

'In every metric, we have seen strong performance'

Cholamandalam MD Vellayan Subbiah on the company's rising NIMs and falling NPAs

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While the banking sector is struggling with stressed assets worth ₹8 lakh crore, some of the non-banking finance companies (NBFCs) have surprisingly sprung up robust earnings growth. Cholamandalam Investment & Finance Co Ltd (CIFCL) has beaten Street estimates in Q4, posting net profit growth of a whopping 40 per cent. Speaking to Bloomberg TV India, CIFCL Managing Director Vellayan Subbiah said net interest margins (NIMs) have improved by a quarter to 8.7 per cent in FY16 while non-performing assets (NPAs) have declined. If India gets a good monsoon, it will definitely have a very positive impact on the company's performance in the first half of this year, he said.

It has been a

strong quarter for Cholamandalam. Can you explain what has worked for the company this time around?

It has been a strong quarter for us. It is pretty much across the board — NIMs have strengthened. NIMs for the quarter were at 9.4 per cent. NIMs for the full year were at 8.7 per cent. It is almost a 25 per cent growth in NIM.

We also had a healthy growth in assets and closed 17 per cent higher on a quarter-on-quarter basis.

Disbursements were up 28 per cent as well. We have also seen a decline in gross and net NPAs.

Our gross NPA ratio has come down from 4.3 per cent in the December 2015 quarter to 3.5 per cent in March 2016. So, pretty much across every metric, we have

seen a very strong

performance and that's what has driven the bottomline numbers.

We have seen an improvement in asset quality. Additionally, you have created a one-time provision of close to ₹54 crore. Can you explain what the provision is for? And do you expect to maintain a similar level of asset quality or can we look for further improvement as well going into the coming quarters?

First, in terms of the asset quality, obviously we do see improvement this year. March is usually where you see the best asset quality improvement. And the second half of the year is usually when you see a lot of asset quality improvement. But we will see asset quality improvement going throughout the year. Where the ₹54-crore provisioning is concerned, basically we have started the third bucket provisioning as mandated by the RBI. And we are likely to do that at an accelerated level as well. And that's what we provisioned that amount for.

In this quarter you have seen a 47 per cent growth in vehicle finance disbursements. What is really driving this sort of growth? What

is the overall outlook when it comes to AUM growth for FY 17? We are very bullish on FY17. The biggest thing obviously is that we won't start growing our book till we see improvement in asset quality. And we have begun to see improvement in asset quality, which is giving us comfort to grow the book in the vehicle finance side. Growth has come from multiple areas. Obviously, we began to see growth in the heavy commercial vehicle segment. We have also seen growth in the light commercial vehicle segment.

But the segment that is growing the best for us is the used vehicle segment, where we are seeing very steady and good incremental growth.

We are pretty much firing on all cylinders with the exception of tractors, which is the one segment we continue to be very conservative about. But besides that all segments are growing well. We expect all of that growth to continue in the current fiscal. And we see a significant chunk of growth coming from the used vehicle segment as well.

Your focus is mainly on the rural and semi-urban areas — 90 per cent of your presence is in smaller towns. What does a good monsoon really mean for you in terms of credit demand and disbursement? Also, have you seen any impact of this monsoon optimism on the credit demand in Q4? Or do you really expect this to reflect only in Q1 of FY 17? There is definitely no impact of it in Q4. If we have a good monsoon, it will definitely have a very positive impact in the first half of this year.

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Managing Director, Cholamandalam Investment &
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