"Cholamandalam Investment and Finance Company Limited

Q3 FY '23 Earnings Conference Call"

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

Moderator: Ladies and gentlemen, good day, and welcome to Cholamandalam Investment and Finance Company Limited Q3 FY '23 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

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

Nischint Chawathe: Thank you, Neerav. Good morning, everyone. Welcome to the earnings conference call of Cholamandalam Investment and Finance Company Limited. We have with us the senior management of Chola today to discuss the 3Q FY '23 performance. Management is represented by Mr. Vellayan Subbiah, Chairman and Non-Executive Director; Mr. Ravindra Kundu, Executive Director, and Mr. Arul Selvan, President and CFO.

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

Vellayan Subbiah: Nischint, thanks so much. So good morning, everybody. I know everybody is waiting for the budget at 11:00. So I think from Chola's perspective, there is cause to celebrate in that our total AUM crossed the milestone of INR 1 lakh crores. That is up by 31% year-on-year. This has been a target for the company for a while, so we're glad to achieve that target and to celebrate it. So that is a quick start. Disbursements basically are at INR 17,559 crores for the quarter, up by 68% and INR 45,512 crores for the year-to-date, up by 100% Y-on-Y.

Obviously, the year-on-year comparisons are going to look a bit skewed because of the COVID quarter last year. Total AUM is at INR 1,03,789 crores. That is up by 31%. The net income margin is up at INR 1,832 crores for the quarter, up 22% and INR 5,169 crores for the year to date, up by 21% and the PAT is INR 684 crores for the quarter. That's up by 31% and INR 1,813 crores for the year to date, that's up by 24% year-on-year.

So the Board of Directors today announced the unaudited financial results for the quarter and nine months ending 31, December 2022. Chola has delivered the best-ever disbursal, collections and profitability in Q3 FY '23. We have gained market share across product segments in Vehicle Finance and other business units.

Sale of commercial vehicles are expected to come close to the pre-pandemic peak of over one million units in FY '23 due to improved fleet utilizations, strong replacement demand and pickup in the road construction projects across the country. Despite high inflation and high interest rates, strong festive season sales and workforce returning to the Metro cities has helped drive growth. The housing market has also been very strong.

Aggregate disbursements in Q3 FY '23 were at INR 17,559 crores as against INR 10,430 crores in Q3 FY '22, a growth of 68%. Vehicle Finance disbursements were at INR 10,446 crores as against INR 7,647 crores, a growth of 37%. LAP disbursed INR 2,225 crores as against INR1,661 crores, a growth of 36%. Home Loan, which is Affordable Home Loan and Affordable LAP, disbursed INR 1,072 crores as against INR 539 crores for the quarter. That is a growth of 99%. And SME disbursed INR1,782 crores registering a growth of 273% over INR 478 crores in the same quarter previous year.

CSEL, a new business, Consumer and Small Enterprise Loan disbursed INR 1,868 crores for the quarter. Secured Business and Personal Loans disbursed INR 137 crores, and our total Assets under management stood at INR 103,789 crores. Our PBT-RoA was at 3.8% for the quarter and 3.6% year-to-date. RoE was 19.1% year-to-date. And the company continues to hold a strong liquidity position with INR 7,396 crores of cash balance with a total liquidity position of INR 10,104 crores, including undrawn sanctioned lines. ALM is comfortable with no negative cumulative mismatches across all time buckets.

Consolidated PAT was at INR 685 crores, compared to INR 528 crores in the same quarter. Board of Directors approved an interim dividend payment of 65% being INR 1.30 paisa per share on the equity shares of the company. And in terms of asset quality, the Stage 3 assets stood at 3.51% with a provision coverage of 40.96% as against 3.84% at the end of September 2022. Total provisions currently carried against the overall book is 2.45% as against the normal overall provision levels of 1.75% carried prior to COVID-19 pandemic.

So, we feel quite comfortable there. As the revised RBI norms, GNPA and NNPA stood at 5.37% and 3.76%, respectively. We carry INR 726 crores of higher provisions under Ind AS over IRAC. And the capital adequacy of the company was at 17.75% as against the regulatory requirement of 15%. Tier 1 capital was at 15.12%.

So let me stop with that, and we are happy to turn it over to you for questions.

Moderator: The first question is from the line of Abhijit Tibrewal from Motilal Oswal.

Abhijit Tibrewal: Congratulations on a very good quarter. Sir, just two questions here. First thing is on the competitive landscape, how should we look at it, particularly in vehicle financing. How are banks behaving? Are we able to take IRR increases on the incremental disbursements that we are doing? This is in the context of the fact that on a Q-o-Q basis, we have seen about a 10 basis points expansion in vehicle financing yields. If we kind of look at your blended yields expanded by about 30 basis points. Obviously, I understand that's what to do with the LAP and the home loan business and the newer businesses that's important, too. So that is one thing I kind of wanted to understand that. I mean you've been able to deliver almost steady stable margins in this quarter. So, what is led to that?

And the second thing was on the opex. Sir the employee expenses are actually growing in proportion with our disbursement. So is that the right way to kind of look at it or is there something else in terms of teams that you're building out in your newer businesses, which is leading to this high employee expenses?

Ravindra Kundu: Hi, good morning, Abhijit. See, in the case of vehicle finance, if you see that there are three product lines mainly in the commercial vehicle segment, heavy commercial vehicle, light and small, and we have been leader in light and small, which is our area of focus. In addition to that, we do tractor, used car, two wheeler product. The banks are competitive in the segment of heavy commercial vehicle and they take maximum share in that segment, which is actually a rate-sensitive product. And for us, it is not a priority as of now.

We mentioned that we will do HCV with respect to our own existing customer in the market where we are comfortable. And another thing is that the heavy commercial vehicle still is driven by the last fleet operator and medium fleet operator. The SRTO, The Small Road Transport Operator has not come back to the market. They are still buying the used vehicle, which is actually good for us because we cater in the used vehicle business as well. So that is the product mix we are doing it.

In terms of overall market, it is actually doing very well in terms of commercial vehicles. So both the players like those who are in top of the pyramid players and the middle of the pyramid players all are getting benefited because it is getting distributed by the product and by the segment which we want to do it. And that is how, we are able to manage better yield in that business.

Now coming to the opex, opex is in terms of ratio, it is looking high because our disbursement growth is significantly higher, and we need to spend money on account of variable pay for the disbursement, wherein the asset growth is 30%. So, until such time in the disbursement and asset growth does not come together at same level in tandem to that, you will see that little bit opex high.

At the company level, opex is also high because we have expanded our business in terms of new businesses and also deploy a lot of things into technology side also. So all those thing is going to get matured and we will be getting benefited on account of opex in the next one year time. And you will see that, that will add our RoA as well.

Abhijit Tibrewal: Sir, just one last question here. I mean at least in terms of newer businesses, the disbursement trajectory that we have seen is improving. So, I mean, is it fair to conclude that, I mean, based on whatever early delinquencies, collections, that you are seeing in the three new lines of businesses, that is giving you comfort to keep scaling it up and improve the momentum going ahead?

Ravindra Kundu: Yes, absolutely, right. In fact, delinquencies in this new business were significantly lower than the trend, what we see in the market for the same business done by the other finance company. But however, we have only done one year. We need to wait for that. And the way the bounce rates are there, or the earlier delinquencies are seen now, we can say that our new business portfolio is significantly doing better.

Moderator: Next question is from the line of Umang Shah, from Kotak Mahindra.

Umang Shah: Congratulations to the team for a very strong quarter. I have two questions. One is on the asset quality front. So, if I look at our gross Stage 3 numbers or GNPA under the new IRAC norms, gross Stage 3, or NPA numbers appear to be fairly steady or sticky in absolute terms for last four quarters. Whereas we are seeing a good rollback in our Stage 1 and Stage 2 buckets. So how should we read into this that our NPAs getting more stickier, or I just wanted to get some sense given that the overall collection efficiencies are fairly strong at this point of time?

Ravindra Kundu: Yes. Historically, if you see that for our first three quarters of the year is always better for Stage 1 and Stage 2. Stage 3, we get the maximum performance in the Q4 because first three quarters is a difficult quarter for the customers to pay two installment, or three installments, to roll back from 5th bucket to below 3 buckets. So obviously, we continue to keep them between 3 to 4 bucket and then when it comes to the fourth quarter, when the customers start earning more money, then they will start, where they are giving us the higher installment and roll back their account.

But good thing is that if you see the Stage 3, normally, it goes up during the Q2 and Q3, which has not gone up in this year. It has been coming down but has not come down significantly. If you see the last year performance or last to last year performance, we will be able to see that the same thing has happened in the past. This year, in fact, performing better because we are now driving 2A, 2B and 1A, 1B also. Therefore, we have been successfully holding the roll forward rate. Our roll-forward rate in vehicle finance is actually less 0.5%,which is significantly lower than what it used to be in the past. So, I can tell you that the Q4 performance will actually show you a better result in terms of Stage 3 reduction.

Umang Shah: And sir, the second question is related to our home equity business, so both from disbursements as well as credit cost perspective needed some outlook. So, our home equity disbursements again, for the past three quarters, appear to be fairly range-bound and credit costs are kind of near zero for the first nine-month period?

So, profitability clearly, its far more superior compared to what we have seen in the past few years. So, both from growth as well as a profitability perspective, how should we look at this business over the next one to two years? Just wanted some outlook on that front?

Suresh Kumar: So, see, home equity in the previous year, we had our Stage 3 little bit higher, which we started rollback and Stage 3 reduction is on a continuous basis in a very good position. For example, in the last nine months, we have reduced from 7.95% to 4.76%, which is about 300 basis points of reduction, which is reflecting in the almost close to zero credit costs.

And in terms of our business growth, we used to have 200 to 300 branches, which is now at 570 branches. So on that perspective, our expansion in Tier 3, Tier 4 cities is going good, and we continue to see this happening. And both disbursement trends, we see the business expansion and the numbers growing up.

From a credit cost, maybe next year onwards, we can see it will not be zero, but it will have a very minimal credit cost, which is acceptable levels. And our Stage 3 will continue to be coming down from this levels.

Umang Shah: The home equity disbursements are not getting classified into any other head? Because the branch expansion or the rate distribution expansion doesn't seem to be reflecting into the disbursement numbers? So that is what I wanted to understand.

Vellayan Subbiah: Our disbursement numbers are flat.

Ravindra Kundu: So, disbursements are flat. Definitely. Bur sees, what is happening in the case of loan against property, when we expand it to the smaller geography, the number of loan goes up, the ticket size start coming down. That is good for the construct of the business in the beginning. And then after that, when you further go up and consolidate the business in the Tier 3, Tier 4 town, then you will see no higher growth coming up. So we are comfortable with this kind of growth in the beginning because we are creating the foundation of doing the Loan Against Property in the Tier 3, Tier 4 town.

Arul Selvan: It is at 56% and...

Vellayan Subbiah: Next year also, we will see growth.

Suresh Kumar: Just want to give your perspective, from quarter-on-quarter, it's about 36%, 40% growth is happening. And this growth will happen at a 40%, 45%.

Vellayan Subbiah: He is just asking sequential quarters? Three quarters have been flattish.

Ravindra Kundu: Yes.

Vellayan Subbiah: So, I think Umang, your question there will be growth next year. We understand what your question is. Ravi explained the cause of it, and there will be growth in the book next year. So, we are not reassigning it anywhere else, your question is whether reassigning it to home loans or other products.

Moderator: Next question is from the line of Piran Engineer from CLSA India.

Piran Engineer: Congrats on the quarter. Just a couple of questions. Firstly, I just want to understand management's thought process in ramping up the new businesses, because typically in the past, we have seen that when you'll enter the business, you'll go slow for a few years, be it home loans, tractors and two-wheelers and then ramp-up. But in this case, what we've seen is that in four quarters, it has grown multifold. So really just want to get a sense of the psychology underlying this?

Ravindra Kundu: We mentioned in the last quarter also that when we are starting the consumer loan, which is PL and BL, you see the overall industry size. And as against the overall industry size, even for this quarter also, we saw our market share is hardly 0.8% or 0.9%. And if we want to do this business and expand it like, we have 1,700 touch point in vehicle finance. As of now, we are in less than 50% in the case of the CSEL. And if you are having one-one person also across the 600, 700 branches, we need to basically do the business there and that giving them INR 400 crores, INR 500 crores disbursement, which is per person per manager, 1 crores disbursement, which is very significantly lower number compared to the competitors what they are doing it.

And this much business is required to be done. Wherein the case of two-wheelers, see, you see the two-wheeler market in the CV. We are doing, say, two hundred crores disbursement and say, five years back, we used to do say, INR 50-crores business. We were doing INR 50 crores as against the overall industry size of say, INR 500 crores. That time, we were taking the 10% market share.

But in the case of PL, BL, we are taking hardly 1% market share, but the market is large. So therefore, it is not an apple-to-apple comparison if you compare the PL, BL business versus the two-wheeler business done by us in the past. We are fundamentally maintaining the same cautious approach towards the PL, BL and not going to mini-market where we saw, it has a little problem like mini-market has higher bounce rate and all. So, we are not going aggressively.

Vellayan Subbiah: The only thing I would add to that is that we are also much more comfortable now with our modeling and indicators, and kind of using the ED and kind of non-starter data, kind of using our bounce data, and using our analytics to get comfort with the scale at which we're growing. So that is a constant kind of check that we have in play. So, we're taking, yes, we have that comfort now, because we've had that experience with previous businesses in the past.

Ravindra Kundu: And in the case of like two-wheeler or construction equipment, a lot of business to be done under the NTC, wherein the case of PL, BL we are not even doing any NTC with 100% score card base.

Balraj Menon: For the consumer lending business, as on today, 96% of the customers whom we have acquired in the last one year are with the credit score of more than 700-plus.

Piran Engineer: And just secondly, sir, you also mentioned that a delinquency or bounce rate in these new businesses are lower than what it is for peers. So, what really would you attribute this to? Is it geography selection, customer selection? Some different underwriting processes. Collection processes? According to you what has contributed to this outcome?

Balraj Menon: So, I will just answer it. We have our credit model; our underwriting is completely digital. Every aspect is covered and its complete digital underwriting process and all the rule engines are applied. Credit scores' deviations are strictly monitored. That is point number one.

As I said in the beginning, 700-plus minimum credit scores, very rarely, there is a deviation approval at any level. Our current efficiency is 99.72% on the current bucket. And our bounce rates are sub 5%, which is today, the best in industry. Our first EMI bounces are sub 3% with 100% clearance in the month-on-month basis.

Ravindra Kundu: So specific to the CSEL, they have come with a concept of first EMI bounce collection by the sales team, which is exceedingly rare in the industry. As of now, our bounce rate is also much lower. So, it is easy to basically get it collected by the sales team. All the sales teams are collecting it. And, before the first EMI cheque, all of these customers are being met by the sales team to basically educate them that this is the cheque is going hit in your account and you need to make it clear. So there are very specific way of managing hard bucket by the CSEL. It's going on because we know that this is an area where we did not do better in 2005 and '07. So, we are going double cautious.

Moderator: Next question is from the line of Shweta Daptardar from Elara Capital.

Shweta Daptardar: Congratulations on impressive set of numbers. So, two questions from my side. You had guided earlier AUM growth of 20%, 22%. You have already surpassed that. So does your growth outlook guidance change? And secondly, if I look at vehicle finance, net income margin, so of course, where you have lesser scope to reprise, so how has the reprising happened there, both on the liabilities and assets side?

Arul Selvan: Okay. So, on the growth, yes, we are now looking in the range of around 27% to 30% growth. We will keep it there for the time being for this financial year. On the margin, the vehicle finance as the proportion of the new book changes, the NIM improvements will be visible. So, it will take another three to four quarters before the overall book changes to the new rates. So that will happen progressively.

Shweta Daptardar: Sir, just one related question. So, despite high pressure on the vehicle finance net income margin, we have really come out well on the overall blended loan front. So that is also because your other businesses are contributing. So going forward, shall we expect the NIM to remain steady to better the way we saw this particular quarter?

Arul Selvan: Yes. The NIM, we will be monitoring. Yes, we are confident it will hold. There will be as I was telling in the last few calls also, we will have a 40 to 50 basis points hit on our account of cost of funds on a year-on-year basis. But that we are trying to mitigate by scaling up the pricing in our floating rate book, which is the LAP and HL, which we have already done to the extent of around 160 basis points about LAP and 120 basis points about HL.

We are consciously repricing it is like, we shouldn't kill the golden goose, scale it up too much. So we don't want to do another 40 basis points, which we are contemplating. We will see what are the MPC results announcement in the next week and then take a call on scaling further. But right now, we are comfortable. On the other side, on the cost of funds, we have constantly negotiating with banks, etcetera, to bring down the cost of funds as much as possible.

We are faced with the issues of maintaining NIM. We will work on it, and we will keep it. The good part is it is also compensated by the NCL reductions, which will happen. So, as I said, the mix of products, mix of businesses, we have to not focus on one single line item, we have to look at the ROTA and effective rate. ROTA 3.5 plus is sort of a commitment we stick to, and it will work out.

Moderator: Next question is from the line of Nidhesh Jain from Investec.

Nidhesh Jain: Firstly, on the margins, if I look at the segmental margins, there is a 40-basis point sequential drop in vehicle finance, which is around 65% of the book, and margins on home equity and home loans have remained broadly stable on a sequential basis. So, sir, what explains our overall margin being flat despite 40 basis points compression on vehicle finance margins?

Ravindra Kundu: Yes, this is just now our CFO mentioned that. Vehicle finance is a fixed book and other businesses are floating. In the case of LAP, HL and SME, we can basically increase the book yield by increasing the yield, wherein the vehicle finance, the marginal book yield has gone up as compared to last same period. But for the overall book, it will take a little time. It takes two to three quarters when we start seeing that the overall book is also getting benefited in terms of marginal book yield increase.

So that is what is happening. What we are interested more into the RoA to be delivered at a 3.5%plus, which will be a combination of NIM and the opex and the NCL. So as of now, our focus is more to reduce the NCL. And trying to as what CFO said that he's negotiating with the banks to keep the cost of fund low. At the same time, we are trying to increase our marginal on book yield in vehicle finance.

Vellayan Subbiah: And the mix of new business.

Ravindra Kundu: The mix of the new businesses. And in the case of vehicle finance, new business is going to help us to increase yields.

Nidhesh Jain: Actually, I was trying to understand the calculation because on 65% of the book there is a 40-basis point decline in margins. On housing loan and LAP which is around 20% of the book, there is a flattish margin on a sequential basis. So, the entire margin has been explained.

Arul Selvan: It is a very complicated thing. If you again go to the liability side, almost 40% of our liability side is fixed with regard to securitization book, with regard to NCDs, CPs, Tier 2, etcetera. Only 60% is in the banking segment which is in a way floating. So actually, if you look at it, there is only a 20% gap between the 60% fixed on the asset side and the 40% fixed on the liability side. That is what we need to manage. This is exactly what we will manage by requesting and negotiating with the banks to keep some part of the increase down.

So we can't get into too much of nitigrities . Broadly look at it that way. This is the thing. It is not like the entire liability side is floating.

Nidhesh Jain: And second is on the new initiative within, if you can share specifically on the unsecured side, what will be the comfort level in terms of AUM mix over medium-term? And how much of the unsecured book will be in the flexi format, which is basically not in the term loan format, but in the format where the customer can use it as a credit limit. These are the two questions.

Ravindra Kundu: As of now we are not doing any flexi. Eighty percent is term loan only. And also we have been mentioning that we are in the pilot phase in terms of PL, BL business and it will take time. Unless we reach out to the pan-India level and try out PL, BL everywhere, in all three models, traditional model and D2C model and as well as our DST model, we'll not be in position to predict what is the mix of the business coming from CSEL business.

We are comfortable the way things are moving as of now. And let us, drive this business with our expectation that we will continue to drive in the same manner. As of now we are doing INR 600 crores business. Last quarter we did INR 400 crores. So that increase is happening every quarter. We will continue to do it for some more time.

Moderator: Next question is from the line of Jignesh Shial from InCred Capital.

Jignesh Shial: Just two quick questions. One, we are seeing a bit of a reshuffle. This is for Arul sir. A bit of a change in the overall liability mix. A pure bank and we can see from 58 to 52 sequentially if I'm seeing it correct. So, any particular strategy we are looking forward to just to manage margins or how do we see it going forward? That is my first question.

Arul Selvan: See, the mix is moving from term loans from banks to securitization. Where securitization has moved up. So, what is happening is during the last years, when bank term loan rates were very low, we could really push down the benchmark rates. We used that and we could move down the cost. Now what we are doing is, we are securitizing priority sector as much and able to keep it. Lender profiles seem the same and securitization is a fixed rate book, a fixed rate. So those and the ability to negotiate us to lightly tighter rates because of the priority sector appetite in the banking sector, we are moving that side. You would have seen our securitization, we have done almost like, four thousands crores now last quarter.

Vellayan Subbiah: And the 2% gain in FII is also coming from the banks.

Vellayan Subbiah: It is not a 6% drop, it is a 4% drop. Because the 2% gain in FII.

Jignesh Shial: Should we expect this to stay for a while and the rate remains elevated or this will be again reshuffle changing quite a bit in quarterly basis. That is what I really wanted to understand?

Arul Selvan: Yes. We will be looking at every opportunity at different points in time. We are looking at more securitization this quarter also. Because normally Q4, there will be larger appetite from banks on securitization for their year-end targets. We are also exploring other avenues. Right now, it's a little premature to talk about this.

Jignesh Shial: And the second question was, I mean there is one slide which reflects quite well that now Chola is almost present to all segments of SME and MSME. If you can give me some more details about or elaboration about the cross-sells franchise that Chola is able to see it up. I mean if I see it correct that new initiatives that we did earlier when we were discussing that to the existing set of customers also lot of same customer base would be given the opportunity into the new lending segment as well. So, if I want to see it as Chola is a cross-sells franchise or if you can give me some clarity, I mean some guidance how the total customer base would be repetitive customers and all that would be really helpful, if some data can be shared on that part?

Ravindra Kundu: With that intent only, if you see that we have created another ecosystem called SME ecosystem in addition to the, auto ecosystem. Auto ecosystem we have a series of the vehicles starting from two-wheeler to heavy commercial vehicle. In the SME we have similarly, the SENP micro, which is what we call it SBPL. From there to we are kind of addressing the SME. But it is too early to basically do the cross-sell from this side because we are in the pilot phase, as I mentioned, for each new business starting from SBPL, CSEL, and also SME, in addition to the Affordable Housing Loan.

But at some point in time, we will see that we are going to do this cross-sell. But before that, we need to start with our data analytics team and understand that what kind of customer we need to give additional loan in order to give them cross selling.

Vellayan Subbiah: And the first wave of growth in any case is coming from the broader presence in the new verticals. So the second can then be once you've got enough of a customer base in all the three ecosystems, then we can look at cross selling. But we get enough of a lift right now just from the growth in the new verticals itself.

Jignesh Shial: So, the second phase of specifically the new vertical side can happen through the existing set of customers across the different segments, I mean different pure landing segments. Is that a fair assumption then?

Ravindra Kundu: Yes.

Moderator: Next question is from the line of Chandrasekhar from Fidelity.

Chandrasekhar Sridhar: Just curious, what is happening on the cost to assets on the home loan business? This is now a 7,200 - 7,300 per book and the cost seems pretty much like some of our comparable affordable housing financials or in fact more. So just something around that. And then on the new businesses, how much are we sourcing from traditional versus partnership channels and now, and maybe it is just worthwhile, given the size now, publishing maybe an ROI tree so that we can get some sense on the expenses which are going in that segment.

Prashant Kumar: So as far as Home Loan is concerned, we have piloted this product first in South, and then we scale to different geos, as we always have done for other products. Similarly for Home Loan, now we are spreading our wings in West, East, and North. Expansion is yielding in the growth in terms of book value and the expenses. As of now we are present at 462 branches across India where vehicle finance is around at 1700 touch bases. So, over a period of time this expansion will yield to target customers and overall growth will come. So as of now, the slight increase in cost is due to expansion of the branches and manpower.

Ravindra Kundu: As far as the new initiative, the in CSEL business

Balraj Menon: Two-thirds of our business is coming from traditional, and one-third is from the partnership. In the last quarter out of INR 1,868 crores, INR 1300 crores came from our traditional business and INR 568 crores came from our partnership business. And we intend to keep that ratio during the growth phase also we tend to keep that level.

Vellayan Subbiah: And in terms of the RoA tree, I think it's too early. Let the businesses kind of grow, get through this growth phase a bit more, then we'll start sharing.

Moderator: Next question is from the line of Bhavesh Kanani from ASK.

Bhavesh Kanani: Sir, my question is related to the business wise disclosures we are giving. How does it work really when we build out those P&Ls for individual business in terms of the money that gets allocated to various businesses? This is in context of the earlier question on how large part of the book that is vehicle finance has seen a little bit of margin contraction. So, let's say, we have INR 100 worth of resources at company level, how does the allocation of those resources transfer pricing happen? And is there whatever is the excess liquidity and whatever will be part of the treasury operations, how is that summing up happening if you can throw some light on that?

Arul Selvan: Yes, we follow a transfer price mechanism based on the duration gap of the asset side of each of the book. We take the average tenor of the book and accordingly we take the pricing in the market and give them the pricing as the transfer price based on which they price their yields. Then the transfer price is maintained for the P&L purpose, while treasury will try and borrow at a lesser cost or depending on market availability. I mean that is decrement of the Treasury efficiency of the borrowings at a lower cost or a higher cost. And the liquidity kept is also taken to the Treasuries because they earn on the investment of it. So that is kept in the Treasuries.

Moderator: Next question is from the line of Param from Macquarie Group.

Param: It is again related to a previous participant question. So basically, we are seeing the margin being maintained despite a 40 basis point decline in vehicle finance. So if we work backwards, it seems to indicate that the margin in the new business has gone up substantially quarter-on-quarter. So, is that correct? And why is that happening?

Arul Selvan: So, there is LAP and HL.

Arul Selvan: LAP and HL. Also, margins have moved up because that is fair in spite of the cost of fund increase because they increase the yield on the entire book, the margin have remained flat, and it has not shown up. And as I was saying, look at it more from a ROTA angle. The vehicle finance book had impact because there, the cost of fund is going up. The yield on our existing book has not grown commensurately.

Param: Sir, I get that. But in the margins that you are reporting for the LAP and home loan businesses, they are up only like ten basis points whereas the vehicle finance is down 40 basis points, yes, quarter-on-quarter?

Arul Selvan: We are maintaining it because of the increase made on the existing book. Like they increased the cost of fund increases and then rate increases. So, the difference in rate is much better. Where in the vehicle finance the cost of fund increase as well and only on the marginal book yield is increasing on the existing book yields are not increasing.

Param: I will probably take this offline. So my next question, sir, is on the recoveries from your repo sales. If I'm reading from your P&L, it's about INR 50 crores for this quarter. And it's been trending at that level for the last 2 or 3 quarters. How sustainable do you think this line is going forward? Will you be able to maintain it?

Arul Selvan: Yes. The other operating -- on the top. Where are you seeing this? Which pages? You are talking about the opex line, the recoveries?

Param: No, no, no. Sir, on the top line, other operating income?

Ravindra Kundu: Other operating income includes fee income. Yes, it is going to be sustainable.

Vellayan Subbiah: Fee income is going to be in line with the disbursement growth and income growth.

Arul Selvan: And it is also amortized.

Param: Sir, this is not -- I just wanted to clarify, this is not recoveries from written off accounts or deposits?

Arul Selvan: No, no, no. It is not written off.

Arul Selvan: There will be a small quantum in that where the written-off book income will also come at a shortfall recovery, but that is not the large part of this income.

Moderator: Next question is from the line of Preethi R S from UTI Asset Management.

Preethi RS: So, my question is on the HCV book and vehicle portfolio. So today, it stands at 7% versus peak share of 19%. And even in terms of disbursement, it is a little more than 1/3 of this peak disbursement in Q4 of FY '18. So, is that a portion strategy or it's in markets that are competitive?

Arul Selvan: What book? So can you speak a bit loudly. What book are you saying? What was your question?

Preethi RS: Your Heavy Commercial Vehicle book.

Vellayan Subbiah: Go ahead. Heavy commercial you are asking.

Ravindra Kundu: Yes, yes. I mentioned in the beginning itself that heavy commercial vehicle is the area where the banks are operating more aggressively. And in the heavy commercial vehicle, there are 2 segments are only operating, coming for the purchase of large fleet operators and medium fleet operator.

The SRTOs are still not buying. They are buying the used vehicle. And our focus has been into the SRTO and the used more. And therefore, if you see that our portfolio makes a 7%, but the disbursement mix of it within the vehicle finance is 5%, which is by default, it is coming like that. But we are expecting that the next year after the entire market is coming back like agriculture growth and infrastructure growth increase. Then SRTO buy the new vehicle. And obviously, at that point in time, we will start doing HCV.

Having said that, in HCV also, we have grown comfortably. Last quarter to this quarter, our market share has gone up as of now. If you see that, that is also there in the Page number 36. We are growing higher than the market, but our disbursement growth in the past, disbursement trend in the past was higher. That is the reason you see that the rundown is more, and therefore, our disbursement mix is lower.

Preethi RS: The question is also because the market has come back as you rightly said. So, they are caught in the FY '19 run rate, but otherwise have not come back. So obviously from the numbers we will not get the...

Ravindra Kundu: Going up. If you see the Page #36, you will be able to see our growth has been 62% in HCV, wherein the market has grown by 42%.

Moderator: Next question is from the line of Anurag Mantry from East Bridge Advisors.

Anurag Mantry: Just one thing on the vehicle finance P&L. Just wanted to understand how the credit cost sort of trends from here. So versus the first half there, I think the rate was about close to 2%. They've actually now come down to sub 1%. Is this sort of the new normal run rate that we're looking at going forward? Or how should we think about?

Ravindra Kundu: Yes. See, Q3 and Q4 always have been a better quarter for vehicles and as we continue to mention the same thing that the first quarter is a lean period for retail finance and the second quarter is the rainy season. Third quarter is a festival season, although the market start earning more money, customers start earning more money, but they do not come and pay. Despite that, we have been successful in getting better results in Q3, but Q4 will be better than Q3.

Arul Selvan: The other thing is, in Q1 and Q2, we had a larger amount of repossession last year, we could not do repossession due to COVID in Q2, costing its rebound position. It was explained in the calls last year, right, in the first and second quarter. Now we have come back to normal season.

Anurag Mantry: So, this level is effectively what we can think of to the normalized level going forward

Arul Selvan: Yes.

Moderator: Next question is from Rikin Shah from Credit Suisse.

Rikin Shah: I had just two questions. First one was on the employee headcount. Of course, it has gone up in line with getting into the new businesses. But would you be able to share the plans in terms of how many more employees would we need to add over the course of next 2, 3 years to kind of roll out all the new business products for most of the branches? That is point number one. And question number 2 is more like data keeping. Just wanted to get a split of restructured loan book between Stage 1, 2 and 3.

Ravindra Kundu: Yes. So, we mentioned that in the new business, we are in the pilot phase and we have reached only 50% of the vehicle finance touch point, and we are growing. So therefore, you will see that continuously, this growth will continue to happen in terms of branch expansion for the new business. And therefore, obviously, we will add headcount. Headcounts are based on the business plan individually they are planning. So, we are not, as of now, interested to disclose that.

Arul Selvan: So restructured book right now is around total, it is around INR 2,800 crores. At peak, it was around INR 5,000 crores. We brought it down to Rs.2800 crores. It is because by multiple things, some could be due to resolution and moving back to Stage 1 once they collect more than 30% of the outstanding as per the RBI norm and some through repositions and settlement and closures of that particular account.

Rikin Shah: So, the 2,800 crores is completely sitting in Stage 1 and 2? Nothing is now slipped into Stage 3?

Arul Selvan: Some part of it will be Stage 3. Around Rs.500 crores in Stage 3.

Ravindra Kundu: Rs.2,000 crores is in Stage 2 and Rs.500 crores in Stage 3.

Arul Selvan: And Rs.259 crores in Stage 1.

Moderator: Next question is from the line or Pranuj Shah from JP Morgan.

Pranuj Shah: Just in line of previous participant had asked about the credit cost. Are you saying that it will trend below that 1% mark this quarter below 0.7%? And your NIMs also should hold up because your new disbursements are picking up. So PBT-ROTA, do you think you should be comfortably able to maintain at 4% mark for 4Q and beyond for FY '24 also, especially opex as a cost?

Arul Selvan: That is upto you to rework. I am giving commitment of 3.5% and above. It is your liberty to rework what you want.

Ravindra Kundu: It fluctuate quarter-on-quarter. Q4 number, NCL number will be better than Q3. But again, Q1, it goes on for Q2 for the market start slowing down. But again, Q3 -- but what is important is that we are consistently delivering the ROA at overall level and vehicle finance is trying their best to do 4% is much high. But our internal target is between 3.5% to 4%. Depends upon situation.

Moderator: Next question is from the line of Alpesh from IIFL Asset Management.

Alpesh: Just two questions. First is, I am sorry to come back to this margin question. But if 65% of the book seen forty basis points kind of a decline on a Q-o-Q basis, around 20% of the book is flattish so and the overall book is showing a flat margin on a quarter-on-quarter basis. Then logically speaking, yes, the new businesses should have contributed materially to the margins or there could have been some Treasury changes. So, what explains this because we are unable to reconcile this 40-basis point decline for the 65% of the book.

Vellayan Subbiah: I will tell you, let's take one other question in the meanwhile, let's try and see if we can kind of get some kind of a ROTA breakdown to kind of explain this because your question has been asked multiple times. Let us take another question. In the meanwhile, we'll work on that and then kind of come back to you in a minute.

Alpesh: And sir, the second question is related, I mean, to the new businesses. So while we are building up quite fast and some of these businesses are yet to go through the credit cycle, right? The initial signs are definitely and obviously also supported by the macros. So, the initial signs are purely reflecting a better credit cost to kind of experience.

But when we are giving a guidance of 3.5% ROTA and currently for the 9 months, we are at almost a 3.6%, 3.7%. So, in case there is some deterioration in the asset quality diluted, it would have been largely pricing by a higher yields. But in case there is any declaration in the asset quality new businesses, what could compensate for the higher credit cost in FY 2024? And would that be operating leverage? Or do you have the lease available to improve the pricing there?

Vellayan Subbiah: Okay. So, we'll come back to the FY '24. So, you have two parts, right? Kind of one is trying to understand what happened in FY '23. Second is what are the implications for FY '24, correct?

Alpesh: Yes, because typically, what happens that some of these businesses when you build up the initial being higher yield business and the initial signs and slightly a higher duration group, the upfront profitability is slightly on a higher side and the credit cost experience is not built in into the earnings. But as we go through the credit cycle, obviously, the credit cost will go up. And so, what could compensate for the higher credit cost and in 9 months, your ROTA is still at around 3.6%, 3.7%.

So, what could compensate for that higher credit cost in FY '24? I am just trying to understand that because that is an insignificant pricing pressure on the vehicle finance book and the land book, considering the competitive intensity. And then obviously, the credit cost experience is quite good this year in those portfolios as well.

Vellayan Subbiah: Alpesh, so first, Arul is going to answer your question on what happened this year, right? And then let us get that clarified because this question has been asked three times. And then I will answer your question on what is going to happen for next year, okay?

Arul Selvan: Yes, see, what we have said is, well, the LAP has increased their yield to by around 160 business points and HL has increased by 120 basis points. That constitutes more than 40% of the book. The other part...

Alpesh: So, Arul sir, I am sorry to interrupt you here. What we are trying to understand, 65% of the book, I'm not getting into a yield or cost discussion here what we are saying that on the reported basis, 65% of your book has seen a 40 basis points Q-o-Q drop in margins 20% of your...

Vellayan Subbiah: Sir, we want to clarify are you talking about margins or yield?

Alpesh: We are talking about the margins. We are talking about the net interest margin which is forty basis points down in the vehicle finance, overall book is flat Q-o-Q, and the other businesses are also flat on a Q-o-Q. So, what explains this difference when 65% of the book is showing a 40 basis points drop in the margins Q-o-Q wise?

Vellayan Subbiah: Then other businesses have gone up.

Vellayan Subbiah: Why don't you go to the NIM page here. Just show that NIM Excel spreadsheet. Yes, so here is the sense, right, which is if you take LAP NIM, right, YTD, it has gone from 4.82% to 5.46%. So that is a 70-basis point increase. Similarly, home loans have gone from 7.59% to 8.02%. That's another 43-basis point increase. That is offset by vehicle which has come from 8.67% to 8.48%, which is a 21% decrease. So, you take a weighted average of those three, you actually end up with, and the fact that the new businesses also have had an increasing NIM, you end up with a weighted average NIM of 7.79% moving to 7.69%. But I am still confused, is that answering your question or not?

Alpesh: No, it is not. So, if you will let me just me just go by the presentation slide number 21. The overall net income margin that you have reported…

Vellayan Subbiah: Yes.

Alpesh: Which is 2Q FY '23, 7.6%, 3Q FY '23, 7.6%. Okay. This is at the overall company level we are flat on quarter-on-quarter basis. Now if I come to the vehicle finance margin, which would be on slide number 45.

Arul Selvan: The NIM around YTD has dropped by twenty basis points.

Vellayan Subbiah: twenty basis points.

Alpesh: No, I'm not talking about YTD. I am talking about quarter-on-quarter, 2Q versus 3Q. Which is slide number 45. This is dropped by forty basis points. This is almost 65% of the AUM. Your overall portfolio is flat at 7.6%, quarter-on-quarter. Now if I come to the Loan Against Property business, which is hardly ten basis points improvement, slide number 53. 5.4%, right.

And if I come to the Home Loan business, again the slide number 61, 7.9% and 8%. So, the two businesses, which is Loan Against Property and Home Loan, which would be roughly, I'm just rounding off the numbers, around 25% of the AUM, there we have seen 10 basis points improvement. Sixty-five percent of the AUM is seeing forty basis points decline. Whereas our overall margins which are reported is 7.6% flat Q-o-Q.

Vellayan Subbiah: Right. But the 7.6% is down from 8.2%, no?

Arul Selvan: No. You are not considering the CSEL business, SME business and the treasury profitability. These are not the sum of that is reflected there. You are seeing three business.

Arul Selvan: If you want you come over or we can get on a call and we can discuss, right now.

Vellayan Subbiah: Yes, so Alpesh, I think that might be easiest because it is tough to solve like this. But the net income margin from Q3 FY '22 has dropped by sixty basis points. So, I'm just wondering what the concern is.

Alpesh: So, sir, the difference over here, what is coming is 2Q FY '23 versus 3Q FY '23 rather than 2Q FY '22 to 3Q FY '22.

Ravindra Kundu: Yes, so sequentially, you must also consider in addition to these three businesses, LAP and HL, you need to also consider, SBPL, CSEL and SME and treasury. All four.

Alpesh: Okay, so the 7% of the business is compensating for thirty basis points overall drop in margin. So those…

Ravindra Kundu: Treasury gain is also there, no?

Alpesh: Okay, so treasury gains would have been a major contributor in this quarter? If I were to think from that perspective, considering the new businesses yield should be around 16.5% or 17%. Or it would be on a higher side?

Ravindra Kundu: All four put together.

Arul Selvan: Treasury gain will include income received on the investment source also. Seventy-four crores coming.

Alpesh: Okay. Anyway, I will just try to take this offline. But the second question is on that FY '24 how the things would work? If you can get some…

Vellayan Subbiah: FY '24 part of your question is basically; I think if your concern is there will be credit losses in the new businesses. We think that the increase in credit losses will be more than offset by the decrease in opex in the new businesses.

Alpesh: So, you are building in the operating efficiencies that could compensate for the higher credit losses -- all that.

Vellayan Subbiah: Yes, and that will more than compensate.

Moderator: Thank you very much. I now hand the conference over to Mr. Nischint Chawathe for closing comments.

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

Vellayan Subbiah: Thank you. Thanks so much. Thanks, Nischint. Thanks, everybody.

Arul Selvan: Thank you. Thank you.

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