



“Cholamandalam Investment and Finance Company Limited
Q3 FY 2018 Earnings Conference Call”

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

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Cholamandalam Q3 FY 2018 Earnings Conference Call hosted by Kotak Securities Limited. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone telephone. Please note that this conference is being recorded.

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

Nischint Chawathe: Yes. Hello, everyone. Welcome to the 3Q FY 2018 Earnings Conference Call of Cholamandalam Investment and Finance Company Limited.

To discuss the financial performance of Chola and to address your queries, we have with us today, Mr. 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 would now like to hand over the call to N. S. for his opening comments.

N. Srinivasan: Thank you, Nischint. Good Morning, friends. I have great pleasure in presenting you the Q3 performance of our company. At the outset I am happy to state that the company had an excellent quarter registering a very good performance in all critical parameters namely disbursement growth increase in margins, profit before tax, ROTA, return on equity and reduction in net credit losses and non-performing assets.

I will be presenting the company performance first followed by the performance of Vehicle Finance, home equity, and other highlights. I will also be providing comparative data with reference to the performance of last year last quarter comparative figures with reference to Q2 of current financial year can be separately provided and these are also mentioned in our Press Release released yesterday.

Company performance, aggregate disbursements for the quarter were higher at Rs. 6,761 crores compared to Rs. 4,373 crores in Q3 of last year, registering a growth of 55%. Assets under management grew by about 20% at Rs. 40,056 crores compared to Rs. 33,381 crores in Q3 of last year.

Financial performance. Total income for the quarter was higher at Rs. 1,383 crores against Rs. 1,176 crores in Q3 of last year regarding a growth of about 18%. PAT for this quarter grew by about 53% and was higher at Rs. 249 crores. PBT ROTA for the quarter was 4.6% compared to 3.5% achieved in Q3 last year. Return on equity moved up to 20.6% as against 15.8%. consolidated PAT's was Rs. 249 crores grew by 53% compared to Q3 of last year.

Now I move on to present the Vehicle Finance performance. Vehicle finance continues with a stellar performance during the quarter. Disbursements were higher at Rs. 5,607 crores compared to Rs. 3,490 crores in Q3 of last year, registering a growth of 61%. This was achieved through a strong growth in HCV, mini LCV, and used vehicles. The business recorded a PBT of Rs. 258 crores against Rs. 169 crores in Q3 of last year recording a growth of 53%.

Net income margin for the quarter was higher at 8.9% compared to 8.3%. Net credit losses were also lower at 0.8% as against 1.7% in Q3 of last year. The profit before tax ROTA claim to 3.8% from 3.1% recorded a year ago.

Home equity. Disbursements in home equity for the quarter were higher at Rs. 799 crores compared to Rs. 619 crores in Q3 of last year registering a growth of 29%. Profit before tax was maintained at Rs. 54 crores compared to Rs. 53.5 crores achieved in Q3 of last year.

Non-performing assets. Both GNPA and NNPA have continued to decline quarter-on-quarter with our aggressive collection efforts showing results. GNPA at the end of Q3 was at 3.7% compared to 4.46% at the end of Q2 with an absolute reduction of around Rs. 185 crores. Likewise, net NPA was lower at 2.34% at the end of Q3 compared to 2.89% at the end of Q2. With the strong focus in this area, we expect to further improve this metric by March 2018. Capital adequacy ratios at the end of Q3 was comfortable at 18.53% Tier-I standing at 13.8%.

These are the highlights. Overall, I think it has been a very good all-round performance with company registering improvement in every area. As you know the board also recommended an interim dividend of 45% compared to 35% last year. Me and my colleagues will be happy to take questions and answer any questions. Thank you.

Moderator: Thank you. Ladies and Gentlemen, we will now begin with the Question-and-Answer Session. We take the first question from the line of Dhaval Gada from Sundaram Mutual Fund. Please go ahead.

Dhaval Gada: I had a couple of questions. First on the Vehicle Finance asset quality performance which has improved tremendously over the last couple of years. I just wanted to understand, we made significant investments in our collection team and we are also looking at technological initiatives in this area. I mean how much of the contribution is from this new initiative which has led to sub-3% gross NPAs in the Vehicle Finance portfolio and do you see further improvement from the current levels?

N. Srinivasan: My colleague Ravi will answer this point.

Ravindra Kundu: So actually, the new initiative is on the underwriting side and collection side we actually created a model which is actually propensity to pay model where we have actually started doing some calling for the soft bucket and segregate soft and hard. If you take the benefit of

this initiative I can say that the entire benefit coming from the new initiative only. But also the strategy of creating zonal structure and also giving the authority to drive the collection to the regional business heads and area business heads. So both put together the new initiative and the org structure and the focus on collection 70% - 80% times starting from even from the MD side the focus was on driving NPA for last six months - seven months since then he has taken the charge. So all put together it is actually given the result.

Dhaval Gada: Would you say that this can improve further, or it should remain around I mean we have seen the best basically already?

Ravindra Kundu: Never there is a full stop for improvement you know. Generally, Q4 all efforts will be made to improve all metrics. Therefore, going forward I think we can improve still further and the home equities, the overall NPA in home equity also will come down we are taking a lot of steps actually. It is taking time. So we definitely hope to improve this metric.

Dhaval Gada: Great, sir. Just the second question was on the MSME piece where disbursements have remained sort of stable on a quarter-on-quarter basis for last maybe four quarters or five quarters or more. Just I mean your sense of while we understand GST was implemented and before that demonetization also happened. But overall, how do you see sort of growth in this portfolio going forward? Thanks.

N. Srinivasan: So I think it will take some more time for this sector to actually come out of the that issues. We do not expect any significant growth from our side in this segment.

Dhaval Gada: Right. And what could be the NPAs that we are experiencing currently in this portfolio, the MSME portfolio?

N. Srinivasan: The MSME is very small. Therefore, you know MSME is a combination of bill discounting corporate financing there are different types of financing we have given. Therefore, to put any figure actually we will not give any meaningful conclusion.

Dhaval Gada: Sure, sir. Just last question on the Vehicle Finance portfolio excellent performance and it is across the board but just your sense of how the market is shaping up and have we gained market share in some of the segments if you could highlight that will be very helpful?

N. Srinivasan: So, I think we have improved our share definitely. Whatever we were doing in very segments actually we have improved our share because industry grew by about 33% and we grew more than that very large number. But any way you look at accounting numbers on each and then coming to some conclusion may not be very appropriate. Certainly, we have improved our share and there are indications that the CV industry is in for a turnaround. I think this year itself probably as financial year probably we will see the earlier best numbers cannot be exceeded. So if the growth sustains then we are well positioned to take advantage of that.

Moderator: Thank you. We take the next question from the line of Sunil Kothari from Unique Investment. Please go ahead.

Sunil Kothari: My question or rather than my question I also understand how sustainable in a long-term this NIM of around 9%. I am asking about a year or two perspectives.

N. Srinivasan: So it is a billion dollar question because as you know NIM is influenced by the cost of funds on the one side and then the lending rates on the other side. Both are subject to market fluctuations. But one must be prepared for some kind of marginal variations because interest rates have declined very sharply and then they can move up a bit actually by maybe 0.25% or 0.2% to 0.25%. So the issue is actually should there be some kind of NIM compression, you have any other levers to ensure that your profit before tax or absolute returns are intact. That I think we have. So if there is going to be a small compression NIM how do you overcome that? There are product mix different product give different ROTA, different segments, there is one pricing in South, one pricing in North, one pricing in East, we are present all over pan India. Therefore, there are different levers in which you can play around. Difficult to predict what kind of NIM whether the NIM will prevail continuously for next two years. But I can definitely say that should there be some marginal impact in the NIM, definitely we have multiple levers to overcome that.

Sunil Kothari: Great. And sir, we are at a stage where I think everything is in our favor seems to be and things are very positive. Where you will be careful, and any compliances should not come in our minds of our team and what type of caution as a top management you are taking not to make any mistake in a good time?

N. Srinivasan: This is actually humility and be careful and then the careful is actually in the group's DNA itself in the company's DNA. In every area, we will be exercising utmost care. We have a very good risk management framework in place if it comes to lending just while ago my colleague Ravi mentioned that we have automated this process. Therefore, in the area of lending again you know we have to ensure that we do not lend to the parties without appropriate credit. Apart from the framework which we have put in place, there are also, we are also bringing in credit analytics to have another filter. The collection we have a separate vertical, therefore, we constantly monitor payments and then our teams actually go after wherever there is a kind of delay. So I think, you can be rest assured that we will not be complacent.

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

Digant Haria: My question is on the home equity business like last quarter we saw the first signs of business like some turnaround like disbursements had picked-up asset quality had started stabilizing. I think this quarter was flat. So if you can just highlight some of the efforts that we are taking to get this business on a growth path?

- N. Srinivasan:** Rohit, would you like to answer that? My colleague Rohit will answer that.
- Rohit Phadke:** See, Digant there are two things. One is on the business front we need to expand into more number of branches and that is what we are doing. Currently into 130, I think we will go to 200 in the next seven months - eight months. So, on the business front, geographical expansion is a prime focus area. On the recovery front use of SARFAESI and Arbitration where we have seige a lot of properties. Our sale has to happen to see an effective reduction on GNPA and that is where we are focused. Collection efforts are the same and sale of seized properties.
- Digant Haria:** Okay. So Rohit it would be safe to say that we have some credit cost levers in this business going ahead or?
- Rohit Phadke:** Could you elaborate that?
- Digant Haria:** Yes. The NPA is coming off or we will have a lesser provision in this home equity business going ahead then we had in the last seven quarters - eight quarters.
- Rohit Phadke:** Obviously, Digant that is the intent you know. Obviously, that is the intent.
- Digant Haria:** Okay. And the second question on this capital adequacy, I just calculate the return on equity for this quarter I think we have already exceeded 20% ROEs. Do we have any plans to capital raise or we think that internal generation is strong enough to take us through the next one year or two years?
- Rohit Phadke:** Just now I answered this point actually. Next, for one year, we have no immediate plans of raising any equity. I think whatever growth requirements for next year can be met out of accruals and current capital adequacy position.
- Moderator:** Thank you. We take the next question from the line of Parag Jeriwala from White Oak Capital. Please go ahead.
- Parag Jeriwala:** Rohit, I have a question for you, you use to give a lot of data in terms of a number of property repossessed and those. I understand that GNPA is largely flat quarter-on-quarter but if you can run us through have added, have we repossessed more properties this quarter or how is the trend let us say compared to three quarters - four quarters before is the number of property repossessed has been stabilizing. And secondly, what is the competition outlook? And third, if you can tell us basically how much more time does normally a property repossessed takes to come to a final conclusion?
- Rohit Phadke:** So see as of now we have about 43 properties repossessed and we are in the process of selling them. So how much time does it require? See, if you take a simple statutory period for selling the property right from issuing an NPA letter, it takes anywhere about six months to nine months for the transaction to reach an auction stage. And if there is any delays due to judges not being available or customers raising any objections for sale then it will take slightly longer

time. Now what has happened is since we have started the SARFAESI process last November. So in this period you know most of these properties are now reached auction stage and obviously, we are going to sell them and once we sell them we see a GNPA reduction, right? So does that answer your question?

Parag Jeriwala: Yes.

Rohit Phadke: Then the second thing is you asked me about competition. Yes, there is intense competition from both HFC's and banks. We see particularly because of the new home loan sales getting depressed a lot of HFC have entered the LAP space. The bank's as usual because of no corporate lending have been in this space and there is intense competition, there are many new players also entering the LAP market as LAP is a secured product.

Parag Jeriwala: And just one data point, the overall home loan GNPA last quarter it was like 5-5 properties, is that number changed this quarter?

Rohit Phadke: That I cannot tell you off hand to be very honest.

Moderator: Thank you. We take the next question from the line of Nidhesh Jain from Investec Capital. Please go ahead. Mr. Jain, yes, please go ahead with your question.

Nidhesh Jain: Sir, in the home equity business we have seen a slight reduction in the share of residential, self-occupied residential property. So is there any change in strategy or there?

Rohit Phadke: No, there is no change in strategy. See, the intent is you know what we have observed is there are lots of players in the market who are taking very aggressive LTV's on SORP. So if we have a customer who has already pledged his SORP rather than doing a balance transfer and giving him a top-up, if he is an external customer or giving a top-up to bust the LTV fees and internal customer, it is much safer to take a self-occupied commercial property and lend him against that.

Nidhesh Jain: Okay. And sir, secondly because of competition our profitability in this segment has gone down especially on the margins. So going forward what is the sense on the ROTA level of this segment?

N. Srinivasan: So see there are two things which are unique to Chola one is you know if you look at our OPEX in this business our OPEX has always been very steady that is number one. So we have got a hang of managing the OPEX. Secondly on an expansion front, Chola today has about 900 branches and you know when we want to expand the HE business we simply can go into these branches and start a business. So both these factors will help us grow as well as keep our OPEX in control. So what will happen going forward once delinquency comes back to normal the increase disbursements and the distribution will still give you a good ROTA of 3%; PBT ROTA of 3% plus.

- Nidhesh Jain:** PBT ROTA of 3% plus.
- N. Srinivasan:** Yes.
- Nidhesh Jain:** On the Vehicle Finance, sir we have taken a lot of steps for improving our operating cost efficiency but because we have seen quite an aggressive branch expansion in last few quarters that has not played out. Is there any expectation of operating leveraging playing out in Vehicle Finance going forward?
- N. Srinivasan:** I think it should happen, the last couple of years as you rightly said we have expanded our branches and 40% of our branches are less than two years old. As volumes pick-up and as we quietly see that the CV industry has shown significant growth in the last two quarters both Q2 and Q3. So once this happens definitely OPEX will come down.
- Nidhesh Jain:** And sir, lastly on the branch expansion plan what is the branch expansion plan going forward?
- N. Srinivasan:** So we have not really finalized our plans for next financial year. So I will not be able to say anything at this point of time.
- Nidhesh Jain:** And for this year we have broadly done the branch expansion that we are seeing.
- N. Srinivasan:** Yes.
- Moderator:** Thank you. We take the next question from the line of Himali Dhame from B&K Securities. Please go ahead.
- Himali Dhame:** Sir, I just wanted a quick data point on the home equity segment, I wanted to understand the proportion of loans under Rs. 50 lakhs and the ones above Rs. 50 lakhs?
- Rohit Phadke:** Himali, actually I do not have that data point, I will give it to you later because I do not have that data point right now.
- Himali Dhame:** Okay, sir. I will drop you can email for the same. And if you could give us just a geographical color on the home equity business which areas do you think are troubling right now?
- Rohit Phadke:** See, basically we see slightly higher competition and slight struggle in NCR region primarily and followed by Punjab and Haryana. Those are the two areas where we see some kind of increased competition.
- Himali Dhame:** Okay. And announcing on Vehicle Finance business have we taken any pricing cut to increase our market share this quarter?
- Ravindra Kundu:** So Vehicle Finance put together actually consist of three product lines, HCV, LCV and mini LCV. All three segments have been competitive because a lot of new players have come in and

there is a competition. But the overall rate has actually maintained because of the product mix and there is a higher rate from the high yield business and which can compensate what we are actually giving it to the customer as far as HCV is concerned. So net-net, there is a competition of rate and therefore rate has come down from all segments. But we have maintained our rate because of the product mix.

Himali Dhame: Okay. And if you share our incremental yields?

Ravindra Kundu: No, there is no increase in the yield. We have maintained Q2.

Moderator: Thank you. Next question is from the line of Umang Shah from Emkay Global. Please go ahead.

Umang Shah: I just had a question related to credit cost. So if I look at the credit cost for the first nine months we are closer to about 100 basis points blended and we might end the year at about 90 basis points to 100 basis points now. This is something which is probably the lowest level of credit cost that we are seeing in last 12 years - 13 years barring a couple of years here and there. Now, my question is that going forward, what according to you is a more sustainable level of credit cost given the fact that we are also at the lowest level of provision coverage that we have seen and how do we see PCR, as well as credit, cost moving forward.

N. Srinivasan: So actually, it is very difficult to answer this question because while we would definitely take as much efforts as possible to bring it down. So whatever we have achieved this quarter actually in terms of the net credit cost I think is quite good. In spite of increasing volume and higher disbursement if you are able to keep the NCL at this level I think we will quite happy. The NPA resolution actually that will go on as the rural economy improves and then you know the more money is available I think we expect better payment from the customers, therefore, the overall NPA can come down. Provision coverage actually then if you see our intent will be to take it to 40% to 45%. So as the NPA levels comes down I think automatically this will go up.

Umang Shah: All right. Got that. That is quite helpful. And just one data point which I wanted, could you help me with the number of employees that we have for Q3 as well as for Q2?

Arul Selvan: We totally around 19,500 employees end of the Q3 which includes both on-role and off-role.

Umang Shah: Okay. And what was this number in Q2, if you could help me

Arul Selvan: 18,500 employees.

Moderator: Thank you. We take the next question from the line of Shweta from Dolat Capital. Please go ahead.

- Shweta:** I have two questions. Sir, one is can you comment on the asset quality on Used Vehicle Finance segment especially tractors and construction equipment?
- Ravindra Kundu:** We do not give that break-up. We cannot share that break-up.
- Shweta:** Okay. Sir, but just the broader sense on how asset quality has panned out especially in these two segments?
- Ravindra Kundu:** It is improving.
- Shweta:** Okay, quarter-on-quarter as well?
- Ravindra Kundu:** Yes.
- Shweta:** Okay. Sir, and secondly as far as net interest margins are concerned for Vehicle Finance segment the improvement has been pretty sharp. Is it the function of improved disbursements this particular quarter?
- Ravindra Kundu:** No. So there are two aspects on these net interest margin in terms of percentage, I mean in terms of absolute numbers. If you are referring to a percentage, it has nothing to do with volumes. What is your lending rate minus your cost of funds that gives you the net interest margin (NIM). Therefore, whatever we have recorded in Q2, we have been able to maintain in this quarter. Going forward we have to wait and see the cost of funds how it moves and also the lending rates how it moves.
- Shweta:** Okay. Sir, lastly if I may squeeze one more question. So Vehicle Finance as a percentage of the overall mix today stands at 72% I remember you were mentioning previous quarter this should be coming down to 65% and that is what the target mix you are looking at. So would you like to comment again how would be your target mix panning out ahead say one year-two years down the line?
- Ravindra Kundu:** So I think we are living in a very dynamic environment. So for example when I mentioned to you maybe last time we never had a plan for this HFC at least news was not in the public domain. So, for now, we have announced the forming of Housing Financing company thereafter the entire strategy will move actually what kind of business we do in housing finance company, all these things we need to pan out actually. We have to plan all this then take a call. Therefore, we will not be able to answer this question at this point of time.
- Moderator:** Thank you. We take the next question from the line of Harshit Toshniwal from Jefferies. Please go ahead.
- Harshit Toshniwal:** Coupe of the question. This is more of a general thing which is happening in the industry. Just want to understand is are we moving to a more safer bunch of customer within this Vehicle Finance portfolio because may be big higher than what we use to do earlier and that has been

an impact on the asset quality improvement. So can you throw some light on the customer segmentation which we have right now?

N. Srinivasan: So first I would like to understand from you what you mean by safe customer?

Harshit Toshniwal: Safe customer as I mean so when I am lending so maybe I am moving towards more Sundaram or HDFC kind of customers, the customers which they do and less of the more high yielding but greater risk profile customers.

N. Srinivasan: So I think my colleague will answer this point.

Management: See our positioning we continued to be there in the bottom of the pyramid as far as the commercial vehicle which we present in the Investor Presentation but our credit analytics tool which we have started using it for 2.5 years that actually select those customer wherein the probability of default is less wherein the expected loss is less. So the entire credit modeling has been based on the expected loss model wherein our intent is to actually select those customers and the losses will be less. Or we have to adequately price it so that our ROTA is not affected if at all losses is high. So our intent is to achieve higher ROTA by selecting best customer out of the particular positioning we have. But coming to your point that we are moving top of the pyramid wherein banks are there or some of the players who are actually trying to do only the low yield or low-risk product we have not changed our position.

N. Srinivasan: So I think, just to supplement this if you see our product mix and we are present all throughout we are an HCV, MCV, LCV, mini LCV, used so, therefore, you know the customer profile of who own these products are different. Therefore, we continue to lend in all these statements.

Harshit Toshniwal: Okay. Sir, so if I can ask has your rejection rate increased on a broader two years or three years period in these categories?

N. Srinivasan: So obviously rejection rates are two level, one at the sourcing at sales executive level and then underwriting level. So our sales executive level lot of underwriting is happening which was not happening earlier. Earlier sales executive used to collect all files, he uses to come to the credit manager to take the decision. Today given them tab, so they are with the help of the tab doing the decision making. So without the file, they can actually reject it then and there. So that on the spot rejection has gone up significantly because we have enabled them to take the decision based on the tablet. As far as the rejection we are not taking those cases which is going to be rejected. Therefore, our rejection in the system has remained same.

Harshit Toshniwal: And sir in home equity segment as you mentioned during the time of demonetization that you would be focusing more on the lower tickets segment. So are we still there with that strategy that we would be focusing more on the smaller ticket size segment?

Rohit Phadke: See, we were never focusing too much on the large ticket size. But if you look at our average ticket size it has come down from s 50 lakhs to Rs. 49 lakhs.

- Harshit Toshniwal:** Okay. And incrementally how much it has been happening?
- Rohit Phadke:** Incrementally fewer big tickets are happening and it is basically the customers taking loans in between Rs. 50 lakhs about Rs. 1.5 crores - Rs. 2 crores that loan ticket size is more.
- Harshit Toshniwal:** Okay. And as specific geographic concentration to NCR and all is reducing, or it is the same as it was earlier?
- Rohit Phadke:** The portfolio is the same, no? The portfolio is the same incremental business is....
- Harshit Toshniwal:** Incremental disbursement I am saying.
- Rohit Phadke:** Yes, but we do not intent to discontinue because see the issue is that NCR itself accounts for I think some 7% or 8% of the country GDP. So that is a very huge market as far a business is concerned. So I do not think anybody who is in the LAP market will be able to totally ignore these geographies?
- Moderator:** Thank you. We take the next question from the line of Bunty Chawla from B&K Securities. Please go ahead.
- Bunty Chawla:** Just need some data point if it is possible. You have given that on Presentation Slide #12, you have given 858 branches full data point. Similar 139 home equity branches, can you share some data how much in the specific states as equivalent to 858 you have given that data, is it possible?
- N. Srinivasan:** So we cannot give in this call actually.
- Bunty Chawla:** Okay. On the email, you can share with us?
- N. Srinivasan:** Yes.
- Bunty Chawla:** Yes. Lastly, now you have a Housing Finance subsidiary so you have others portfolio with a home loan that will be completely shifted to that home loan subsidiary because you have a 94 home loan branches already co-located with vehicle financing.
- N. Srinivasan:** So I think that will be the target to which we should work but nothing has been firmed up, we are just working on that so not able to clearly tell you what we have.
- Moderator:** Thank you. We take the next question from the line of Piran Engineer from Motilal Oswal Securities. Please go ahead.
- Piran Engineer:** My question is a follow-up to Parag's question on LAP NPLs basically what I want to know what percentage of LAP NPL customers are currently paying their dues and the reason I am asking this is that we have Rs. 600 crores of NPLs in this segment but we have repossessed

only 43 properties. So if I assume even Rs. 1 crores per property or other for loan outstanding that is only Rs. 43 crores. So how do we plan to address the remaining Rs. 550 crores of NPLs in the segment?

N. Srinivasan: See, NPA now earlier what use to happen is when we are at 180 DPD calculating NPA was very similar just everything that is above 180 DPD is NPA. Now you know there are two stages of NPA – NPA is anything that goes above 90 DPD is also an NPA, any customer who moves above 90 DPD. So you have various chunks of customer who sit between 90 and 179 and then set of customers who are above 180, right? So you need not repossess the entire segment of properties. So about 40% of that Rs. 600 crores is eligible for SARFAESI. Now, I do not have the exact number to give you, right? And this Rs. 43 crores is valued today at Rs. 75 crores not at Rs. 43 crores.

Piran Engineer: No but that will be the value of the property, right? I will be more concerned with the value of the outstanding NPL of that.

N. Srinivasan: NPL Rs. 43 crores, receivable is Rs. 75 crores.

Piran Engineer: Okay. So they were high-ticket NPL basically. I should think about that. And sir, after this 180 DPD SARFAESI is that a regulatory requirement or is that your internal procedure?

N. Srinivasan: No, SARFAESI you can initiate after 90 but there are lots of customers who will be going front and coming back so for that even if you have initiated SARFAESI because the customer is paying to you he will not suddenly go and repossess that property.

Piran Engineer: Understood. So can I assume by and large at least 60% are paying their money may be sporadically but they are still classified as NPL?

N. Srinivasan: I do not have data off-hand to tell you yes or no. But yes, there are lots of customers who are in that bucket.

Piran Engineer: Got it. And my second and last question is for Arul sir, I just want to know the cost of the latest three years or five years NCD that you would have raised? Just trying to get a sense of the spreads about G-Sec yields the latest one that you would have raised.

Arul Selvan: Right now it is at around 8.25%.

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

Alok Shah: Sir, I just wanted to get a sense from you in terms of the profitability of the fleet operators in the context of the fact that we have been hearing of an increase in fuel prices and also a reduction in freight rates. So what is your sense on that?

Arul Selvan: So transporter's profitability has been impacted because of the increase in diesel prices in the recent time, for last two months - three months diesel prices were going up continuously. At the same time, there is a freight availability which has improved from last quarter to this quarter or first quarter to this quarter. So that is what is one thing which actually helping them to manage their cash flow. At the same time because of the hub and spoke model which has actually come up after the GST the long haul has gone up and these guys are also that is the reason going into the higher tonnage vehicle because one important thing is that the rated load has actually enforced. So the overload is not available now for the transporter that is also impacted. So because of these only these customers are now moving to the high tonnage vehicle and for transporting the goods from one destination to other destination is long as compared with the past. So by doing so, they are managing cash flow, it has impacted definitely.

Alok Shah: So on a YTD basis last year versus this year it would have improved but for the extent of increase in fuel prices there is a reduction would that be a right way of looking at it?

Arul Selvan: So what I am saying is that in diesel prices and the rated load enforcement has impacted their profitability. At the same time hub and spoke model then the distance has gone up and they have moved from low-tonnage to high-tonnage vehicle has improved their profitability. So net they are actually at the same level. Probably it would have gone down a little bit in the recent time. But definitely, what you are saying last year to this year it has improved.

Alok Shah: Sure. And maybe just one thing, you talk about overload factor, is it applicable pan India or it is still in select states only?

Arul Selvan: So it is getting implemented one-by-one like we went to Rajasthan, we saw that there has been implemented, Uttar Pradesh also getting implemented. Across the country I think, it will get implemented very soon because that is what Government is trying to do, State Governments are putting a lot of focus on that and it is also good for the customer. They have to take the high tonnage vehicle with overload then it will actually deteriorate their vehicle faster that is not going to work in favor of the customer.

Alok Shah: And maybe one data point I missed that. What is our home equity portfolio NPA, the GNPA number?

Rohit Phadke: It is the Press Release, it is around 5.89%.

Moderator: Thank you. We take the next question from the line of Pritesh Bumb from Prabhudas Lilladher. Please go ahead.

Pritesh Bumb: Just wanted to get a sense on the geography state wise vehicle disbursement and growth which is happening seems to be moving from the Northside to the Eastern side of the geographies and what is contributing to this growth in terms of mix and what activities are contributing?

N. Srinivasan: We have given this mix actually, our branch network across the country is fairly distributed across the country. It is not that we are doing higher investment in a particular zone, I will just give you zone wise.

Pritesh Bumb: I have zone number. What I am talking about last few quarters if you see North was 30% and it has moved to 24% today and East from 22% to 27% and also some states like Punjab, Rajasthan we have lowered our exposure there. So I wanted to get a sense what is happening in these states and what is the activity for the growth purpose in these states?

N. Srinivasan: We have to see the TIV of those particular. We do not have any strategy to reduce any particular disbursement of any particular state. We are focused on all state in the country and if any particular TIV of product is coming now, for example, we are more focused on light commercial vehicle and small commercial vehicle and that TIV in particular state has come down because of the disbursement has gone down or little bit any particular competition would have come down for the short-term basis is something would have happened. But we do not have any strategy to reduce anywhere.

Pritesh Bumb: I think the branch is more skewed towards rural but the AUM mix also will be there on the rural side?

N. Srinivasan: Rural side we are saying that our Tier-3, Tier-4, Tier-5 is around 85%, rest of the branches are in....

Pritesh Bumb: So same will be for the AUM as well?

N. Srinivasan: Yes, AUM probably, yes it will be similar only. It will become similar more after one year because some of the branches are now like in two years we have opened up around 300 branches. So these 300 branches will start doing disbursement to fullest capacity in next year, one and half years' time. That will be actually a time when we will actually achieve that also.

Moderator: Thank you. We take the next question from the line of Saurabh Dhole from Trivantage Capital. Please go ahead.

Saurabh Dhole: My question is with respect to your gross yields this is for the YTD period ending December 2017 this has gone up to 16.8 and the same period last year it was 16.4. So what exactly explains this rise?

N. Srinivasan: No, it is really a combination of product mix.

Saurabh Dhole: Okay. And so the product mix is tilting in favor of what kind of sub-product segment?

N. Srinivasan: No. So lend to LCV, mini LCV used then HCV so depending on the mix at that point of time the rates will vary.

- Saurabh Dhole:** Okay. And any outlook on whether this trend is expected to continue, or this is where it will stabilize?
- N. Srinivasan:** So if it stabilizes at this level it will be good because beyond this I think as I have already said cost of funds, as well as lending rates actually have peaked at optimal points and also we are also doing volume so that if it is maintained at this level it will be good.
- Saurabh Dhole:** Okay. And sir, the next question was from with reference to your Slide #43, I understand there has been some kind of classification under the line item receivables under financing activity. So can you please explain what exactly is this?
- N. Srinivasan:** So I think you have to come separately, we cannot answer this now. What you are asking we have to understand and then come back it will take time.
- Saurabh Dhole:** Okay. And sir, just one last question, in one of your other answers you had mentioned that NIMs vary across geographies. So is it possible to give some more color on that exactly what geographies give higher NIMs vis-à-vis which ones give relatively lower NIMs?
- N. Srinivasan:** While I cannot give you a specific detail. For example, one product in East will give you a different yield, different NIM actually the same product in South may give a different NIM. Difference could be 0.25% - 0.3%, etc., depends on local conditions. So to that extent it is necessary to know that there is difference and yields across zones. I will probably stop at that.
- Moderator:** Thank you. We take the next question from the line of Vibha Batra from Fair Connect. Please go ahead.
- Vibha Batra:** I think my call got dropped. I do not know if you heard me. I wanted to check the NPA movement in home equity segment.
- Rohit Phadke:** So I think while I do not have to go through the numbers you know there has not been very significant movement in the NPA in home equity segment because this segment generally takes time to get all the NPAs resolved. The only way which NPA can be resolved is by payment or otherwise by bringing the property to sale while effective steps for bringing the property to sell at an advanced stage at various levels, so many things have not fructified, they are 80% - 88% - 90% and things like that. So, therefore, it has taken time.
- Vibha Batra:** And that also means a fresh NPA generation is close to zero?
- Rohit Phadke:** I cannot make the statement but that is I think very negligible I would say I have not checked actually but there is no I can say the new NPAs are far and few.
- Vibha Batra:** Okay. And next question is for Arul, with hardening in G-Sec rate what kind of increase in funding do we expect over say next six months or so?

- Arul Selvan:** See, over the next six months the shift would be more on the CP part of the borrowings because the bulk of the longest tenure borrowings are on a fixed rate and those things tied up for a longer period. The marginal borrowings will, of course, be at a slightly higher cost so the impact of this will be felt more over a longer period rather than the next two quarters.
- Vibha Batra:** Okay. But incremental cost you expect it to go up by 25 basis points - 50 basis points because your credit rating has also improved.
- Arul Selvan:** Yes, it should go up by around 25 basis points is our guess right now.
- Moderator:** Thank you. Well, that seems to be the last question. I now hand the floor over to Mr. Nischint Chawathe for his closing comments.
- Nischint Chawathe:** Thank you, everyone, for joining the call today. We thank the management for giving us an opportunity to host the call.
- Moderator:** Thank you very much. Ladies and Gentlemen, on behalf of Kotak Securities, that concludes this conference. Thank you for joining us. You may now disconnect your lines now. Thank you.