“Cholamandalam Investment & Finance Company Limited Q1 FY-23 Earnings Conference Call hosted by Kotak Securities Limited”

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Moderator: Ladies and gentlemen, good day, and welcome to the Cholamandalam Investment & Finance Company Limited Q1 FY23 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. Mahesh from Kotak Securities. Thank you and over to you, sir.

Mahesh: Thank you, Ranju, and good morning to all who have joined the call today. We welcome you all to the Earnings Conference Call of Cholamandalam Investment & Finance Company Limited. Your usual moderator Nischint has had to step out today, and I shall handle today's session.

To discuss the first quarter's performance of Chola and share industry and business updates, we have the senior management with us today. We have Mr. Vellayan Subbiah, the Chairman and Non-Executive Director, Mr. Ravindra Kundu who is the Executive Director, Mr. Arul Selvan – the President and CFO. I would now like to hand over the call to Mr. Vellayan for his opening comments, after which we shall take the Q&A. Over to you, sir.

Vellayan Subbiah: Thanks, Mahesh, and good morning, everybody. So, just quickly jumping into quarter results, disbursements for the quarter were at Rs.13,329 crores, which is up obviously by 267% just because of the base effect from the last year. Total AUM is at Rs.86,703 crores up by 14% YoY. NIM, net income margin is up at Rs.1,640 crores, which is up 19% year-on-year, and the PAT is at Rs.566 crores, which is up 73% year-on-year.

Overall, consumer confidence continues to improve with the Indian economy growing at 14 to 15% in spite of higher-than-expected inflation and tightening of monetary policy by RBI and Chola delivered its best ever first quarter disbursals, collections and profitability with domestic auto sales zooming by 55% in the current quarter albeit on a low base and sustained growth momentum in residential unit sales.

Like we said disbursements are at Rs.13,329 crores and Q1 FY22 was impacted by COVID which is why it was lower in that quarter. But getting into the individual businesses, Vehicle Finance disbursements were at Rs.8,562 crores in Q1FY23 as against Rs.2,846 crores in Q1FY22, which is a growth of 201%.

Loan Against Property including Affordable LAP disbursed Rs.2,169 crores in Q1FY23 as against Rs.386 crores in Q1FY22, which is a growth of 462%. The Home Loan business basically disbursed Rs.478 crores in Q1FY23 as against Rs.199 crores in Q1FY22, which is a growth of 140%. SME disbursed Rs.1,030 crores in Q1FY23 as against Rs.204 crores in Q1FY22. Our new businesses, which are Consumer and Small Enterprise Loans and Secured Business and Personal Loans registered disbursements of Rs.1,055 crores and Rs.36 crores respectively in Q1 FY23.

AUM stood at Rs.86,703 in Q1FY23 crores as compared to Rs.75,763 crores in Q1FY22 and PAT like I mentioned was at Rs.566 crores in Q1FY23 compared to Rs.327 crores in Q1FY22 a growth of 73%. The PBT ROA for Q1FY23 was at 3.7% as against 2.5% of the same period last year and ROE for Q1FY23 was at 18.9% as against 13.5% of previous year.

The company continues to hold a strong liquidity position with Rs.5,113 crores as cash balance as at the end of June 2022 (including Rs.1,500 crores and Rs.200 crores invested in GSEC and T-Bill, which are shown under investments) with a total liquidity position of Rs.11,324 crores (including undrawn sanction lines). The ALM is comfortable with no negative cumulative mismatches across all time buckets.

Consolidated PAT for the quarter was at Rs.562 crores in Q1FY23 as against Rs.329 crores, which is a growth of 71%.

In terms of asset quality, at the end of June 2022, Stage-3 assets stood at 4.16% with a provision coverage of 40.69% as against 4.37% as at the end of March 2022 with a provision coverage of 39.67%. Total provisions currently carried against the overall book is 2.92% as against the normal provision levels of 1.75% carried prior to the COVID-19 pandemic.

Management overlay is now at Rs.528 crores in terms of provisions carried on the books.

As per the revised RBI norms, the November 12th circular of last year, the GNPA and NNPA percentages at the end of June 2022 stood at 6.31% and 4.35% respectively. We carry Rs.736 crores higher provisions under Ind-AS over IRAC. As per prevailing IRAC norms, the GNPA will be similar to the Stage-3 numbers given above. The details of stagewise assets are available as part of the overall release.

The Capital Adequacy Ratio for the company was at 19.15% as against a regulatory requirement of 15% and Tier I capital was at 16.3% as against the regulatory norm of 10%.

So, Mahesh, I will stop with that. We'll be happy to take questions from our side.

Mahesh: We can open the floor for questions now.

Moderator: Thank you. We will now begin the question-and-answer session. The first question is from the line of Shreepal Doshi from Equirus. Please go ahead, sir.

Shreepal Doshi: So, first, we wanted to understand what is the outstanding restructured book now?

Arul Selvan: The outstanding book stands at around Rs.3,400 crores which was at around Rs.5,800 crores earlier when we did initially. It is down Rs.3,400 crores now.

Shreepal Doshi: Just the second question on the same line. So, what would be the write offs that we would have taken from the restructured book during this quarter?

Arul Selvan: See the restructured book has shown no stress and is similar to the normal pool. It is progressing in the same way. As you know that we have discussed this earlier also, the moratorium given in the restructured books are very small ranging predominantly to one month to three months at most. So, all these we started tracking as part of our normal book itself and so the Stage-3 numbers which are already there corresponds with whatever is in the restructured book also.

Shreepal Doshi: It has been guided for less than 4% net NPA number for the year end. So, keeping that in mind, what will be the credit cost that we will be building for the year?

Arul Selvan: Credit cost which is, currently, we are seeing it around 1.2% will be the level. So, as I have told even in today's morning call, we will range anywhere between 1 to 1.5% over the cycle and we should be at the pre-pandemic levels now.

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

Abhijit Tibrewal: My first question is to Ravi sir. Sir, if I kind of look at the texture of the vehicle finance disbursement, so, basically, I'm looking at the different sub-segments. So, pre-owned vehicles, SUVs and construction equipment are the three segments whereas we are sequentially declining. Again, I understand there is the seasonality expected. Not really fair to compare Q4 to Q1, but, I mean, having said that, I just wanted to understand that these 3 product segments, used vehicles, SUVs and construction equipment, are they seeing a lot of aggression from banks and some of the other registered NBFCs? And how should we kind of read this? That's my first question to you, sir.

And second question is, I mean, how is the demand in tractors right now? There are a few other your peer NBFCs were suggesting that the demand will cut. That is very, very strong while when we talk to some of the auto guys, they don't kind of suggest the same thing. So, if you can just kind of give some color on the tractor demand?

Ravindra Kundu: Heavy commercial vehicle and construction equipment, the strategy customer or group customer or top of the pyramid customer or large fleet operator customers are always being funded by banks only. We were always financing the retail customer, and that's the reason if you see that heavy commercial vehicle and construction equipment, our market share has been small as compared to the light commercial vehicle and used. So, when the strategic customer or large fleet operator purchase the vehicle, the banks are funding it only, and at this juncture the majority of the sale which is happening is because of the replacement demand coming out from the strategic customer or large fleet operator.

So, the banks are operating, but after some time when the freight availability and capacity utilization of the retail customer improves, then the retail customer also will come, which will further drive the growth, because initial drive of the commercial vehicle or construction equipment growth comes from the large fleet operator followed by the retail customer, and that point in time, we also get into that.

Having said that, we also see that our market share has gone up in heavy commercial vehicle and construction equipment because our customer segment also, you know, some parts of the country started actually participating in purchase. That is from HCV and construction equipment.

In the case of used vehicle, the used vehicle business is actually growing much faster because even the strategic customer or large fleet operator who are actually buying the vehicle are not adding the fleet but replacing the fleet. So, they are continuously selling their existing vehicle and retail customers are buying, and that's the reason retail customers are not buying a new vehicle. So, till such time you will see that, you know, used business is going to grow and we are expecting that this year used business will continue to grow.

Now, coming to the tractor, tractor, monsoon has been good and as overall average, it is higher than the 100%, but Bengal, Jharkhand, Bihar and Uttar Pradesh are not having that kind of monsoon. It is slightly deficit. So, we need to wait for that because these are the larger market for the tractor. Once that monsoon is actually completed by say August, September end, we will be in position to say that how much demand strongness is there. However, as of now, the last quarter we saw 16% growth and is driven by Madhya Pradesh, Rajasthan and some of the market where monsoon has been very good. We are hoping that, you know, the rest of the four states where tractor sales have been good in the past or they are actually producing more Kharif will also have a better monsoon and that will further grow, will drive the tractor growth in this financial year.

Abhijit Tibrewal: So, my last question is for Arul sir. If I kind of look at the runoff that you are seeing in the loan book, you have suggested kind of in last quarter that it will be mean elevated for the next two quarters which is predominantly H1 of this fiscal year and then it should revert back to the normalized levels. We have already seen that normalized or kind of come down in this quarter. So, how should we kind of think about it? I mean, that's how it will progress that it will remain slightly elevated for the second quarter and then start normalizing in the second half of this fiscal year.

And sir, secondly, if I look at the write offs, what was the quantum of write offs and the recalculated write offs, I mean, it looks like slightly elevated, nothing alarming, slightly elevated compared to, let's say, the pre-COVID levels. So, how should we kind of think about it? Those are the two questions.

Arul Selvan: Yes, the runoff will be there for one more quarter for vehicle finance and it will be actually not even visible in the LAP as well because the write-offs has been higher both in Q4, but in Q1, it has not been there for vehicle finance other than the repo sales related. So, those are normal quarter-on-quarter levels. The 1.2% on the credit cost, we are conservatively saying that those levels will be maintained over the quarters because you will see that in Q2 continuing, but Q3, Q4 should be better.

Abhijit Tibrewal: And sir, lastly, your Tier I is 16% now and the kind of growth that we are seeing now, while you always have that room of raising Tier II capital, I mean, any thoughts of a primary equity rate over the next 12 to 18 months?

Arul Selvan: No, we have very clearly articulated that unless the Tier I one goes down below 13%, we will not be seeking capital. I think we stick to that stance.

Moderator: Thank you. Next question is from the line of Bharat Shah from ASK Investment Managers Ltd. Please go ahead, sir.

Bharat Shah: Given the kind of new lines of the business that we are attempting to build up and given our traditional strength areas, what kind of a cycle sustainable ROA, pre-tax ROA we see it as a range, or which is part of our business model?

Arul Selvan: Yes, I think we should be there in the 3.5 to 4% levels. We commit to that, and we stay committed today. But there is scope to improve, but right now we do not want to take conservatively any call on that.

Bharat Shah: Actually, it was 3.5 to 4% range.

Arul Selvan: I'm talking pre-tax ROTA, yes.

Bharat Shah: Yes. Pre-tax I'm talking of.

Bharat Shah: And given the kind of potential growth that we see in our lines of activity plus the new lines, what kind of leveraging compared to our networth we think will be a point for capital raise? I mean, typically, what will be sustainable level of leveraging we will prefer to keep before we go into a new capital raise?

Arul Selvan: We are currently in the six times debt equity levels. We will continue to be around the 6 to 7 times levels because that would be the number. Actually, 13% or the sub 13% levels will take us to 8 times, but we don't intend to do that. So, we can comfortably be in the six to seven times band. That's the way we are wanting to look at. More importantly, the new businesses churn more because they are shorter tenure. So, I don't see the debt equity will be significantly impacted because of scaling up the new businesses.

Bharat Shah: So, 150 net worth in about six rupees borrowing, so Rs. 7 of total capital.

Arul Selvan: Up to seven. right now, now it is around 5.9 times. Yes.

Vellayan Subbiah: If I go up to 7, which means Rs. 8, sir.

Bharat Shah: So, potentially, up to Rs. 8 of total capital and 3.5 to 4% range of ROA pre-tax, which means about close to 2.7 to 3% post its return, and therefore about sustainable ROE of about 20%.

Moderator: Thank you. The next question is from the line of Sharaj from Laburnum Capital. Please go ahead.

Sharaj: My question was around the GNPA and the Stage 3 numbers which were reported. So, when the new norms coming from 1st of October, our GNPAs will be the Stage 3numbers, right? You can see the reporting right now is only for to report the numbers. They won't be applicable.

Arul Selvan: We have given you both the numbers. The Stage-3 numbers right now which is shown will be the pre or the current prevailing levels of net NPA and the gross NPA as per IRAC norms. The new norms if it comes through and where we put through the numbers, we will be at a net NPA of 4.43% and at the overall level, we will be at 6.31% of the gross NPA as we closed June. The details are available in Page 26 of the investor presentation. Kindly run through it.

Sharaj: Sir, just my question was actually reported the new, under new norms the NPA'S will be 6.3%, but as on 1st of October, when the new norms actually kick in, so the effect will start coming in for that, right? So, the Stage 3 should be your gross NPA numbers as on that date. I mean, so, if they were to come in from today, your GNPA as on date will be--

Arul Selvan: So, this is a debatable point. See the gross NPA as per RBI is different from the Stage-3 numbers which is as per Ind-AS. That is why we are giving it as Stage-2b and Stage-1b if you see. Those two, if you add, they are really under Ind-AS to Stage-2 level of asset, because they are less than 90 days. 90 days and above is shown as Stage-3. Less than 90 days and more than 30 days is shown as Stage-2 and less than 30 days is shown as Stage-1. So, those assets which have touched NPA and or in these brackets will be shown in the Stage-2b and Stage-1b respectively, and if you add all three, you will get the net NPA as per RBI. We intend to present it as such unless the regulator wants us to group everything under Stage-3.

Moderator: Thank you. Next question is from the line of Rikin Ketan Shah from Credit Suisse. Please go ahead, sir.

Rikin Ketan Shah: I had a couple of questions. First one was on the asset yields in the vehicle finance business. If I look at the presentation, it seems to have come off by 50 basis points sequentially QOQ. So, any trend or color there? Is one offs included there? That's first one. Second one, are the employee head count is up sharply, right? So, in last one year we would have added around 8,000, but I understand that that could be a mix of on and off payroll. So, any split between that? Did I, just a clarificatory question relating to the restructured data, hear correctly, that the book is currently around 3,400 crores now? And one last question is for Kundu, sir. On the vehicle finance business side, while I understand the disbursements are strong, but the outlook seemed to be a bit more cautious pertaining to lower freight availabilities, uneven landfall etc. So, are we expecting slowdown in the disbursements in the quarters ahead? That's all.

Ravindra Kundu: So, I'll just start from the vehicle finance. In the vehicle finance industry shown 115% growth from the commercial vehicle and passenger vehicle did 41% growth, and so did the other product like two-wheeler 54% and three-wheeler 224%, tractor 16% and construction equipment 16.1%. So, if the industry is growing in this space for this financial year, we might touch the previous peak in terms of commercial vehicle and passenger vehicle and maybe in two-wheeler. So, subject to that, we will definitely grow at the rate of 35%. If industry is growing at the rate of 35%, we have an opportunity to grow slightly higher than that because there will be a value growth in terms of inflation and cost of the vehicle and also little bit market share growth will be there.

So, this is what is the industry and now we have given you the sector outlook where we have given product by product, what is expected in terms of good and bad and in terms of tractor, suppose I am just giving you the example. You can go through the total outlook of Chola given in the presentation. So, in overall, monsoon has been very good. Actually, it is higher than the 100% last year and then but there are four state which is actually selling more tractor is now going through the deficit of monsoon. So, unless that gets corrected in next two-to-three-month time, we cannot say that for full year, tractor sales will be very good.

Secondly, if the crude oil prices are at this level and it doesn't go up and it goes down, then obviously, the growth way of the commercial vehicle projected will be achieved. It might go up further. Similarly, the consumption increases, and rural demand actually improve because of the better margin, better agricultural growth. Then again, it will further improve the sale of two-wheeler, three-wheeler, even cars and MUV in the rural market.

However, as of now whatever industry is showing up, we can safely say that the industry is going to grow in this year in terms of number, 35% over last year, and we will be doing better than that, but we need to also keep those things in the mind that which can actually create problem for us. That's the reason we have given the mixed type of outlook. That is from the vehicle finance side.

Rikin Ketan Shah: One was on the employee head count addition. So, just wanted to get a flavor on the increase between the off payroll and on payroll? And what could be the salary differential between them?

Arul Selvan: The salary differences and all we cannot get into now.

Ravindra Kundu: But that is mainly because of the new business.

Arul Selvan: Yes, that's because of new business.

Vellayan Subbiah: New business.

Ravindra Kundu: And housing finance is also expanding out of south. So, they are also recruiting people.

Rikin Ketan Shah: And anything on asset yield, sir? In the vehicle book, it came off by 50 basis points.

Ravindra Kundu: It will go up now slowly. Marginal book is started growing. Overall book yield, it is the lag of six months. So, marginal book we started growing and there is a difference in the mix like, you know, at this juncture when all the new vehicles are getting sold more and more because that is the industry sales, we have to participate in that as well. So, overall yield is depending on one is the mix and second is the overall yield is also depending on the time when we take it to increase it.

Moderator: Thank you. Next question is from the line of Subramanian Iyer from Morgan Stanley. Please go ahead, sir.

Subramanian Iyer: I have two questions. The first one is, what is your observation on loss given default vis-à-vis the 40% Stage-3 coverage you have considering that most vehicle financiers seem to be taking accelerated write-offs and there might be a large pool of repossessed vehicles for disposal in the market? That's my first question. The second one is how much room do you have in your ALM in terms of moving the mix to CP to limit the rise in your portfolio cost of funds in the near term? And at a product level, how much margin compression do you expect through the cycle? Or can you pass on the entire cost of funds increase to customers?

Arul Selvan: The loss given default in the case of repo vehicles is in the range of around 32%. Sorry, the loss incurred in the case of sale of vehicles is around 32%. So, our provision coverage is significantly higher and gives us enough head room to cover any volatility there.

The second thing is on the CP headroom. CP head room, we can go up to 15% of the borrowing book. We are right now at around 4%.

Subramanian Iyer: I think it's 7%.

Arul Selvan: Sorry, 4% was the last quarter. Yes, 7%. So, we have another 7 to 8% that we can go, but we may not go all the way up, but we'll be in the range of around 10 to 12%.

Subramanian Iyer: And at a product level, do you think you can hold the, I mean, your margins by passing on entirely to the customers?

Ravindra Kundu: Yes. What is LAP and vehicle, or housing finance is a floating rate which we are doing it.

Vellayan Subbiah: So, basically, vehicle is a fixed book, but then the other two books are where we basically pass.

Subramanian Iyer: Through the cycle, would you be able to pass?

Ravindra Kundu: Vehicle finance product level marginal rate only will go up. As and when we do business, that will go up, but in the vehicle finance, main important role play is by the product mix. So, how much we do with the high yield business versus low yield business is important for arriving at an overall yield and we are changing the product mix towards the high yield book continuously. So, that will help us to increase the yield in next six to nine months' time because there is a lag between marginal book yield and the overall book yield. Housing Finance and the Affordable Housing and LAP will be instantaneous where we increase the rate as and when the prices of the cost of fund goes up.

Moderator: Thank you. Next question is from the line of Nidhesh Jain from Investec. Please go ahead, sir.

Nidhesh Jain: On the new businesses, specifically in consumer and SME, in consumer, what percentage of origination that we are able to do through our own branches, our own origination? And in SME, how much of disbursement are we able to do outside of the Murugappa Group?

Ravindra Kundu: Consumer business or SME business, all we are doing it from the branches only, and with respect to the Murugappa Group versus open market book, only supply chain finance, 50% of supply chain finance is actually related to Murugappa Group. Rest is via open market. In SME, we have three products. Supply chain finance, term loan and equipment finance. So, supply chain finance is almost 30% of the overall book and out of 30%, 50% goes out of Murugappa. That's the number.

Nidhesh Jain: So, in consumer loans, 100% of business is through our own branches now. Is that correct? CSEL?

Ravindra Kundu: See all we have existing infrastructure of vehicle finance wherein 127 branches we have opened up. Those from 127 branches, from there they are almost covering 500 towns of the vehicle finance. So, you can say that 50% of the branches of vehicle finance being now covered by CSEL from 127 hubs and they have three models. One is the DSA model, D2C model and then the partnership model. All three models, they are utilizing it to acquire the business.

Nidhesh Jain: If you can share what percentage of business coming from partnership model, which would be helpful under CSEL?

Ravindra Kundu: One third of the deals are coming from partnership.

Moderator: Thank you. Next question is from the line of Kaitav Shah from Anand Rathi. Please go ahead, sir.

Kaitav Shah: Sir, if you can explain what are the number of new customers that have got originated in the new model under the new business?

Ravindra Kundu: Almost 100,000 customers.

Vellayan Subbiah: In the first, 1.6 lakhs customers.

Ravindra Kundu: From one business.

Vellayan Subbiah: From one business. So, basically, let's just say kind of let's say about 2 lakhs across all the businesses.

Kaitav Shah: And these are the new?

Vellayan Subbiah: New customers.

Kaitav Shah: Non-vehicle or non-LAP customers?

Vellayan Subbiah: Yes. The customers that don't have, we don't have any other loan with.

Kaitav Shah: Versus what would that run rate be say last year? Just an offhand number.

Ravindra Kundu: Last year it was 60,000 vehicle finance only as of new businesses were not there till Quarter 1.

Vellayan Subbiah: So, this quarter had about 1.8 lakhs from vehicle finance and 1.8 lakhs or about 2 lakhs from all the other businesses.

Kaitav Shah: Sir, second question was related to your partnership arrangements. So, the customer ownership is with the partners or with Chola? Just trying to understand the model here.

Ravindra Kundu: Chola.

Moderator: Next question is from the line of Shweta Daptardar from Elara Capital. Please go ahead.

Shweta Daptardar: My first question is for Kundu, sir. Sir, as far as the vehicle finance disbursement mix is concerned, why have the used vehicle financing loans quarter-on-quarter declined? I mean, is it the Q1 phenomenon or categorically, we have chosen to sort of take a cautious step? If it's the latter, then why so? And my second question is on the LAP front. So, what is the normalized loan loss provision we are looking at? Because that's been quite erratic for a while and therefore, that's also weighing on the overall, not only the overall profitability, but what is to then the ideal PBTR that we are looking at? So, why have been the decline in used vehicles financing disbursements quarter-on-quarter as against the industry cues which have been pretty buoyant?

Ravindra Kundu: Like you see that our product mix in terms of portfolio page number 51, it's in the page number 40 where the--

Shweta Daptardar: 41.

Ravindra Kundu: 40 is the portfolio. Right-hand side is the product portfolio and left-hand side that is the disbursement portfolio. Used vehicle, the product portfolio in terms of our asset under management is 27%. As against that, we have done 29%. So, our disbursement is higher than the mix of the current mix. So, disbursements are higher than that. If you see that tractor is 10% in terms of our portfolio, but in terms of disbursement, it's 8%. So, that way you can say that tractor we are little cautious as again the portfolio mixes in terms of disbursement, but in terms of used business, we are higher than the portfolio in terms of disbursement. That shows that we are quite aggressive in terms of used.

Shweta Daptardar: So, maybe Q4 was always has been a stronger one. So, maybe that base was pretty high.

Ravindra Kundu: Yes, you are right. In the Q4 to Q1, you can say that there has been drop in used business, but that is because of the mix. In this first quarter, if you see that new vehicle sales have picked up significantly, and this has been a first time in April, May, June, it has been such a best quarter for the new vehicle sale. So, when you participate in new vehicle sale, your overall disbursement mixes actually get steered towards the new one. That is the difference. Nothing else. Otherwise, if you see our portfolio versus our disbursement, our disbursements are higher than the portfolio.

Shweta Daptardar: And just one question. They're related. Are we number two in terms of market share on the used side? Am I getting it right?

Ravindra Kundu: Yes.

Shweta Daptardar: Sir, my next question is on LAP front.

Ravindra Kundu: Loan Against Property, what was the question?

Vellayan Subbiah: It was on, what is the normalized loan loss provision?

Suresh Kumar S: See last two years if you look at it in the Investor Presentation, it's showing about 0.7 and 1.2 considering the COVID situation, but at a normalized situation, it could be about 0.4 to 0.5 is at the portfolio level.

Shweta Daptardar: Do you have any targets in mind for PBT ROTA for LAP?

Ravindra Kundu: We are expecting Suresh to deliver at least 3.5%.

Suresh Kumar S: So, 3.5 is the expected ROTA. Currently, for the current quarter, we are at 4.7, but that's primarily because of the Sarfaesi reversal**s** on a steady state we are expecting at a 3.5% growth.

Ravindra Kundu: 3.5 to 4%.

Moderator: Thank you. Next question is from the line of Param Subramanian from Macquarie. Please go ahead.

Param Subramanian: I wanted to ask firstly on the restructured book, so you've classified, I think, it's largely in Stage-2, and I think it's largely reaping based on the commentary that you've provided. So, how long will we continue classifying this in Stage-2? And do we plan to classify this back to Stage-1 and reverse the 11% sort of provision cover that you have here? That's question one.

Question two is again on the vehicle finance yield decline quarter-on-quarter. Could you explain again, what was the reason for the vehicle financial yield decline? I didn't get the part on the marginal book. Are you saying the marginal book yield is lower than the existing book? So, I just wanted to understand that.

And thirdly, I also wanted to understand on the credit cost, you know, what was the reason for the spike in the quarter and if you could quantify the write offs in the quarter? Those are my questions.

Arul Selvan: We started moving those restructured books which have repaid more than 30% of the original asset at the time of restructuring. So, during the quarter, we have moved around 50 crores of the restructured book to Stage-1 because they completed repaying more than 30% of the costs outstanding on the date of restructure. We will do that every quarter as they repay more than 30% levels, which is what is given by RBI as a guidance. The rest of the book is shown in Stage-2, and some had moved into Stage-3. So, this is the rate that **we will be looking.** And of course, there is a lot of also around 1,500 odd crores have got repaid or settled out.

The spike in credit cost this time is also because for the first time we have also started providing on the macro factors. So, far during the COVID period, when we started measuring the micro impact, the macro impact had been negative. That is, it was resulting in a reversal of provision though we did not take reversals and kept them. We did not provide anything additional. This quarter, what has happened is because the interest cost hikes and then there are uncertainties, the macro model threw up a provisioning requirement of around 50 crores, which we have provided additionally as part of the ECL, and that's the reason you see the spike happening.

Ravindra Kundu: As far as the book yield is concerned of vehicle finance, before it was 13.99 and Q1 it is 13.91. It is almost same level. Before that in Q3, it was 14.26. So, from Q4 onwards, we started seeing that the new vehicle sales have picked up. So, when new vehicle sales pick up and because of the mix of the same to overall the marginal yield is lower. Otherwise, it is almost same level. It is not gone down.

Param Subramanian: Kundu, sir, if I could just interfere, sir? So, the income yield you provided and vehicle finance in the slide, so it is down 50 basis point QOQ. So, that's the number I'm looking at. So, the income yield that you provided in the slide on vehicle finance.

Ravindra Kundu: Which slide you are saying, referring to?

Param Subramanian: Sir, 15.4 has gone to 14.9 on vehicle finance income yield.

Arul Selvan: That is quarter-on-quarter. This is not Q4 versus Q1. You were talking, I think, the comparison between Q1 versus Q1. The mix was completely different and that was a very small book at that time.

Vellayan Subbiah: It was the COVID book, right?

Arul Selvan: They were all influenced by the large quantum of tractors in the book at that point in time. So, it will keep changing based on the mix of the book. Of course, there has also been some small reductions in the yield, but now we will be pushing up the marginal yield as we see the interest rate hike coming up. In a downturn, when interest rates are dropping, you will see that progressively, the book will show the impact over the next few quarters of the drop because the book has to change.

Param Subramanian: Sir, just one last part on the macro provisioning. Is this something that will recur quarter-on-quarter? Or is this you're looking at more as a one-off for this quarter? That was my last question.

Arul Selvan: No, the macro, there is a model we have built that factoring in the various macro measures like GDP and consumption and industrial growth etc., and the influence on each of the portfolios that they have. Basis that the model throws up and it takes into consideration the impact of the sub-change over another one quarter or two quarter or three quarter down the road and that's how the model throws out what is the macro provision required for each of the sub-segments and that's how we measure it. And when it comes that it can, there will be reversals, we don't consider reversals, but when it throws up that there is a requirement, we provide for it. And we continue using this model as we go away, because it's an integral part of the INDAS model of provisioning.

Vellayan Subbiah: So, I think, if you take from that, it's not the intent to provide every quarter, but it depends on what the actual kind of variables indicate for the future outlook.

Moderator: Thank you. Next question is from the line of Jignesh Shial from Incred Capital. Please go ahead, sir.

Jignesh Shial: Just one data point. Sorry, I missed out. I joined a little late, but are you giving the slippage recovery and write off number for the quarter and for the last quarter, either total or the business wise, whatever is available? Can I get the slippage recovery and write-off number for the quarter and for the last quarter, if it is available, or you are giving it?

Arul Selvan: We can tell you now. Normally, we don't give it, which is around 148 crores this quarter, and last quarter is around 200 crores.

Jignesh Shial: This is net, right?

Vellayan Subbiah: Net.

Jignesh Shial: This is net slippage you are saying? This was slippage number you are saying, right?

Arul Selvan: Write off.

Jignesh Shial: Write off, okay. What is the slippage?

Arul Selvan: See, there are only two components. One is write off. The other one is the provision accretion or reduction if that moves with the model and the NPA number. So, if it moves up, the provision is more, NPA moves down, but that is more a notional number. Write off is the crystallized loss then.

Jignesh Shial: And second question had been you acquired Payswiff last year. So, how that particular business is accommodative to us and how we are basically using it up? If you can give some color on it that this fintech part, how it is helping us out or what we are doing with this business, if you can use some color on it, if possible, that would be really useful?

Vellayan Subbiah: I think, broadly, it's still early days for Payswiff. The intent and that still continues to be our focus, is that they deal with a particular profile of SME customer, and you know, they have a fairly large distribution capability into those customers using both a combination of a direct sales model and a partnership model. In some of the partnerships, we do have access to that customer base and some we don't. And the intent is to, basically, once we get some history with those customers to start a lending book on top of that. So, like we said, this will take some, a little more time because we need to first develop the capability. We have enough data on those customers that we can start a lending book and once we have that, then the intent is to basically see how a combination of a payments product and a lending product can be driven to expand up our penetration in the SME segment.

Jignesh Shial: If I can squeeze in just one more thing, so this customer will be more catered through your new business line, right? Rather than vehicle and housing and LAP, this is more towards the new business lines that you will be getting to this customer. Is that understanding, correct?

Vellayan Subbiah: Absolutely, that is correct, and that's what we've articulated as well, that the intent is to really focus on how we expand both the consumer and SME ecosystems, which is why you can see the partnership model that we have talked about for both our consumer and small enterprise loans business and in some cases, a structure like this is what we're going to focus on to improve our penetration in those segments.

Jignesh Shial: So, considering the kind of growth we are seeing in the new business, gradually, the overall portion would be tilting towards new business as well. So, the mix would gradually be changing over the next two or three years. This would be a fair assumption to make, right? So, right now the dominance which is there in vehicle will gradually be more granular in nature for Chola as a whole.

Vellayan Subbiah: Well, I do not think the mix shift will be so different in two to three years, but the intent is to move it over a period of time. So, we would like to take a longer-term horizon on that.

Moderator: Thank you. Next question is from the line of Bunty Chawla from IDBI. Please go ahead.

Bunty Chawla: Can you throw the guidance on the AUM growth path because last year, there was a pressure on the prepayment, repayment. This year should be the normalization for that year and disbursement growth are picking up. So, if you can share your thought process on that? Secondly, sorry for the repetition. I missed the write-off number. If you can repeat that number for me?

Ravindra Kundu: If you just see like we mentioned that in vehicle finance, if industry delivers 35% growth over the last year, obviously, vehicle finance will grow much better than that, and in that case, we will get opportunity to grow more than 20% because 70% book is vehicle finance. In any case, LAP and housing finance, they are growing over 20% as of now. So, only thing is that the moment vehicle finance starts growing at the rate of 20%, it will actually improve the overall growth. We have done well in the Q1 if you have seen that as compared to the last quarter. So, I am expecting that the industry will support this year and will come out of the higher rundown obviously in the second quarter. So, both put together, we likely to go grow safely 20%.

Vellayan Subbiah: And like we said, there is one more quarter of runoff to be had. So, early in the second half we will start seeing significant movement.

Bunty Chawla: And sir, write off number if you can repeat for me?

Arul Selvan: 148 crores.

Vellayan Subbiah: 200 crores we have.

Ravindra Kundu: 148 crores is in Q1.

Moderator: Thank you. Next question is from the line of Alpesh from IIFL Securities. Please go ahead.

Alpesh: Just two questions. Sir, what is the average duration of this new portfolio that we are adding into our balance sheet? That is first. Secondly, in the Home Loans business, I see the new purchases portfolio being stable between 1,300 and 1,400 crores in last few quarters and the self-construction is increasing. So, any specific reason on that? So, the Home Loans portfolio mix when I see the share of the self-construction is over the last seven, eight quarters is increasing whereas the new purchase share is coming down, and in the absolute value that number remains between 1,300, 1,400 crores for the last few quarters. So, any specific shift in the business focus there? And lastly, I just wanted to check so now with all this moratorium etc., being over, can we see the repayment and the prepayment rate across businesses being pre-COVID levels in interest of FY23 now?

Ravindra Kundu: Housing, Affordable Housing, self-construction has been the focus area and we have further actually improved that and in housing, affordable housing, we were mainly working in the south zone, and we started in the rest of the country. In the rest of the country, mix was slightly lower which we have now changed towards self-construction. That is what is the affordable housing.

Alpesh: And sir, what should be the average ticket size for that self-construction portfolio for us?

Ravindra Kundu: fourteen lakhs.

Alpesh: fifteen lakhs?

Ravindra Kundu: fourteen lakhs.

Ravindra Kundu: In consumer and small enterprises, we have mentioned that there are three verticals, there are three channels. One is partnership channel and DSA, DST and D2C channel and partnership we are doing 33%. Whatever we do in the partnership mainly is a consumer loan or personal loan, which is a short term and a small ticket size, which is hardly three to six months tenure. But in the case of balance 60%, which is a traditional loan, which goes up to five years. So, we have both the products in the consumer side. So, 33% is a small ticket, a small tenure. Balance 66% is a normal ticket size and up to three years is the average.

Alpesh: And the last question related to that prepayment, repayment rate, are we formally back to the pre-COVID levels? And during the COVID whatever the disruptions related to the changes into the payment schedule, are those been addressed now completely?

Ravindra Kundu: That's equipped, you know, the collection has been back. We have been doing 114% of the billing collection and 99% in terms of x bucket collections. Billing collection is going on very well. That is the reason if you've seen that in stage-2, stage-3 is coming down. It will further improve actually in time. Quarter 1 and Quarter 2 are always the lean collection. Collection picks up from after the festival. In spite of that, this year, we have done collection in June quarter and expecting that September quarter also will be good. The next quarter collection will happen in December and March quarter.

Moderator: Thank you. Next question is from the line of Mahesh. Please go ahead.

Mahesh: Just two questions from my side. One is, we see some pretty healthy new vehicle sales of commercial vehicles in the market and yet at a system, at the industry level, we still see overdue still not reached pre-COVID. If you could just kind of tell us some qualitative answers as to what could explain this those lenders are taking some time out to clear out the inventory of overdue loans in the market?

Ravindra Kundu: Talking about the new vehicle sales picked up but the overdue of the customer has not come down, that is what you're saying?

Mahesh: Yes.

Ravindra Kundu: It's obvious people who have actually missed out during the COVID period gone into six or nine bucket, they are continuously paying one or two EMI, but it will take at least six to nine more months to come back to the normal level. However, the new requirement from the market mainly driven by the large fleet operator from the heavy commercial vehicle and construction equipment point of view has gone up and as a reason, they are driving the number, but this particular drive of growth cannot be sustained unless the retail customers start coming up. So, we are expecting that the retail customer who only purchase the used vehicle will start coming back to the market after the second half, maybe after the festival subject to the mansion has been good and agriculture growth is there supported by GDP growth. So, the current number is driven by the large fleet operator in commercial vehicle and subsequently, the retail customer will drive it.

Mahesh: And one last question from my side, and there is a reasonably strong difference between the way market is seeing the macro backdrop for next year. Yet lenders are reasonably optimistic of the situation on the ground. How would you reconcile the two when you are building your business for this year? And how can the portfolio be protected for next year in case there is a slowdown out there?

Vellayan Subbiah: Yes, I think it's very difficult to, I mean, to actually say what is going to happen, right, in terms of, I think, too many people are trying to predict, and we don't know how to predict. So, we are basically not trying to formulate this view and so that's why even Ravi if the market grows at X, this is what we will end up growing at, which will be slightly more than the market. But what's actually going to happen, I don't think anybody can say at this stage. I mean, like, it looks like basically kind of everybody who looks too much at the west has got kind of the view that recession is coming around, but it also looks like it won't be as pronounced in India as it is kind of globally, and that might be causing some of the bullishness, but that's not how we are driving internal behavior. It's kind of actually driven by what we are seeing on the ground and that's what's kind of driving most of what's happening for us.

Moderator: Ranju, you can close the call for now.

Moderator: Thank you. Due to time constraints, we have reached the end of question-and-answer session. I would now like to hand the conference over to the management for closing comments.

Vellayan Subbiah: Nothing specific from our side. Thanks a lot for joining and we look forward to seeing you next quarter.

Moderator: Thank you. On behalf of Kotak Securities, which concludes this conference Thank you for joining us. You may now disconnect your lines.