



“Cholamandalam Investment and Finance Company Limited Q1 FY2022 Earnings Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Cholamandalam Investment and Finance Company Limited Q1 FY2022 earnings conference call hosted by Kotak Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nischint Chawathe from Kotak Securities Limited. Thank you and over to you sir!

Nischint Chawathe: Good morning everyone. Welcome to the Earnings Conference Call of Cholamandalam Investment and Finance Company Limited to discuss the 1Q FY2022 performance of Chola and share industry and business updates. We have with us today Mr. Vellayan Subbiah – Chairman and Non-Executive Director; Mr. Ravindra Kundu – Executive Director; Mr. Shaji Varghese – President, Housing Finance; Mr. Suresh Kumar S. – Senior Vice President & Business Head - LAP & SME and Mr. Arul Selvan – Executive Vice President and CFO. I would now like to hand over the call to Vellayan for his opening comments.

Vellayan: Thank you Nischint. Good morning everybody. We just go through quickly the key financial results for the company for the quarter. Disbursements were at Rs.3635 Crores which is marginally higher than Q1 FY2021 though the AUM was at Rs.75,763 NIM was at Rs.1363 Crores has up 39% for Q1 FY2022 and pre-provision operating profit was at Rs.993 Crores which is a growth of 56%. Our PAT was at Rs.327 Crores in Q1 FY2022 as against Rs.431 Crores in Q1 FY2021. Broadly because of the second wave of the COVID pandemic between localized lockdowns and other factors starting mid April 2021, which had extended in most states up to mid June and in some states still partial lockdowns in force, so basically many of the borrowers and staff of CIFCL were impacted by the pandemic in the second wave and we as a company basically shifted our priority from business to protecting the wellbeing of affected persons, in a lot of rural areas there was a lot of challenge in terms of health infrastructure so getting everything there became a priority for the company including the teams spending a lot of efforts looking at everything from oxygen to drugs kind of getting anything that they could do to support both our employees and kind of keep you available during this whole effort. So this basically results in a setback in performance in Q1 on both disbursements and collections, disbursements were up 1% compared to Q1 FY2021, the collections suffered and resulting in an increase in Stage 3 assets from 3.96% to 6.79%. The restructuring option with asset classification benefit extended by RBI under “Restructuring 2.0” was used to the extent to 3.86% of the book as of June 2021. So total restructuring stood at 5.44% of the book and these loans have been classified as Stage 2 assets by us currently.

CIFCL held management overlay provisions of Rs.750 Crores as on December 2020 and then we created an additional overlay in March to the tune of Rs.350 Crores, so a total of Rs.1100 Crores, of this basically we have reversed Rs.400 Crores during the quarter and this release was made towards additional provisions which were in Stage 1 in March 2021 and where the customer continued to be in Stage 1 in June 2021 without downgrade to a subsequent stage and additional provisions held in March 2021 which were in Stage 1 and Stage 2 in March 2021 and moved into Stage 3 in June 2021 on which higher provisions as per regular Stage 3 norms had been created. Post this reversal we still have a management overlay of Rs.700 Crores in Stage 2 and 3 to manage any future contingencies. We have also witnessed recovery in disbursements and collections during the latter part of June and in July post relaxation of state wise lockdowns and we expect a gradual revival in subsequent quarters in FY2022 with normalization and rollbacks of accounts, which moved to higher buckets.

In terms of individual businesses, vehicle finance disbursed Rs.2846 in the quarter as against Rs.3231 which is a decline of 12%, LAP disbursed Rs.386 as against Rs.119 which is a good growth because of the challenges during first lockdown, HL disbursed Rs.199 as against Rs.190 a growth of 5% and AUM was at Rs.75,763 compared to Rs.70,826 and PAT was at Rs.327 like I discussed, PBT-ROA was at 2.5% as against 3.5% the previous year and ROE obviously dropped as a result to 13.5%. We still have strong liquidity position with about almost Rs.8000 Crores as cash balance as at the end of June which includes Rs.1500 Crores which we have invested in GSEC which we show under investments and a total liquidity position of Rs.16,400 Crores which includes undrawn lines. ALM is comfortable we have no negative mismatches. In terms of asset quality I think we just talked about it, Gross Stage 3 stood at 6.79% and other provision coverage of 35.51% as against 3.34% of Stage 3 during June 2020 which had a provision of 41.6%. Total provisions carried against the overall book was at 4.37% as against normal provision levels of 1.75% prior to pandemic and we will obviously talk about the impact of the Supreme Court order in the past and that still remains in force. The capital adequacy of the company was at 19.08% as against regulatory requirement of 15 and Tier-I was at 16.6%. I will stop here and will be happy to take questions.

Moderator:

Thank you very much. We will now begin the question and answer session. Ladies and gentlemen we will wait for a moment while the question queue assembles. The first question is from the line of Prashanth Sridhar from SBI Mutual Funds. Please go ahead.

Prashanth Sridhar:

Sir just two questions from my side. On the vehicle finance if you could give us some color on how your customer segment would be dealing with issues like capacity utilization, freight rate, increasing diesel prices, etc., and if you could give us some numbers like Stage

2, Stage 3 and restructuring in the LAP, SME and home loan segment? That is it from my side. Thank you so much.

Ravindra Kundu: Vehicle finance last time also I mentioned that we are actually into a slightly new category which is actually 0 to 10 vehicle or 1 to 10 vehicle customer so in that category utilization level or managing the vehicle during this time when diesel prices have gone up is better, but besides fleet operator who are actually having opex a little higher than the SRTU customers they are struggling where the exposure is lower in our case and second is that in the case of heavy commercial vehicle we have presence in few market only not across the country and during last two years we have been reducing our exposure in heavy commercial vehicle after noting that the PT has gone up in 2018-19 and since then we have reduced so we got benefited on PT also at overall level. So the utilization level has been impacted in one segment of the customer, large fleet operator and SRTUs are better off but things are improving this was there in Q1 but in the month of July things have improved significantly. We have seen that industry has sold 10000 units of heavy commercial vehicle so TIV has gone up and if in case this continued there is no COVID impact wave 3 then obviously heavy commercial vehicle is also expecting replacement demand which is due for last few months and we will see that heavy commercial vehicle customers will be benefited in time to come. As far as the Stage 3 and Stage 2, Stage 2 as a restructuring we have done about 2.95% of the portfolio and our Stage 3 stands at about 8.86% for LAP.

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

Dhaval Gada: Thanks for the opportunity. I have two questions. First on the stress increase that we see both in Stage 3 as well as higher share of restructured loans, just wanted to understand if you look at the moment given that there was no moratorium this time you would have expected both Stage 3 and restructure to increase, just curious to know is the extent lower than what you initially estimated and by when do you see normalization of this trajectory and related to that is the second question on credit cost so you have excess provisioning of about 700 Crores how much would that be adequate enough with the normalized credit cost for FY2022?

Ravindra Kundu: We will tell you the vehicle finance data and LAP and HL have done also similar way. In the month of April we saw 93% of our billing collection efficiency which went down to 84% and in June it was 101% and July it is 114% so the shred came in the month of April and May then after that it has actually started improving in fact in the month of July Stage 2, Stage 3 has gone down as against the June closing. The overall step is due to in the month of June when entire country was not operational southern part of the country was under lockdown and part of East was also under lockdown like North East, Odisha and

West Bengal it got impacted. In fact in the month of July also we saw lockdown is partially applicable in Odisha and WB and stringent overall lockdown is there in North East. So in spite of that we have seen our collection efficiency has gone up to the level of March in the month of July and that is an indication that things have started improving in terms of Stage 2, Stage 3. As far as the provision is concerned, provision we have taken 4.37 at overall book and our normal provision used to be 1.75 so at this point in time at overall book level we are three times of provision so it is more than adequate.

Dhaval Gada: Do you expect by second quarter we should start seeing normalization or it would be in the second half of the year given that the collection trends are quite buoyant?

Vellayan Subbiah: Everything cannot be done in this quarter, every month these resolutions are happening so normalization has started happening in the month of June, it will take six to nine months to get into the exactly the similar level. What we are expecting that we will try to deliver better number than last year closing as on March 31, 2021 in this financial year closing.

Dhaval Gada: Perfect Sir, thank you and all the best.

Moderator: Thank you. The next question is from the line of Chetan Gindodia from Alfaccurate Advisors. Please go ahead.

Chetan Gindodia: Sir two things, one is in terms of the competition intensity which banks is also moving aggressively in this stage how do you see that from competition perspective and second considering that the environment still looking very challenging particularly on retail financing side how do you see the trends over the next two, three, four quarters any change in strategy from the long term perspective if you can highlight on that, that will be useful?

Vellayan Subbiah: We have mentioned that in the past that the auto cycle as far as the heavy commercial vehicle is something which is going to be picked up going to start anytime and replacement demand is going to start so heavy commercial vehicle we will see better number in time to come and this month itself July if you see the data the heavy commercial vehicle segment has registered very good number other than that entry level car, entry level two-wheeler, tractor, used vehicle all of them is going to do better and we are present over 1100 branches, 80% branches in Tier-II, Tier-III town and these are places where the intensity is there but we are able to do the job because of our people and our relationship with the manufacturer and the customer so we need not change the strategy dramatically but we will definitely come back to some of the product which we have not done so far and overall disbursement in the month of July we have seen that we have delivered more than July 2019 disbursement as an organization put together vehicle finance, LAP and HL. So this trajectory is actually

going to continue and we will deliver better than last year if in case COVID wave 3 does not come.

Chetan Gindodia: No major change in strategy right because we might have seen some more delinquency in few pockets are you trying to become more conservative while making any change in the risk management, any change in the systems perspective?

Vellayan Subbiah: We are actually following the product level at a make model variant level and the customer and geography level and watching that where the probability of default and LGDs are lower and that actually varies it is not a static, as and when we see that some product MUV is actually not giving return we reduce the disbursement so that is the ongoing process. The other system business the same model working every quarter we look into and then accordingly we give the direction to the team to change their focus from market-to-market, product-to-product and MMV-to-MMV and customer category-to-category that has been working very well.

Chetan Gindodia: What is your guidance for the full year credit cost?

Vellayan Subbiah: Very difficult to say at this moment in time, internally we are trying to do better than last year that is what we can say.

Moderator: Thank you. The next question is from the line of Manan Tijoriwala from ICICI Prudential Asset Management Company. Please go ahead.

Manan Tijoriwala: Sir I wanted to get your view on ECGLS versus restructuring as option for working with a borrower as we have done around 4% ECGLS as a portfolio last year that minimum I think we will help cash flows for around 20% of the portfolio so while you first largely into the auto segment I am not sure if you could confirm that and also if you could some throw light on ECGLS this time and why it has been or not been used and lastly would you say borrowers who avail ECGLS last time around were as stressed as anyone who availed restructuring or no?

Arul Selvan: Last year we did good amount of ECGLS because obviously it is guaranteed by government, etc., so we wanted to capitalize on it. Now there is a cap on what you can do under the ECGLS and since we have done quite a bit last year this year we have kept it to the minimum, this year we have down around 6 Crores in Q1 so we have not scaled it up much in the current year. ECGLS actually we have done 2000 Crores last year out of that 1200 Crores was vehicle finance, 800 Crores was LAP, in this year we have done only 700 Crores.

- Manan Tijoriwala:** Lastly if you could shed some light around how stress we would imagine ECGLS borrower would be what is the guide to avail restructuring?
- Vellayan Subbiah:** ECGLS customers are performing better than us and we do not encourage restructuring for such systems.
- Manan Tijoriwala:** Okay Sir. Thank you.
- Moderator:** Thank you. The next question is from the line of Anand Bhavnani from White Oak Capital. Please go ahead.
- Anand Bhavnani:** Thank you for the opportunity. My first question is how do you see relative attractiveness of various segments that you operate in, we have seen that in the Tier-II, Tier-III towns that we operate in affordable housing has done very well and they have used the test of the pandemic better than vehicle finance or LAP, so is the experience similar for us and do you think the opportunity of affordable housing is something which we would explore more vigorously going forth from here on?
- Shaji Varghese:** While you said that we have relatively done greater than 199 Crores of business we understand it is 5% higher than last year it is a very small volume but when it comes to the opportunity we LMI lower middle range of families whom we target and will be able to serve Tier-II, III, IV are the obvious opportunities, if you ask me with 4500 Crores we have just cashed the opportunity, we have only just reached out to 177 branches and just 9 states last year and we will look at two more states this year. The opportunity of course is much, much bigger and we will continue to focus there and this is an identified opportunity for us. We have also internally strategized and focused accordingly in the segments which can scale over a period of time, the transaction type which can scale over a period of time like self construction, resale, these are the large opportunities in II, III, IV cities. We are focusing that we hope to get the numbers which we have internally planned it is quite a big opportunity. It also comes very handy to Chola because Chola over the years have been focusing on the LMI lower middle income is a good understanding of risks and an orientation of the segment so we hope to do what we are focusing.
- Anand Bhavnani:** My question was more of do you see for us to divert more resources there or do more businesses than we have done and kind of have more focus on this given that pandemic has related template that this business does better than other in rural areas for the housing space so is our focus more and can we expect much higher growth than in the past?

Shaji Varghese Let us reframe the question that I have understood, what you are asking is for affordable housing should there be higher priority and increase the volume than currently planned in the budget, is that the question you are asking?

Anand Bhavnani: Yes.

Shaji Varghese: Housing is a generic demand there is always an opportunity so we have reasonably good business plan, we have made all the way up to FY2025 we are on course of that in execution so we will always focus and execute the plan we have already kind of firmed up that plan to be executed with precision is what we will focus, anyway it was always an opportunity it is not that today affordable housing has got a new opportunity for a company like us where we do with small volume. First priority is to establish in a part of the country, establish process in two to three years as you know that the whole land matters, state function, used to have lot of local nuances, we just do not want to rush in I think it is not a business which is rushed in, it had to go because 15 years is the average lending tenure, so we will like to go with the way we are in the other businesses carefully and do in a way it is sustainable so we are not going to rush in beyond the business plan so that is the way we look at. There is no intent to change in extra focus than or higher volume plans and what is currently planned and approved by the Board.

Anand Bhavnani: Sir just double checking if I heard it correct we did ECLGS of 700 Crores in Q1 is it?

Arul Selvan: Only 7 Crores.

Anand Bhavnani: Thank you. I will come back in the queue.

Moderator: Thank you. The next question is from the line of Bhavik Dave from Nippon India Mutual Fund. Please go ahead.

Bhavik Dave: Just a couple of questions one is on the increase in Stage 2 and Stage 3 because of lockdown during April and May so just wanted to understand if you could give us some color on what proportion of these customers are paying I understand that they will not be able to clear the previous dues and hence I have roll-forward but what proportion of the Stage 3 assets are active and pay in one or more than one EMIs exact data point if you can give and even the same for the Stage 2 because I have seen a significant increase that I would assume that in June and July when things normalize customer would have start repaying at least one EMI, if you could give us some sense on what that is?

Ravindra Kundu: I mentioned that Stage 0 to Stage 1 roll-forward is only 1.45% which is the lowest in the last 10 months and when it comes to Stage 2 almost 80% to 85% customers are paying their

current month due so they are stabilizing the same market and Stage 3 which is nothing but 3 and above there is also almost 80% customers are paying the current month due and also there is a little bit reposition happening although reposition and sale is very negligible in terms of the stages but some customers who are not fit they have actually committed to pay in subsequent months that is the situation of Stage 1, Stage 2, Stage 3, it is better than the trend which we have seen in the month of January, February, March and July and I am just telling you the July trend versus the March trend.

Bhavik Dave: Secondly on the 3600 odd Crores restructuring that we have if you could just break it down between vehicle and LAP, how is that breakup looking and also one last question from my end on the NUE investments that we have done under Vishwakarma consortium if you can highlight what is the roadmap or what is the thought there, what are we planning to do there if at all anything if you can explain?

Vellayan Subbiah: Right now that is a wait and see right because basically the RBI has to kind of declare which of the consortiums they are going to give license to and that they said that they will do in September so till they do that there is nothing for us to do but obviously if they do announce that in September then we will kind of come out with a more detailed strategy in terms of what Vishwakarma kind of approach is going to be. There may be delay but we have to see we cannot dictate when that is going to happen.

Bhavik Dave: On Stage 2 it is VF is 2250 Crores?

Arul Selvan: Restructuring 2250 Crores.

Bhavik Dave: Thank you all the best.

Moderator: Thank you. The next question is from the line of Shubhranshu Mishra from Systematix. Please go ahead.

Shubhranshu Mishra: Thank you for the opportunity and I just wanted to understand what kind of disbursement numbers are we looking at for the full year, what kind of run rate can we look at going forward it was very healthy to understand that we are pretty much at July 2019 target but how can we model it going forward that is the first question, second question is we have tightened our filters during the COVID have they been eased out in this particular quarter and what kind of rejection ratios are we looking at right now versus FY2021 versus FY2020 in each segment, vehicle finance as well as LAP and home loans and if you could give out the LGD PD assumptions for the LAP segments which is LAP Delhi, LAP Tamil Nadu?

Vellayan Subbiah: See disbursement numbers we do not give any forward looking statement, what you can assume is whatever is assumption on the industry growth you can assume that there will be 5 to 10% better than the industry that is how we have been our past trends and that we are going to maintain it in the current trends also. Regarding crediting terms I will request Ravi to answer, before that the LGD PDs we do not give individual sub product and you are asking even geography level we do not share it in the public domain.

Ravindra Kundu: As I mentioned that in the vehicle finance we have the concept of using the business vision model we have got four variables one is the product then make model variant and customer category and for the LTV what is going to be the probability of default. We have tightened that in the last year by launching the Gen 4 model of underwriting tool and that is the reason our roll-forward rate even in the bad time like in July 2021 we have seen that our pocket of Stage 1 to Stage 2 roll forward is 1.45% and actually they started showing up downward trend, so from the portfolio behavior point of view we have done better. Our PD as you asked although we do not share the PD at a product level and geography level but just to give you the whole PD, LGD and story of the ECL, the PD of Stage 1 of the pre-COVID level has come down in the COVID year. Last year PD has come down as compared to the previous year and Stage 2 has slightly gone up but LGD has improved so in spite of bad time our PD in Stage 1 has improved, slightly Stage 2 has gone up but LGD is actually good that is the outcome of the underwriting mechanism which we are using it on all three businesses.

Shubhranshu Mishra: If you could give some amount of regional perspective into the LAP portfolio which portfolio is behaving better and where we are lagging especially in the Tamil Nadu market and the NCR market and in the MMR market if you could give out these three particular geographies?

Suresh Kumar: So our NCR book is the biggest in the country followed by actually Tamil Nadu and you know it we have challenges in April and May month especially the lockdowns were severe in these states, the good part is that June we recovered in terms of our collection recovery and our efficiency started improving in fact we have done significantly better in the month of July in both these locations, and both the locations started showing collection efficiency improvement in the last two months and we continue to focus on that and we will improve it.

Shubhranshu Mishra: That is for NCR Sir, in Tamil Nadu?

Suresh Kumar: That is what I am saying in both the locations this is a cropper because these are the two biggest regions in the book so Tamil Nadu as you know April was better because lockdowns were not there but May the lockdown started but then quickly we recovered as a

state itself so we are seeing significant traction especially in the month of July we saw a significant traction in the Tamil Nadu region as well.

Shubhranshu Mishra: If you could just speak about the repossessions because repossession of vehicles is pretty much the end of road for that customer because he is in an earn and pay segment so what kind of repossessions are we looking at in this particular year and if you guide there?

Ravindra Kundu: That is not right assumption actually repossession if you know that it is actually lowest every year we do repossession of only 0.1% of overall asset which is basically sold. There are two types of repossession that there is no point in discussing because there are some customers who repossess and get back and what is important is that we repossess and sell, it is 0.1% and if you see the Stage 3 book, on the Stage 3 book the repossession is hardly 2% so on the overall book the repossession is 0.1% on the Stage 3 book it is hardly 2% except the customers we are selecting only either by way of normalization or by way of basically waiting for some time and then collecting at some point in time.

Shubhranshu Mishra: So we are going to look at similar levels in FY2022 as well correct Sir?

Ravindra Kundu: It is going to be same only it has been there for quite some time in fact that is what the underwriting tool working on.

Shubhranshu Mishra: Sure Sir. Thank you so much. Best of luck.

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

Kunal Shah: Sir firstly on restructuring if you can just let us know in terms of what is the texture of this restructuring and how would be the flow through into the buckets either the standard or the stress buckets going forward in terms of the timeline particular so is it like a three months, six months what is the kind of moratorium or something that we would have?

Ravindra Kundu: Restructuring we have only given one to two months in very few cases where the underlying business is related to a industry where it is having a long-term hit like wherein a like a school bus, in the case of travel tourism or something related to a hotel industry type, those cases alone we have given around 3 to 6 months and in none of the cases we have exceeded six months so this is how whole of the restructuring has happened of course the rest of the positions of the EMI is not exceeding 24 months beyond, etc., as far as RBI guidelines and the internal court policies are being fully adhered to. So this is what we have already discussed we have done around 3.6% of the total book in restructuring too and overall put together it is around 5.2% restructuring, some amount of the first restructure

book is also run down so to that extent we will see some differences there, so do not arithmetically add up and 60% customers are at 30 days and that means they will be paying from the next month and 20% of customers are at 60 days paying after next to next month and however 80% is between the two months.

Kunal Shah:

So almost 80% are less than two months within the restructured book. In terms of disbursement, industry wise data which we have said so overall when we look at it you said that because of the safety and cautious approach we have been slow but maybe how should we look at it you said that we will be broadly following the industry trajectory but does it suggest that in some of the product segments we have been giving away the market share and would that be more in terms of competitiveness or that is our internal strategy, how should we look at that because in most of the industry data we are seeing much higher volumes compared to where Chola was in the first quarter?

Ravindra Kundu:

Good question actually, this year now inventory is getting piled up if they manufacture last year they could not produce BSVI in the first quarter and they were struggling to produce in second quarter also, so now the industry is actually increasing the inventory and our numbers on the retail sale so there is a difference between the wholesale number and retail sale. What we showed the industry number is a wholesale number which is published by SIAM and our numbers are retail, So when we see the retail-to-retail our market share is definitely maintained at same level and some of the product segment we have also increased so it is not a real apple-to-apple comparison, last year we were showing the market I mean when we were comparing it the whole sale numbers were not much so it was looking like our market share is going up so this problem is always going to be there because retail numbers are not we are getting it from any particular authentic resources so we have only one data which is published by SIAM and our number is based on the disbursement, so obviously you will see that there is a gap between the wholesale number and Chola number because our market share are depending on the retail numbers.

Moderator:

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

Sunil Kothari:

Thanks for opportunity. Mr. Vellayan my question is to basically your view whenever there is a challenging time last decade back also you took over control on the company and strive really back well at Chola and then we created a team which is also managing well and again you are here during this COVID time so as an investor your presence will be very highly appreciated. My point or my question is what are the learned lessons and area of improvement you feel Chola should do during last year or this recent tenure and your last 10 to 12 years experience with Chola there is a major area of improvement you would like to see what internal change you would like to make?

Vellayan Subbiah:

Thanks Sunil. I think broadly the good thing is that lot of these basic things like Ravi was saying our belief is that as long as wave 3 does not come back corrections will start improving now they have already started in the month of July so basic things like that the team disciplines are very high and the capability to roll these things out at a field level are very high across the company. I would say that in itself is a massive strength for the company to have because I would rightly kind of argue that by far from the ability to roll out and kind of execute at a field level both on the sales front and the collection front I do not think that there is any company that will be stronger than Chola doing that today. So I think without that it makes it more dangerous to do anything else so what are the opportunities we talked about different kind of trial calls. I think there are three sets of opportunity so and perhaps the first set is basically around looking at what is happening if we take what has happened with a strong feel capability some companies have gone out across the whole set of verticals. We have traditionally been in this vehicle finance and LAP and housing loan so that is the first set of opportunity which is can you broader base the set of verticals that we offer so that is one set of opportunity that we would look at. The second set of opportunity is like a lot of people are now obviously Fintech, a lot of people are trying digital solutions and trying to kind of capture a lot of market share with them. Our sincere belief and hypothesis is that is very difficult to pull off a fully digital solutions in India unless you have the front end collection capability to go out and collect against loans that do not perform in the market we do not think that a fully digital solution we work so what we are looking at doing is seeing how we can also push out along that kind of dimension of kind of getting more digital but backing it up with a lot more physical both kind of collections capability and field presence because I think that marriage is going to become very important for India as we go forward and the third opportunity is really around as more data become available how do we use both the combination of the data to improve the effectiveness of our field force so how can we use that to basically improve perhaps the productivity of the frontline sales employees of the collection stream. By using kind of a combination of first digital front then centralized front for collections then a field kind of, so how do we use that whether that is collections or sales how do we use this combination of three things to fundamentally improve the efficiency of our field force, so these are three main areas.

Sunil Kothari:

Very detailed explanation Sir. Thanks a lot. Last just one point looking at this easy availability of capital because of this team and kept easy money flowing from outside then technology and fintech, you feel any structural shift towards lower NIMs in your next three or five years or you feel there is an enough opportunity to maintain this type of 6.5 to 7.5 range of rate interest margin Chola is making since last almost 10 years?

Vellayan Subbiah: I do not think that digital players are the ones that I will cause NIM compressions predominantly because even with these NIMs most of them are losing money I think that it will be a while to basically kind of see if they can lower because their approach is not to get customers by lowering the NIMs as a matter of fact I would say half of these guys out there are lending at higher yields than us so I do not think that they are going to approach NIM compression because none of them as far as we can tell none of them have figured out a way or actually kind of running at a NIM that is similar to us and making money. So I do not think that is going to happen in the near term and most of them are at higher yields start off with a higher NIM and then basically some very few they are literally like two that are making money in the country.

Sunil Kothari: Thank you very much Sir. Wish you good luck.

Moderator: Thank you. The next question is from the line of Anand Bhavnani from White Oak Capital. Please go ahead.

Anand Bhavnani: Just wanted to understand a bit more from a two to three years perspective what is the potential for us to use the existing bandwidth of our home loans and if on the LAP and so out of 1137 I have seen in the presentation we have 359 cobranded LAP facilities in vehicle finance and 144 home loan cobranded with vehicle finance so how much of the existing vehicle finance network can be used for these two and over what time length?

Shaji Varghese: When it comes to home loans of that matter is the business the first priority is to go along with the existing facilities when it comes to sharing of infrastructure because that gives lot of sense for us to make the existing infrastructure to be more effective but when it comes to individual businesses in our mortgage business we will also look at the opportunity in that market, now for home loans we have already reached out to 177 branches so opportunity existed we also need to look at our internal capacity and do it with the way it is planned so we will the first priority always will be to home loans and even for 177 branches except around 30 branches where we do not have typical space hence we were forced to have a separate branch otherwise we are coexistent. The same is separately identified in workstation and team that is how we operate and that will be the approach which will make the business much efficient and smarter. It will even help in employee induction and so on and forth. Opportunity is much larger as I said and I think somebody else had also asked we have a plan to expand and cover larger markets to serve larger customers so we will go ahead with that plan we have a reasonably formative plan in that direction.

Anand Bhavnani: In terms of the relative share of book coming from each of these segments how do you see this in the three years would the ratio be similar or do you see one going faster than the other any broad sense you can give us?

Vellayan Subbiah: All businesses have different business plans so always this is looked up we have an internal capacity that are we able to make use of the internal capacity to the fullest extent it is not about between business of these, auto loans are very much large scale business and home loan which is reasonably a new business, it will take longer time to kind of catch up there so in a new business like home loans what we look at is what is the capacity build up against that I will be able to deliver that is the way we will look at and not on a share between the business. I hope I have answered right and we do not really co-originate businesses because customer segment is different, the process of the lending is different, the nuances are different, so we do not really co-originate by sales team so all businesses got own origination, underwriting, risk management, customer service capabilities just that we share the physical infrastructure I hope I understood the question right and answered it right. This is what you are looking at.

Anand Bhavnani: Sure. I understand. They are planned independently and the growth rates are actually more of endogenous there is no explicit growth target we have if I understood you correct so eventually they form a percentage of the book there is no top down target as you want to have percentage of book in home loan, LAP or something like that so it is my understanding of your answer is correct?

Vellayan Subbiah: Correct.

Anand Bhavnani: Secondly sir, home loan book what percentage is the book would have credit linked subsidies in the Pradhan Mantri Awas Yojana so what percentage of customer would we have in the subsidy avail?

Arul Selvan: See around 12% of the base has availed in PMAY, in Q1 13.74 Crores of subsidy we have received and last year we have received 21.39 Crores.

Moderator: Thank you. The next question is from the line of Abhijit Tibrewal from Motilal Oswal. Please go ahead.

Abhijit Tibrewal: Thank you for taking my question. First question is to Vellayan Sir you did touch upon this in one of the previous questions but because kind of digital initiatives and we have also seen a few of your other peers talk about newer initiatives that you are taking in some of the newer things that they are trying to do in the digital side I just wanted to kind of understand in addition to that any license that you have kind of tied up with in consortium and applied for one and where maybe the RBI decision is expected for the next two months or so, are there any other more digital initiatives that we are taking on the origination on the underwriting side that you would like to share?

Vellayan Subbiah: I think there are two or three sets of things kind of one is we will look at what are the opportunities to work with kind of start-ups to basically I say kind of leverage the strength of each of the entities, can we leverage the digital start-up strength and we bring to kind of bear the strength that Chola as an NBFC has so that is one kind of initiative initially. Second is we are looking into significantly bulk up one kind of what we are doing in the analytics front I think we made one set of movement towards analytics now there is an opportunity for us to kind of get much more and we are going to start taking some actions on that front as well which is both in terms of how we started using analytics more on both on our origination and our underwriting. Then the third set will be to basically see how we can bring more capabilities to our own tech stack itself because I think that part is something that we are looking at and think are they are differentiated with in which Chola can be digitally more enhanced in its tech stack and so that as I said slightly different from just the analytics so these are the three sets of initiatives that are going on right now on this front.

Abhijit Tibrewal: Sure Sir, that's helpful. My next question is to Arul Sir if you can just help us with two data points one is what was the write offs and the repo losses during the quarter and if you could just repeat the product wise GNPA in vehicle finance, LAP and home loans?

Arul Selvan: 70 Crores is the repo losses during the current quarter there is not much in the LAP and vehicle finance and it is all fully provided for already so there is nothing additional hit to the NCL.

Moderator: Thank you. I would now like to hand the conference over to Mr. Nischint Chawathe from Kotak Securities Limited for closing comments.

Nischint Chawathe: Sorry we had to wind up the call because of constraints on timing thank you very much for joining the call today. We thank the management for providing us an opportunity to host the call. Thank you.

Vellayan Subbiah: Thank you so much Nischint.

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