



“Cholamandalam Investment and Finance Company
Limited Q2 FY 2018 Earnings Conference Call”

November 01, 2017



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

Moderator: Ladies and Gentlemen, Good Day and Welcome to the **Cholamandalam Investment and Finance Company Limited** Q2 FY 2018 Earnings Conference Call hosted by Kotak Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone telephone. Please note that this conference is being recorded.

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

Nischint Chawathe: Thanks, Karuna. Hello, everyone. Welcome to the 2Q FY 2018 Earnings Conference Call for Cholamandalam Investment and Finance Company Limited.

To discuss the financial performance of Chola and to address your queries, we have with us today, Mr. N. Srinivasan -- Executive Vice Chairman and Managing Director; Mr. Arul Selvan -- Executive Vice President and CFO; Mr. Rohit Phadke -- President and Business Head (Corporate Finance, Home Equity, and Home Loans); and Mr. Ravindra Kundu -- President and Business Head (Vehicle Finance).

I will now like to hand over the call to N. S. for his opening comments.

N. Srinivasan: Good Morning, everyone. Just a brief introduction about myself, I joined this position about 60 days back though I have been in the board of Chola for the last ten years. I have great pleasure in presenting you to the Q2 performance of our Company.

I am happy to state that the company had an excellent quarter registering a very good performance on all critical parameters, disbursement growth, margins, profit before tax, ROTA, return on equity and reduction in NPA levels.

I will be presenting the company performance first followed by the performance of Vehicle Finance, Home Equity and other highlights.

I will be providing comparative data with reference to the performance of Q2 of last year; comparative figures with reference to Q1 of current financial year can be separately provided and these are also mentioned in our Press Release released yesterday.

I move on to company performance.

So, our aggregate disbursements for the quarter were higher at Rs. 5,492 crores compared Rs. 4,444 crores in Q2 of last year, registering a growth of about 24%.

Assets under management grew by about 13% and stand at Rs. 37,451 crores compared to Rs. 33,180 crores.

Company financial performance.

Total income for the quarter was higher Rs. 1,296 crores registering a growth of about 11% as against Rs. 1,163 crores in Q2 of last year.

PBT for the quarter was higher at Rs. 347 crores compared to Rs. 263 crores in Q2 of last year recording a growth of about 31.82%.

PAT grew by about 33% and was at Rs. 227 crores. While, consolidate PAT also grew up to Rs. 228 crores and grew by about 36% compared to Q2 of last year.

PBT ROTA for the quarter also significantly improved to 4.5% compared to 3.7% achieved in Q2 of last year correspondingly ROE also moved up to 19.7%.

Now, I move on to the Vehicle Finance highlights.

Vehicle Finance actually put up a stellar performance during the quarter. Disbursements were higher at Rs. 4,295 crores compared to Rs. 3,247 crores registering a growth of about 32%. This growth was achieved through a strong growth in HCV, Mini LCV, and Used Vehicle segments.

We have recorded a profit before tax of Rs. 243 crores as against Rs. 162 crores on Q2 of last year recording a growth of 50%. Net income margin for the quarter was higher at 8.8% compared to 8.1%.

Equally, net credit losses were also lower at 0.9% as against 1.2% in Q2 of last year. The PBT ROTA claimed to 3.8% from 3% recorded a year ago. So, these are the highlights of Vehicle Finance.

Now, I move on to Home Equity.

Disbursements for the quarter were at about Rs. 830 crores which were of course lower than Rs. 901 crores recorded in Q2 of last year. However, the profit before tax was higher at Rs. 62 crores compared to Rs. 49 crores achieved in Q2 of last year, registering a growth of 27%.

Redeeming feature of this quarter's performance was the reduction in loan losses to Rs. 14.04 crores compared to Rs. 26 crores recorded in Q2 of last year.

Also, if you see in this segment both disbursements and profits are showing improvements quarter-on-quarter reflecting that the growth in this business is coming back post the slow down witnessed are consequent to demonetization.

Non-Performing Assets, both GNPA and the net NPA are showing declining trends quarter-on-quarter. GNPA at the end of Q2 was 4.46% compared to 4.73% at the end of Q1. Likewise, net NPA was lower at 2.89% at the end of Q2 compared to 3.18% at the end of Q1.

We expect to further improve this metrics by March 2018. Capital adequacy ratio at the end of Q2 is comfortable at 19.29% of which Tier-I is about 13.98%.

So I think, these are the highlights and me and my knowledgeable colleagues would be happy to answer all questions.

So I also like to add, during this quarter actually we got an upgrade in our long-term rating both India rating and as well as CARE ratings have upgraded our long-term rating from AA to AA+, we are also awaiting decisions from other rating agencies. Going forward, I think this would help us to reduce our cost of borrowings further.

Moderator: Sure. Thank you very much, sir. Ladies and Gentlemen, we will now begin with the Question-and-Answer Session. First question is from the line of Digant Haria from Antique Stock Broking. Please go ahead.

Digant Haria: Sir, my first question is on the Vehicle Finance business that despite the disruptions of GST we reported a very robust quarter. So, is it a Chola specific phenomena or we are seeing something good happening in the industry post this GST? And if this 20% on AUM growth rates in the Vehicle Finance business can be sustained?

Ravindra Kundu: Yes, this is Ravindra Kundu, looking after the Vehicle Finance. So, Vehicle Finance industry have seen very good quarter actually M&HCV has gone up by 29% in terms of number; Light Commercial Vehicle went up by 25%; and Small Commercial Vehicle went up by 27%. So it is because of the pent-up demand and robust delivery side supply side also, there was a push from the manufacturer. They could not produce BS-IV in the Q1. All helped the industry to grow like this and the price, there is a ticket size increase because of the BS-III to BS-IV which has helped us to increase the disbursement as well. So, we have not increased our market share significantly there is a slight increase like for example, M&HCV have a lower market share around 5.5% to 5.6% which was at 4.5%. So market share of M&HCV has gone up by 1%. ICV, LCV market share we have been doing very well from so many years, so we are maintaining that market share around 13%. Small Commercial Vehicle has gone up by 14%. So, it is not Chola specific but core is actually the Commercial Vehicle Business, the new HCV, LCV and Small Commercial Vehicle plus Used. So, all the businesses we have done very well. We have not seen that because of the GST sales have come down, sales have gone up only and it has helped us to do better business. Our branch network helped us to actually reach to the rural market. Now we see that the demand is going up. So, put together, there are many reason our collection is doing very well. So, we are comfortable in financing also. Put together, it has been a better quarter.

Digant Haria: Okay, thanks. And on this, we have seen that credit cost in our vehicle business is also probably at its lowest in last many-many years. So how are you seeing the fleet utilization, the rate and the cash flow for these truckers to whom we lend, especially that SRTO segment?

Ravindra Kundu: So in select market, it has got a little impact, like for example, just to quote you the example of Salem we have seen that there is a cash flow impact on the transport operator. But then our penetration in Heavy Commercial Vehicle is not like that. We have been actually focusing on SROs or the Driver-Cum-Owner Vehicle wherein those guys are able to manage their repayment in time. And robust collection mechanism also actually helping us, our default mechanism is actually working very well for us. We have been telling you that we are using our credit analytics to underwrite the customer online to have a better result in terms of underwriting. So all put together, it is helping us. But there has been an impact on cash flows, but we are able to collect money in time. Our number of visits has gone up instead of, say, visiting two times in a month we are visiting five times to six times. That is the reason, cost side we have actually increased a little bit on the OPEX side. We increased our collection field executives in the field and therefore deployed some more manpower in handling the collection.

Moderator: Thank you. We take the next question from the line of Sanjay Shah from KSA Securities. Please go ahead.

Sanjay Shah: Sir, can you please share views on NBFCs future growth after recent Government capital infusion plan for PSV? Do you think that cost of our borrowing will go up or your view, in particular?

N. Srinivasan: So I think, it is not the first time that NBFCs are coexisting with the banks they have been there for a long period. Each has got its own merits or demerits. NBFCs cost of funds actually depends on balance sheet and rating. So, if you have a good balance sheet, if you have a rating, you will be able to source money. So, we are in this business for almost 38 years. There are other players like Sundaram Finance who have also been there for a long period. So, each one has got its own niche play therefore, I do not think it is going to particularly impact.

Sanjay Shah: Okay. But the fund which is available, right now we absolutely have a shutdown like situation on the lending from PSV side so now they will open up. Do not you think that we will face that competition or even the borrowing costs may go up because of that?

N. Srinivasan: Not really because as long as my balance sheet is good, the same banks can lend to us, same foreign banks can lend to us there are many market instruments there are a number of source of borrowing. So, accessing funds is not going to be a problem if your balance sheet is strong and then your rating is strong, first one. Then doing business actually we are established players who will not have any issue and you have seen actually how our cost of funds have come down over a period of time. Yes, we will be able to actually compete more effectively in some of the segments that is what is happening now. Earlier, supposing we were not advancing monies to

car segment, now we can there also because our cost of borrowing has come down. Economies of scale, a lot of things will play.

Sanjay Shah: Right. So how do you see our future panning out in...

N. Srinivasan: Our CFO wants to say something. So, Arul?

Sanjay Shah: Yes, sure, please.

Arul Selvan: It is also the PSU's will not play too much in the retail even when they get money. Its traditional strength has been to lend to the corporate. Retail they have never been very successful unless they have a complete change in their business model; retail will be a difficult place to play.

N. Srinivasan: So to answer your question, I think generally though we do not give any guidance. We will be able to maintain the rate of growth which we have done in the last three years - four years we will be able to definitely maintain that. There is no problem.

Moderator: Thank you. Next question is from the line of Piran Engineer from Motilal Oswal Securities. Please go ahead.

Piran Engineer: I just have a couple of specific questions. Firstly, in the last con-call, we highlighted that we have repossessed about 20 properties - 25 properties or so in LAP. I just wanted to know the status, whether more properties have been repossessed and out of those 20 properties - 25 properties, how many have we sold off in this quarter?

N. Srinivasan: I do not remember the specific data. But let me tell you that the improvement in NPL's that you are seeing, the credit costs that you are seeing is because of repossessions and sale of properties. We are seeing a very good traction on that

Piran Engineer: Okay. Even on the sales side?

N. Srinivasan: Even on the sales side.

Piran Engineer: So we have not booked a credit loss until now?

N. Srinivasan: So far, we have not booked a credit loss.

Management: No, we have not booked. Yes.

Piran Engineer: Okay, great. And sir, just secondly, if I may slip in another question, what is our incremental cost of fund? And has this rating upgrade helped in that aspect?

- N. Srinivasan:** So I think, rating upgrade has come only recently. So only for the future borrowings actually if at all that impact will get played out. So whatever we have done is actually whatever savings have been achieved is due to the combination of a mix of different sources of borrowing then aggressive efforts taken by the treasury team and whatever we have been able to bring through securitization, that also has contributed to the mix. So, because of this, the rates have come down.
- Piran Engineer:** Okay. But what is our incremental cost of funds numerically, if you can just provide me that number?
- Management:** You are talking the marginal cost, correct?
- Piran Engineer:** Yes, the marginal cost. Yes.
- Management:** Marginal cost is around 8%.
- Piran Engineer:** It is around 8%, okay.
- Moderator:** Thank you. Next question is from the line of Abhishek Murarka from India Infoline. Please go ahead.
- Abhishek Murarka:** Sir, the only question I have is, can you just give us a comparable NIM? Because I think, until last quarter, you were reporting it net of business and origination or outsourcing cost, business origination and outsourcing cost and this seems to be gross of that in this quarter? How is it...
- N. Srinivasan:** Yes. This quarter rate it is gross of it. Actually, we tested this method last quarter alone. If you will recall, prior to that, we had been publishing as well what we had done this quarter last quarter we try to do it like some of the other competitors were doing, where they were adjusting the origination cost in the other fee income. But then internally, it reverse back and today, are all on comparable basis.
- Abhishek Murarka:** So the 8.4% has increased to 9.5% on a first-half to first-half basis?
- N. Srinivasan:** First-half to first-half basis, on the same assumptions without adjusting origination cost.
- Abhishek Murarka:** Okay. And sir, so if I just take the first quarter number of 8.8% that has gone restated to what?
- N. Srinivasan:** See, that has gone to 9.6%.
- Abhishek Murarka:** No, that is in the first-half. If I were to look at the first quarter?
- N. Srinivasan:** Yes, it is given. Q2 also is given in the press release. If you see page number #41, we have given Q1 and Q2 also.

- Abhishek Murarka:** Okay, I will take it. So, it is basically just a big re-pricing in this quarter? Or is it...
- N. Srinivasan:** See, what happened was if you recall, Q4 we did a lot of securitization which had some benefits flowing through in Q1 and in Q1 also, we did a lot of securitization. Rs. 1,200 crores we securitized. So, the Q1 impact of securitization flows through more in Q2 because generally deals happen at the close of the quarter. So, this is something it will sustain over the next three quarters four quarters then by the time the book runs out, we would have done more securitization or other means of cost reductions.
- Abhishek Murarka:** So I mean, you would not expect this kind of NIM or what is the outlook? Do you think there can be a little more...?
- N. Srinivasan:** It should be able to sustain, subject to the overall system also holding. But as you know, that there have been certain hardening of the interest rates in the market. I mean, it is also to a large extent market driven.
- Moderator:** Thank you. Next question is from the line of Subhranshu Mishra from Motilal Oswal. Please go ahead.
- Subhranshu Mishra:** I just want to understand, we have three new business products one is the SME; second is your Home Loans; and third is the Trip Loans that you started. Where are we versus last quarter this year and probably the previous quarter and how do we see the outlook on it?
- N. Srinivasan:** So I think Home Loans actually, we are seeing some good traction and if you see, disbursements are going up actually, so we can grow on this business very fast. There is a lot of emphasis. Then on MSME, actually we have not been able to make big inroads. So, we are actually examining this working out our strategies as to how this business can be ramped up. Similarly, on Trip Loan, being it is a new product, it is linked to two the growth of traffic in our subsidiary, White Data Systems there also the expected level of ramping up is taking time. Though I think, the prospects are very optimistic but in terms of timing, there may be some kind of slippage by one quarter not two quarters. I think, probably by next year, we can see a big ramp-up in the second-half, yes.
- Subhranshu Mishra:** Sir, just to put numbers to the story, how do we look at the disbursements growth in each of the segment?
- N. Srinivasan:** Home Loans, actually compared to Rs. 77 crores of disbursement in the last year's Q2, this quarter, we have disbursed almost we have doubled to Rs. 142 crores. On Y-T-D basis, similarly, against Rs. 152 crores we have disbursed about Rs. 264 crores. It is gaining traction and momentum.
- Subhranshu Mishra:** Right, sir. And then SME, sir?

- N. Srinivasan:** So SME, actually Q2 of last year was Rs. 177 crores and this Q2 actually is about Rs. 160 crores. On a Y-T-D basis also, it is just almost like last year, against Rs. 342 crores it is about Rs. 318 crores. So Trip Loan is just a new product so this year actually we have done hardly about Rs. 10 crores in Q2. .
- Subhranshu Mishra:** And just one housekeeping question, sir. What could be our employee count both on loan and off loan?
- N. Srinivasan:** I may not have the data now. We will get back to you.
- Subhranshu Mishra:** Right, sir. And GNPA for Vehicle Finance and Home Equity.
- N. Srinivasan:** Yes, so that is so for...
- Management:** That is given in the Press Release, itself it was there.
- N. Srinivasan:** So anyway, I can tell you. This 3.78% is gross, and net is 2.43% for Vehicle Finance. For Home Equity, it is 5.98% is gross; net NPA is 3.97%.
- Moderator:** Thank you. Next question is from the line of Bunty Chawla from B&K Securities. Please go ahead.
- Bunty Chawla:** From the Home Equity point of view, we are seeing the traction is coming back. So before, you were cautious on the growth, now it seems the focus is on the Home Equity growth. So what has led the difference? Is it the demon impact that is completely out of that? Is it because of that and what will be the outlook on this for the full year?
- N. Srinivasan:** See, last quarter also we had maintained pretty low post demon, we had actually slowed down consciously because we needed to understand the impact of demon and how customers react to that? I think, the later six months of last year we have understood that. And I think, we have incorporated our learnings and that is the reason why we are consciously focused on coming back to growth now. We also see that there is certain demand coming in for working capital because of GST. And more number of customers are wanting to slightly show higher disclosure.
- Bunty Chawla:** And can you elaborate a little bit what was your experience in this book due to demon?
- N. Srinivasan:** See, because of demon these people basically deal mostly in cash and since, cash itself was outlawed and then the IT Act of Rs. 2 lakhs came in so they were absolutely cash trapped you know transactions slowed down. Properties in the second market did not change hands. Even today, properties, properties are not moving so fast because the cash in property transactions has gone off. So that is the notable impact that we see.
- Bunty Chawla:** So are we seeing any impact of GST because on this book?

- N. Srinivasan:** It is too early to talk about the impact of GST in this book. But as of now, what we see at the field level is that people are taking GST numbers. People are showing higher disclosure. Some of our customers also are filing GST returns. So to really answer your question, it will take another six months for me to analyze data and see on the ground exactly how GST is impacting this set of customers.
- Bunty Chawla:** Okay. And can we say that we can touch to a 10% to 15% of kind of growth for this in FY 2018 as all the specs are growing nicely for us?
- N. Srinivasan:** The Home Equity segment?
- Bunty Chawla:** Yes.
- N. Srinivasan:** In the earlier investor meetings also we have said, do not do growth realizing only 3% to 5% conservatively. But however, now the demand is coming back, so at this point of time, we may do slightly better than that, but I would not be able to put any number.
- Bunty Chawla:** No, because our target for the whole book is 20% for the full year and that for achievement, we need some support from the Home Equity side.
- N. Srinivasan:** We will do our best.
- Moderator:** Thank you. Next question is from the line of Pallavi Deshpande from Smart Karma. Please go ahead.
- Pallavi Deshpande:** On the Used CV side, would it be possible to share the gross NPA number?
- Management:** Sorry, we do not give sub-product breakups because actually as you know that we already share more data than most of the other players.
- Management:** We do not share this data, product wise, we do not share.
- Pallavi Deshpande:** Yes. Just want to understand, in terms of quarter-on-quarter, are you seeing improvement in the asset quality in the Used CV segment?
- N. Srinivasan:** Yes. So asset quality is improving in used segment quarter-on-quarter and which has helped us to improve the gross NPA for our overall book, which we call it Vehicle Finance. Under that, we have used, Shubh, Tractor, CE, Two-Wheeler almost all products. The GNPA has come down on Q1 to Q2 we see it even last quarter to this quarter basis. Even NCL has also come down.
- Pallavi Deshpande:** Okay. So no segment I mean, no one segment is out and the others are improving, nothing like that?

- N. Srinivasan:** No.
- Pallavi Deshpande:** And sir, secondly, would it be possible last quarter, you shared the disbursements separately for the Cars, Tractors business?
- Management:** That is also given as percentage points in the Investor Presentation. You had overall disbursements, so you could arrive at these numbers there in the interest of time, I think
- Moderator:** Thank you. We take the next question from the line of Ankit Chaudhary from Equirus Securities. Please go ahead.
- Ankit Chaudhary:** My first question is regarding the NIM's in Vehicle Finance. So, there was a NIM expansion in the Vehicle Finance segment, so is it basically due to the higher disbursements in M&HCV and older vehicles?
- Management:** So it is because of the product mix. It is not only the Heavy Commercial Vehicle we are disbursing. We are also disbursing high-yield product like Mini LCV or Small Commercial Vehicle then we have a Used and Shubh and then Tractors and then the major benefit is coming from the cost of fund. So, we have mentioned that in our press release that the NIM and disbursement growth both are actually attributed by the product mix.
- Ankit Chaudhary:** Okay. No, because if I have to look at the disbursements, your Tractor disbursements have come down this quarter year-on-year and Q-on-Q, so any reason on this?
- Management:** Disbursement actually does not play too much in that quarter's numbers because disbursements actually have less than 30 days of impact if you look at it on an average basis for the quarter. But it is more the asset book that really plays.
- Management:** Yes. If you see the Tractor year-on-year our Tractor has gone up by 39%. So within the overall disbursement grows of
- Ankit Chaudhary:** actually decreased 13% year-on-year, disbursements in Tractor?
- Management:** No, it is actually 39% plus year-on-year. So overall, growth has been 32%. Tractor has contributed 39%. M&HCV has contributed 68%; Shubh has contributed close to 28%.
- Ankit Choudhary:** Okay. And the second question is, also the disbursements in older vehicles. So these were mainly in these categories of older vehicles, LCV's or MLCV's?
- Management:** So when we talk about the Shubh which is high vintage or older vehicle, it is mainly in the Heavy Commercial Vehicle and Light Commercial Vehicle both goes together. There is no much difference in Shubh book. So there are another category which we call it refinance, which is the little bit lesser vintage vehicle. In that, the growth is coming from Heavy Commercial Vehicle and in from the Used Car as well.

- Ankit Choudhary:** So in your presentation, you mentioned that replacement demand continues to remain low. So how we have been able to disburse so good numbers in older vehicles? And so it was basically the player has sold these vehicles a few months back, and now the people are buying. Is it something like that?
- Management:** Replacement demand actually in line with the new vehicle market is not picked up so aggressively because there has been a problem on the GST side because on the Used Vehicle, the GST is actually a little high. Otherwise, if you see the way Heavy Commercial Vehicle is selling and it is going up around 21%, Used business would have gone up much higher than that. But we have been maintaining our number because of our reach, branch networks and HCV, LCV put together across the country whatever numbers we are actually getting that benefit. It would have gone up further actually. So once that GST problem of the used transaction gets sorted out, probably that will further go up.
- Moderator:** Thank you. Next question is from the line of Umang Shah from Emkay Global. Please go ahead.
- Umang Shah:** I have got two questions. One was related to OPEX where Ravi mentioned that there has been some additional field force deployed for further improvement in collections. If you could just quantify how many more employees have been added to the collections force? And is there any one-off in the OPEX item this quarter?
- N. Srinivasan:** So there is no one-off like last time we mentioned, there were some one-off items there is nothing of that sort. So OPEX continues to be high I think, because at this point of time, we are working on several initiatives including a special focus on collection maybe we will address this probably going forward only next year.
- Umang Shah:** So for this fiscal, would it be fair to assume that on an annualized basis our OPEX to asset or cost-to-income kind of remains flattish compared to what we saw in FY 2017?
- N. Srinivasan:** So I think, that is a reasonable assumption.
- Umang Shah:** All right, fair point. Sir, my second question was regarding our Tier-I ratio which is at around 14% and we are seeing growth kind of momentum building up both for Vehicle Finance and gradually for Home Equity. How sooner we think we can sustain without raising capital?
- N. Srinivasan:** So I think, if this profitability is maintained and then if we are growing about 20% - 22% I think, there is no need to raise immediate capital.
- Umang Shah:** Okay, fair point. And last data point is the differential in the net worth accretion this quarter. Is it because of the dividend payout?

- Arul Selvan:** Yes, it will be because of the dividend payout and also, because we have done some amount of foreign currency term loans though it is fully hedged. We have to create a hedge reserve and there is a small adjustment on account of that.
- Umang Shah:** Okay. Would that be a meaningful number?
- Arul Selvan:** It is not a big number, yes.
- Moderator:** Thank you. Next question is from the line of Parag Jariwala from White Oak Capital. Please go ahead.
- Parag Jariwala:** Yes. I have a question for Rohit. See, basically you mentioned about Home Equity, we have slowed down last time because of the demon, etc. so one thing is on the asset quality, I mean, are you seeing that this could be the peak so far as the absolute GNPA, etc., is concerned? And if there are some slippages because of demon or GST related issues, do you think that can get resolved basically over the course of next six months nine months and we may see some of the recovery on this side?
- Rohit Phadke:** Yes, definitely. You absolutely stated, you put it in very beautiful words. That is exactly what will happen.
- Parag Jariwala:** Okay. So by and large, this number is big and slowly there will be recovery on this ground?
- Rohit Phadke:** Definitely, this number is big and even if there is some slippage, we will be able to recover in the next six months to nine months.
- Moderator:** Thank you. Next question is from the line of Sunil Kothari from Unique Investment Consultancy. Please go ahead.
- Sunil Kothari:** Sir, my question is to Mr. Srinivasan. Sir, for next two years - three years what will be your priority? Any new segments we will be focusing on? Any change in strategy? If you can throw some light on your thought process?
- N. Srinivasan:** As I told you in the beginning, I am just 60 days old in this job. So to that extent, it is a little early to answer this question. But given the fact that we are an asset financing company and the two large verticals Home Equity, Vehicle Finance, drive our overall business and profits, they will continue to have a strong focus and they will continue to grow. So I think we will put our best efforts. And also, use of technology, etc., certainly we will bring in and then to see how this business can be maximized so in terms of revenue growth, in terms of profits and profitability. In addition, we are also giving a big thrust to Home Loans that business actually now probably is on a firm footing, and then we are scaling it up. We will start offering these products in all of our collocate ourselves in the other branches. In addition to that, a couple of other products like the Trip Loan which is linked to the growth of our subsidiary White Data

that will also be our priority. As of now, I think this is what I can say for the next couple of years.

- Sunil Kothari:** Sir, any thoughts on consumer related financing, consumer products, unsecured products?
- N. Srinivasan:** So as of now, there are no thoughts because our business philosophy so far it is an asset financing company. Therefore, it is too early to say, yes.
- Moderator:** Thank you. Next question is from the line of Sheetal Kotian from Kotak Mahindra Bank. Please go ahead.
- Sheetal Kotian:** Sir, I just wanted to check. How has the collection efficiency improved quarter-on-quarter at Home Equity and Vehicle Finance? Is there some improvement?
- N. Srinivasan:** So in Vehicle Finance, now we have touched the 98% collection efficiency, was actually at 97% one quarter. In fact, in Q1, it has come down you know that March efficiency is always on high. So March it was 98%. It went down to 97% Q1. In Q2, we have achieved the March number. Normally, we take nine months to come back or equalize to the March figure but this time, March number has been equalized and we have reduced our NPA over March, so therefore collection efficiency in the first bucket. I am talking about the first bucket as well as the hire bucket also. It has improved significantly over the previous quarter.
- Sheetal Kotian:** Okay. And how is it on the Home Equity side, sir?
- Rohit Phadke:** Yes. See, on the Home Equity side, you have to understand the impacts. One is post March, because of the new IT Act we could not collect anything above 2 lakhs. So suddenly, any delinquent customer who wishes to pay in cash, we cannot collect for any big-ticket customer. So considering that impact, I think now our people are adjusting to this non-cash issue and we are seeing a good improvement in collection efficiency. In fact, our 90 DPD has come down in September and that as a result why you see lower some improvement in the NPA provisioning.
- Moderator:** Thank you. Next question is from the line of Ritika Dua from Elara Capital. Please go ahead.
- Ritika Dua:** Sir, firstly, on the slide on Home Equity. Sir, what is this proportion which we consider as other has changed from 5% to 10%?
- N. Srinivasan:** Which slide?
- Ritika Dua:** Sir, just a moment. Where we get the break-up of our Home Equity segment in terms of self-occupied residential and commercial and then other. This is on Slide #9.
- N. Srinivasan:** Yes, I got it. The others represent residential property which is either co-located with the self-occupied plus rental or residential property with some part residential, some part commercial. For example, a shop in the ground floor and residence in the first floor. So we try to make it

pure self-occupied residential property and this is a mix of where there is an either a rental part or a commercial part.

Ritika Dua: Okay, sir. And sir, secondly, like somebody had asked in the previous question also. Sir, the stock of repossessed asset, what exactly is the number as of today? And how do we account for the same?

N. Srinivasan: You are talking in Vehicle Finance?

Ritika Dua: No, sir for the LAP book...

N. Srinivasan: The LAP book, I think there are 19 properties which are repossessed and in our position, in the sense of we have taken possession of and sealed in 32 auction. It is part of NPA only. We have not removed it out of the NPA, it is shown as part of NPA. And we take a slightly differential value because we have taken the repossession of the stock and realizable value is adjusted as per RBI norm.

Ritika Dua: Okay, sir. And sir, if you can just share the other stock what exactly is the number there for these 19 properties the value?

N. Srinivasan: No, I cannot share.

Moderator: Thank you. Next question is from the line of Dipen Sheth from HDFC Securities. Please go ahead.

Dipen Sheth: So we have a very-very constructive and positive thesis on your business and we have been holding it for a while. So much of that is visible now, especially as we see asset quality turning around a bit and growth coming back. So no headline crib there and we continue to remain fans **42.01**. However, I think it is important and it is very important for us that the cost levers are not really delivering along with the growth. So you explained a bit of that. I think Digant asked this question earlier on the operating expense front. Now I would have expected that, as you scale up, we should begin to see operating leverage play out. And in fact, if I take a longer-term view on what has been happening: So FY 2015, you were about Rs. 26,000 crores AUM and today you are about Rs. 37,000 crores that is close to 40% higher but operating expense-to-income has actually gone up from 20% to about 23% as we see it in the first half year. By now, technology should have been delivering. By now, scale should have been delivering. Unfortunately, we are up some 300 bps on cost-to-income, so what is happening here? And is this a lever on which we do not have a very tight fix? Because anything above 20% actually rattles me, I hate to sound less than constructive. I must lace this with the fact that I continue to be fan of what the company is doing otherwise. But this is one bit on which I have complained in the past and this is again coming up.

N. Srinivasan: So Dipen, it is a very good question. In fact, this is a question which has also been bothering me. And as I told you, I am just 60 days old in the system. Though, I can tell you in general

things how costs are going up, how they are not coming under control. Maybe I would say that, even as per our internal norms, there were no intent to reduce the cost below a certain level because of several things happening. So I will take some time to understand this fully; and then lay down a strategy given our model. For example, we have a separate collection team. Our collection verticals are entirely different whereas in some NBFCs the originator, the sales team, they themselves may go and collect, etc., and then also, product mix. Supposing you high ticket vehicles, HVCs, if you do more, then probably there will be lesser number of customers and volume will be achieved. If you do a lot of Mini LCVs and then Mini vehicles at certain number of customers, will be more, ticket sales will be small so the models itself is different. Secondly, at this point of time, my focus actually is actually to not to tinker around this but allow the team what kind of flexibility they want but bring down my NPA by before March, whatever the best possible extent, number one. Secondly, as you know, we have also been significantly expanding our branches. During the AUM you mentioned from Rs. 24,000 crores to Rs. 35,000 crores. Our branch network has also moved by more than 200. So these actually have it is not that we are now growing about 30% - 35%; big growth has come, etc. So these calls are strategic, they are positioned to capture the issue. There be a complete upturn in the CV cycle that we are well-positioned. Then overnight, actually all these branches will start paying around. Third thing is actually on the technology side. We have set up a big analytics team. We have recruited a lot of people they are working on several initiatives, these are at this point of work in progress. So because of this cost is still high, I would say in my view probably about 0.4% or 0.3% to 0.4% which probably could have been set as higher because we do know what benchmarking we will do and where we can compare. So we have to compare apples -to-apples. So we will definitely be putting our heads together to see this addressed in the next year's working. Once I have a clear idea, I will be able to come back.

Dipen Sheth:

Okay, if I may slip in one more question, sir that is that on the competition front, we are now seeing a certain kind of change play out in the Indian financial services industry, even x banks in the space that you are used to working in, in the NBFC space. So we have a number of very-very capable, well-entrenched and very aggressive small finance banks now that I suppose you will have to contend with in your segments of lending. Your top or bottom-of-pyramid way of looking at the business is another reason why we like your company. And I think, some of that is now going to come under attack from the new SFBs especially, I would say, in Rohit's part of the business and less so in the Vehicle Finance part of the business because a businessman naturally likes to work with a bank where he has an OD facility, a current account facility. Now he also gets a LAP or whatever, a Home Equity facility given by the same bank and remember that, this is a highly competitive segment because it is backed by a hard asset, it is easy to bring down rates there. So I suppose, you are beginning to face the first few rounds of competition from the AUs of the world, from the Equitas of the world, less so perhaps from the Ujjivans of the world and very soon perhaps from the Bandhans of the world, if they are not doing it already. So what are you doing about that bit?

N. Srinivasan:

So Rohit, do you want to answer the Home Equity part? Then I can answer him generally.

- Rohit Phadke:** Yes. See, these are issues which will play out slowly. It will not play out very fast. So what, according to me is important, is the banks were always coexisting with NBFCs and in the Home Equity business we have always seen banks competing with us. But what we have also seen is that while a customer is a customer of a bank, he has some amount of freedom in operating with an NBFC and that is why we see a large chunk of our customers, though they are customers of HDFC Bank or SBI, they still continue to be with us for quite a long time. The key thing which I have realized is how can we understand customers from an engagement perspective as well as a need perspective and can we temper that with a technology to ensure that we service him pretty fast that has stood us in good stead so far. And I think, if we can keep on honing our skills in doing that, I do not think that we will lose out in terms of the smaller banks that is one. Secondly, our most important USP is our distribution structure. We have 803 branches across the country and Home Equity currently is only in about 138 branches. So the scope to play is humungous. And that definitely will put us far ahead of the small finance banks, which will take a very long time to develop such a kind of distribution structure which will also impact their OPEX. That is my view.
- Moderator:** Thank you. We take the next question from the line of Amit Premchandani from UTI Mutual Fund. Please go ahead.
- Amit Premchandani:** Can you just give us the number of gross NPL of Vehicle Finance, Home Equity excluding repossessed and including repossessed?
- N. Srinivasan:** You want absolute number of value?
- Amit Premchandani:** The proportion...
- Arul Selvan:** GNPA's for the Home Equity is 4.46% and NNPA is 2.89%. For Home Equity 5.98% is the gross number then net is 3.97%.
- Amit Premchandani:** And sir, including repossessed Vehicle Finance would be?
- Arul Selvan:** Yes, this is gross number.
- N. Srinivasan:** No. See, in Vehicle Finance we take out repossessed assets because we had the possession of the vehicle and that is shown as part of current assets and that is a very small number. It will be around Rs. 60 crores more that is the amount of the value of the repossessed vehicle. So they do not make any significant change in the gross NPA numbers of percentages.
- Amit Premchandani:** And are you comfortable with 35% coverage ratio? Any plans to increase it?
- N. Srinivasan:** So I think this coverage has come down over a period of time from 180 to 150 to 120 to 90 the NPAs were when we move on to the next cycle it has moved up. For example, last March, when we switch from 120 to 90 one year ahead of the schedule, our NPAs went up by about Rs. 450 crores because of the 90-day overnight. So that has actually resulted by about five

points, six points. So we will see, we will take a call we expect to resolve the NPAs much faster and then by March, probably things may get resolved. We will take a call.

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

Digant Haria: Sir, only one question. On the yield in your vehicle portfolio sir, last time I think we mentioned that all the vehicle finance companies are taking away some market share from Shriram Transport on the used part. Sir, any yield pressure that we are seeing? Or all yields are pretty firm versus say last year or last to last year?

N. Srinivasan: So yield has come down yes, definitely if you see that our yield has also come down Y-o-Y basis, it has come down by 0.9%. But then the cost of fund benefit is higher than that. But this was not expected actually.

Moderator: Thank you. Next question is from the line of Sweta Daptardar from Dolat Capital. Please go ahead.

Sweta Daptardar: So I just have one question. If our Vehicle Finance portfolio has shown strong growth both on the asset side as well as on the disbursement side, should not it translate into strong growth even on the Trip Loan portfolio? You mentioned in your remarks that this portfolio has remained a little sluggish.

Arul Selvan: So Trip Loan, we just started this year itself. If you want to see the number, it has gone up by around 90% or 100% rather. So we did Rs. 5 crores business in the Trip Loan. In Q1, it has gone up to Rs. 10 crores that way it has gone up definitely 100%. What NS was saying that we were actually expecting Trip Loan to grow faster than this but any product we launch we take a little time. So if you see that in the past last two years, we have been slowly growing in to Two Wheeler book. Similarly, Trip Loan also we need to see what are the challenges in the field because we are one of the first NBFC to enter this particular business. So we need to set right the whole business model then only we can grow.

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

Darpin Shah: Most of the questions have been answered but just on the one data giving question, If I can get the absolute numbers for GNPA and NNPA for the quarter?

Arul Selvan: Yes. GNPA for the quarter is Rs. 1,652 crores company as a whole which is Rs. 985 crores for VF and Rs. 580 crores for HE and there are other businesses as around Rs. 80 crores.

Darpin Shah: And sir, net NPA for the company as a whole?

Arul Selvan: Net NPA company as whole is Rs. 1,070 crores.

Moderator: Thank you. Next question is from the line of Bunny Babjee from JM Financial. Please go ahead.

Nikhil Walecha: Hi, sir. It is Nikhil Walecha. Sir, my question is what proportion of the business is coming from the new 170 branches that we have added? And if I have to compare the growth rate in the old branches that is about 534, how much is that?

Management: So we do not have the data at this point of time because generally many of the branches are getting opened quarter-on-quarter and month-on-month. So we would normally give them some time and then before we start measuring this. So I do not have the data immediately.

N. Srinivasan: But you can see the page number #13 of the Investor Presentation wherein we basically categorize the branches into A, B, C, D, E. So E is the branches which is basically getting opened up they and now doing the business of around say, Rs. 1 crore type and once they hit to Rs. 1 crores then it moves to D. So the gradual improvement in E to D and D to C is actually talking about how the disbursement growth is coming up and in addition to that, we are opening new branches also. So you need to factor both like for example, in this year we are opening 183 branches by this yearend then E will go up further, so we need to consider both. But if you see the number, it has actually E has come down from say, 203 to 120 so therefore, new branches are doing well.

Nikhil Walecha: Okay. And sir, the second question is when can we expect the GNPL in Home Equity to come to below 4%? Because the 6% number is still very high, have we made any changes to our lending model so that we do not see such high NPLs going ahead?

Rohit Phadke: I definitely cannot put a number and a time-frame, but I will tell you that our intent is very clear, that we will bring back the GNPA's back to where we were about two years back that is definitely the intent. Secondly, as I said in every con-call that we have had a lot of learnings over the past 1.5 years and those learnings, we have translated into concrete credit appraisal mechanisms so going forward we will definitely endeavor to improve our quality of acquisition.

Moderator: Thank you. Next question is from the line of Ronak Shah from SJC Capital. Please go ahead.

Ronak Shah: I just wanted to check. What is your plan, as far as shoring up the provision coverage ratio is concerned that we see out over the next one year to two years?

Arul Selvan: So next one year to two years, certainly you will see the provision coverage moving up I cannot at this point of time tell you a number that this is a number to which we are moving because we have to discuss this internally. Certainly, you will see this moving up quarter-on-quarter and probably in the more comfortable levels in the next one year or two years period we mentioned.

- Ronak Shah:** Okay. And I joined the call late, so apologies if this is repetitive. But just an update on the OPEX which was kind of high in this quarter, so what should we kind of model in for the next couple of years?
- Arul Selvan:** So I think, we have just answered this question in earlier, one of the questions actually. So for the current year, we are not expecting any significant improvement in this metric but next year, actually, I think we are working on. So I am not able to comment any number at this time. Probably once we complete and do our strategy clearly, we may be able to come back. Definitely, we are looking at some reductions but maybe they happen next year.
- Moderator:** Thank you. We have follow-up question from the line of Pallavi Deshpande from Smart Karma. Please go ahead.
- Pallavi Deshpande:** I just wanted to know in terms of the average ticket size for the M&HCV, you mentioned it is gone up, so what percentage would that be?
- Arul Selvan:** So it has gone up from 27 lakhs to 30 lakhs around, I think, 10% or more than that.
- Moderator:** Thank you. Ladies and Gentlemen, this was the last question for today. I would now like to hand over the floor to Nischint Chawathe for his closing comments. Over to you, sir!
- Nischint Chawathe:** Yes. Thank you very much for attending the call today. Special thanks to the management for giving us an opportunity to host the call.
- N. Srinivasan:** Thank you, Nischint.
- Moderator:** Thank you very much, all. Ladies and Gentlemen, on behalf of Kotak Securities Limited, that concludes this conference call. Thank you for joining us. You may now disconnect your lines.