



**“Cholamandalam Investment & Finance Limited
Q4 FY14 Results Conference Call”**

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Moderator: Ladies and Gentlemen Good Day and welcome the Cholamandalam Investment and Finance Limited Q4 FY-'14 Results Conference Call hosted by JM Financial Institutional Securities Private 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 touch tone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Amey Sathe of JM Financial. Thank you and over to you Mr. Sathe.

Amey Sathe: Yes thanks Karuna, Good Afternoon everyone and welcome to Cholamandalam Investment and Finance earnings call to discuss 4th quarter FY-'14 results. To discuss results we have on the call Mr. Vellayan Subbiah – Managing Director of the company, Mr. Kaushik Banerjee – President Asset Finance and Mr. Arul Selvan – CFO. May I request Mr. Vellayan to take us through the financial highlights post which we can open the floor for question and answer. Over to you sir.

Vellayan Subbiah: Thanks Amey. The last quarter has been a mixed quarter for us. The assets under management have gone up by 24% and now we've crossed 25,000 crores AUM but the PAT only went up by 6% while year to date the PAT has gone up by 19% predominantly the PAT increase for the quarter was muted predominantly due to asset quality issues in the vehicle finance portfolio. If we take the quarter four performance disbursements in vehicle finance were marginally lower compared to the same quarter last year whereas home equity grew by 23% compared to the same quarter. Vehicle finance disbursed 2,795 crores in the quarter and home equity disbursed a 785 crores.

Our new businesses disbursed 92 crores and as a result the aggregate disbursements were 3,673 crores which were again marginally lower than the same quarter last year. Total income was 848 crores and that was a growth 17% and our PAT was at 90.7 crores which is a growth of 6%. For the whole financial year we disbursed 10,128 crores in vehicle finance and 2,810 crores in home equity. The aggregate disbursements for the company were 13,114 crores which is a growth of 8%. Total income was 3,263 crores a growth of 28% and our PAT was at 364 crores a growth of 19%. The company expanded to 574 branches as of March 31st compared to 518 and all the additional branches were all in Tier-3 and Tier-4 locations across India. We raised Tier-2 capital of 328 crores by way of sub-debt and perpetual debt and our capital adequacy is at 17.23% compared to the regulatory requirement of 15%. In terms of portfolio quality the sustained slowdown in the economy and reduction in freight earnings of our vehicle finance borrowers has resulted in continued pressure on asset quality. Our GNPA is at 1.9% and our NNPA is at .7%. We continue to follow an aggressive provisioning policy and have therefore had an incremental provision of a 122 crores above RBI norms thus ensuring provision coverage of 60%. We have taken a much stronger approach to credit especially in the first quarter of the calendar year I mean in the last quarter and we believe that this will begin to benefit us in the quarters to come.

The subsidiaries Chola Securities and distribution together made a profit of 4.27 crores as against 1.03 crores in FY-'13 so the consolidated results had a PAT of 368 crores which is a growth of 20%. And finally the board has recommended a dividend of rupees 1 per share which is a 10% on our face value

of 10 to equity shareholders and including the interim dividend the total dividend is 350 per share or 35%. So Amey let me stop with that and we will be happy to take questions.

Moderator: Thank you very much sir. Ladies and Gentlemen we will now begin the question and answer session. First question is from the line of Vikas Garg from L&T Mutual Fund. Please go ahead.

Vikas Garg: One question on the asset quality numbers and all, I was just looking at the last quarter presentation and got to know that in the vehicle financing the losses were around 1.4% in 9-months of financial year '14 and now in this 12-months the financial year '14 these losses have gone up to 1.5%. To the best of my understanding and also as per the track record the 4th quarter seems to be the best in terms of collections and recoveries but I think from a number that seems like the 4th quarter was on a contrary much weaker than the previous 9-months in all so just your thoughts on that observation?

Management: Yes Vikas thanks for the question so in terms of the 4th quarter usually being the best usually historically that is the case in March tends to be a very good collections month but part of what you see in terms of what's happening with GNPA and what's happening overall in the portfolio itself is that the asset quality has been steadily declining over the past year so the impact of that is obviously most pronounced in the 4th quarter because things that started running overdue in the earlier quarter is then kind of entered a provisioning stage in the 4th quarter for us right so we started providing at a 180 days and so those have entered a provisioning stage for us which is what causes the GNPA to basically to degrade as more end of that provisioning stage.

Vikas Garg: Okay no I missed that part so we are still doing the provisioning or the NPA classification on 180 day basis and not like 120 or 90 days?

Management: That is correct we are still on 180.

Vikas Garg: Okay so if you can comment on the early buckets also in terms of the trend which is emerging in the last quarter and also on an incremental monthly basis may be on a 90 days plus bucket kind of a thing or could be in the form of a collection efficiency what kind of a trend are you looking at now?

Management: Yes so if we look at it we basically what we have seen is that the actual roll forward rates have stabilized in the 4th quarter and begun to improve but the challenge with just roll forward rates stabilizing and beginning to improve is that you are not going to see that because the bucket sizes are fairly large you are not going to see that kind of resulting in a reduction in GNPA as a matter of fact if we just stabilize the roll forward rates to GNPA levels will continue to go up over the next two quarters before there is actually any improvement in the actual GNPA numbers. So if the current scenario continues our most likely view then is that the GNPA levels would actually go up take a bit more before they begin to come back down. That answers your question Vikas.

Vikas Garg: Very much. Just one more thing on the response basically which on the vehicle financing which all segments are giving some pressures on the asset quality or it's spread out?

- Management:** Very broad across segments we have seen heavy commercial vehicles perform the...They have had the most degradation in terms of quality but now lights and small commercial vehicles have also started to perform fairly badly. Geographically this is most pronounced in the West and South zones and more specifically in Maharashtra and Tamil Nadu was where we've seen the most degradation.
- Vikas Garg:** Thank you very much, just one data keeping question can you please give me the gross NPA absolute number as on March '14?
- Management:** So March '14 across the company it is 436 crores.
- Vikas Garg:** Sorry how much is that?
- Management:** 436 crores.
- Vikas Garg:** Okay that's a gross NPA number?
- Management:** That is correct, across the company. That's not just vehicle yes that's across the company.
- Moderator:** Thank you. Next question is from the line of Amit Premchandani from UTI Mutual Fund. Please go ahead.
- Amit Premchandani:** Just wanted to ask about the cost income ratio or cost asset ratio, as the asset quality deteriorate can we expect that the collection expense will go up and the decline in the cost to asset ratio is more or less behind us?
- Management:** It's our belief the cost income will continue to come down. Obviously it will depend on what happens this year in the overall market but as long as the vehicle finance market as soon as the vehicle finance market begins to pick up definitely we see cost to income beginning to come back down.
- Amit Premchandani:** And in terms of collection expenses are we seeing a significant increase in the collection expense like generally one visit is enough to collect the EMI now you have to have 3 or 4 visit's are we seeing that trend?
- Management:** Definitely we are seeing a collection expenses go up but that's also then managed across kind of our overall cost portfolio but collections expenses are going up.
- Amit Premchandani:** Okay and another thing sir on the home equity front the growth has been quite steep and there are talks that the competitive intensity may be you are not catering to same segment but intensity competitive intensity of lap products are going up significantly so just wanted a data point about what percentage of the book of lap is the same property shifting from one lender to another is it and the LTV increases consequently or is it just a new property that you are lending against?
- Management:** So I mean when property is shift obviously we see that data, we see it kind of going out of our portfolio as well as stuff coming into our portfolio. But there is still a lot of growth in that market

right I mean almost kind of when we see the opportunity for growth in that market it's still fairly tremendous predominantly because one of the good things about more people jumping into our product is that more customers get to understand this product is available and therefore are interested in availing it actually helps the overall product segment itself grow and we see a lot of growth legs for this product segment in the next few years so we are not so a lot of it is not coming from just shifting account from one financier to another.

Amit Premchandani: Most of it is new kind of properties are coming up for you?

Management: That's correct.

Amit Premchandani: And sir there was a securitization deal done in the home equity who is buying these securitized asset because does it qualify for PSL or any other regulatory requirement at all of is it just growth someone is looking for growth?

Management: Yes, we have done it through PSL role because it comes under MSME wherever they have home equity loan has been availed by for a business purpose by an MSME the small and medium entrepreneur so those loans qualify for that so the banks are buying that.

Moderator: Thank you. Next question is from the line of Kashyap Zaveri from Emkay Global Financial Services Limited. Please go ahead.

Kashyap Zaveri: In the initial remarks you mentioned that we have taken now a significantly stronger approach to credit in Q1 of this calendar year so what kind of underwriting tightening that we have done versus what we used to do earlier if you could throw some light on that?

Management: Yes, so the biggest factor is actually kind of reducing the number of high LTV loans in the portfolio so we have basically taken a much more stringent view towards that.

Kashyap Zaveri: So incrementally we are not doing much of high LTV loan is that...?

Management: That's correct. And then beyond that it kind of gets much more granular in terms of it's design because we actually have a pretty good sense of what the cause and variables are basically for example then you have to get to a product level certain products that are not doing well or where you repos them you are not able to get good resale value so you basically...

Management: Yes, so to add to what one is in the product level second is basically at the micro-market level it is possible that a particular product is behaving well in a particular market and may not be behaving well in some other market so it's a combination of multiple variables that drives credit decisioning the action points are basically the biggest action point is LTV correction right that's one, the second is in terms of criteria for selection of customers okay which gets revisited based on the profile, the product and the market in which the product is sold and I think in the earlier in the other reviews also we have talked about the fact that we something called the early default trigger and which is actually the fact

that we apply certain triggers to the portfolio based on the performance okay, that continues to be in existence then in fact with that in sighting or tight.

Kashyap Zaveri:

And let's say if we had a customer earlier which was a paying customer and he might have come back today in his probably risk profile might have changed, have we changed something on the rates also to let's say our existing customers in that sense raised the rates to imply risk adjusted returns remains the same?

Management:

Yes overall on a year to year basis our marginal yields are rough about 57 basis points okay this is a combination of two things one is the increase in rates to individual customer categories and profiles and also an impact of change and say product mix so yes so obviously where customer has kind of been a track record holder with Chola and he has run into temporary difficulties due to the market situation we would adopt a particular view on him right but if it was a fresh borrower coming and he has had kind of issues on this portfolio we would not entertain him for a loan so this all comes down to the transactional level assessment of the customer in terms of comfort and his track record also the product that he is buying for example for a particular product is behaving badly in our portfolio he may be existing customer but he wants that particular product then we will change the LTV and increase the rate if he still wants it but rightly we rather not fund that particular product in that particular market.

Kashyap Zaveri:

Sure. My second question is broadly on the overall outlook on the commercial vehicle segment, we have been hearing about some 7-8% increases in the freights and a bit of a resale prices also going up are you seeing any signs of any revival in that or these are seasonal factors and probably we are not seeing any demand levers at this point of time?

Management:

That's a very difficult question to answer because we started FY-'14 with certain assumptions in mind okay and what turn out to be reality compared to what were the assumptions there was significant gap between them okay, I am talking about the fact that you take into account any analyst report any CRISIL report of that period as a projection for FY-'14 and you look at the actuals so at that point of time the market was between 5 to 7% the reality turned out to be a drop of 21%. But the bad drop like this is extremely difficult to kind of predict what's going ahead for the current financial year. I always want to commit to a statement in terms of what we see as a perspective so early in the new financial year. April is never a representative month because April always a slowest month of the year okay but general buzz is that if things have to change they will probably change in the second half right so thus probably driven more by sentiment than by any fundamental assessment of macro-economic factors so there are too many variables at play right now to arrive at any definitive assessment of what the market look like down the line. Again having said that if you go by analyst reports they are talking about again a 5% to 7% growth of over the last financial year. This put us below the aggregate industry numbers of the previous year right, so that's my best case scenario for the FY-'15 period.

Kashyap Zaveri:

Sure. My third question is on this gold loan portfolio about 2-years back it used to be a darling of every NBFC now suddenly I mean if you look at barring the gold financing, the gold loan NBFC there is nobody in the market so now that market is at this point of time is it sort of a no-no for us as of yet?

- Management:** No I think we will continue to experiment with our 45 branches see we started out 45 branches in this business about 2-years ago we will continue to experiment with these 45 branches, see really the way we view this is that it's an asset class if somebody has to figure out because it's such a large asset class in this country right now the challenge has been that kind of even when there is kind of a clear dictate from RBI a lot of the players in this space have not followed it right and beginning to see some of that same behavior again. But we think at a 75% LTV it's actually a fairly decent product so we don't want to kind of go crazy and expand in this product one of our pilot products that we have to keep testing and see if we can get a successful model of lending on this product if we can then it's something that we will choose to scale in the future but we continue to be convinced that it's a product that somebody has to figure out in the country just because there is so much of it and it's all it's not monetized.
- Kashyap Zaveri:** Right and last question on your Tier-1 capital we are at about 10.46 now is there any dilution plans in place at this point of time or would our growths continue to trail our ROEs in that sense?
- Management:** Yes see basically we will look at kind of market conditions we will raise equity either later this year or kind of early next year depending on what the market conditions are and so yes we will kind of raise but we obviously we want to see what the market situation is in terms of when to raise.
- Moderator:** Thank you. Next question is from the line of Shrey Loonker from Reliance Mutual Fund. Please go ahead.
- Shrey Loonker:** Sir could you just help me with what will be the home equity yields for us as of date for this year or for this quarter whichever is more handy?
- Management:** It's around 14% we will get you that exact yield in a minute but it's around 14%.
- Shrey Loonker:** And what will be the average ticket size?
- Management:** Ticket size is 53 lakhs.
- Shrey Loonker:** 53 lakhs alright. And sir what will be the LLPs that we would be...What will be the credit cost that will be running at?
- Management:** Home equity?
- Shrey Loonker:** Yes.
- Management:** You are talking about NCL or you are talking about GNPA numbers?
- Shrey Loonker:** NCL.
- Management:** .22.

Shrey Loonker: Okay so actually this will be as of date on a running basis this will be the highest ROE product for us?

Management: That is correct.

Shrey Loonker: Okay fair point. Sir and for just from an approach perspective Mr. Banerjee did mention that there are lot of factors when you have to comment on a product basis or a geography basis but if you can just help us understand sir how do you internally monitor your portfolio is it more on a product basis or from a geography basis I am just asking this because the cash flows are lot more cyclical geographically versus on a product specific because your customer segment is a lot more spread out, how is it that has the approach changed towards the way you all analyze the data?

Management: Yes so Shrey there are two things that one is where we are at the second is what we are moving to so we started off this effort almost 2-years ago where we started taking a look at what we call micro markets which are combinations of product, customer segment and geography right so it's your for example like you are saying a heavy commercial vehicle fleet operator in Karnal behaves very differently from a heavy commercial vehicle freight operator in Salem or Namakkal right so basically when we disaggregated our portfolio like we ended up with almost 2,200 micro markets and we began to understand at each micro market whether we were getting enough risk compensation to take care of the performances of the portfolio in that micro market. Now how we are actually kind of actuating that model is then to try and move it so to move it to the next stage then what we have done is we are moving our credit assessment models to actually taking that data and saying that for a particular customer set based on a set of inputs to the customer provides we get a combination of a quantitative score plus a qualitative assessment of that customer to determine whether that customer would actually give us the risk compensation we need or not. And we have been piloting this model now for about 4 to 5-months and it's actually resulting in quite positive results it's actually kind of its yielding very positive results. So our intent now over this year is to role this model out across the entire country. So it basically it has what's called A score, a B score, a C1, a C2 so the four score is around the customer which use a lot of qualitative parameters and that takes into account the product, the geography and the customer segment.

Shrey Loonker: If you could just help me give me some examples so say suppose an HCV or 16 tonner or 21 tonner some if you can just give me one example of how this approach has changed the way you look at the same data?

Management: So I'll just give you a simple example right when we started understanding causal parameters see usually what happens how does the loan happen right you kind of you take a heavy commercial vehicle that heavy commercial vehicle let's just say a borrower is of a particular type right he has an agri land right or he has a house that he lives in and he has good residence ability that borrower gets put into our bucket right so he is known as then kind of an asset he will fall into the asset category in terms of funding right and then for the asset category we will have a set of requirements which are like these documents are required to for the customer to fall into the asset category and based on that he will get a particular lending rate right a particular yield if he has got all of the things in the asset category. Now that customer might have one or two deviations he might be asking for a higher LTVs

then is allowed for that asset category or he might not have one or two of the documents that are required for that category then credit will decide qualitatively whether they should provide that customer with a loan or not despite the fact that he has got deviations right, now in the new way of approaching it we basically will generate kind of these four sets of scores that then will give us a sense of whether this customer he is going to fall in to kind of three buckets right, if he scores a just a simple thing like Shrey what we find is if a customer is more than 50 kilometers away from the branch we see very poor collection we see very poor portfolio performance if the customers are more than 50 kilometers away from the branch right so that has now become a variable that has a much higher weighting in terms of how the customer scores based on our entire data sets. So if a customer ends up with the score that is low then what we do is credit will then evaluate whether we should give that customer a loan or not and often we will have to justify why they are over riding what data is pointing to as somebody that could be a weak customer so his category and the definitions around that are no longer relevant.

Shrey Loonker: So in some sense will it if all this you can just explain one more thing how do you club customer subset so one you mentioned that okay fine there is a 50 kilometer distance threshold or second you mentioned that somebody is an asset rich but probably not cash flow rich as much so is that the way you bucket customers from different geographies for a single product am I understanding correctly?

Management: Yes so there are basically there is actually about 25 parameters right that all form a basis for segmentation but we are going to move away from an extremely simplistic segmentation just as asset agri, first time buyer somebody that has a repayment track record. So for example if we took a set of people that have a repayment track record you could say that that is a category onto its elf-people that have a repayment track record versus people that don't because it's one of the parameters we track.

Shrey Loonker: Got it fair point. And third is if you can just help me explain how is the second hand price of LCVs moving?

Management: They are continuing to stay depressed for the most part so they have dropped and are staying at lower rates than they have been in I definitely say kind of at least from a year ago they have definitely dropped.

Shrey Loonker: No but more from a quarter on quarter if you can help me just understand their trend line there.

Management: Okay we will try and get you some data Shrey and kind of ...

Shrey Loonker: And just the last question, if you can just give me your perspective on how is the used and Shubhh segment behaving for us if you can just give me some color on that how do we kind of approach it from a growth and from a profitability stand point?

Management: Okay so I'll take that question so there are two distinct customer segments one is the used which is the prime use segment right which constitutes about which were 65% to its existing customers with a repayment track record with us and the Shubhh is the older vintage vehicles and the profile of the customers are riskier. Right, the used segment is behaving well and our 90 and 180 TPD on the used

category, even in spite of the current market conditions is excellent. Shubhh being the most vulnerable segment in terms of profile has shown a higher level of 90 and 180 compared to the overall portfolio. Having said that in Shubh you have a certainly higher margin and yield that you want in that particular product. So basically what I am saying is that both the product categories based on profiles are trending in the same direction as you would expect from the profiles. So, the rotor and prime used is very attractive, because we get fairly decent rates and the portfolio is behaving well. In Shubhh it has come marginally, because of the loan losses but at the potential level it is still one of the highest yield and highest ROTA products that we have in our portfolio.

Participant: So the essential differences in used your customer segment is more of a tried and tested customer segment.

Management: Correct.

Participant: So what would be the yield differential to start with.

Management: I won't you give you the exact number, the difference between Shubh and used is about 500 basis points. Do you still want those realization details.

Participant: Yes please.

Management: Heavies, actually dropped in December and January, but again picked up in February.

Management: LCVs have remained flattish right from December.

Moderator: The next question is from the line of Parag Jariwala from Macquarie Securities, please go ahead.

Parag Jariwala: Thanks for taking my question, this is a question for Mr. Kaushik Banerjee, I mean when we interacted with him in December, he was telling about the heavy commercial vehicle utilization almost at 60%, prices are dropping, resale value is also dropping. So, in these last four months or maybe in the last six months are you seeing some kind of pickup in any of these parameters in terms of utilization level or in terms of repossessed vehicles stock or pricing, or overall pricing in the market, is it improving, the discount level is it going down, any such kind of trend with maybe not specific numbers, but kind of general number would be very useful.

Management: I will start with a question on the resale prices, which Arul has answered a couple of minutes ago, which has dipped and then it has improved again, in Q4, so that is question 1, which is basically there was a deterioration on the resale price of HCV which is seem to sort to uptake, in Q4, right, you would have also reports about the fact that in the month of January there was a 7 to 8% correction in the long distance freight rates followed by a 4 to 5% correction in the month of February. This is pretty much in the public domain, the good news is that you can

actually only have an important in the freight rates subject to a better balancing of demand and supply.

Parag Jariwala: Correct.

Management: So, the assumption here is, this is my personal opinion, the assumption here is that aggressive lending has gone down dramatically. A number of vehicles sold in FY13 was around about 21 to 30% over the previous year, further followed by a 20 to 25% drop in sales in the last financial year. There has been a significant correction this year sales in the HCV over the last two years, which would bring in a certain amount of balance in terms of supply and demand. Further because of the discounting, there would have been a certain amount of opportunistic purchases that would have taken place, but if percentage is going to be repossessed and then subsequently sold as repo stock, the purchases would have been genuine operators, okay, because there is no upside to buying a second hand vehicle unless you are serious about the business. Whereas you can be an opportunist and take promise of discounting offer to the front end and buy a new vehicle. Right, so what the market would have also witnessed is an exit of non-serious players, okay, and an enhancement of the number of players who are serious about the transportation business. So none of these indicate any trending per se all right, but the combination of stricter norms adopted by lending companies, reduction in discounts by the manufacturers, because it was a zero win business because significant discounts did not really result in a significant delta growth in terms of sales. Right, and the fact that you know operators who were otherwise marginalized and serious operators would have had the vehicles seized or surrendered the vehicles, which would have then be resold to more serious buyers. So a combination of all these factors, at least reduces the incidence of further deterioration in the market.

Parag Jariwala: Correct, okay, utilization level was around 60% in December, by and large, overall in the industry, I mean, what do you think, what should be the utilization level to bring back the growth in the MNLCB.

Management: If you go by the reports generated by various analysts you would find about 80% utilization of the asset, would at least allow the guy to pay his EMI and still take some money home, 100% utilization, then the surge in purchase would be significant.

Parag Jariwala: Okay, and lastly in terms of Andhra Pradesh because in the last three to four months the situation is being very grim there in terms of doing business for any segment, do you think post elections once the scenario is slightly or significantly better off, some kind of pickup in vehicle disbursement would be there in Andhra Pradesh as well.

Management: This would be tantamount to crystal ball gazing, okay, but to Mr. Vellayan's point earlier, the markets have actually seen significant deterioration and portfolio behavior in Maharashtra and Tamil Nadu. Interestingly in spite of whatever political upheavals that has been witnessed in AP, portfolio is kind of not shown that level of challenges that one would have otherwise

expected. So if there is stability and there is certain amount of clarity of what is going to happen, it can only improve from where we are. I don't see any further deterioration.

Moderator: The next question is a follow-up from the line of Vikas Garg from L&T Mutual Fund. Please go ahead.

Vikas Garg: Sir, can you please share your thoughts on this Company's Law Act, specifically on the creation of this debenture redemption reserve, so what are your thoughts in terms of the new issuances in the coming months and also what could be the impact that you would have envisaged if that 15% DRR is to be created on a yearly basis.

Management: Our thoughts are the same as everybody else, because we are just hoping that it goes away and goes away quick. But, obviously it is dependent on what happens. To your question on whether we will issue NCDs. Yes, I do believe we will, just because we don't think that this thing can stay in place for the whole year. The implications are much broader for the industry, and we are just hoping that a more pragmatic view will prevail. The good thing for us is that we are not overly dependent on NCDs, 61% of our portfolio is bank term loans. But I don't think we are going to move away from NCDs as a result, which means that if it does not change at the end of the year, then we will have to create the reserve and hold the money. I don't think we see is going to be the case, because a lot of people much bigger than us have a much bigger problem than us. So, we think that they have to solve it and obviously we will be the beneficiary of them solving it.

Moderator: Thank you. The next question is from the line of Umang Shah from CIMB. Please go ahead.

Umang Shah: I just need one clarification, in the opening remarks Mr. Subbiah mentioned that we have some 122 crores of provisions which are over and above the required provisions. So is it over and above the provision coverage that we see, or it is included in that.

Management: No, it is included in that.

Umang Shah: Okay, so the 63% PCR already includes that.

Management: What we have just said is compared to RBI a norm that is there. Not an aggressive provisioning policy.

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

Kaitav Shah: My question is related to your branch network, it has gone up significantly in the last quarter. So can you throw some light there?

Management: I don't know if you have seen, reporting that says it has gone up in the last quarter, the numbers we shared were from the last year, it went up from 517 to 578, about 60 in the last year.

- Kaitav Shah:** So actually the third quarter, the numbers say it is still at 530, if I am not mistaken, so what are the plans for FY15?
- Management:** Let me just take the first part, which is, you see what happens is that it takes about three or four months to kind of set up a particular branch, right. What started as work four or five months ago, finally becomes an operating branch four months down the line. So the delta we are looking at is branches we started work on in terms of opening but went operational in the quarter that kind of phased the delta.
- Management:** For the next year we have planned to add about 40 branches.
- Kaitav Shah:** I believe we were measuring branches as A, B,C, D category wise, so if you can throw some light there, as to you know, the movement of branches from say a C category to a B, etc., if you can share that.
- Management:** We will try and get the data for you; we will answer that question by then.
- Moderator:** Thank you. We shall take up the next question which is from the line of Kunal Mehra from Visium. Please go ahead.
- Kunal Mehra:** Vellayan, I would love your qualitative thoughts on the Tractor asset class in your book. It has grown at a reasonable book size but when we look at it, it has almost got all the attributes that are in some ways opposite on the HCV/LCV in as much as it had parabolic growth for 2-3 or even potentially 5 years. Second, there are still signs from your public sector peers of very aggressive lending into the sector. While we can make the case of LCV/HCV potentially bottoming out and us being very well-positioned for that, it is the Tractor segment that has given that these two points I observed, gives us a little reason to pause. Wondering if you can share your outlook what you are seeing and what you believe the role of the Tractor will be in your book going forward?
- Management:** I think that is a good question. Obviously, one of the reasons why when you take percentage growth Tractors growth has been significant, because we started off with a very small book if you go back three years ago. Three years ago is when we started off the product. So, obviously, at a percentage level, growth has been fairly significant. If we take the overall book, right, "Are we comfortable with it?" I think was your first question, we are. Just to give you a sense of what we are doing there, almost 60% of that book is what we call Tatkal and Super Tatkal loans which are basically lower LTV loans. The maximum LTV on that product is about 75%. That has been one of the biggest sources of comfort for us, which is basically owner of the tractor has a lot more equity in the product, which has been very different from some of the public sector bank loans that you see, and one of the reasons why I think that market share has moved away from public sector banks and towards some of the NBFCs like us. The second thing about it obviously is that it is a collections-led product. So we really want the product to perform; you need to really customize it to the needs of the customer. And one of the big things that we have seen traditionally with the banking sector, especially with public sector banks is that the

expectations there are that the customer will go to the bank branch to pay their loans. Our belief is exactly the opposite, which is we have to go to the customer to collect on our payments, which we do in almost like 99% of the Tractor cases, only in kind of 1% of the tractor cases are there basically electronic payments coming into us. There are lots more things about it, Kunal. Second is obviously you need to adjust your loans to the actual crop season, that is basically saying I need my loan paid today, and the farmer has not sold his crop yet. So especially for the guys who use it for agri also the segment that use it for haulage and so that is different. I would say some of the innate characteristics or our approach to it that we feel more comfortable with, we see the portfolio continuing to perform very well, and we have been through a drought cycle in a couple of seasons as well and the portfolio has still generated adequate risk compensation for us to be comfortable with that product. So, we do see it having a place in our portfolio going forward as well.

Kunal Mehra:

What is your outlook on the growth there because I come at it from the point that it has probably got to be one of the vehicle classes in India that has actually seen the strongest uninterrupted 5-year growth?

Management:

It is a good point, Kunal. In terms of outlook on growth it is one of the things that we shy away from this because there is a lot debtor data in terms of what people are predicting. In terms of our ability to grow in that sector we still think there is a lot of growth left for us. Just because our market share in that sector is still less than 4% today, so we still feel quite comfortable growing in that sector from our perspective.

Moderator:

Thank you. Next question is from the line of Anand Laddha from HDFC Mutual Fund. Please go ahead.

Anand Laddha:

On the Home Equity market, just wanted to understand, we have been growing very strong for the last two years. So what sort of growth one can expect that you will be able to sustain for the next year?

Management:

We believe we can sustain the same growth rate that we have been sustaining for the last year going into this year as well.

Anand Laddha:

I had seen your response on the Tractor side. What could be the growth you can expect for the industry and for you on the LCV side? For us it is a fairly large chunk and one of your competitors who finances say he still sees a lot of stress in the same segment, so just want to understand what is the growth outlook on that?

Management:

Like I said in the beginning, we are tightening credit significantly on a lot of those segments especially LCVs and HCVs. So growth is really going to depend on what the market does in those segments Anand. We are not going to set a growth number in those segments, we are going to see how the market behaves and we are going to really stick to our quality norms to basically see what growth we can deliver based on credit quality norms that we set. I do not

want to give you a growth number just because it is going to depend on what happens to the overall sector. We are not going to go out and try and grab market share this year.

Anand Laddha: Just wanted to understand what could be the key factors or triggers which you would say that the things are improving on the ground level to keep on looking at?

Management: The biggest driver for us is basically what is happening with the existing portfolio performance. We see a significant improvement in that performance, then that gives us the comfort to basically lend to new borrowers or to our existing borrowers, but till our existing portfolio performance improves, we will continue to keep tight credit norms.

Anand Laddha: In the initial remark, you indicated that the gross NPA tend to increase may be for another one or two quarter before they come down. So, if you can say the increase in the gross NPA should be similar to what happened in Q4 or Q3?

Management: I do not feel it should be as steep, but we will definitely see an increase.

Anand Laddha: Can you breakup your gross NPA between the Vehicle and the Home Equity what could be that number?

Management: GNPA for Vehicle Finance is now 2% and Home Equity is 1%.

Moderator: Next question from the line of Jigar Walia from OHM Group. Please go ahead.

Jigar Walia: Just wanted to understand do you have any branch expansion target for this year?

Management: We said 40 branches.

Jigar Walia: To further understand on the branch strategy, how do we have normally gone about in terms of expanding our branches? Normally for Vehicle Loans I see that there are these big centers you mentioned of the 2200 micro markets. So most of these markets will usually have a place where you have Chola and a few other lenders set up because that is the hub place you will have lot of dealerships around in the catchment and stuff like that. So, is the same strategy that continues as far as branches are concerned and may be something more on that?

Management: Our branch expansion is led by Vehicle Finance. It is totally a decision that is led by where Vehicle Finance wants to go next. Home Equity follows into an existing Vehicle Finance branch, they do not have their own branches. What is Vehicle Finance decide is that usually done in a conversation with the manufacturers, obviously Tata, Eicher and Mahindra are the three big manufacturers that we deal with and then we have four or five ones that we do not have as much share. But we work with those three manufacturers and basically agree with them on our plan for the next year where we jointly say that this is where we will develop more of our market presence, and then they support us in those markets which is why we would go and start a branch. So actually it is kind of something that we do jointly with them where they will

say “Why do not you open a branch at X and Y location, because we have a new dealership there and we want you to come and support that dealership?” It is usually done in conversation with manufacturers and then it is a broad assessment of the market in that particular area.

Jigar Walia: I just had a discussion with another competitor of yours on a similar issue and he said that what has actually happened is that over the years the focus of branch expansion has always been closer to dealerships while the customer catchment area keeps increasing because while you are looking at growth and stuff, the distance for the customer versus the dealers, the branches are closer to the dealers rather than closer to the customers, probably that has led to some further deterioration in asset quality?

Management: Dealers operate on a concept of a hub-and-spoke, in the sense that the primary dealership will be in a larger town. They have a sales and service center in a smaller town and this is being done by the manufacturers precisely to address the issue that you raised. So Dealer-A let us say operate from Chennai, will have eight brick-and-mortar structures around Chennai which will service the local catchment of the customers there. So our plan therefore has actually been the fact that we are going to largely cover wherever the primary dealer sit’s. And the discussion that Vellayan we have with the manufacturer is that the open the sale and service offices in certain smaller towns what is the customer catchment that is going to addressed by that particular sales and service office.

Jigar Walia: On an average what would be radius that a branch would be capturing, would it be like 30-40 kilometers or would it be more?

Management: Today with the number of branches we have it does not exceed 75 kilometers. Sometimes we also have a distance of may be 35-40 kilometers between two branches. At least not in excess of 75 but in couple of states like Rajasthan where the definition of the state itself you will have a larger distance between cities.

Jigar Walia: One last question on this asset is how effectively one can see a LAP product from a primarily a vehicle finance branch?

Management: Most of the action is not in the branch either for vehicle finance or for LAP. Most of the action is not in the branch.

Jigar Walia: So for vehicle finance the action you have a place like a dealership where the action happens. For LAP how does it happen?

Management: LAP a lot of it is going out and meeting individual customers. So it usually happens at the customer’s residence. It might happen at the customer’s chartered accountant’s residence or office. There are lot others

Jigar Walia: The leads for these would be the source of the lead source.

Management: We have broken down in three categories. We do work with DSAs. We have a direct sales team that is basically now originating about 30-35% of the leads. In some cases we use connectors as well which are basically smaller versions of DSA.

Jigar Walia: What would be the DSA commission model?

Management: DSA commission model varies. It is basically based on slabs. They can go anywhere up to 1%.

Jigar Walia: And these are upfront normally on origination?

Management: Yes.

Moderator: We have the next question from the line of Jyoti Kumar from Spark Capital. Please go ahead.
56.30

Jyoti Kumar: Just one thing, can you give some trend on repossession if possible preferably on a quarter-on-quarter basis?

Management: Repossession was highest for us in Q3. It dropped in Q4 and right now we have to see how it kind of evolves in the current quarter but it was lower in Q4 that it was in Q4.

Jyoti Kumar: Was that a conscious decision it is an outcome of the repayment trends that have picked up.

Management: Like I said we did see improvement in couple of month in Q4 which is what caused the repos to drop. April is usually a low repo month and it has made even lower by the fact that with the elections going on nothing is really happening and we have to see how this quarter evolves but I do think it would look more like Q4 than it would look like Q3.

Moderator: Thank you. We have next question from the line of Kashyap Zaveri from Emkay Global Financial Services. Please go ahead.

Kashyap Zaveri: In this home equity business. You believe this pricing will sort of continue for a fairly long period of time because you have a customer who has got about just 20 basis points of credit cost and still paying you about 4% ROA and then you have a customer which is got about 150 basis points of credit cost and giving you just about slightly upwards of 2% ROA. So is this pricing sustainable for a long period of time?

Management: Nothing lasts forever. I always believe all these things will only head in one direction as competitive intensity increases. There are still opportunities. You see how much we have dropped our OPEX to assets in home equity this year that's given us a significant gain. So basically what is causing the ROA is not just credit cost, it is also an improvement in OPEX and you are comparing one at it's high point in the cycle with one at it's low point in the cycle. So you are comparing it with vehicle finance which is at it's lowest in it's cycle right now. So you have to take over the cycle. The second is, you are right. Spread will always come down. But

the question is how do you as a management team manage for that reality. The big leverages are basically kind of reducing your OPEX and making smarter credit decisions.

Kashyap Zaveri: Last thing I just wanted to point out in the presentation our blended margins on slide #15 are about 7.7 whereas our CV margins on Slide #26 are about 7.1 and our home equity margins on Slide #31 are 5.6 or something. So that weighted average actually does not match out there. Rest of the things expensing, loan loss provision, return on assets everything matches but not the margins.

Management: For this product we work on a transfer pricing model. So that is the investment profit from other treasury desk and that is also the securitization gain which is not shown here. Those two account for there.

Kashyap Zaveri: The blended one, the consolidated one.

Management: Whole it will work on that basis.

Management: Arul is saying that his department is making up for the gap.

Moderator: Next question is from the line of Ashwini Agarwal from BOB Pioneer Mutual Fund. Please go ahead.

Ashwini Agarwal: How do you see the your portfolio behaving after the ban on Goa mining has been lifted and secondly with the imposing of three months ban in Odisha what will be the impact on your portfolio?

Management: We do not participate in the mining sector in Goa at all. So the impact of the lifting of the ban on mining in Goa will not have a material impact on us and we kind of stopped financing in the mining sector in Odisha for the last two years. We have got very specific exposures. So neither of these two developments activities will have a significant impact on our overall operations.

Ashwini Agarwal: In Orissa there might be some spillover effect on related activities apart from just mining sector.

Management: That has been there for the last close to two years now.

Ashwini Agarwal: But mining was happening till about the 50 million tons.

Management: The revival was about may be 20% of the mine reopened. For us most of our focus shifted almost entirely to non-mining related activities. It will be a status quo situation and if there is any positive development there will be a benefit to us. But I see a very limited downside.

Moderator: Next question from the line of Jigar Walia from OHM Group. Please go ahead.

- Jigar Walia:** We have heard a lot for MHCV over the last so many quarters in terms of the way they are behaving. A lot less is heard or discussed on the LCV slow down and the drop in sales. If you can highlight what is the outlook and how will the revival pan out?
- Management:** Generally we stay away from forward-looking stuff because we do not believe we are the best guys to predict when the LCV cycle is going to pick back up.
- Jigar Walia:** We have not seen many cycles for LCVs. MHCVs people can still link to the GDP and level of activity and stuff. LCV was like the first time we saw a run up in the hub-and-spoke model. Tata Ace came up and not seen many cycles. So you have some perspective that probably and also normally on overall vehicles there would be a good base demand which would be there because of few vehicles going out of the market or stuff like that probably normal at the 5% GDP also. Would at that level also the growth would be say slightly positive Y-o-Y even factoring something for the base demand itself?
- Management:** One way of looking at it is that HCV have been out and down for two years. If they pick back up first and there will probably be a slight lag between that than the LCV pickup. That is the best scenario we can think through but I think it is very difficult for us to accurately predict more than that.
- Jigar Walia:** Thanks. That is at least helpful. LCV would probably lag HCV.
- Moderator:** We have the next question from the line of Aditya Singhanian from Enam Holdings. Please go ahead.
- Aditya Singhanian:** On the securitization bit I note that on the home equity side you have done a large sort of securitization this year. Just wondering if you could give some sense on the terms of securitization there and why did you do securitization this year, rather why were not you doing securitization earlier if it qualified for PSL.
- Management:** That is a good question. Traditionally we have not wanted to securitize our portfolio. Still they have gotten to a certain scale. So this time for the first time we have got about Rs.6000 crores of home equity in our books. So it feels like the scales have gotten to a size enough where we can begin to securitize it a bit. There is really no other reason. The second obviously is that if we approach the securitization we do not want to just go and securitize VF and not do any HE. So we want to keep that a bit balanced. The rates are fairly attractive though we do not want to get into specifics on the cost.
- Aditya Singhanian:** No, not on the rates. Are you doing assignment transactions with banks or are these pass through certificates.
- Management:** These are pass through certificates. These are pass structure.

- Aditya Singhania:** Second was just on the NPA breakup. If you could help us with the net NPA and provisioning breakup as well between vehicle and home equity.
- Management:** The net NPA from vehicle is at 0.83%, for HE it is around 0.5%.
- Aditya Singhania:** How would the net NPA on the vehicle have behaved quarter-over-quarter?
- Management:** Net NPA quarter-on-quarter is being same level.
- Aditya Singhania:** Flattish in percentage terms.
- Management:** Percentage terms.
- Aditya Singhania:** What would be the provisioning breakup?
- Management:** 1.14% for vehicles and 0.47% for the HE.
- Aditya Singhania:** The 84 odd crores that you have done in the quarter. How much is for vehicle and how much for home equity.
- Management:** Absolute terms?
- Aditya Singhania:** In absolute terms, yes.
- Management:** The provisioning incremental by segment, is that the question.
- Management:** It is around 46 for vehicle, 4 for home equity.
- Aditya Singhania:** So you had the got total provisioning in the quarter was 84 crores.
- Management:** We are just taking a more conservative view to provisioning at this stage and we can allocate that also to vehicle financing.
- Management:** The 84 you are talking about is the loan loss number which includes write-offs, repo losses, etc., and repo provisioning.
- Management:** The GNPA movement moved from Rs.387 crores in December 2013 to Rs.136 crores. It is only a movement of 48. Out of the 48 we said 46 is vehicle finance and about 3 to 4 is home equity.
- Aditya Singhania:** So that was the increase in GNPA. I was asking the Rs.84 crores that the loan loss that you charged through the P&L.
- Management:** Rs.84 crores loan loss charged to the P&L includes crystallized loss.
- Management:** But what is the split on the Rs.84 crores.

- Aditya Singhania:** I am just asking the split of the credit loss on both.
- Management:** Rs.37 crores on vehicle and on the home equity it is around Rs.1 crore.
- Aditya Singhania:** Just to understand Rs.40 crores is the provision increase on the book and the balance is write-off of which Rs.37 crores is on vehicle.
- Management:** One is on the repo stock we will provide. That does not come under gross NPAs. That goes on repo stock and it is provided at around 70%.
- Management:** One way to look at it is outside of the Rs.4 crores for home equity everything else is allocable to vehicle financing. 80 is vehicle finance.
- Aditya Singhania:** Just a final question, just some sense on the new businesses. I note that the disbursement have increased from about Rs.60 odd to Rs.90 odd crores. So some flavor on that if you could help us and a growth outlook as well.
- Management:** Housing loans is doing very well and these are the housing loans for the self-employed and that segment is performing very well for us. So we basically piloted in Tamil Nadu state and we are adding four states now for the coming financial year. But it is a very small book but we see it kind of growing obviously significantly from where it was.
- Aditya Singhania:** What was the disbursement in this piece in the quarter?
- Management:** It was about Rs.28 crores.
- Aditya Singhania:** And the SME piece?
- Management:** The SME piece also is going well for us. We disbursed about Rs.77 crores there and so we will continue to scale that business and expand it a bit geographically but the growth there is not going to be as steep. We are just going to take a fairly kind of cautious view to it just because we have always been a bit concerned about that sector. So we will take a conservative view to it next year as well. Rural we do not kind of originate that on to our balance sheet right now. We might originate a little on to our balance sheet just to see how the full economics of the product looks like on our balance sheet. But this will be like sub Rs.30-40 crores is what we will take on to our balance sheet.
- Aditya Singhania:** Any numbers for the SME and housing piece?
- Management:** In general with the newer businesses we truly want to run them as pilots. We do not want to put excessive growth pressure on them. We do not even budget numbers for them and basically we give the businesses that leeway to grow them at a pace that they feel comfortable because when we push the accelerator on it we want to ensure that the business is ready to kind of go.



Cholamandalam Investment & Finance Company Limited

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Moderator Ladies and gentlemen that was the last question from the participant. I would now like to hand over the floor back to Mr. Amey Sathe for his closing remarks. Over to you Mr. Sathe.

Amey Sathe: Thanks. On behalf of JM Financial I would like to thank Mr. Vellayan and other management team of Cholamandalam and all the participants for sending us for the call. Thanks a lot.

Management: Thank you.

Moderator Thank you all. On behalf of JM Financial and Institutional Securities Private Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.