



**“Cholamandalam Investment and Finance Company
Limited’s Q3 Earnings Conference Call”**

January 30, 2014



MANAGEMENT: **MR. VELLAYAN SUBBIAH – MANAGING DIRECTOR**
 MR. ARUL SELVAN – CHIEF FINANCIAL OFFICER
 MR. KAUSHIK BANERJEE – PRESIDENT, ASSET FINANCE

MODERATOR: **MR. PANKAJ AGARWAL – VICE PRESIDENT, RESEARCH, AMBIT**
 CAPITAL

- Moderator:** Ladies and Gentlemen, Good Day and Welcome to the Cholamandalam Investment and Finance Company's 3rd Quarter Earnings Conference Call hosted by Ambit Capital Private Limited. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this 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. Pankaj Agarwal – Vice President, Research of Ambit Capital. Thank you. And over to you Mr. Agarwal.
- Pankaj Agarwal:** Good afternoon everyone. This is Pankaj Agarwal from Ambit Capital. I welcome you all on 3rd Quarter Earnings Conference Call of Cholamandalam Investment and Finance Company. The officials who are representing Cholamandalam today on this call are Managing Director – Mr. Vellayan Subbiah; Chief Financial Officer – Mr. Arul Selvan; and President, Asset Finance – Mr. Kaushik Banerjee. Thank you gentlemen for giving this opportunity to host this call, and over to you.
- Vellayan Subbiah:** Hi everybody, good afternoon. Just give you a quick update on the quarter: During the quarter disbursements in Vehicle Finance were flat, while disbursements in Home Equity grew by 31% compared to the same period last year. We disbursed Rs.2,587 crores in Vehicle Finance and Rs.688 crores in Home Equity and disbursements from new businesses were Rs.61 crores for the quarter. The aggregate disbursements for the company for the quarter were Rs.3,336 crores as against Rs.3,113 crores for Q3 2012-'13, registering a growth of 7%. Total income is Rs.844 crores compared to Rs.666 crores in Q3, registering a growth of 27%. And our PAT is at Rs.92 crores as against Rs.81 crores in Q3 of 2012-'13 which is a growth of 13%.
- In terms of areas, -- obviously one of the areas I am sure that we will get a few questions on -- is on the portfolio in Commercial Vehicles, and we have taken a fairly prudent approach to portfolio quality management in the Commercial Vehicle area through a combination of aggressive repossession of non-performing assets and taking a slightly more conservative provisioning view on our repossessed stock, which obviously is at higher levels than it has been in the past. I will basically stop with that, I mean unless we got other questions, but in terms of our focus on portfolio Quality Company contained GNPA at 1.7% and our NNPA at 0.7% and provision coverage is at 58%. Our subsidiaries made a profit of Rs.3 crores during the period compared to a loss of Rs.0.29 crores for the 9-months ended 31st December, and so our consolidated PAT for the 9-months ended 31st December was at Rs.276 crores as against the PAT of Rs.221 crores for the 9-months ended 31st December, 2012, for a growth of 25%.
- The Board has also recommended and declared an interim dividend of Rs.2.50 per share to its equity shareholders for the year ending 31st March 2014 considering the performance year-to-date. So I will stop with that Pankaj, and we can open it up to questions.
- Moderator:** Thank you very much. Ladies and Gentlemen we will now begin the question-and-answer session. The first question is from the line of Sanjay Shah from KSA Securities. Please go ahead.
- Sanjay Shah:** My common question is the common worry about the growing concern about the Commercial Vehicle business and even Home Equity, and the growing sign of NPAs. Can you throw light on the future for next 6-months how you see about it?
- Vellayan Subbiah:** There are two things. The Home Equity portfolio has seen no performance degradation today. I think that is primarily because when we look at our Vehicle Finance customers, usually, for our SRTO customers the vehicle is the only source of income for them. Home Equity customers have slightly

stronger balance sheets and slightly stronger businesses that they run. So we are not seeing performance degradation there. I think that as long as things begin to pick up post elections like most people are predicting we would not see any performance degradation in Home Equity. Obviously, if things continue to remain slow for 6-9 months, see slight degradation in that portfolio as well, but there is nothing to be alarmed about in that portfolio to-date. In terms of Vehicle Finance, like we said there are basically two reasons why the portfolio is basically underperforming. One has been supply side-led which is a combination of manufacturer discounts, and I would say loosening of LTD norms by perhaps some financiers that cause the broader market to take a slightly more liberal view to LTD. Now, the supply side discontinuity have stopped here, so we are not seeing much manufacturer discounting, and from a financier perspective as well we are seeing more prudent behavior on the lending side. So what we really need to see there is whether we are going to see some demand side pick up or not. Our belief is that if the elections do come around that will provide an impetus and some growth. So post elections we should see demand side pickup. But, so really from Collections portfolio perspective it will take at least 3-6 months for it to start moving in a positive direction again. So because basically even if you see collections efficiency going up which we do see blips where collections efficiency moves up, it takes almost 3-6 months for this to align through your collections buckets, for us its 6 buckets to NPA, so it basically takes 3-6 months for that to correct.

Sanjay Shah:

Then till that next two quarters do you see more traction towards Home Equity?

Vellayan Subbiah:

Yes, definitely, we are continuing to see it, and as you can see in our current portfolio itself, Home Equity is what has provided the momentum for this quarter and for the first 9-months, so we see that continuing over the next couple of quarters as well.

Sanjay Shah:

Sir, can you give us a breakup of NPAs in this quarter for Vehicle and Home Finance?

Management:

Vehicle Finance is around 1.79% gross NPA, Home Finance is around 0.96%.

Moderator:

Thank you. The next question is from the line of Amey Sathe from JM Financial. Please go ahead.

Amey Sathe:

Sir, two questions. One is on the status of Gold Loans. Now, RBI has come up with a clarity and now greater level **claim failed 8.37**. So what is going to be our strategy on Gold Loans?

Vellayan Subbiah:

Amey, it is something that we are looking at, right now there is no change in strategy, we continue to originate Gold Loans for our banking partner, and that provides us with fee income, so that is the approach we are taking right now. It is something that we will continue to evaluate as we see shifts in market trend.

Amey Sathe:

The second question is on the Tier-1 improvement on a sequential basis. Have you raised any perpetual capital during the quarter?

Management:

Yeah, perpetual, we have raised but that does not go into Tier-1, it goes into Tier-2 because Tier-1 whatever goes into perpetual has been already considered as part of Tier-1.

Amey Sathe:

Because it is now 11.1 versus 10.8 last quarter?

Management:

That is because of two reasons. One is it because of the incremental profits that comes in as well as a little bit because of the securitization assets have moved out.

Amey Sathe:

And last question on this coverage ratio. Is it fair to expect that it will again inch up to 70% by end of the 4th quarter, so how are you seeing the collections on the ground as compared to last year?

Vellayan Subbiah:

Like we said it will depend on the actual coverage on the actual collection situation this quarter. I do not know it will inch up to 70% by the end of 4th. So that will depend, it might take longer than that to inch up to 70%.

Management: Last year it has moved up considerably; last year we were at around I would say around 45%-46%.

Amey Sathe: Yeah 50% moved to 78%?

Vellayan Subbiah: It has moved up compared to last year but I do not think it will go to 70%.

Management: During the last two quarters we kept it slightly high because situation looked like it wanted to be so.

Moderator: Thank you. Next question is from the line of Nischint Chawate from Kotak Securities. Please go ahead.

Nischint Chawate: What would you guide for NPLs going forward looking at the trend in early delinquencies?

Vellayan Subbiah: That is why I had said that we definitely see these at these elevated levels as they are today, perhaps it gets an inch a little bit more up from here and then stabilize, that is our belief.

Nischint Chawate: The early delinquencies do indicate that there is something more down the line?

Vellayan Subbiah: Yeah, it could go up to I would say 2% GNPA.

Nischint Chawate: Sir, any update or guidance that you would want to give as far as the expense ratio is concerned, I know marginally may not be really accurate to compare it on a Q-o-Q basis but still if there is something that you would want to share on this one?

Vellayan Subbiah: I think we continue to put a lot of focus there so...

Management: It has come down to 3.35 for this YTD.

Nischint Chawate: I am looking at a Q-o-Q number. Is there anything that we are able to see that this...?

Management: 3.2% is the current trend related.

Nischint Chawate: So are we continuing to look at the decline in OPEX ratios the way we have guided in the past, because possibly we need to spend a little bit more on the recovery efforts, etc., how do we see that now?

Vellayan Subbiah: Like you said you will see swings quarter-on-quarter. There are two things that drive those swings, but I definitely do think that as we look at it we continue to have a strong focus on that, and we will continue to see to focus and sending that number downwards. Quarter, for example, usually it will tend to stay a bit lower because disbursements tend to be a bit higher. But definitely that strong focus on expense ratio is definitely still there. So as an overall trend we will see it come down year-on-year.

Nischint Chawate: Looking at the provisioning number during the quarter, were there any excess provisions?

Management: No, whatever there earlier we have retained most of it.

Vellayan Subbiah: During the quarter we have not created any excess fresh provisions.

Management: One more thing, the expense ratio may look like it is going up because the asset levels have come down on the whole of the securitization. It is more a denominator I think.

Nischint Chawate: You would do it on the Loan book or you do it on AUM basis?

Management: It is on the Loan. This is on a company as a whole if you are looking because we net off the securitized assets.

Nischint Chawate: Because even on AUM basis the way we are tracking it there is a very minor at least so?

Management: It will be very minor; here it looks like 10 bps.

Moderator: Thank you. The next question is from the line of Kitav Shah from Anand Rathi. Please go ahead.

Kitav Shah: Sir apart from CVs, can you take us through now the other portfolio, Home Equity, MSME specifically and Tractors and Used?

Vellayan Subbiah: Like we said, Home Equity we are seeing no degradation in performance at all, so the portfolio is continuing to perform very well, and we are seeing no slippage there In terms of Tractors, we are not

seeing any degradation. Used, we are seeing some degradation but that is in line. Your question on MSME our portfolio is fairly small and that portfolio is performing very well.

Kitav Shah:

In terms of growth outlook for these portfolios apart from obviously CV?

Vellayan Subbiah:

HV, we continue to see growing at similar rates from what has been growing in the past. MSME obviously given that its very small portfolio will grow at a higher rate, I would say kind of because the book is very small right now and we will grow at almost like 100%. Tractor will continue to outpace the industry's. Given that we have a smaller market share I would say (+25%) on Tractors. And Used will be more in line with the industry's, I would say more around the 20% mark.

Kitav Shah:

In terms of the LTVs in Home Equity if you can take us through that are you seeing any increase there or are you seeing competition becoming too aggressive there, just your thoughts?

Vellayan Subbiah:

Competition is getting in more aggressively, there is no doubt about it. We have seen this happen in the past as well. It is just one of those things that we have to look at... A lot of time I always joke about what is trending in Mumbai and the LAP business definitely seems to be one of those hot businesses now, everybody is jumping into it, we are seeing aggressive behavior. Behavior is specially playing out in terms of low rates being offered to the customers for customers to switch. But we have seen this trend almost 3 times in the life of our Home Equity business itself before. So usually what happens is after a while these guys do not see enough NIMs in that portfolio to sustain it and therefore then start jumping out. So it is one of the things that we just have to stay patient on which is we cannot waiver from the approach we have taken, that is really how we are continuing to look at that business.

Kitav Shah:

One final question on LTVs. As you said that industrywide there is some LTV norms were becoming more aggressive over the last 2-3 quarters and it is may be becoming more steadier now. So for us how has it been over the last 3-4 quarters?

Management:

The LTVs have actually corrected. So the market earlier on the LTV, borrow about 95% in the new small commercial vehicle category, now that corrected to about 90%, so the market has accepted 10% down payment at minimum, and people have typically kind of restricting the lending to about 85% of invoice value today, and anything more than 85% actually requires more documentation and higher level of scrutiny. So the market has actually corrected significantly. And also what has happened is the Heavy Commercial Vehicles which is typically 100% of chassis, the lenders started building in discount factor into the chassis value and funding less than that, for example, if the chassis value is say Rs.10 lakhs, the lenders will typically nowadays factoring about Rs.1.5-2 lakhs discount and fund on asset value of Rs.8 lakhs. So the market has become significantly more conservative, but as Vellayan said there are already certain lenders who lend at higher than market, what I am talking about is reflective of the general market behavior.

Kitav Shah:

Is there any peculiar behavior just before election in the Vehicle Finance portfolio normally?

Management:

Nothing which is visible right now I guess when it comes closer to the time we might see certain amount of activity happening, but right now there is nothing specific that is happening which is election-linked.

Kitav Shah:

One final question, so it has to do more with provisioning, where do you see this steadying as a percentage of AUM?

Vellayan Subbiah:

Basically, the approach we have continued to take is that we are going to see trends in market and see what is prudent based on those trends in market. Provisions where we will see it getting worse we

might actually provision more, and in situations where we see ourselves being comfortable at a certain level we might leave it at a certain level. So we do not want to basically go out and say this is a number that we are comfortable with, it is more based on kind of our outlook for the market than a specific number.

Moderator: Thank you. The next question is from the line of Anand Ladda from HDFC Mutual Fund. Please go ahead.

Anand Ladda: Just on again Vehicle Finance part, just want to understand, are we seeing slow down or is it called pain largely in M&HCV or has been across the board like even LCV and MCV are impacted equally if you can give some color in terms of is it the freight moving capacity, in the sense availability of it has impacted significantly, or is it for the south is seeing more pain or this is across the board?

Management: I will take your second question first. South is definitely seeing more pain than other markets because south has predominantly been a retail market and a significant portion especially the non-HCV sales for manufacturers would take place in the south. So close to about 40-50% of overall retail sales in non-HCV products would be south-based, and that has taken a very significant hit and volumes have come down dramatically in the south, so yes, south has taken the largest hit. To your first question, basically Heavy Commercial Vehicles continues to show the maximum decline at about 27% decline over the previous year. The pain is kind of across actually. At the end of day whether he has bought a heavy commercial vehicle, light commercial vehicle, small commercial vehicle, he is an earn-and-pay customer. So his revenue is a function of load and freight availability and the margin that he makes in the freight that he moves. And across categories all of them have suffered. So large freight operators, SRTO, single vehicle owners, everybody has kind of taken a hit in terms of the profitability and ability to kind of sustain their business. So there is no significant difference in terms of portfolio behavior across categories of products.

Anand Ladda: In the beginning you said typically post-election you will see some revival in demand. Probably what makes you confident that post-election I think the movement of goods will improve – is it just the general feeling that post-election things will improve or do you see really good action moving on the ground?

Management: The thing is at least what you read is a lot of very large projects have been cleared. So it is not about actually who sits in Delhi, but what is more important is those projects have reputation and there is actually traction on the ground in terms of implementation of those projects then the vehicle industry will improve, right. So it is more in terms of the implementation of projects have been cleared which will drive growth of the industry. So whether it is a current government or another government comes in, any government is as such genuinely implementing the projects that have been cleared will definitely lead to a significant traction for the industry that we operate in.

Anand Ladda: Sir, on the LAP side or the Home Equity side just want to understand what part of your disbursement or what part of the account has been sourced through DSA and what has been done by own?

Vellayan Subbiah: There are about 60% DSA, 40% DST.

Anand Ladda: And is it fair to believe this whole home equity product is a monthly EMI-based product or typically it is about quarterly or 6-monthly?

Vellayan Subbiah: Monthly.

Anand Ladda: In your case typically what could be the average ticket size?

Vellayan Subbiah: 50 lakhs.

- Anand Ladda:** And how MSME portfolio differs from this? Actually customer will be similar?
- Vellayan Subbiah:** Yeah, the customer can be similar, basically we will take other types of collateral and do working capital loans in addition to term loans.
- Anand Ladda:** One data point, what could be the core Tier-1 equity?
- Management:** That will be around 9.8.
- Anand Ladda:** What was that last quarter sir?
- Management:** Can I come back to you on that?
- Anand Ladda:** Sure.
- Moderator:** The next question is from the line of Jyoti Kumar from Spark Capital. Please go ahead.
- Jyoti Kumar:** Most of my questions have been answered, just a couple of things, one, if I look at the quarter-on-quarter numbers business origination cost and employee cost both have seen sizable spike, are there any one-offs or how do I look into it?
- Vellayan Subbiah:** There are two things. Usually what we start doing is we start planning on the employee cost front to build it up to what it is going to be at next year. So the first two quarters do not see much growth and then we kind of start pushing growth **(Inaudible) 26.57** fold. On the business origination cost, let me try and get some data on kind of why it has got up, I do not have that off hand.
- Jyoti Kumar:** Sure, no problem. Other question that I had is 3-6 quarter kind of a view, do you think from operating leverage point of view the low hanging fruits are off the table and it is incrementally going to be so much more difficult to get that leverage from here on?
- Vellayan Subbiah:** Obviously, it does keep getting more difficult but I still think that there is a lot of opportunity on that front. So I would still say that, yes, for the 3-6 quarters we still see significant amount coming from the operating leverage.
- Moderator:** Thank you. The next question is from the line of Kunal Mehra from Visium. Please go ahead.
- Kunal Mehra:** A couple of quick questions, regarding freight rates as a lead indicator of the value of Commercial Vehicles, have you seen any sustainable strengthening in that in the month of January onwards that you believe will hold or no signs of it yet?
- Management:** We have not seen any significant strengthening in freight rates on account of two factors. One is as Vellayan pointed out earlier, there is a supply side and demand side, and today the supply of vehicles continues to kind of overhang the demand for freight movement. So as long as that imbalance remains, the freight rates will continue to remain suppressed. That is the first point. The second point is there has been no significant delta in terms of increase in freight volume availability and that is why freight rates remain fairly depressed in today's market.
- Kunal Mehra:** My second question, when you look out say a year or plus more on the CV side, one of the big shifts that we fear will occur is typically the second-hand vehicles value may not rebound because of the trade-off between the cost of fuel and operating cost versus say a relatively new vehicle. So if you look out 12-24-36 months directionally speaking should we always assume that the mix of the relatively older higher yielding vehicles as a part of our total book will continue to decrease just given this trade-off in cost of vehicles versus the operating cost at current and expected fuel prices?
- Management:** In fact, our view is friendly commentary; our view is that the Used Vehicles continue to increase with the component of the overall book. And the reason for this is the cost of new CVs in the market has been going up steadily. So if you take the cost of Tata Ace 2008-09, cost today is somewhere about 60% over 2008-09. Again, the secondary market also kind of worsen as it premises as the primary

market and it is dependent upon freight availability and movement. In fact, what will actually drive the volume growth in the Used segment today you can actually pick up two or three-year old vehicle at a fairly steep discount to the new asset cost. Now, a principal who is actually hiring the services of an operator, he is not too concerned about rest of the guys where a new vehicle is a 3-year old vehicle. And therefore, the freight earning that you get in a Used Vehicle is pretty much indifferent in terms of the vintage of the asset. Today, in fact, the trending is people who can actually pick up a new vehicle or picking up a second-hand vehicle in the market at very attractive prices. So, in our opinion the secondary market will continue to kind of grow and given the point that you raised is in terms of high yields it will continue to be attractive segment for us to lend. So in terms of our product mix you will actually see increased percentage portfolio in the Used segment.

Kunal Mehra: Fair point, and I agree with everything you said about the 2-3 year vintage, would this apply equally to say the 5-7 year vintage or that is something where you see the mix fall off materially, whether for yourself or the broader industry?

Management: It is a fairly difficult question to answer, but it actually all comes down to the opportunity that is present for this segment of buyers. There is a large segment out there who cannot...

Vellayan Subbiah: There are a couple of things. What we usually see is a vehicle transact on average between 3 and 4 years, the actual portfolio size of Used Vehicles are less than 9 years old goes up significantly if we take a 5-7 year view, which basically means is that base load will continue to transact. So I would actually say that it will not go down as a percentage of the overall portfolio even if we took a 5-7 year view, because Used as a percentage of the overall asset base out there will actually go up if you push it out 5-7 years, or if we take assets under 10-years old.

Kunal Mehra: On the liability side, you had some relative stabilization in your mix now on the liability structure. As you look out at liquidity and given your rates outlook, would you broadly maintain this mix in terms of the term loan CPs and debentures that you currently have or you see a material change going forward?

Vellayan Subbiah: If we look at it in the next few quarters it will likely stay the same. Obviously, the thing that can changes for us is that we get ratings upgrade, that will broaden the pool of NCDs and CPs that we have assets to in the market, in which case we might skew it a bit more towards NCDs and CPs at that point in time.

Kunal Mehra: Your observation about LAP and your tongue-in-cheek observation at least about how Mumbai thinks about is fair. One of our fears is growth and credit broadly slows down in the system due to chunky commercial credit coming off. This push towards LAP on a backward looking safe place to hide will continue. Obviously, you are leaning very heavily on your processes to protect your book, but do you think there could be some erosion of yields given that there will be more capital seeking out this business?

Vellayan Subbiah: There are a couple of things in this space, which is if you look at our share of the overall pie, it is fairly small. So the capability to stay fairly niche continues to exist. For example, we do not do a lot of the large ticket LAP that a lot of the other players in the industry do, these 4-crores, 5-crores ticket size loans. And if I look at the overall potential in that market is actually huge, it has just been an undertapped space. So I actually do not see it. As long as we stick to a niche we know I do not see it affecting our yields significantly. Because the rate at which we are growing and the base which we have, we estimate monthly originations in that space to be somewhere between Rs.5,000 crores and

Rs.7,000 crores a month. We are originating less than 300 crores a month. So, at that market size we do not think that we will get significantly hit. As long as we can stay very focused on what we have been good at, we continue to stay on that segment. But if you are going in a mode to grab share then the easiest way to kind of go out and grab share is let your yields drop.

Moderator: Thank you. The next question is from the line of Aditya Singhanian from Enam Holdings. Please go ahead.

Aditya Singhanian: Just wanted to check, your comments on the collections, did you mean that collections are already improving or that collections will take 3-6 months to improve?

Vellayan Subbiah: Two things Aditya. I am saying is we have not seen enough data points to call it a broad improvement, we have seen kind of a one-month improvement and I hate making any comments based on one-month trend. So, we have to see how the next few months play out. The point I was making is that even if you see an improvement one month, you have been building up six monthly buckets of collections, so that actually takes six months to flush out. That is the comment I was saying that even if news gets better, it is not like next month, you are suddenly going to see your NCLs drop, it takes 6 months to go through the system.

Aditya Singhanian: So you are saying that collections are stabilized, but tough to say whether they will continue to improve or be stable?

Vellayan Subbiah: Exactly.

Aditya Singhanian: And just to take it a little further, if collections were to stay at current levels what kind of degradation would you see in that portfolio?

Vellayan Subbiah: If it stays at the current levels that is not good enough, right, Aditya, because you need to bring it back to where it was earlier. So if it stays at current levels, GNPA's will exceed, will just go slightly north of 2%.

Aditya Singhanian: In the next three to six months?

Vellayan Subbiah: That is right.

Aditya Singhanian: And just to get a data point, what will the net NPA of the CV book in the second quarter? You mentioned I think 1.3 was the gross last quarter.

Management: In the second quarter it was around 0.38.

Aditya Singhanian: Just to get a sense, 0.96 net on the CV book is not high in absolute terms, I guess, it just appears high, because the base was so low. Is there a level you would be comfortable with?

Vellayan Subbiah: With NPAs really at one level, you should be comfortable with.

Aditya Singhanian: Of course, but I guess 0.38 was too good to be sort of...?

Vellayan Subbiah: You are right, we have always argued that I think it should be around the 0.7 mark is where it should be at an average over the cycle, but definitely we are not there now.

Aditya Singhanian: So can I interpret to say that if your gross reaches to or slightly exceeds it, you will endeavor to bring your net down to 0.7 or let us say in 4 to 6 quarters?

Vellayan Subbiah: Yes.

Aditya Singhanian: Could you give us some color on the margins how they behaved over the quarter and what were the drivers in terms of costs and yields?

Vellayan Subbiah: The point of yield, we have not seen margin degradation, I think that has been kind of good news. Obviously, the challenge with some of that is you do have income reversal like the

margins as well, and we have seen some of that performance. If you take this quarter-on-quarter we have seen margin improvement, and we expect that to continue, even if you compare the year-to-date numbers, we have seen margin improvement in terms of our overall interest income and average assets. So that we see as sustained and something that will continue. The obvious kind of challenges with that is income reversal. So if these trends continue it is something that we have to reassess next year as to how we look at it overall, how to handle income reversal and assess.

Aditya Singhania: And how did cost of funds behave? You mentioned in the second quarter that you expect some relief given what happened in the second quarter.

Management: Cost of funds has also come down, it was interest cost on averages have come down in Q3. And as compared to even last year, it has come down marginally by around 13 basis points.

Aditya Singhania: 13 basis points year-over-year.

Management: YTD-to-YTD.

Aditya Singhania: What was it Q3 versus Q2, if you can give me that trend?

Management: Q2 versus Q3 it has remained almost flat, talking about interest cost on average borrowings.

Aditya Singhania: Just a final question if I may, the new business disbursements of Rs.61 crores, could you give us some flavor of that, what exactly is that?

Vellayan Subbiah: Rs.12 crores on Housing Loans. We did SME, which will be about Rs.50 crores. So those are the two predominant drivers.

Aditya Singhania: How should we look at it from a one-year, two-year perspective, and these two businesses?

Vellayan Subbiah: So, actually the Housing Loans business, we are seeing great performance on, it really seems like a very scalable business for us, but we do not want to push it too quick, so we will basically keep it small next year as well. If I would estimate for SME, we go north of Rs.500 crores next year. Housing Loans might stay smaller than that.

Aditya Singhania: Rs.500 crores is portfolio size or disbursement?

Vellayan Subbiah: That is on the disbursement side.

Aditya Singhania: So north of Rs.500 crores by disbursement in FY15?

Vellayan Subbiah: That is right.

Aditya Singhania: But Housing Loan much smaller than that?

Vellayan Subbiah: We will have to see how the portfolio performs, but yes, it will be smaller than that.

Moderator: I now hand the conference over to Mr. Pankaj Agarwal.

Pankaj Agarwal: Just a couple of questions from me before we close. Sir, there was a report by a rating agency a couple of days back, which said that early delinquencies are higher in loans originated in 2012, especially in Tractors. So have you seen the similar trends in your portfolio?

Vellayan Subbiah: In Tractors we have not seen that, no.

Pankaj Agarwal: Because this rating agency has analyzed rated pools from various NBFCs, and there is a clear trend which is showing that 2012 vintage tractor loans are showing much higher delinquencies versus other vintages?

Vellayan Subbiah: So our tractor book pre-2012 was very small, which is why it might be tougher to assess on our book.

Management: We have not sold also anything in the past.

- Pankaj Agarwal:** And Sir, second question was in terms of your asset quality and growth in the Vehicle portfolio, how much is it dependent on industrial activity in the region? And how much it is on the good monsoon? Bad monsoon and MSP prices not going up, does it impact your portfolio quality and growth or it is entirely driven by industrial activity?
- Vellayan Subbiah:** It is a different pattern regionally, right. Obviously, we look at areas like Madhya Pradesh, and all of that, then they are significantly affected by monsoons. When you are so distributed across the country each of the trends affects particular regions, right, obviously regions are more industrially-dependent, they will be affected by industrial activity. Regions are more predominately agricultural, then they are more affected. So I think if we take it across the portfolio, both affect us equally.
- Pankaj Agarwal:** And from Southern India perspective, it would be more industrial activities versus agriculture?
- Vellayan Subbiah:** Definitely in the South, it is more industrial. Right now the south is about 32% or 33% of our portfolio. So it is not like we have a huge dependence on the south either, we are also affected equally by the west, north, and increasingly now the east as well.
- Pankaj Agarwal:** Okay, thank you very much Sir, and thank you very much for joining this call. On behalf of Ambit Capital I would like to thank everybody who joined this call. Have a good day.
- Vellayan Subbiah:** Thanks, Pankaj, thanks so much for hosting this.
- Moderator:** Thank you very much. Ladies and gentlemen, on behalf of Ambit Capital that concludes this conference call, thank you for joining us and you may now disconnect your lines.