



“Cholamandalam Investment and Finance Company
Limited Q2 FY 2019 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 Investment and Finance Company Limited Q2 FY 2019 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 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: Hi. Hello, everyone, and welcome to the 2Q FY 2019 Earnings Conference Call for Cholamandalam Investment and Finance Company Limited.

To discuss the Financial Performance of Chola and to address your queries we have with us today Mr. Arun Alagappan – Executive Director; Mr. Arul Selvan – Executive Vice President and CFO; Mr. Ravindra Kundu – President and Business Head (Vehicle Finance); Mr. Rupinder Singh – Senior Vice President and Business Head (Home Equity); and Mr. Rohit Phadke, President and Business Head (Home Loans).

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

Arun Alagappan: Good Morning, Friends. Basically, we have got the people mentioned in the room today. We have got myself and we have got Arul – the CFO; we have got Ravi Kundu – the Head of our Vehicle Finance; Rohit Phadke – the Head of Home Loans; and joining us in about a couple of minutes will be Rupinder – the Head of our Home Equity business. So, I have great pleasure in presenting to you the 2Q FY 2019 performance of our company.

At the outset, I am happy to state that the company ended the year with its highest ever quarterly disbursements and profits in Q2. The company registered a very good performance in all critical parameters that is in disbursement growth, PBT, ROTA, ROE, and asset quality. The company has made a transition from IGAAP to IndAS during the last quarter. Hence, the financial performance reported will be in IndAS along with year-on-year comparison over the last year.

The Q2 performance.

The company had yet another stellar quarter with highest ever disbursements and PBT in Q2. Disbursements for the quarter were higher at Rs. 6,899 crores registering a growth of 26% and PBT for the quarter was at Rs. 460 crores registering a growth of 48%.

The Vehicle Finance business grew by 29% in terms of disbursements and 45% in terms of PBT year-on-year. The HE business grew disbursements by 10% and PBT by 46% year-on-year.

Business assets under management grew by 31% at Rs. 47,720 crores compared to Rs. 36,456 crores in Q2 FY 2018.

Total income for Q2 FY 2019 was higher at Rs. 1,676 crores against Rs. 1,350 crores in Q2 FY 2018, recording a growth of 24%.

During the quarter, there were no upfront assignment gains booked as there were no assignment transactions. In Q1, we had a gain of Rs. 42 crores of assignment gains booked.

PBT for Q2 FY 2019 was higher at Rs. 460 crores compared to Rs. 310 crores in Q2 FY 2018, recording a growth of 48%. PAT grew by 49% and was at Rs. 305 crores. PBT ROTA for Q2 FY 2019 was 3.9% compared to 3.4% achieved in Q2 FY 2018. ROE moved up to 21.80% against 17.69%. 885 branches across 27 states and union territories were there during this quarter.

The reduction in non-performing assets under IndAS:

Stage-III assets at the end of September 2018 was Rs. 1,608 crores as compared to Rs. 1,867 crore on September 2017 a reduction of Rs. 258 crore. Stage-III percentage to total gross assets improved to 3.37% in September 2018 from 5.10% in September 2017. Coverage ratio for Stage-III improved 36.78% as of September 2018 from 33.20% in September 2017.

We had also presented the GNPA position as per IGAAP.

The GNPA as per IGAAP at the end of Q2 FY 2019 declined to 2.79% compared to 4.45% at the end of Q2 FY 2018. In absolute terms, the GNPA as of September 2018 were at Rs. 1,347 crores as compared to Rs. 1,653 crores as on September 2017, a reduction of Rs. 305 crores.

Provision coverage ratio improved to 44.29% in Q2 FY 2019 as compared to 35.08% in Q2 FY 2018.

Vehicle Finance business.

The Vehicle Finance business delivered a spectacular performance with an all-round improvement in disbursements, asset growth, and profits. Disbursements for Q2 FY 2019 were higher at Rs. 5,542 crores compared to Rs. 4,295 crores in Q2 FY 2018, registering a growth of 29%. This was achieved through a strong growth across product lines HCV, LCV, and Mini LCV. The business recorded a PBT of Rs. 324 crores against Rs. 223 crores in Q2 FY 2018, recording a growth of 45%.

Net income margin for Q2 FY 2019 was at 7.4% compared to 8.3% in Q2 FY 2018. OPEX ratio for Q2 FY 2019 was lower at 2.9% compared to 3.6% in Q2 FY 2018. Net credit losses were lower at 0.8% as against 1.1% in Q2 FY 2018. The PBT-ROTA improved to 3.7% from 3.5% in Q2 FY 2018.

The Home Equity business.

The Home Equity disbursements for Q2 FY 2019 were higher at Rs. 910 crores compared to Rs. 830 crores in Q2 FY 2018 registering a growth of 10%. The business recorded a PBT of Rs. 84 crores compared to Rs. 58 crores in Q2 FY 2018 registering a growth of 46%. Higher recoveries in NPAs supported in this growth.

As far as the capital adequacy ratio is concerned at the end of Q2 FY 2019 was comfortable at 18.34% and the Tier-I is 13.13%.

My colleagues and I would be happy to answer any questions that you may have. Thank you very much.

Moderator: Sure, Thank you very much. We will now begin the Question-and-Answer Session. We have the first question from the line of Shweta Daptardar from Prabhudas Lilladher. Please go ahead.

Shweta Daptardar: Sir, I have just one question. I am referring to slide #21 and slide #22 of our Presentation, where we put up the growth estimates for MHCVs and LCVs. Sir, what has happened in last 3 months that our MHCV growth estimates have gone up from 4% to 7% for the future years and whereas LCVs have come down?

Ravindra Kundu: This is Ravindra Kundu. This is as per the CRISIL research and whatever the recent research has come out we have given that projection for H1 FY 2023 estimated number.

Shweta Daptardar: Sir, if you could highlight further or give a color on how the LCV and especially the LCV and HCV market where we largely are focused into performing for like how would it go for next 3 months or so especially given the kind of scenario we are into?

Ravindra Kundu: So, one important thing, we need to consider that the last year Q3 - Q4 was a big number of quarter and as of now for example, like in MHCV we are seeing that 16 tonnes and above is growing at the rate of 63% in H1. So, looking to that that this is an unexpected or exceptional number this cannot be the number for the entire year. So, therefore, obviously, we will see that Q3 - Q4 in terms of percentage of the growth will come down, and therefore the overall CV sales for HCV or LCV will get averaged out in the year. How much it will be in the Q3 or Q4 that projection I do not have. But based on that only we can say that the HCV sales which is actually at 49% now, by the year-end it will go down.

Moderator: Thank you. The next question is from the line of Piran Engineer from Motilal Oswal Securities. Please go ahead. Mr. Piran Engineer, you may go ahead with your question.

Piran Engineer: Yes, I am sorry. I just have a couple of questions for one for Mr. Kundu and one for Arul, sir. So, firstly, we had negative credit costs in LAP. So, do the auditors allow it? Or is it that the auditors just sign off on a console credit cost number and then the internal thing is up to us?

Arul Selvan: See, the negative credit cost is if you will recall even last quarter, I spoke about this. During the year, during this quarter, we had recovery happening because we had been doing the SARFAESI

action and we had recoveries coming in. So, these have resulted in the negative credit cost considering the recoveries that have just come through. So, this is something which has reduced the NPAs drastically in the Home Equity business and accordingly, we have a release of provisions that we carried as a 100% provision in certain cases. So, that is allowable. The auditors have looked into independently for each of these agreements and then only have given this credit, it is not on any consolidated basis.

Piran Engineer: Okay, that is good to know. Secondly, just on the freight business overall, I just wanted to know what percentage of our customers get business directly from their customers and how much get subcontracts from larger freight operators?

Ravindra Kundu: Our customers who are middle-of-the-pyramid customers mostly are the SRTO customers. And they are having a subcontract with the big contractor who are having, more than 50 vehicles or 100 vehicles with the big load provider. So, all of them are SRTOs and in a way they are mobile they are not having a fixed contact, most of them.

Piran Engineer: Okay. So, does that hinder their bargaining power in terms of the pricing power in respect to passing on higher fuel costs?

Ravindra Kundu: So, there is an advantage in being there direct and disadvantage also. So, bargaining would be a big contractor is slightly lower but they can move around, and they can ship and deploy the vehicle whichever business is actually suitable in that point in time. For the fleet operator, that is the problem, they cannot move out from the contract in case the diesel prices are going up or fuel prices are adverse. In the case of the SRTOs and driver-cum-owner customer, that is the advantage.

Piran Engineer: So, these contracts that the larger freight operators have with their clients what is the tenure of these contracts? And what sort of covenants do they have in terms of passing on that rate hike? Because I am assuming whether the larger freight operator squeezed, he is also going to squeeze your customer, right?

Ravindra Kundu: So, actually, the escalation metrics is actually there for each contract and most of the contracts are a 1-year contract and few are 2-years contract. And even for the big transporter who are fleet operator having the contract with the load provider, they do not get immediately escalation done. Even for the manufacturer also, they take some time to pass on the escalation. As and when it is getting increased the fleet operator increase the prices of the SRTOs because SRTOs are those who are very-very volatile in terms of attaching the vehicle. So, if they do not increase then they will not be there. So, sometimes the fleet operator, they pay from their pocket, and then they wait for the escalation to go up and then get money from their load provider later.

Piran Engineer: Okay. So, then how much would you say freight rate has actually moved up in the last quarter or so?

- Ravindra Kundu:** So, more than freight prices are going up. There are 2 things happened which is one is the axle weight has improved and therefore, the capacity of the transporter has improved. Second is the tonnage capacity which now transporters sir moving from say 25 tonnes to 31 tonnes and 31 to 37 tonne with that also transporters have benefited. And then after the GST, the lead has gone up. A number of C&F has actually after the nationalization of the distribution point the number of kilometers covered by the transporter has also improved. So, put together those are more beneficial than the foreign charges have gone up.
- Piran Engineer:** Okay. But sir, there is also one thesis that overall festive demand has been modest and now with liquidity crunch sort of impacting possibly going to impact the real estate market. There could be a contingent impact on freight demand, too. So, if this situation lasts another few months, do you foresee a risk of freight demand coming off and that leads into a spiral of problems?
- Ravindra Kundu:** No. That is obvious actually. If the freight demand comes down, then it will be impacting the transporter but as of now, that is not the case. Transporters are getting the freight. And for the market, transporters have been successful in increasing the freight also.
- Moderator:** Thank you. The next question is from the line of Ankit Choudhary from Equirus Securities. Please go ahead.
- Ankit Choudhary:** My first question is regarding the borrowings. So, could you let me know what is the incremental borrowing we have done post-September or September 2018?
- Arul Selvan:** Post-September actually, we have not done anything I think other than a Rs. 50 crore CP we tried to just do to establish a price. But the market is volatile we did not want to go down that path. So, we have not done any borrowing in October because we did the bulk of the borrowing on the last week of September almost Rs. 5,000 crores. But going forward in November - December, we may do a little amount of borrowing but I do not think we need any good numbers to do in this quarter.
- Ankit Choudhary:** Okay. So, as you mentioned that you did some Rs. 5,000 crores of borrowings the last week of September and in that point of time the liquidity crisis has already stopped. So, how did the rate move up for us at that point of time?
- Arul Selvan:** See, these are bank borrowings, and we had negotiated these rates ahead of this crisis coming into the open. So, the banks still continued and honored their commitment on giving the rates. So, these were at sub-9% levels for us. It is even sub-8.75% on a monthly basis. So, overall, on an annualized basis, it will be around 9%.
- Ankit Choudhary:** Okay. And so basically, have we passed on the rates? Currently, have we increased the lending rates in the month of October?

- Arul Selvan:** See, we have done rate correction with the Home Equity book where it is a floating-rate book. With regard to the Vehicle Finance book, we are doing it selectively product based as well as geography based. I think Ravi can substantiate.
- Ravindra Kundu:** So, we have been increasing the rate gradually from the month of June itself and the marginal book yield as compared to Q4 has gone up in Q1 and then in Q2 has also gone up from Q1 because we got to know this kind of increase is going to happen in the first quarter itself. So, we are gradually doing it, and even in the month of October also, further, we have done it.
- Ankit Choudhary:** Okay. But 1 or 2 data-keeping questions. One is on Slide #14. We have mentioned closing assets number so my number is neither matching with the AUM nor the balance sheet total assets closing assets of 2Q FY 2019 so like around Rs. 527 billion. So, what is that number actually?
- Arul Selvan:** This asset represents business assets plus investments. Investments include FDs in hand as well as cash collateral because there is an earning potential from that. It does not include, for example, fixed assets or amounts which payable or receivable from various that is a smaller part. So, it may not directly match, but it will broadly match with your business assets, net of provision plus investments, cash, and bank investments.
- Moderator:** Thank you. The next question is from the line of Bunty Chawla from B&K Securities. Please go ahead.
- Bunty Chawla:** Just need the data points, sir. Usually, you used to give the gross NPA separately for vehicle financing and Home Equity part. So, can you share that number, sir?
- Arul Selvan:** I think we have now moved into IndAS, so...
- Bunty Chawla:** So, can you bifurcate gross Stage-III for both the verticals differently?
- Arul Selvan:** I will get you the details, just...yes, as far as Stage-III, I can tell you it is Rs. 800 crores for VF and Rs. 590 crores for HE. There is one incidentally, do not take this as pure NPA in the earlier context because this includes the interest income also in this uncollected interest income. So, the gross NPA which we traditionally will be talking in IGAAP mode we will only talk about the principal because we will be knocking the interest part out of the interest income line. So, kindly do not I mean, I am clarifying it because 800 divided by something, the total assets may give you a different number.
- Bunty Chawla:** Right. So, the gross stage assets Stage-III, it is around Rs. 1,600 crores, and gross NPA is around Rs. 1,350 crores the difference is their interest income part?
- Arul Selvan:** Right. Yes, you saw the slide that, no, that slide where we have given both IGAAP, we have already given that difference represents 2 aspects. One is the interest part. The other aspect is on securitization income, normally any uncollectible will be adjusted out of the EIS. So, that part also is there. It is not against purely only interest.

- Bunty Chawla:** Okay, sir. And sir, if I move to this slide where you have given the net interest margin for the full, we have seen that there has been a good amount of net interest margin deterioration of around from 7.4% to 6.9%. So, can you throw some light on as well as the guidance going forward for the next half of the year?
- Arul Selvan:** The 7.4% included assignment gain, which we did one time. Mr. Arun Alagappan covered it in his introduction speech. We had Rs. 42 crores of income coming out of assignment gain because under IndAS you need to recognize it upfront. So, remove that it would be at the similar level. Actually, there would be improvement quarter-on-quarter.
- Bunty Chawla:** So, how should we look for the second half?
- Arul Selvan:** See, the problem here is like the assignment can scale up, scale down the income. So, while we are opportunities coming up for an assignment where we do assignments where we do assignments you will see a bump up in profit. Otherwise, it will remain in the 6.9% to 7% level on that. Of course, there can be some amount of stress on the cost of funds but that would presumably we will cover it with the yield.
- Bunty Chawla:** Okay, sir. And can you share if possible, the guidance on the gross Stage-III level? Currently, it is moving down from 3.6% to 3.4%. So, what will be our target by FY 2019?
- Arul Selvan:** Which one, gross?
- Bunty Chawla:** Gross Stage-III, currently is 3.4% kind of thing.
- Arul Selvan:** So, we expect some more reduction coming through on the gross.... We are working on it. So, we will and I think especially on an overall company context, because I think we have still some more SARFAESI resolutions coming up in the next 2 quarters. So, those things will, again, impact us positively.
- Bunty Chawla:** Okay. Sir, lastly, if you can guide for the full year AUM target AUM growth per se?
- Arul Selvan:** No, we do not give any forward-looking statement. Broadly, we will grow along with the industry.
- Moderator:** Thank you. The next question is from the line of Anita Rangan from HSBC Asset Management. Please go ahead.
- Anita Rangan:** One, I wanted to understand on the liquidity front I mean, given the liquidity tightness, what are you seeing for you in terms of like borrowing from banks and so on? Are there like constraint or they are doing more due diligence before disbursement? It is something I wanted to understand. And secondly, the second order impact are you seeing some slowdown in disbursement? And how are you looking at this in terms of preserving liquidity?

Arul Selvan: See, we have as you have seen given you the ALM statement also and we are comfortable with our liquidity position and I think we can comfortably run this quarter including disbursements, as per normal business-as-usual mode. Having said that, what we are doing is considering the price the cost of funds increased. We are also moving up the needle on the yield front on the various products, as Ravi spoke to you a little while back. While we will increase the cost of lending and while we will also a little bit tightened on the underwriting front because we are bringing in various new digital underwriting models in play what we will see is that we will see a better book coming up at better yield levels. Now if that would result in slightly lower disbursements to that extent, yes, we will bear with it. But otherwise, we are not slowing down because of lack of fund. Funding is available and available for good names like Chola, banks are willing to lend. As of course, it comes at a little slightly higher cost that was more temporary and we will go with it. And we will find funds available either both internal and then we will continue business as usual.

Anita Rangan: Okay. And I think on the LAP side, you are seeing any kind of stress or like one thing in the industry level also majority or some portion of the LAP has been like using through balance transfers. So, because of this situation, any prospective stress in the LAP book you are seeing?

Rupinder Singh: Actually, pre-closures have come down because money is not available and people who have been playing the pre-closure game had stopped doing it because they are now dried up on the money. And we see this as an opportunity to look at good credit customers to fund and we will take advantage of opportunities coming that way.

Anita Rangan: Okay. But slowing down of pre-closures, will that have an impact on the asset quality?

Rupinder Singh: No. The pre-closures actually were happening with better customers getting customers getting because they have a better repayment track record and people wanting to offer them lower rates because of the better prepayment track record. And where we were and they were going away at some crazy rates of single digits. So, that has now got stopped because in the market there is nothing available and people who have been playing the CP route to do these sort of balance transfers have now stopped this game.

Moderator: Thank you. The next question is from the line of Dhaval Gada from DSP Mutual Fund. Please go ahead.

Dhaval Gada: Just a couple of questions. First, Ravindra sir, could you comment a little bit on the demand environment and how is it shaping up versus your expectation at the start of the year? And the second is for Arul, sir. I mean, are incremental spreads on Vehicle Finance business better than what you have reported in the quarter?

Ravindra Kundu: So, till September if you have seen the number and for the month of October it is actually going on as per plan. But obviously, the percentage of growth which is basically achieved until September by the industry and by Chola may not be the same in the coming quarters because

Q3 - Q4 was high. But we will definitely do better than last year. And obviously, the overall growth for the year, which is actually like for example, we are at 38% disbursement growth Y-on-Y as on September 30 but Q1 growth was 48%, Q2 to Q2 growth was 29%, is not it? So, Q3 to Q3 growth will be slightly lower and Q4 to Q4 may be slightly lower. Why? Because the Q3 - Q4 was huge last year. So, therefore, we will be achieving the I mean, what 38% is today as on as on say first half. For the full year, it is lower than 38%. Obviously, it is a simple math. So, that is what I am saying. We will be doing better than industry, what Arul has said and what we are trying to do is to move towards the product which is basically high yield to increase our overall yield to match with the cost of fund has gone up. And second is that we know we will also increase the rate for the rate-sensitive product, like heavy commercial vehicle, cars, and MUV and light commercial vehicle and construction equipment, so that our marginal yield for the Q3 - Q4 also improves. That is our target. So, the target is to increase the rate as compared to Q2, in Q3, our yield and keeping our market share constant, improving our high yield business, doing more used then tractor and three-wheeler, two-wheeler product which can be done at a higher rate.

Dhaval Gada: Understood.

Arul Selvan: Actually, on the margins, if you see page #28 you can see that yields have improved on vehicle finance and NIM's have improved and that is what Ravi has been telling now also. Progressively, the focus will move towards the higher yield as well as increasing the yields within the product categories. But as you know that the shift will take a little while because the marginal book has to become a substantial part of the overall book. Growth over Q3, Q1 was more on heavies which is what has taken a bit on the yield. But I think that has also positive implications on operating expenses and loan losses because those heavies do not have that much OPEX and loan loss. Look at it more as a ROTA level rather than because our product segments have got wide variances on the yield front.

Dhaval Gada: Right. And just lastly, sir, on asset quality especially in the VF business I mean, how much more headroom do we have on a sustainable business? I mean, are these current levels I mean, do we have headroom, one? And are they sustainable? And if you would just comment a little bit on that front, thanks.

Ravindra Kundu: That is very dynamic because see, the moment you move towards the high-yield business, obviously, you are taking a little more risk, is not it? And high yield will give higher ROTA. So, a little NCL will go up. But I am not saying that we are going to do so but that is fundamental. In H1, we are at 0.9% as against the 1.1%, this is I can say the best. If you can maintain it at this level or even 1% is also very good because operating expenses which has come down from 3.6% to 2.9% has given very good room for increasing our ROTA from 3.5% to 3.6%. Now our cost of the fund as of now has not gone up. It is 7.9% as against 7.8%. And I am expecting that our CFO will maintain that a little bit and we are going to increase yield. So, as he mentioned that what is our target, the target is to maintain our ROE and also maintain our growth. If the top-

line and bottom-line are maintained plus/minus 10 bps in the NCL line will not create any problem.

Dhaval Gada: So, 1% is sustainable basically?

Ravindra Kundu: 1% is sustainable. 1% is sustainable.

Dhaval Gada: Okay. And sir, could you give percentages of gross NPA for LAP and VF?

Arul Selvan: For GNPA, I told no, in an earlier question, I told that I have discontinued doing...

Dhaval Gada: Okay, fine. No problem, sir, I will take it offline.

Arul Selvan: Stage-III, I have given the numbers there.

Moderator: Thank you. The next question is from the line of Pratik Poddar from Reliance Mutual Fund. Please go ahead.

Pratik Poddar: Sir, just wanted to understand one is, has the lending norms gotten a bit tighter for the new MHCV sales? Are you seeing that? And are we gaining market share?

Ravindra Kundu: There is no much difference in the market share. It has slightly gone up from 4.2% to 4.6% because, in Q2, the industry went up by say 25% our growth was slightly, in fact, lower and if you take entire H1, our market share is more or less at the same level. And in HCV, there is nothing more to do in terms of changing the norm. All are the existing customer of some finance companies, they are having a repayment track record and for the chassis we fund 100%, everybody 100%. Some of them are financing a little bit body or somebody financing less. So, only important is that whether we can give more number of HCV to one customer that is an exposure or the free-to-finance ratio, those are the 2 important things. And then the viability what is the feasibility on the route? These are the 3 things - 4 things which we assess at the time of financing the customer and we do not fund any FTU or FTB customer. We fund only the customer who are having a repayment track record continuously paying that, too recent track record should be there for 24 months. So, therefore, the norm is already very conservative and we have moved from going by this kind of norm to the different norm to the different norm which we are doing it now through analytics model which is taking care of geography level, customer cat level then make/model level and LTVs are decided based on the past portfolio quality of that market with respect to customer category and make/model. And that is what is we are now using it which is more dynamic and we are taking it as and when we are seeing that yearly defaults are changing. Therefore, put together, our norms have been more recent and also across the country we are using the analytics tool to approve the HCV customers.

Pratik Poddar: Sir, it is a 2 questions from here one; one was in the last 15 - days 20 days whatever channel checks we have been doing, we have been hearing that CV demand has I mean, actually stopped. When I say CV demand, it means new MHCV sales they have gone down and in fact, details

might have been down this month. Are you seeing that trend? That is question number one. And on the lending norms, my question was more with relation to has the competition withdrawing because of a liquidity crisis and that might give you an advantage in terms of taking market share? Thanks.

Ravindra Kundu: HCV sales have come down in the month of October after the Navaratri Festival. It is likely to go up in again in Diwali. So, that is what is happening and today is the last day of the month bulk of the business will be booked in this month during the month end only. We will come to know by about October tomorrow only. But it is expected to go down in terms of volume. As I mentioned that in terms of percentage of growth, going forward, it will look lower and it will get averaged out throughout the year. It is a base effect of the Q1...

Pratik Poddar: I understand that. Yes, I understood, that is fair. That is fair obviously. The base will catch up. And sir, the second question was on the lending, I mean, on the market share advantage because of liquidity. Are you seeing that you can gain some market share? Is competition withdrawing or the competitive intensity remains the same?

Ravindra Kundu: See, our credit norms will remain what it is. As I said, we will be increasing the price. We will not be going after market shares by cutting price or diluting credit. If customers are available at that credit norms, they will go.

Moderator: Thank you. The next question is from the line of Anirban Sarkar from Principal Asset Management. Please go ahead.

Anirban Sarkar: Most of my questions have been answered. Just one question that I have regarding the data on slide #34. So, I can see that the yields on your Home Equity portfolio have come down quite sharply in one quarter from 11.8% to 11.3%. So, is this because of any direct assignment deals that were there in 1Q and not in 2Q? Or is there something else to it?

Arul Selvan: No, it is not direct assignment was in Vehicle Finance business. Here, this has nothing to do with sorry, this is Home Equity only but direct assignment profit does not come here because that is an upfront profit so we do not bring it here. This is primarily because of yield drop as well as certain amount of pre-closures that happened over the period and that is impacting the numbers here.

Anirban Sarkar: Okay. So, the pre-closures that happened had a higher yield, those books?

Arul Selvan: Yes.

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

Darpin Shah: So, I just wanted to understand how much exclusive or how many cases this quarter was you were able to resolve in the SARFAESI which has helped us to reduce our NCLs in the Home Equity business? And what is in the pipeline for the next couple of quarters?

Rupinder Singh: In the last quarter, we were able to resolve almost Rs. 20 crores in Home Equity the GNPA reduction and because of SARFAESI support, we feel that going forward again the trend will be almost same in the same line and obviously, since it is a cumbersome process in all together, it cannot be revealed exact number for the next quarter. But yes, trends are positive and you will see a lot of positivity in terms of reduction in GNPA, thanks to SARFAESI in that.

Darpin Shah: Okay. Sir, if you can give the number of cases which are already in pipeline for it?

Arul Selvan: Darpin, I think we will not be able to discuss the numbers. But one more thing I would like to add to what Rupinder said is apart from purely what we go and dispose of and not realize many moments we come closer to disposal a lot of settlements are happening.

Rupinder Singh: Yes, it happens.

Arul Selvan: So, that is actually the bigger advantage we gained...

Rupinder Singh: It is not only the deposition of property but also the customer when they feel that property need to be settled at that juncture they come up front and now the trend is there obviously. So, what has been in the last couple of quarters, I think that will keep continuing for the next few quarters also.

Darpin Shah: Great. And sir, one question on the Vehicle Finance part. If I see on the disbursements in the used, including Shubh, the proportion has gone down from say 28% in Q2 last year to 26%. Sorry, that is the portfolio. And for the disbursement, it is down from 35% to 28%. But I thought we were more focused towards used and Shubh products so that the yields can be much better?

Ravindra Kundu: Yes. You can see the page #26. So, right-hand side is the portfolio mix and left-hand side is the disbursement mix. So, as on September, the portfolio mix is older vehicle refinance put together is 26% wherein the disbursement mix is actually 28% wherein the HCV portfolio mix is 19%, disbursement mix is 16%. So, what we are doing is basically reducing the low yield book and increasing the high yield book. These are actually also visible in like three-wheeler or smaller commercial vehicle. So, put together, the 7 plus 13 plus 13 and 7 all are high yield, have gone up by 4%.

Darpin Shah: So, what I wanted to understand, used vehicles will be definitely having some better yields vis-à-vis the HCV's?

Ravindra Kundu: That is what we are saying, Darpin.

Ravindra Kundu: Page number #26.

- Ravindra Kundu:** If you look at page #26, new disbursements are happening more on the high-yield business, which is like older vehicle refinance, three-wheeler, tractors, etc. So, that is what is reflecting in a higher percentage of disbursement than the portfolio. The low-yield businesses like heavy's and cars and MUVs like while the portfolio is at 19%, the disbursement has been now at 16%. But progressively, then the portfolio will also change the percentages will change as this percentage is maintained. But we will also have to take cognizance that market-driven that which product like today HCV demand is coming down we will have to shift focus. The advantage we have is we have a vital portfolio mix which we can sort of keep moving between the portfolios to maintain our growth.
- Darpin Shah:** Okay, fair. And just one last question, you have been seeing a little higher base growth will be on the low side. Can you quantify it will be anywhere between 20% plus or anything will change there?
- Arul Selvan:** See, Darpin, it is industry growth, we have better industry growth. I think we will try to always commit less. So, do not force the number out of this. We will do reasonably good I think. Ravi is actually giving me the thumbs-up. Darpin, we will do it, do not worry.
- Moderator:** Thank you. The next question is from the line of Ashish Bali from MUFG Bank. Please go ahead.
- Ashish Bali:** I just have one question on the ALM profile, the immediate 6 months from the September quarter. So, if you look at the borrower repayment against the advances there is some negative gap over there which probably is being funded from liquidity or additional dip in the lines available. So, in the context that we said, there will be no major borrowings happening in over a period of next 3 months to 4 months. I just wanted to understand how this will get funded and what is the composition of liquidity that we have?
- Arul Selvan:** See, for example, we would not have borrowed like Rs. 5,000 crores end of September in a normal scenario. We would have then progressively borrowed as per the maturities that are happening. But because the circumstances externally were bad, we had to prepone the borrowings and keep it as cash. So, that is what you are seeing here as the difference and which is being funded out of cash and bank and during normally, we would have borrowed anywhere between Rs. 500 crores to Rs. 1,000 crores in the month from CPs because that is what my ALM allows. So, I could keep almost like 15% to 20% of CPs in my portfolio. Now that is something we consciously did not do because one pricing was bad and we also thought in the current scenario, we do not need to borrow because we already borrowed and we are sitting on cash, which is if I additionally borrow, it will lead to more negative carry. As I said, any point in time, we can get money. We are waiting and watching. We are carefully monitoring this on a daily basis and we will be making suitable adjustments to borrow as we move along. So, in the first 6 months, as what you have said you have the CP borrowings which we have taken in the earlier months coming up for repayment and that is what is you are seeing as a sort of a mismatch here.

- Ashish Bali:** Okay. Sir, the last question on this only. In terms of the asset side, ALM situation do we also show any expected like takeovers or balance transfers on Home Equity or home loan portfolio?
- Arul Selvan:** No. The advances line represents the EMI collection, not the EMI collection, the principal part of the EMI collection because there is a structural liquidity statement.
- Ashish Bali:** Oh, actual maturities.
- Arul Selvan:** Yes, business maturities. We built actually a little bit of assumption on the shortfall in the collection as per empirical advice like 1% - 2%, whatever we have been facing normal postponements of the collection, that is what is built in.
- Moderator:** Thank you. The next question is from the line of Abhijit Tibrewal from ICICI Securities. Please go ahead.
- Abhijit Tibrewal:** Sir, I wanted to ask how do we see our borrowing mix evolve in the second half of the year? I think I heard that some of the CPs will be coming up for repayment in the second-half. If we include securitization, the CPs have hovered around 10% to 11% in the last 2 quarters. Do we see them staying at around the same levels for the end of the year?
- Arul Selvan:** See, yes, actually, the CP and the CC put together represents my short-term borrowing. These 2, as per my product mix, we can take it all the way up to 20% and that is what my ALM will sustain. But we conservatively keep it in the range of around 10% to 15% as you can see over the past 2 years also. So, that is the number we will work with maybe in the range of around 15% to 17% will be what we will be between CC and commercial paper.
- Abhijit Tibrewal:** All right. And sir, what would be our incremental cost of borrowing in the second half of the year?
- Arul Selvan:** I think it is anybody guess because we cannot predict it now. It is moving every day. I think we expect some 30 bps- 40 bps movement upwards there. But you will have to look at it that while borrowing is on the marginal borrowing. The existing borrowing remains where we are. So, it will progressively change. Just like how it changes for the yield, it will change progressively on the cost of funds. Yes, it will have an impact negatively with the higher cost of funds in the next 2 quarters.
- Abhijit Tibrewal:** Right, sir. Thank you. And I have one more data-keeping question. So, on the slide #13, you have given your on-book AUMs. So, for your reported on-book AUM of around Rs. 46,750 crores, can you give me a split between Vehicle Finance, Home Equity, and your other segment?
- Arul Selvan:** I think it is given in the respective slides if you go to the respective business as well. If you go to slide #27, you have got the Vehicle Finance AUM. If you go to slide #33 or something slide #34, slide #33 you have got HE.

- Abhijit Tibrewal:** Sir, these are AUMs, right? I was checking if you can give a split of our on-book. These AUMs that you are talking about will include the assigned portfolio as well, right?
- Arul Selvan:** If you please refer to page #33, I have given assigned separately. Securitization is known.
- Moderator:** Thank you. The next question is from the line of Kislay Upadhyay from Abakkus Asset Management. Please go ahead.
- Kislay Upadhyay:** My question is on related to slide #28 and slide #34. Even though we have increased the yields, as you mentioned in Q1 and Q2 for Vehicle Finance we can see in first-half FY 2019 the income as a percentage of assets has come to 15.2% from 16.2% the previous half and similarly has been observed in Home Equity as well.
- Arul Selvan:** Yes. This is the result of product mix predominantly. If you look at it as compared to H1 of last year because over the H2 of last year and Q1 of this year we have done more of heavies. Heavies grew to like almost 100% in the industry in Q4. Am I right, Ravi?
- Ravindra Kundu:** Yes. H2 of last year and Q1 of this year because of the higher growth from Heavy Commercial Vehicle and Light Commercial Vehicle in fact, even in Q2 also if you see that heavies are growing. But we started increasing the yield from Q1, but the yield was coming from Q3 -, Q4 and Q1. The Q1 end, like in the month of June, we started increasing and Q2 also increased. So, therefore, there has been a drop of yield by 1% which has been actually compensated by the overall asset growth and the overall operating expenses come down and operating leverage we achieved. And there, in fact, the portfolio quality also improved. So, therefore, there are 2 - 3 advantage of by doing the more HCV. But then obviously, the yield has come down and that fund and then the cost of the fund was also lower. The moment cost of fund started growing, we started moving from HCV, LCV to high-yield business which I answered to Darpin's question that we are moving towards the high-yield business and now it will take another 2 quarter to reach to that level.
- Moderator:** Thank you. We move to the next question is from the line of Pranay Rajani from B&K Securities. Please go ahead.
- Pranay Rajani:** I just wanted to take a few data points from your side. In the Vehicle Finances portfolio, AUM, I do not know if you can provide me a breakup of on-book and assigned book?
- Arul Selvan:** See, the Vehicle Finance just now I spoke about it. The entire thing is on-book because there is no assignment. It is not securitization but now securitization is on-book. So, the whole thing is represented as on-book. In the Home Equity, I have given the break-up, if you refer slide #33 and we have alignment.
- Moderator:** Thank you. The next question is from the line of Kashyap Javeri from Emkay Global. Please go ahead.

Kashyap Javeri: Yes. My question is on Home Equity business, where we have seen provisions actually being written back. What we hear from a lot of people is that there is significant competition out here and underwriting rating standards are probably sort of deteriorating. On the ground staff, on the ground when your staff is sort of contracting this business, is there any significant underwriting deterioration that we have seen further in last about 3 odd months - to 6 odd months out here or that these loan loss provisions are actually being in write back the situation has significantly improved rather.

Rupinder Singh: Look, if you see, a lot of after this bottomed down situation which happened in the last 1.5 years - 2 years there is a lot of learning around and keeping that in mind, most of the NBFCs are not only us they have changed little underwriting process specifically more towards the end use and understanding where the funds are getting utilized. So, I would say that except barring few new NBFCs who are entering and want to just create their shares most of the prudent NBFCs who are into this business from pretty a long time they are changing their methodology to underwrite that. And that is towards to get the more understanding of the end use and using the technology like 442 and using various methods to understand the nitty-gritty of customer and then utilize the proper mechanism to see that whether the funding is in control or not. And secondly, last 2 quarters these are all obviously because the trends which you see most of the NBFCs are not focusing on this product we are getting that advantage also simultaneously.

Moderator: Thank you. The next question is from the line of Sunil Kothari from Unique Investments. Please go ahead.

Sunil Kothari: Sir, my question is on a little larger point. Do you feel there is some structural change happening because now banks will be becoming a little powerful with the field they have left and some NBFCs is withdrawing from the competition? So, in terms of your competitiveness and your conservatism, how do you see this scenario and how you will behave over maybe next year or 2? I am not asking for any projection but what I want to understand is, is there any structural change with may be negative or positive in your thoughts?

Arul Selvan: See, I think for all good NBFCs with good corporate governance and good reputation in the market, banks are more than happy to lend and I think that situation will continue. The bank is reach to do financial inclusions as effectively as NBFCs is not yet completely done and then the need for NBFCs to reach to the bottom of the pyramid customers I think that is going to continue. And I think in many instances, RBI has itself has clarified that the role of NBFCs is required and will continue for long in this country. But given that context, I think there is nothing like banks will have predominant and the NBFCs will be sideline sort of issues. It is more a liquidity crisis created by few instances of failures which could have been avoided. And I would rather suggest it maybe it is only maybe over course of next few months or something this should get ironed out. I do not see it as a long-term issue.

Sunil Kothari: But do you see sir, these some short-term players which entered with the short-term money and the long-term lending, will this change?

Arul Selvan: They get weeded out, right? They get weeded out and then only the strong players remain. It will remain somebody can take advantage and play short-term money and do it.

Moderator: Thank you very much. Due to time constraints, we will take that as the last question. I would now like to hand the conference back to Mr. Nischint Chawathe for closing comments.

Nischint Chawathe: Thank you very much for joining us today and we thank the management for providing this opportunity to host the call. Thank you.

Arul Selvan: Thank you.

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