank borrowing. That is linked to the MCLR. MCLR does not move in tandem with the market. The other point is the MCLR change also is not instantaneous the moment even if the bank changes rate. That is the reset date which falls let us say one year from the date of the initial disbursement or the earlier reset date. So it is mostly annual reset. So on the reset date, it will change. It is a floating rate but it is not floating dynamically.
- Abhishek:** Actually, my question was regarding the client portfolio. Our clients are a floating rate or a fixed rate?
- Arul Selvan:** Our borrower for vehicle finance is 100% fixed rate and home equity and home loans are 25% floating rate.
- Abhishek:** So majorly it is a fixed rate. So in a scenario where the market rates are going down and we are taking benefit of it. In that scenario we might see the NIMs on a higher side, am I right?
- Arul Selvan:** You are right.
- Moderator:** Thank you. The next question is from the line of Saurab Dhole from Trivantage Capital. Please go ahead.
- Saurab Dhole:** Sir, firstly on slide #30 if I look at the industry volumes in HCV and Car & MUV sales, there is a fair bit of divergence between how the industry is doing and how you are growing. So as I understand this is largely because you are readjusting the portfolio towards higher yielding segments?
- Ravindra Kundu:** You are right.
- Saurab Dhole:** If you could tell me what would be the approximate yield difference between these two classes?
- Ravindra Kundu:** Heavy is as low as 10, 10.5%, but light and small commercial vehicles are higher, the choice of Cars & MUV we have in our product segment and mostly entry level cars and also in tier-3 or tier-4 towns, there we get a better rate. But as far as HCV is concerned, we fund only the credit tested customers. Therefore, 10.5% 11% which is actually the market practice.
- Saurab Dhole:** So Cars & MUV the yields would be around what, 14, 15%?
- Ravindra Kundu:** It is higher than HCV significantly. We do not disclose the segmental number. For HCV we are not doing much, therefore I have told you.
- Saurab Dhole:** On a consolidated basis, if I look at the OPEX ratios, there has been a fair bit of improvement in this particular financial year. So, I was just wondering have they kind of stabilized at these levels or is there some more juice left out of this particular ratio?

Ravindra Kundu: Basically, our effort is to make sure that ROTA is maintained. So bottom line is 3.6 or 3.7. In order to do so, we try to basically increase our yield. So if you increase the yield and it is the high yield business and also get into the more dealer network, obviously, opportunity go up. So therefore, what is important is that at any point in time we should not basically lose out on the ROA thing and also ensure that the growth is basically there. So therefore, we will be doing everything possible to keep our productivity level high so that we can maintain it as CFO already said, but I am telling you the reality.

Saurab Dhole: But like you already mentioned that large part of your vehicle finance book is a fixed rate book and that is possibly causing contraction in NIM. But now that you would be disbursing or you have already started disbursing at revised rate, so do you think the NIMs will go back to those 7.5% kind of levels in the next one year?

Ravindra Kundu: It should go up actually. That is what we are trying.

Saurab Dhole: But at 6.9% for the entire year, this is kind of bottomed up, is that correct assumption?

Ravindra Kundu: Yes, you can take that. There are two things which play – one is the cost of fund and other is the mix. So both will turn out favorably if the interest rates come down. So you will see positive movements out there.

Moderator: Thank you. The next question is from the line of Pallavi Deshpande from Smart Karma. Please go ahead.

Pallavi Deshpande: Just wanted to understand on the same product like HCV and your CV portfolio. Have we been able to raise pricing for increase in cost of funds?

Ravindra Kundu: During last one year, HCV market pricing has gone up from 8.5 to 10.5 from the industry point of view. We are also trying to basically increase it over the last one year. More important is that our focus on HCV is always on the credit asset customer. Therefore, it is very difficult to increase the prices. That is the reason we have chosen to basically reduce the focus on HCV and increase the focus on other products which is going to increase our overall yield.

Moderator: Thank you. The next question is from the line of Akash Dadani from HDFC Securities. Please go ahead.

Akash Dadani: I had a question on the provisions. The provisions for the quarter are Rs.56 crores, right and out of that Rs.40 crores are in vehicle finance and there is a reversal of Rs.2 crores in the HE segment. So the Rs.50 crores provision towards macroeconomic factors, how does it add up. – is split between these two segments?

Ravindra Kundu: Yes, it has been allocated to the respective segments also.

Akash Dadani: And then there is a portion that is over and above that?

Arul Selvan: For example, we have been managing agri portfolio where we provided out the residual book because we do not want to fund it any more considering so many election promises to waive off loans, etc., So I think there is somewhere in the range of around Rs.5 to 7 crores on that. Then we have also provided some amount for the bill discounting on SME businesses. We take a call on certain loans and provide 100% if we expect certain amount of higher probability of defaults. So we have now provided for HCV business.

Moderator: Thank you. The next question is from the line of Abhijit Tibrewal from ICICI Securities. Please go ahead.

Abhijit Tibrewal: I just wanted to understand what was the incremental cost of borrowings in Q4?

Arul Selvan: Around 30 bps, but you also got to factor in that in Q4 what we do is we have focused to borrow more from banks. Two-three reasons -- Banks were coming with lot of sanctions to us as they found us credible and we wanted to avail them because if we do not avail them, banks may give it off to somebody else, then later banks may not have the headroom to lend because banks today are restricting or giving very little to the NBFC sector as of now. The second factor is where there is NCD funding, bank funding has got probability that the MCLR rates will come down. So there is a probability that the pricing will come down over the years unlike if I lock myself with an NCD which is for a three year term and then currently the NCD rates are running at a higher level. So considering these factors, we have done more of bank funding and we have reduced our short-term as well as the market borrowings.

Abhijit Tibrewal: With regards to the ECB that we did in FY'19, what was the fully hedged cost for that?

Arul Selvan: It worked out to around 8.9 annualized including withholding tax, etc.,

Moderator: Thank you. The next question is from the line of Jayesh Gandhi from Harshad Gandhi Securities. Please go ahead.

Jayesh Gandhi: In future, do we have any plans to move to personal loans or something like that?

Arul Selvan: No, we do not have any plans to do personal financing in the near future.

Moderator: Thank you. Sir, that was the last question. I now hand the conference over to Mr. Nischint Chawathe for his closing comments.

Nischint Chawathe: Thank you very much for joining us this morning for the call. We thank the management for giving us an opportunity to host the call.

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