



“Cholamandalam Investment and Finance Company  
Limited Conference Call”

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**Moderator:** Ladies and gentlemen good day and welcome to the Cholamandalam Investments and Finance Company Limited Q2 FY'14 Earnings Conference Call hosted by JM Financial Institutional Securities Private Limited. As a reminder all participants 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 “\*” and then “0” on your touchtone telephone. 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 sir.

**Amey Sathe:** Thanks Inba. Good afternoon everyone and welcome to Cholamandalam Investment and Finance Earnings Call to discuss second quarter FY'14 results. To discuss the results we have on the call Mr. Vellayan Subbiah, Managing Director of the company, Mr. Kaushik Bannerjee, 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 answers. Over to you Sir!

**Vellayan Subbiah:** Thanks Amey. The quarter has been a mixed quarter for us, the disbursements in vehicle finance were flat whereas disbursements in home equity grew by 34% compared to the same period last year and vehicle finance disbursed about Rs.2138 Crores in Q2 of 2013 and home equity disbursed Rs.675 Crores. The new businesses disbursed Rs.15 Crores during the quarter and aggregate disbursements for the company were at Rs.2828 Crores which is a growth of 6% compared to the same quarter last year. Total income is at Rs.809 Crores compared to Rs.606 Crores for the same quarter last year, which is a growth of 33% and profit before tax was Rs.135 Crores against Rs.103 Crores in the comparable quarter and profit after tax was at Rs.90 Crores versus Rs.70 Crores in the comparable quarter which is a growth of 29%.

For the half year vehicle finance grew disbursements by 14% and home equity grew disbursements by 34% and the company disbursed Rs.4746 Crores in vehicle finance and Rs.1337 Crores in home equity, disbursements from new businesses were at Rs.23 Crores for the half year and aggregate disbursements were Rs.6106 Crores which is a growth of 17%, so obviously our disbursement growth rates have come down.

The total income is Rs.1571 Crores compared to Rs.1164 Crores for half year ended September 30, 2012 and PAT was at Rs.181 Crores against Rs.140 Crores for the half year which again is a growth of 29%. In terms portfolio quality basically our GNPA increased to 1.4% from the 1.1% it used to be but we have actually got NNPA's down by taking a more aggressive approach to provision coverage and this is just to be conservative in this

environment. So basically we have increased provision coverage now to 73% from about 45% in the same period last year.

In terms of the subsidiaries the wealth management businesses has made a profit of Rs.1.74 Crores compared to a loss of Rs.0.23 Crores for the same half year last year and our consolidated PAT was Rs.183 Crores against Rs.139 for the half year ended September 30, 2012 which is a growth of 32%. Amey I will stop with that and we will be happy to take questions from the audience.

- Amey Sathe:** Yes surely.
- Moderator:** Thank you very much. Ladies and gentlemen we will now begin the question and answer session. Our first question is from Silky Jain of Nirmal Bang. Please go ahead.
- Silky Jain:** Hello sir. Sir I just wanted to know like if you could give us a break up of how the NPAs have been in this particular quarter in vehicle finance as well as home equity.
- Arul Selvan:** The NPAs on the vehicle finance is around 1.31% on gross NPAs and in the home equity is around 0.89%.
- Silky Jain:** Going forward are we seeing some more signs of delinquencies happening in the second half?
- Vellayan Subbiah:** Delinquencies obviously have increased a fair bit. Right now we are not seeing any significant changes in portfolio behavior which means that its kind of continues to stay at these high levels, obviously if there is no change in the portfolio behavior at all then what is in the lower buckets will continue to flow at a more aggressive rate than they have flowed in the past. So that will cause the portfolio to get a bit of stress but our current actions obviously are to contain the portfolio at a current level.
- Silky Jain:** The other question was we have opened, I guess three branches in this particular quarter. So are we still sticking into a target of opening around 100 branches in FY'14?
- Vellayan Subbiah:** No, we basically said 70 branches in FY'14, that number might come down now to about 60.
- Silky Jain:** So we are slowing down on the expansion thing.
- Vellayan Subbiah:** Right now I would just say we are being a bit cautious given the current environment where basically as you know across, heavies, lights, and small's manufacturers' figures have dropped a fair bit.

- Moderator:** Thank you. Our next question is from Amit Ganatra of Religare Invesco. Please go ahead.
- Amit Ganatra:** On an incremental basis it seems that slippages have largely come from vehicle finance business is it correct?
- Vellayan Subbiah:** That is correct, home equity has continued to kind of maintain, no variance in the home equity, there is a slight improvement on that portfolio but yes it all comes from vehicle finance.
- Amit Ganatra:** So within vehicle finance is there more slippages in any particular segments within the vehicle finance or any particular geography.
- Vellayan Subbiah:** It has been actually fairly across the board, we are seeing fairly uniform performance across the board. I said one area where it has not seen any issues has been the tractor portfolio. Tractor portfolio and cars have continued to perform well; our car portfolio is small but tractor and cars are performing well the rest were seeing degradation.
- Amit Ganatra:** In the past the way your profitability used to flow was that you used to provide this PBT numbers of each of these businesses, so vehicle finance PBT is provided separately, home equity PBT is provided separately. If one adds these two PBTs there are some corporate level overheads, which used to get reduced, that is why the overall PBT was lower. Now this quarter basically it is the other way around, these two businesses total PBT comes to Rs.112 Crores whereas the reported PBT is higher so can you explain this?
- Vellayan Subbiah:** It was not necessarily corporate level overheads, but Arul will give you the breakdown and the explanation.
- Arul Selvan:** See this quarter what happened was because of the tightness in the market we had lot of liquid funds kept as fixed deposits or liquid investments. So the interest income on that comes in the treasury P&L which is outside this PBT. Almost like Rs.1000 Crores we have been keeping.
- Amit Ganatra:** So basically that explains the rest of the PBT largely from that centralized treasury.
- Arul Selvan:** Right.
- Vellayan Subbiah:** Basically it is not corporate overheads as much as whether the treasury functions is having kind of a net gain based on the transfer pricing or net loss.
- Amit Ganatra:** But in the past it was explained to some extent that there are few corporate overheads also. So there are no corporate overheads in that sense.

- Vellayan Subbiah:** Corporate overheads are allocated in the individual business.
- Moderator:** Thank you very much. Our next question is from Kaitav Shah of Anand Rathi. Please go ahead.
- Kaitav Shah:** Sir, congratulations on your numbers. Thank you for taking my questions. It pertains to NIM so how do you see that going forward given that we have just come out of a very tight quarter?
- Arul Selvan:** Interest expenses will come down because as you know Q2 costs were very high on the interest side, but on portfolio the yields remain same, so we do not see NIM degradation.
- Vellayan Subbiah:** The question is what happens to losses unless the losses move significantly above where they are now. We do not see huge movement; there will be some movement up but not huge movement.
- Kaitav Shah:** Okay so are you saying that probably credit cost will stabilize at the current levels.
- Vellayan Subbiah:** We are seeing some movement up but not huge, not significant.
- Kaitav Shah:** Okay and productivity is playing out very well so what can we expect going forward?
- Vellayan Subbiah:** We are seeing that the Opex to assets has dropped, obviously the challenge for us in the second half is going to be what happened, so I am not sure that we will have kind of any significant gains in the second half beyond what we have got in this.
- Kaitav Shah:** Internally how are you looking at productivity, you were looking at some power product business, how is that panning out?
- Vellayan Subbiah:** That initiative continues and it is panning out quite well, basically how we basically look at originating loans per month and segregating that in to the different products.
- Kaitav Shah:** One final question, it is basically related to your new branches, have you all internally checked whether the slippages coming more from new branches or is it across the segment?
- Kaushik Banerjee:** No, the slippages are coming from the new branches, the slippages is fairly distributed across branches of older vintage and new vintage, just to elaborate a bit more on that you will be aware that transporters economics depends upon two primary factors, one is basically freight availability and second is basically the profitability on the trips and given the current macroeconomic situation and given the increase in input cost the operator margin across markets is under pressure.

- Kaitav Shah:** Sir one of your competitors also actually released their results yesterday and they were saying that October has seen a significant improvement, would you concur with that in terms of freight availability.
- Vellayan Subbiah:** Now I have also not sure that we can indicate kind of October performance on this call.
- Kaitav Shah:** Okay sure sir and just one final question how was the LTVs move sir average tickets sizes on LTVs for the two key businesses.
- Kaushik Banerjee:** There has been an increase in the sales price of the artist, so LTVs have not moved in tandem or LTVs were hardly corrected by about 2%, 3%.
- Kaitav Shah:** Okay so vehicle finance the number that I have saw previous quarter is about 79% would that and...
- Kaushik Banerjee:** It would be above that, it would be slightly lower than that actually probably it is closer to about 77%-78%.
- Moderator:** Thank you. Our next question is from Digant Haria of Antique Stock Broking. Please go ahead.
- Digant Haria:** Digant here I just had a couple of questions sir have we taken any per lending rate hike this quarter in the newer and the old CV space?
- Kaushik Banerjee:** We have increased our rates, 30 bps up.
- Digant Haria:** Okay and the demand is not quite sensitive to such a small price hike right or are we seeing some sensitivity because I think your demand is anyway subdued but is it that competition playing on that price hike or how are things shaping up on that side.
- Kaushik Banerjee:** Digant if you take aggregate industry numbers the industry is down about 44000 units over last year same period.
- Digant Haria:** Correct. My question, I will reframe it, is it that pricing power to pass that on, pass that 30-50 bps whatever is the blended borrowing cost increase is there a pricing power to pass it on in an environment where there is such a sharp decline in the asset sales itself.
- Vellayan Subbiah:** There are two things here Digant one is basically we have actually increased the rates and we have been successful in charging more. Second part is there has also been a change in products; you can figure out, the largest drop has been in heavy commercial vehicles and new.

**Digant Haria:** Correct, that is fine. Andhra Pradesh, how are things shaping up there because as we understand from the political strike and all those things are slightly behind us and now it is the heavy rain, how has the experience been for us in the last three months there?

**Kaushik Banerjee:** Actually we have gone slow in AP, we are not the only ones, I think all the lenders have actually taken up a cautious call on AP, but we are not seeing a significant shift in portfolio behavior, now that is good news.

**Digant Haria:** Alright, increase in GNPLs they did not come from Andhra Pradesh specifically.

**Kaushik Banerjee:** There is an overall increase because of the overall industry situation but there is no swing in AP which one would normally expect due to above stated reasons

**Digant Haria:** Just one question on margins guidance have declined this time, on a calculated basis it looks quite sharp even old CV portfolio has grown up reasonably well so how do we account for this margin decline so is it purely from the borrowing cost side?

**Arul Selvan:** Not only because of the borrowing cost also because of the slightly higher NPAs we have income reversals coming in, reversals gone up during this quarter, I think you are comparing Q1 versus Q2 right.

**Arul Selvan:** I think you are combining Q1 versus Q2 right?

**Digant Haria:** Yeah, Q1 versus Q2, even actually on a YOY basis there is some drop at least you know much more than what the borrowing cost should do that is the thing what I am looking at?

**Arul Selvan:** YOY it has improved on year basis and NIM was around 7.18% and now 7.25%.

**Digant Haria:** How are we looking at the cost ratio especially cost to AUM in an environment where growth will be lower than what we had initially thought, at the start of the year the environment was not so bad, and growth was looking something like upwards of 20%, so now with this changed environment how do cost ratios move for us?

**Vellayam Subbiah:** Basically what we are going to do is next month we will continue to kind of monitor it if we are not seeing the items on the cost side which is our intent.

**Moderator:** Thank you. Next question is from Gautam Chaocharia of UBS. Please go ahead.

**Gautam Chaocharia:** Congratulation sir on a great set of results in this macro environment, couple of questions, what is the incremental borrowing cost right now and how has that panned out over the last three months given the volatility in the short term rates?

- Arul Selvan:** Interest cost as percentage of assets we had cost of around 8.87% on assets in the first quarter, went up to 9.18% in the current quarter. We expected to come down by around 10 to 15 basis points in the next two quarters, because we are reprising some of the loans which we took in Q2. The important factor is we will also get the securitization activity coming in from Q3.
- Gautam Chaocharia:** Okay. The second question is on the home equity business, how are you looking at that in terms of obviously the macro environment has played a role in slowing down the vehicle finance business, but do you see similar worries about your home equity business specifically about sustaining growth at current level?
- Vellayan Subbiah:** Gautam, it is a good question, the home equity profile continues to be very solid, we have seen absolutely no degradation in that portfolio, so obviously kind of being a multi-product business between vehicle and home, we do see more of growth coming from the home in the next three quarters and also we do not see any SLV challenges with that, because there is significant opportunity to improve and grow that portfolio.
- Gautam Chaocharia:** This opportunity is coming primarily as we gain market share similar to what you have done in vehicle finance historically or is it coming also because the demand from the segment of borrowing against existing residential property, that is also going up because of the tight liquid environment.
- Vellayan Subbiah:** The demand is definitely going up; there it is more difficult in terms of increasing market share, because there are no numbers like that. The demand is definitely going up.
- Moderator:** Thank you. Next question is from Sameer Bhise of IDFC Securities. Please go ahead.
- Sameer Bhise:** Hello. Thanks for taking my question sir. What is the outlook on disbursement growth over the next few quarters?
- Vellayan Subbiah:** Home equity, I think we will kind of stick with the current growth rates that we are seeing. Vehicle finance will be fairly muted and we will definitely say it is going to be in single digits.
- Sameer Bhise:** Secondly, what would be the current LTV on the home equity portfolio and are you seeing any pricing competition on the yield side for that portfolio?
- Vellayan Subbiah:** 50% is the LTV and if we are not seen pricing competition then we are probably not in the right business or in too good a business, but we are definitely seeing pricing competition.
- Sameer Bhise:** You are seeing, you said.

- Vellayan Subbiah:** Yes, we are.
- Moderator:** We will take a next question from Vibha Batra of ICRA. Please go ahead.
- Vibha Batra:** I wanted to know your views on gold loan business after RBI further clarified in September on some of the loans.
- Vellayan Subbiah:** Is your question whether it is in the comparative business or what is it?
- Vibha Batra:** More clarity for do you want to get into this business?
- Vellayan Subbiah:** We not originating new gold loans in our book and the RBI has not really provided much clarity, there still is a significant discrepancy in RBI and what actually is going on in the market.
- Vibha Batra:** September guidelines especially on the LTV side?
- Vellayan Subbiah:** The RBI has provided guidelines saying 60% and there have also guided on how to calculate it, but that is not I do not know, I don't support it, but that is not the reality of the market. We are not disbursing any gold loans in our book.
- Moderator:** Our next question is from Subramaniam P.S. of Sundaram Mutual Fund. Please go ahead.
- P.S. Subramaniam:** Hi Sir, congratulations on a good set of numbers in a challenging environment. Just wanted to understand, you said that you would still be able to do single digit kind of disbursement growth in vehicle finance, just wanted to know where is it that you are seeing growth happening, if you could throw some light on that.
- Vellayan Subbiah:** The basic area is that tractors, cars and MUV where basically we had very small market shares, those are the only areas we are seeing growth.
- P.S. Subramaniam:** We also see that your used vehicle segment which is basically Shubh and UCV is also growing pretty fast, how is the asset quality playing out in these portfolios?
- Vellayan Subbiah:** The difference has been used and Shubh, used continues to perform well for us, we have seen similar degradation what we have seen in the other areas, it is obviously kind of higher NPA levels in the other areas but not unlike what you would kind of expect given that it is a higher risk product.
- P.S. Subramaniam:** The other question was on the return on total assets from the vehicle finance business, given that growth is slowing down and you are saying that not much of operating leverage would

pay out for the rest of the year, do you think ROTA can actually come down against the guidance that we need to improve ROTA every year, do you think this year would be an year where one should expect ROTA to come down in this segment?

**Vellayan Subbiah:** Yes, you are right, it could and that is predominantly going to be driven by the losses in the business and so it is driven by the fact that losses have kind of swung more sharply than we expected. We are kind of taking efforts to keep ROTA in place. It also is going to depend significantly on our provisioning strategy in the next couple of quarters.

**P.S. Subramaniam:** But in terms of ROTA what kind of ROTAs do you think are realistic in this business now given the current environment, you have done almost 2.7% in H1?

**Vellayan Subbiah:** I definitely will say in that range of 2.5% to 3% for the current environment and when the environment picks up the number would begin to swing back up.

**Moderator:** Our next question is from Sanjay Shah of KSA Securities. Please go ahead.

**Sanjay Shah:** Congratulations sir. It is exciting to hear from you about growing home equity business, but can you throw some light on appended risk in this business and how we added to that?

**Vellayan Subbiah:** The biggest risk is where you kind of how are your assets, how you take on to your books, assessing both the quality of the collateral security they are providing and kind of the quality of the borrower. Often the borrowers tend to be in a segment where you really need to understand their business and the business cash flows very well to get comfortable with whether you can lend to them or not and that has always been the biggest area where we spend a lot of time on, as a matter of fact, we are trying to develop models now which are very specific to industrial classifications, we are trying to understand what are the real economics of a trader in a particular geography of a particular type of good, so lot of the credit assessment I would say is a very important skill, though technically at 50% LTV you don't have much risk in the assets. We all know that it is not very easy to go out and repossess these assets as well. The biggest challenge is that people who kind of assume this business as 50% LTV business and then kind of jump in saying hey, you know, I have always got the asset as collateral, they are ones who usually get burnt because the real skill comes back to assessing the capability of the customer repay, for example, some people give loans for anything, we only give loans for actual kind of business use, how the customer is going to use the money and what is the customers capability to repay from a credit assessment side I would say is the biggest skill.

**Sanjay Shah:** Sir you have guided from professionals using prudence are all fixed or it depends on how we assess it and then decide it?

- Vellayan Subbiah:** I didn't understand that question.
- Sanjay Shah:** Professionals who takes the decision on disbursement are their guidelines on that or they decide by using prudence itself?
- Vellayan Subbiah:** Yes, there are very specific guidelines. The whole credit assessment is a very specific process with very specific guidelines. I would say that it does require some judgment in prudence but a lot of it is actually kind of documented and are process.
- Sanjay Shah:** Because this business is going to grow, we understand from you and we understand from the business across, wish you good luck in that and again good luck.
- Moderator:** The next question is from Saurabh Kumar of JP Morgan. Please go ahead.
- Saurabh Kumar:** Hi sir, I have two questions, one is on the margin outlook, so you mentioned that you have taken a 30 basis points rate hike and Arul Sir mentioned that you probably will have to 10 to 15 point cost reduction, so does that mean that you will probably have a significant uptake in margins probably in Q3 and Q4?
- Vellayan Subbiah:** I would not kind of really see it as an uptake in margin, I mean obviously like you are seeing we have also had losses go up, but we do think that margins are going to be stable at this level.
- Arul Selvan:** The 30 basis points hike will happen only on the marginal book. It will not reflect on the entire book, I mean, the immediate effect on NIM level, you will not see it instantaneously because what happened was the sudden base rate hikes which happened was for the full borrowing, you will have the differences.
- Saurabh Kumar:** So, as it stabilizes.
- Arul Selvan:** It will not gather like the 50 basis points converting entirely in to a 50 basis points margin on the NIM, it may be a slightly muted number.
- Saurabh Kumar:** Fair enough, I will discuss that offhand with you and the other is on opex outlook, so you mentioned that on vehicle finance you basically will now stabilize at this level, is that only for H2 or even F15 you think that this is not the new sustainable number?
- Vellayan Subbiah:** I just want to be cautious in guiding for F15, it is going to depend on what the environment it, and if the environment is more robust then definitely we will go back to the cycle of kind of reducing our opex to assets.

- Moderator:** Thank you. Our next question is from Jyothi Kumar of Spark Capital. Please go ahead.
- Jyothi Kumar:** Hello Sir, congratulations on a good set of numbers, just one clarification, if I heard right you said 1.3% is gross NPA numbers in the vehicle finance portfolio, is that correct?
- Vellayan Subbiah:** Correct.
- Jyothi Kumar:** And 0.8% is the gross NPA number for home equity and I am trying to figure out...
- Arul Selvan:** The other one is actually, if you remember last year we had provided for business finance, two loans against shares portfolio, actually it will work out to some 70% of the book.
- Jyothi Kumar:** Yes Sir, which is what I was trying to understand why is it so high?
- Arul Selvan:** It will be around 30% of the book that is why you will see sort of swing in the overall number being 1.38%.
- Moderator:** Our next question is from Jigar Walia of OHM Group. Please go ahead.
- Jigar Walia:** Thank you for the opportunity sir. Just one question primarily how much of our business we would be sourcing to, can we link it to dealer financing?
- Vellayan Subbiah:** You mean finance through dealer, if I were to understand, dealer financing, are you talking about some dealerships?
- Jigar Walia:** Yes, dealerships, which is sourced at dealerships?
- Vellayan Subbiah:** Almost our entire new commercial vehicle book is sourced through dealerships.
- Jigar Walia:** When we source through dealerships, a part of it is also linked to dealer financing wherein the money is disbursed upfront and then drawdown.
- Vellayan Subbiah:** I will say about 30% to 40% is linked to trade advances.
- Jigar Walia:** Sir, for our borrowing side we have seen this quarter for every one the CP market completely died out and for our mix from CP to banks, so what was the increase in cost for the incremental borrowing? Was it more than...
- Arul Selvan:** That is what like if you see from 8.87% it has moved to 9.18% on an average asset basis.
- Jigar Walia:** But on incremental if you can?

- Arul Selvan:** On the incremental on the bank borrowing we paid around 25-50 basis points.
- Jigar Walia:** Okay, that was it, only 25-50 basis points increase on the incremental shift, instead of rising from CP to bank borrowing.
- Arul Selvan:** We did not raise CP. You would have seen that the CP was the one which fluctuated widely; we were not in the CP market.
- Jigar Walia:** Bank funding was only 25 basis points more than CP cost?
- Arul Selvan:** No actually I was comparing with my earlier funding, earlier we were borrowing at base rate, which was less than 10.25%, incrementally during this period banks demanded a spread of around 25-50 basis points.
- Jigar Walia:** Okay, that was on the normal bank funding.
- Arul Selvan:** Normal bank funding, we did not borrow anything during this period. In fact we repaid a few CP's ahead of time.
- Moderator:** We have a followup question from Subramaniam PS of Sundaram Mutual Fund. Please go ahead.
- P.S. Subramaniam:** Sir, one question on the margins. We see that the yield on advances has more or less remained same while your cost of funds have gone up by 30 basis points or so on quarter-on-quarter basis but the margin compression has been a bit more higher, is that because of some surplus liquidity that you are carrying?
- Arul Selvan:** You are talking on the yields from the business side right, that was what I said a little while back also we had this interest income coming out of fixed deposits and liquid investment almost like Rs.800- Rs.1000 Crores, that would not reflect in the interest yields which you would have seen in the investor presentation because they are talking about the individual vehicle finance and the home equity business.
- P.S. Subramaniam:** No we were calculating your interest income divided by your average advances and what we find is that the margin compression is much more than the spread compression?
- Vellayan Subbiah:** May be we can get some specific numbers.
- P.S. Subramaniam:** I will take it offline sir.
- Vellayan Subbiah:** If you have some specific numbers you can talk through them.

- P.S. Subramaniam:** Yes, if I just look at your yield on average loans that has moved down from 17.25% to 17.2% while your cost of funding has moved up 9.8% to 10.1%, so typically that should translate in 30 basis points kind of decline quarter-on-quarter but the margin compression has been close to 50 basis points, so is it that some of the borrowings have actually been parked in non-interest bearing or low yielding assets outside of loans which is causing this?
- Vellayan Subbiah:** Will the negative carry 20 basis points?
- Arul Selvan:** No.
- Vellayan Subbiah:** Subramaniam, you are right, we did have negative carry because when the market was getting a bit tight we did increase the amount we were holding cash on hand.
- P.S. Subramaniam:** How will that position change sir, do you think that will continue or how is it?
- Vellayan Subbiah:** Now we have gone back to normal.
- Moderator:** Ladies and gentleman, our next question is from Aditya Singhania of Enam Holdings. Please go ahead.
- Aditya Singhania:** Thanks, Congratulations on good results. I had two questions. One I was just looking at the disbursement mix product wise in the vehicle finance space. From the numbers it appears that the mini LCV as you describe it has fallen off quite sharply this quarter, by numbers it was 70%-80% decline in disbursement share over year, is that the right number I am looking at or is there some reclassification?
- Vellayan Subbiah:** It has declined. It has not gone on by 70%, so perhaps you can just guide us to where you are seeing the number on the decline as 70%.
- Aditya Singhania:** Basically you give the mix of disbursement by product every quarter, so the first quarter was 15% of disbursement was mini LCV and the second quarter you show the first half as 9% of disbursement.
- Vellayan Subbiah:** Therefore I presume you are inferring that we were at 3% in Q2?
- Aditya Singhania:** Roughly, I mean, I am getting a number of about 35-40 Crores of disbursement.
- Vellayan Subbiah:** There is something wrong in that. We were not at 3% in Q2.
- Aditya Singhania:** Okay, I will get that. The second question I had was just on the sort of credit quality in the vehicle finance, could you just give us some sense of the Rs.70 odd Crores of credit losses

this quarter how much is from the vehicle finance and some flavor in terms of whether it is more provisioning, more write off or is it higher loss on repossession?

**Vellayan Subbiah:** We have sorts of combination of all those things. I have taken a more conservative provisioning approach; therefore you basically see that our overall provision coverage has gone up to about 73% from what used to be 45%.

**Aditya Singhanian:** But on a quarter-on-quarter basis that has not really happened.

**Vellayan Subbiah:** On a quarter-on-quarter basis you are correct, just to get your sense in that Rs.70 Crores there is roughly about Rs.20 Crores of what I would call conservative provision coverage and then the rest is a combination of repo and flow.

**Aditya Singhanian:** But has the sort of loss on repo gone up quarter over quarter just in terms of not the absolute amount but as a percentage of the value you held, I am just trying to assess whether second hand values are falling faster than you had expected them to?

**Vellayan Subbiah:** It is, definitely it is and that is a challenge with repo in this environment where basically there is a massive oversupply of second hand assets. We are seeing loss on repo go up, part of what we are going through right now therefore is just looking at on our active strategy in collections, but yes, to your point, there is loss on repo is going up.

**Aditya Singhanian:** Can you sense if that is in a particular asset type or is it across the board?

**Vellayan Subbiah:** Across the board though it is more pronounced in particular assets, there are particular assets that are just, definitely specific assets like not a particular manufacturer but very specific assets where it is much more difficult to sell them in this market.

**Aditya Singhanian:** I was actually thinking more, is it more in LCV versus M and HCV or the other way around?

**Vellayan Subbiah:** In that categorization the worse performing has been the heavies.

**Aditya Singhanian:** And of those Rs.70 Crores how much is vehicle finance?

**Vellayan Subbiah:** Rs.68 is vehicle finance.

**Kaushik Banerjee:** And on the question of mini LCV it is down from 9% to 8%.

**Aditya Singhanian:** As in 9% in the first quarter versus 8% in the second.

- Kaushik Benerjee:** 9.1 to 8.75.
- Vellayan Subbiah:** What we need to understand is that previous presentation which had 14%, why did the previous presentation have 15% as disbursement.
- Aditya Singhania:** Let me just verify if my data is correct.
- Vellayan Subbiah:** You are right, it does show 15%. We should check that data point. We will get back to you.
- Moderator:** Our next question is a followup from Jigar Walia of OHM Group. Please go ahead.
- Jigar Walia:** Thanks for the followup opportunity sir, just to understand as far as home equity is concerned it is primarily LAP or you have mortgages, can you help in terms of the mix?
- Vellayan Subbiah:** That is all LAP. What we show is a LAP portfolio, we started the mortgage business and the mortgage business is less than Rs.6 Crores right now.
- Jigar Walia:** How would have the LTV moved as far as this portfolio is concerned or incrementally is concerned?
- Vellayan Subbiah:** It has not moved. It is at the same level for the past three years.
- Jigar Walia:** Approximately at what level sir?
- Vellayan Subbiah:** 50%.
- Jigar Walia:** As far as vehicle finance is concerned you said pricing competition significantly increasing in the market, just wanted to understand is it just pricing or you also see LTV increasing?
- Vellayan Subbiah:** Just to be explicit, I did not say that pricing competition is increasing in vehicle finance. It probably has been there but I did not say, if you are talking about this call, because I don't think I mentioned it.
- Jigar Walia:** Somewhere in the earlier part and I think for one of the earlier starting questions had probably the pricing competition has been increasing, I am sorry, I could be wrong.
- Vellayan Subbiah:** We are not saying increasing pricing competition in this environment, we did have people pushing LTV in the previous quarter but that area is also beginning to reduce now.

- Jigar Walia:** Can you, on an average, identify as to what has been the change from Q4, Q1, and Q2, where it trended from and where it is back to the LTVs? Push would be by how much to what extent?
- Kaushik Banerjee:** Aggregate LTV in new is about 80% to 83% and yields is about 65-68% but LTV are typically determined at the transaction level, so there is no uniform LTV.
- Vellayan Subbiah:** No, his question is what did it go up from, so when all the captive financiers started off the scheme what is the average LTV in the overall portfolio go up from Q4 last year, then Q1 this year and Q2?
- Kaushik Banerjee:** The captive financials essentially launched 100% scheme for a period of time and it is now being withdrawn. Our own LTV account over the others, our own LTV went up by about 2%, about 81% to about 83%, 84% which is now corrected again to 82%-83%.
- Jigar Walia:** Sir, a followup on this, globally mostly it is the captive financiers who rule the market versus in India we see a lot of multiple product portfolio, and lenders ruling the market and the captive financiers not normally doing well, if you can throw some light in to this particular act by captive financiers even going up to 100% LTV just to push sales and stuff?
- Kaushik Banerjee:** (Captive Financiers do hold dominant position like Mahindra Finance does hold a dominant position in terms of Mahindra product and Tata Motor Finance does hold dominant position in Tata Motor's production.
- Vellayan Subbiah:** I think his question is more on the scheme and kind of why they were pushing this?
- Kaushik Banerjee:** So, you are talking about schemes which are floated by captive financiers.
- Jigar Walia:** Yes, just to push the primary.
- Kaushik Banerjee:** Captive financier is essentially kind of created to support the sales of the principal. You see in a scenario where industry is down the captive financier is expected to take pretty higher risk to support sales of the principal.
- Jigar Walia:** But you see those captive financiers now withdrawing these schemes back.
- Kaushik Banerjee:** I won't say in plural because I honestly haven't seen that behavior from one of the captive financiers but what we understand the aggressive scheme has been kind of toned down.
- Moderator:** Our next question is from Karthikeyan K. from Suyash Advisors. Please go ahead.



*Cholamandalam Investment and Finance Company Limited*  
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- Karthikeyan K.:** Good afternoon gentleman, just wanted to clarify on the home equities business would there be any incidence of top up loans at all, say either as the customer repays a part of his loan or as the asset values reprice, has that been a significant thing, if you could comment on that?
- Vellayan Subbiah:** It is not significant but we do have a small top up portfolio yes.
- Karthikeyan K.:** If you had to give an indication of what percentage it could be just for perspective?
- Vellayan Subbiah:** We can get that number to you, none of us have the number on top of our heads immediately.
- Karthikeyan K.:** How much of this would be, you know, because the customer has repaid and how much of this would be due to pricing, I am trying to understand customer behavior here?
- Vellayan Subbiah:** Only when the customer has repaid and the loan has run off, it is never on pricing.
- Moderator:** That was our last question. I now hand the conference back to Mr. Amey Sathe for closing comments.
- Amey Sathe:** On behalf of JM Financial I would like to thank Mr. Vellayan and other management team of Cholamandalam and all the participants for joining us for the call. Thanks a lot.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of JM Financial Institutional Securities Private Limited, that concludes this conference, thank you for joining us and you may now disconnect your lines.