



“Cholamandalam Investment and Finance Company Limited Q3 FY21 Results Webinar”

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Mr. Ravindra Kundu – Executive Director, Cholamandalam Investment & Finance Company Limited

Mr. Shaji Varghese – President (Housing Finance), Cholamandalam Investment & Finance Company Limited

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Moderator: Mr. Nischint Chawathe – Kotak Securities Limited

Nischint Chawathe: Good morning everybody. Welcome to the 3Q FY 21 Earnings Conference Call of Cholamandalam Investment & Finance Company Limited. To discuss the financial performance of Chola 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 VP and Business Head LAP & SME and Mr. Arun Selvan - Executive Vice President and CFO.

I now hand over to Mr. Vellayan for his opening comments after which we can take the Q&As.

Vellayan Subbiah: Good morning everybody and welcome to the call. Thanks again for joining us on a day when there is clearly going to be a lot of action after this. Just to give you some a quick update on the results and then we'll be happy to kind of turn it over to Q&A. Our total AUM crossed 75,000 crores and it was up by 15%. NIM for the quarter was at 1,364 crores and that was up by 26%. PAT for the quarter was at 409 crores that was up by 5% and we'll discuss kind of why that is spread later. Basically, in terms of Q3 performance we will go through quickly and then come back. You've seen the numbers in detail; the biggest kind of difference obviously is when we compare it like-on-like versus last year. We had overall higher net income but also higher overall loan losses as a result of coming out of moratorium. So, we had 445 crores in loan losses which then resulted in PBT of 551 crores for the quarter and 409 crores for the year.

Overall though I would actually say that the loan loss behavior coming out of moratorium is in line or slightly better than what we expected it to be. I would actually say in our main business vehicle finance definitely it's been better than what we expected it to be and though kind of obviously we've had a fair share of kind of changes in what's moved to stage 3 as we've kind of come out of moratorium.

Disbursements in just one point note on the loan losses that we've indicated that includes additional COVID provisions of 216 crores for the 9 months ended 31 December 2020.

The total COVID provisions that we're holding on our book as of December 20 is 750 crores. So that's another point to note in terms of what we're holding for COVID. Aggregate disbursements for the quarter were at 7926 crores as against 7475 in Q3 FY 20. That's a growth of 6% and disbursements for year-to-date December 2020 were at 17972 as against 23429 which was a decline of 23%

obviously because of the first quarter. Vehicle finance had a volume of 6084 crores in Q3 as against 5949 in Q3 FY 20 which is a growth of 2% and year-to-date vehicle finance has a decline of 25% again because of the first quarter.

LAP basically disbursed 1265 as against 908 a growth of 39% and year-to-date again LAP had a decline of 21%. Home loans dispersed 434 as against 400 a growth of 8% for the quarter and for the nine months they've had a decline of 32%. AUM grew by 15% at 75813 compared to 65992. PAT like I discussed earlier has had a growth of 5% and PAT for the nine months is at 1272 as against 1010 which is a growth of 26%. PBT return on total assets were at 3.1% as against 3.4% in the previous quarter whilst year-to-date were at 3.4% which is the same level for the first nine months last year. And ROE was 19.2 as against 20.3% in the previous year. We continue to hold a strong liquidity position with 6228 crores as cash balance and total liquidity position of 10923 if you include undrawn sanctioned lines. The ALM is comfortable and provide no negative mismatches across all time buckets. We're also announcing an interim dividend of 65% which is 1.30 per share for the year ending March 31st, 2021.

In terms of asset quality, the stage 3 stood at 2.57% and we'll come to kind of those numbers later. Basically, as you probably know the Supreme Court has directed that accounts which were not in NPA as of 31st August 2020 shall not be declared as NPA until further orders. So therefore, we have not classified these accounts as NPA after 31st August 2020. If we did classify these accounts as NPA then our gross stage 3 would be at 3.75% versus the 3.8% at March 2020 and 3.54% at December 19th and our net stage 3 would be at 2.12% as of December 2020.

So, like I mentioned earlier we basically have, we have a provision coverage of 44.94% now as against 32.95% which we had in December 2019 and we have 751 crores that we continue to carry as a COVID provision in our books. Total provisions currently carried against the overall book is 3.09% as against our normal or average kind of overall provisions which are usually at 1.75% which is what we held prior pre-COVID. So that's basically in terms of provisions that's an increase of 75%. Capital adequacy continues to remain strong. We're at 19.25% as against regulatory requirement of 15%.

So, with that I'll basically end kind of our overall commentary and I'll be happy to turn it over to you for any questions from the audience. Thank you.

Nischint Chawathe:

We now move to the Q&A session. The first question comes in from the line of Hitesh Gulati. Hitesh your line is unmuted. You can ask your question.

Hitesh Gulati: Thank you for giving me the opportunity. Sir I have a couple of questions. Can you let us know pro forma gross NPA number in the vehicle finance, home loan and LAP segment separately? And also, if you could tell us that write off for the nine months and the Q3 period both sir?

Arul Selvan: The numbers without considering adjustments for the Supreme Court that means the real roll forward numbers. It is comparable to the 3.75 numbers which I was talking. Vehicle finance is 2.78%. Home equity is 7.38% home loan is 3.77% and [Inaudible] [00:08:21]

Hitesh Gulati: Yes, sir and the write-offs for Q3 and nine month period? Hello? Sir can you hear me?

Vellayan Subbiah: the moderator is there?

Nischint Chawathe: Yeah. I think we are on. Hitesh can you repeat the question please?

Hitesh Gulati: Yeah my question is sir what were the write-offs for Q3 and nine months period?

Arul Selvan: Q3 and nine month are the same because this is the write-off. Write-off number okay. I can tell you. Just give me a minute. I can tell you.

Vellayan Subbiah: So, Hitesh we come back to you with that number. We can move on to the next one.

Hitesh Gulati: Okay sure thank you.

Vellayan Subbiah: Thank you.

Nischint Chawathe: Next question comes in from the line of Abhijeet. Abhijeet your line unmuted. You can ask your question.

Abhijeet Tibrewal: Yes, thanks for taking my question. Am I audible?

Vellayan Subbiah: Yes. Yes. Go on.

Abhijeet Tibrewal: Yeah thanks. First question is on your credit cost. So, we've seen a 40% quarter-over-quarter increase in credit cost. So until last quarter you used to say that you are very adequately provided and that we might actually end up taking some write backs if asset quality actually panned out the way we envisaged however, I mean given the kind of credit cost that we took in the current quarter I mean would it be fair to say that I mean the credit cost were actually higher than what we had anticipated and can you give me some color on how we are seeing that asset quality now in the coming quarter? Am I audible?

Nischint Chawathe: Yeah. We are just waiting management's revert.

Nischint Chawathe: Yeah we are waiting your revert.

Vellayan Subbiah: Obviously certain amount of this has been expected in terms of when we came out of moratorium and what we will say is that this quarter is going to be kind of fairly useful for us to try and understand what will happen overall, right. So the general thing I would say is that we can kind of end the quarter with stage three assets to total gross assets significantly less than we did in the March, I mean at the March point last year which is March 2020 and hopefully kind of significantly less than December 2019 as well then that would give us comfort that we had to overall NPA problem kind of behind us. Hey moderator I don't know how many people we have talking at the same time. I think it's a bit tough to kind of listen with multiple people at the same time.

Nischint Chawathe: Yeah it's only you, me and Abhijeet. I think only three lines are unmuted right.

Abhijeet Tibrewal: Okay. There are other noises.

Arul Selvan: From whom?

Vellayan Subbiah: Okay. Continue but I just think that we will have to try and, okay.

Abhijeet Tibrewal: Yeah. So, my second question was to Shaji sir. Sir I mean if you look at other HFCs and banks most of them while they are seeing very good demand in home loans and mortgages well where are you looking at the advantage I mean, given the kind of customer segments that you cater to where are you seeing the demand in home loans?

Shaji Varghese: Okay. See the TG, the target group we are serving these LMI, lower middle income families predominantly in tier 2, 3 and 4 and the lines which we are looking at are those who are looking for a self-construction those who are looking for a resale ready property. So 94% of our branches and the assets are in tier 2, 3, 4 that's the TG we are looking at clearly end use driven home purchasers. So, we don't really focus on the under construction process supplied by the developers at all. So clearly our focus gets in this direction. This is where we are also building a capability to process as well. Why we did that specifically is we are directionally moving towards self-construction and ready property that also needs the internal capability of we need multiple disbursement to be done to a self-construction which also means we need to build that capability of valuation, stage of construction and so on and so forth. This is the market we are focusing that's where the demand we are going to tap because even the segment we tap is a three lakh crore market but within the three lakh crore market what is that we are choosing clearly end-use-driven, self-construction and ready property. That's where that's the demand we

would like to look at. There are more demands but this is the demand we would like to serve.

Abhijeet Tibrewal: Okay. Yeah thanks and sir my last question is to Ravi sir. Sir I mean while we see that I mean we've been doing very well in terms of disbursement growth in used vehicles and construction equipment. Are we losing some market share to let's say banks in cars, MUVs and tractors?

Ravindra Kundu: So, tractor we are not losing it. For cars and multi utility vehicle which is quite sensitive in terms of the rates and there we would have lost a little bit but it is like in terms of the car our market share is very low. We were at 2.6 and it has come down to 1.9. So, this is hardly any difference and we do put together the entry level car only. So, in terms of the entry levels car our market share has actually gone up in terms of one specific segment but overall, industrially it is slightly down this quarter. For tractor we have gained.

Abhijeet Tibrewal: Tractors you have gained market share.

Ravindra Kundu: It is like last year it used to be 5.1 it is now 5.4. So, there is a slight increase in terms of the market share.

Abhijeet Tibrewal: Okay and sir just one last question while the other HFCs were suggesting that they still remain a little conservative on LAP as a product why is it that we are so aggressive in our home equity or our LAP segment?

Ravindra Kundu: As far as LAP is concerned if you see that for last five years our disbursement per month has been hovering between 300 to 350 crore and during this period we have actually expanded our branch network to 125 to 250 and so we've started moving towards tier 2, tier 3, tier 4 town. So, the disbursement were actually expected to go up from last financial year since in the beginning of the financial year but due to COVID it did not go up. So, the capacity utilization of the people and the branches we have put up for LAP during last two financial year has now started delivering it. So, there is a small increase in terms of the disbursement LAP. Another thing is that if you see that in the macros point of view the tier 2, tier 3, tier 4 towns especially from the consumption side or distribution side, from retail side they are doing better. So, there is a demand for that and because we have moved into tier 2, tier 3, tier 4 towns it has helped us to do the business. But we are not doing the LAP business just with the tours and travels and that segment. We are only focusing on retail and distribution of food, FMCG, consumer durable and hardware and building segment.

Nischint Chawathe: Thanks, Abhijeet. We will have to restrict that because we have a lot of participants in the queue. The next question comes in from the line of Nidhesh you can just introduce your organization and then ask a question. You may have to restrict just maybe one question per participant.

Nidhesh Jain: Sure. Thanks. I am Nidhesh from Investec. My question is on just two questions one is on the data point question of ECGLS scheme how much we have disbursed and what the more restructuring we expect in coming quarters and second is we have seen a significant improvement in our ratio. NIM has almost increased by 130 to 140 basis point versus last year in this quarter. So, do we expect this improvement in operating profitability to sustain going into next year? These are two questions sir.

Arul Selvan: ECGLS is around 1500 crores is what we have disbursed during this quarter and with regard to profitability, yes we will be sustaining. There will be improvements in NIM and OpEx will increase a bit but I think that will get offset by the lower loan losses, that we expect going forward. As we told even in the previous call this quarter we expected loan losses and to also give the comfort we have not utilized the moratorium COVID provisioning. We have only written back 50 crores which is mostly on closed accounts, etc. So, the rest of it is to meet any contingencies so we are confident to maintain it.

Nidhesh Jain: Sure sir and restructuring number in coming quarter or we are done with the restructuring that it was around 2% of AUM?

Arul Selvan: Yes we are done with restructuring. There maybe one or two cases or a few cases which we have committed which we maybe doing in this current quarter but I think predominantly the 2% range is what we will be holding to in the coming quarter also.

Nidhesh Jain: Thank you sir. Thank you. That's it from my side.

Arul Selvan: Thank you.

Nischint Chawathe: Next question comes in from the line of Umang Shah. Umang you may just introduce your organization and ask your question.

Umang Shah: Hi, good morning. This is Umang from HSBC. Thanks for taking my question. I just have two questions. One is clearly on stage one and two or stage three assets on a year-on-year basis we have considerably improved our provision cover. Just wanted to understand as we get into FY 22 is there any change in management stance in terms of our provisioning policies or I mean whether will we hold any sort

of access provisions on balance sheet or we will normalize to pre-COVID levels over a period of time?

Arul Selvan: This again we spoke last time what we will be doing is as we move into the next year we will reverse to the extend of the COVID provision but to the extend of the macro management overlay we will continue to hold. That will be in the range of 250 to 300 crores is what we will own. The rest of the COVID related it's consumed as and when these accounts get closed and we will move on to resolutions. So then that will get so out of the 750 crores we are holding now 250 to 300 crores will be held and the rest maybe reversed. We will take call as we move along but this would be the more conservative approach.

Umang Shah: Okay. Fair enough and just wanted to confirm one data point, could you please clarify what was the home equity gross stage 3 percentage you mentioned? Sorry I missed that number.

Arul Selvan: 7.3%.

Umang: 7.3%. Okay. Alright. Thank you so much and good luck for future quarters.

Arul Selvan: Thank you.

Nischint Chawathe: Thanks Umang. The next question comes in from the line of Nishant Shah. Nishant you can just introduce yourself and ask your question.

Nishant Shah: Yeah. Hi sir. This is Nishant from Macquarie. Good to have you back Mr Vellayan.

Vellayan Subbiah: Thank you.

Nishant Shah: Yes. Just a couple of questions sir. Could you comment on like the leadership change which had happened? The current CEO has left; this is -- which has been appointed. We have you in this call as well. So how should we think about the leadership in the coming years? That's the first question.

Vellayan Subbiah: Yeah. So Nishant we are generally as you know we have a policy that at 65 kind of the Group Chairman basically retires and that's basically what happened in the November in timeframe where Mr. Murugappan basically retired as a Chairman of the group. Consequent to that obviously the family had been planning that for quite a while and consequent to that obviously there was we looked at kind of roles that different younger members in the family would take, well younger to Mr. Murugappan would take consequent to that change. And as a result of that kind of thinking has been that kind of we would return to kind of areas that we basically had traditional strengths in and I have kind of moved, move back kind of provide oversight for Chola as well. And this is kind of a long term direction. So, given any

other unforeseen kind of circumstances this is the kind of broader direction that we will take for the long term from now.

Nishant Shah: Perfect. So just sorry to peck you on this, one more question here, who is the interim CEO now or is there a timeline during which we will appoint the CEO?

Vellayan Subbiah: Yeah. So that's a good question. So basically, as you know consequent to this change we have also been looking and like the RBI is coming out with the series of kind of changes that looks like for NBFCs. The first of which was announced with NBFC upper layer but it has also been some questioning as to whether the larger NBFCs should become banks or not. So, what we are going to do at this stage Nishant is basically wait for clarity on that to basically see whether what the RBI basically directs. And we are going to develop our strategy based on the RBI's overall direction. What does that have to do with leadership? Obviously kind of if the RBI is going to kind of push some of the larger NBFCs to become banks that calls for a different type of leadership. If Chola is to remain NBFC that calls for a different types of leadership. So, as you know I mean the one thing that we are fairly comfortable with it is that the entire team here has worked together and has worked here for a long time before. Ravi Kundu continues to be the Executive Director and has significant experience and Ravi and I have worked together for a long time in the past for over a decade. Similarly with Arul Selvan as well who is the CFO and continues to kind of play that role very well. So basically, the team that's in place is kind of a team that basically have the experience and has that working relationship over a long period of time. Shaji is coming kind of in March and is developing a fairly strong hold on the housing loans business. So, our current position is that we need to wait for some of the regulatory direction in order to determine what the company directs. And so till we get that clear regulatory direction I think we feel comfortable kind of operating in this mode and as soon as kind of we are a bit clear in terms of regulatory direction then we will basically consequent to that we will develop a clear outline for what's happening within leadership within the company.

Nishant Shah: Sir thanks. Thanks for that. Just one quick data keeping question for Arul sir. What % of customers have not paid anything at all so far?

Arul Selvan: You are talking about moratorium customers?

Nishant Shah: Correct and these will be in stage three now?

Arul Selvan: Some maybe in stage three and some maybe in stage two.

Nishant Shah: Okay. Fair enough. Okay. I will take the details offline. Thanks.

Nischint Chawathe: Next question comes in from the line of Piran Engineer you can ask your question.

Piran Engineer: Yeah, hi. This is Piran Engineer from Motilal Oswal. Just first one clarification if I heard you correctly ECGL disbursements are 1500 crores in this quarter?

Arul Selvan: Yeah that is right.

Piran Engineer: Okay. But sir compared to your competitors the vehicle financiers their disbursements are actually much much lower, like the largest financiers' disbursements are half of your and the other one is probably fifth of yours. So, is there any reason for this dichotomy, what would you do with this two? Or is this mostly towards LAP and that's why it's up?

Arul Selvan: Totally we have disbursed 7000 crores

Ravindra Kundu: Can you just repeat the question?

Vellayan Subbiah: He is asking why our NPL's high compared to other vehicle financiers

Ravindra Kundu: You are asking whether it is high or low? What is that asking?

Piran Engineer: No, high. The ECGLS of 1500 crores is much higher than Shriram which is just 700 or Mahindra Finance which is 250. So, I just want to understand what is the reason for this dichotomy.

Ravindra Kundu: Okay. In vehicle finance we have actually disbursed 1162 crores which is closer to 18% of the overall disbursement and in the LAP we have disbursed 384 crores which is 30%. So, in the vehicle finance the percentage is only 18%. That is one. Second is that, in the vehicle finance customers who are actually depending on the industrial production or their vehicles are actually attached to the factories, so the output to the factory is actually lower during the Q3. So, because of that we they wanted some support in terms of the financing and that is what is the direction also from the government that we need to give 20% of the outstanding to the customers.

Ravindra Kundu: So, we have followed that norm only and under that mostly the new HCV customers come that and therefore there is a complete the finance company having a higher book of the huge business. Then obviously our number will be slightly higher than that.

Piran Engineer: Okay. Sir then do I take out this 1500 crores is not part of your used CV disbursement because if I look quarter-over-quarter your growth of vehicle finance disbursement is from used CV only.

Ravindra Kundu: Used CV is disbursement is definitely gone up by 30% but ECLGS has been funded mostly to the new HCV customers.

Piran Engineer: Okay. Yeah I will get back in queue thank you.

Nischint Chawathe: The next question comes in from the line of Dhaval Gada you can ask your question.

Dhaval Gada: Yeah. Hi, thanks for the opportunity and congrats on decent performance. I had three questions. First to Mr. Subbiah on the sort of long term strategy. So, in your earlier remark mentioned that this is going to be slightly long term assignment. So just wanted to understand how do you see the sort of outlook for Chola over the next five years given that when you left one of the objectives that you were trying to achieve was related to ecosystem incurring a larger part of the ecosystem and since then we have not seen significant changes and we have seen more of businesses as usual with significant changes in the digital front but in terms of business there has not been much addition. So, if you could just talk how Chola is likely to evolve in the next five years. That will be quite useful. So that is the first question and then Arul Selvan in terms of provisioning so while I see that there are absolute amount of provision has gone up but if you look at the percentage of provisioning related to stage one that's come off from 97 basis points to 67 basis points and on stage two from [Inaudible] [00:30:36] percent. So, while on so if you could just talk about how you think about provisioning and this model change that you have seen and what's the rational for this percentage dropping? So that is the second and third one is related to the ECGLS part. So, wanted to reconfirm the numbers. You mentioned 1162 so that implies about 11%-12% of VF book being ECGLS funded and similarly for LAP of about 13 odd percent is the numbers correct? Yeah those are three things.

Vellayan Subbiah: Okay. Sorry we missed who actually asked the question. Dhawal. Okay.

Vellayan Subbiah: Okay Dhawal. So first we will answer the first question. In terms of we are seeing the process and kind of we are still in early stages of defining kind of the strategic direction like I said because I wanted to find a fairly long term strategic direction for the company. We started that process in December and so I would say that we will basically get it done perhaps in the April timeframe. So, we will probably start articulating more of that either kind of in the April call or in the July call. But definitely there will be kind of a shift more towards the ecosystem play. And will be kind of that broadening. I think some fairly good examples have gotten played out in India, especially with the kind of the way Bajaj has played it out since. And so,

we see definite value in that. Obviously, we recognize that kind of just following a clear Bajaj strategy is not the way for us to go because we are late to the end there. However, we continue to believe in this whole financial services kind of because given the low level of penetration in India. And so, what we are working on is what's in our mind is kind of a more differentiator strategy that will get us to that same ecosystem answer where we can offer multiple products to our customers within the ecosystem, within multiple ecosystem I should say. And so, we are in the process of articulating that and we will be able to kind of share more with you in the next three to six months but we definitely see a lot of opportunities coming back from that and that having implications for our medium to long term growth as well.

Arul Selvan:

Yeah. On your question on the stage one provisioning. So yeah, so if you recall the prior to COVID we were having stage one in the range of 1.3%. In COVID period because of the moratorium most of the assets are lying in stage one and we did not know where they will move post the moratorium. That is why we had to, we have increased the provisioning out there to around 1.7 in March and slightly more. Now after the moratorium has moved we have now whatever has to be in stage one will be either be there because they are performing well or they would have moved further up into stage two or stage three depending on if they are not doing well. So now going forward stage one provisioning need not be maintained at the same high level. This is the logic. But we have not fully reversed them. We are progressively reversing them. And the other factor for that is some amount of that restructuring loans are also coming in stage one to that extent we have increased the provision. That part is also increasing the stage one provision. So, this is the background for this stage one provision cover movement. Does it answer?

Dhaval Gada:

Yes. It does. And the third one?

Arul Selvan:

And on the ECGLS part it is around 18% if you look at the vehicle finance and with regard to loan against property it is 27%. Because the government is guaranteeing the repayment of this part and so we are comfortable lending this and we wanted to maximize this.

Nischint Chawathe:

Sure. Thank you. The next question comes in from the line of Nikhil Upadhye.

Nikhil Upadhye:

Hello.

Vellayan Subbiah:

Yes Nikhil.

Nikhil Upadhye:

Yeah hi. Thanks for the opportunity sir. Sir just one question. Because we finance to generally cash flow generating assets. Is there a difference between the cash

generating ability of our customer who are in manufacturing versus who are in consumer oriented sectors? If you can share any inputs based on what you see?

Ravindra Kundu: As far as the vehicle finance is considered our customers are mainly into tier 2, tier 3 town and they are also addressing the customers those who are either in trading or distribution or they are basically on the consumption side. So, manufacturing side our vehicles are not depending much but the new vehicle little bit numbers are there who are actually SRTO's having ten vehicles customer are actually attached to the vehicle wherein the factories are the load provider. So that side the dependency is less as far as the LAP is concerned we have also come out from the maximum manufacturing side to give the retail side and distribution side. So obviously during this time when we see our collection efficiency improving month on month significantly during September, October, November, December that is because of our distribution of loan in tier 2, tier 3 town and not having much dependency on the factories or industrial production.

Nikhil Upadhye: Okay. Thanks a lot sir.

Nischint Chawathe: The next question comes in from the line of Mr. Antariksha. Antariksha you can ask the question.

Nischint Chawathe: Yes you can go on.

Antariksha Banerjee: Yeah. So good to have you Vellayan Sir on the call again. There are two sets of questions. One is to Mr. Kundu on the vehicle finance you did highlight about the used vehicle disbursement growth. So, my question is your major part of it coming from cars or is it bulky used vehicles CVs only?

Ravindra Kundu: 70% is our used vehicle, our commercial vehicle. And 30% are used vehicle are the passenger vehicle. And disbursements are more or less going high both for the side but due to the lower base in the car and used Car and MUV in the recent time, so the growth is slightly higher than the commercial vehicle use.

Antariksha Banerjee: Sure. Sir in the commercial vehicle sir what we get we understand from some of the other comments is that there are some constraint on OEM volume. Is that one of the reasons why used CV sales are so high and is that expected to sustain?

Ravindra Kundu: No used vehicle has been doing better for last one and half years; since then the people who started actually selling the vehicle due to the EMI affordability and that has started last year itself. In fact, used business has come down due to the scarcity of the vehicle supply because of the repossession not happened during April, May, June, July, August and also because of the replacement did not

happen. But now replacement cycle is going to start as per as the heavy commercial vehicles are concerned, macros are looking improving. So, people who are due for purchasing the new vehicle they will sell the vehicle and buy for the new vehicle. So used business is going to go up and new HCVs is also going to go up.

Antariksha Banerjee: Got it. And sir for the vehicle next segment per se what could be your best estimate of the stress pool or the percentage of customers say belonging to the school bus operator, travel all those segments in your entire portfolio that are probably still struggling to pay?

Ravindra Kundu: No, we have seen that our most of the customers who were actually struggling to pay because of the capacity utilization is not happening to the fullest capacity or partially it is happening. Those customers are below 2% and they have asked for the restructuring and we have accepted that. So, the rest of the customers are paying. So, if you take our stage one who are zero to 29 bucket customer for the loan book which is 92% our overall portfolio the collection efficiency is 98%. So 2% only actually is rolling forward.

Antariksha Banerjee: Sure. Just one small question to Mr. Vellayan since you did allude to RBI regulations and the upper layer of NBFCs if the choice is left to the company what are your thoughts on becoming a bank?

Vellayan Subbiah: Obviously we won't comment at this stage like I said we are basically kind of, we are basically going through this broader thinking on long term strategy for Chola and I said that next three to six months we will give more commentary on it. We need to understand obviously how the RBI is going to specify what they want and so it's too premature for us to comment.

Antariksha Banerjee: Okay. Thank you.

Nischint Chawathe: Participants who wish to ask questions can press their raise hand button on their screen and wait for their opportunity. The next question comes in from the line of Abhishek Murarka your line is unmuted. You can introduce yourself and ask your question. Abhishek your line is unmuted now.

Abhishek Murarka: Yeah can you hear me?

Nischint Chawathe: Yeah. Go on.

Abhishek Murarka: Yeah. Thanks. So good morning. This is Abhishek Murarka from IIFL. Couple of questions. One, have you accounted for the interest reversal on your pro forma NPA and is that reflecting in margins or is that made as a provision? And the

second question is in terms of disbursements next year so you have seen a pretty sharp bounce back. Do you think you will get back to your trend rate of disbursements in FY 22 and how do we look at it? Do we look at it with FY 21 as the base or FY 20 as the base and build from there?

Arul Selvan: Yeah. With regard to interest reversals under Ind-AS, it goes into the provision only because the provision has to be considered on the gross assets based on the recoverability. So, unlike the earlier period the interest reversals don't take place in the top line. The interest reversals will come into effect when you, if you adopt to write off of a loan and at that point in time you have to reverse the interest because you are writing it off it has to go to the top line.

Ravindra Kundu: As far as the disbursement is concerned we have been doing this budgeting exercise with our chairman as Mr. Vellayan mentioned that. And we give them the number and it was looking very high. So, he said that don't look into this number yet. Let us actually come to the last year number. So, then we started with the reality. But that is also looking better actually I mean in the, it is in double digit and fairly double digit.

Vellayan Subbiah: So broadly, as I said like we said we are kind of now fine tuning the longer term kind of strategic outlook. And given that when the midst of that process I think we will be able to give clearer direction in that April time frame, versus kind of provide the direction right now. Overall, I would say we are optimistic on the kind of growth potential and the opportunities going into next year and in the medium term. But in terms of any in the form of guidance I think we will have to wait for April.

Abhishek Murarka: But fair to say that there would be a step jump in disbursements in FY 22 given 21 is a depressed base?

Vellayan Subbiah: Obviously it depends I mean if effectively last two months fully and kind of one month half or one month. So obviously if you take that into kind of yes it will be step jump.

Abhishek Murarka: Sure and finally just could you share the number for interest reversal overall on the pro forma in case as in whatever you have provisioned for?

Arul Selvan: Provision for that is not separately available because it goes into the gross assets and then you do the PD/LGD on the total assets. So, we will not be able to give that number.

Abhishek Murarka: Okay. Alright. Thank you and all the best for the next quarters.

Ravindra Kundu: Thank you Abhishek.

Nischint Chawathe: Next question comes in from the line of Nikhil Upadhye. Nikhil you can ask your question.

Nikhil Upadhye: I am done. I think I forgot to lower hand sorry.

Nischint Chawathe: Sure. Anybody who has a question can raise their hand and, the next question comes in from the line of B&K Support. Can you just identify yourself B&K Support?

Sanket Chheda: Sorry. Yeah. So, this is Sanket Chheda from B&K. So, my question is on areas of growth from Q4 and FY 22 next year. So, for us the key ability of Chola has been that whether we are smaller player in particular segment it doesn't really matter whenever there is opportunity, we tap it. We did it in tractors in first quarters and then used vehicles in second and third quarters. So my question is sir on now HCV wherein our market share is relatively lower at 2% and good times moved up to 6% so what is the strategy on now picking up pace on maybe higher growth on HCV segment and what would be the key differences maybe as HCV we do or in HCV maybe a player like Sundaram would do?

Ravindra Kundu: Yeah. So, HCV if you see that from the December month itself the number started picking up and as we affected from Q4 replacement demand could play in terms of the industry sales and since the last year Q4 was very small number in terms of heavy commercial vehicle because of the transition from BSIV to BSVI. Industry would see through growth in terms of Q4 to Q4. So that is one. If you consider December as a standalone number which is 15000 unit HCV being sold in December and that same number being sold. So, then it will be 45000 and last year Q4 was 33000. So as against that industry will see 14% growth, if you take the December as a same number going to happen. So obviously we are if we continue to be the same market share, our disbursement is also going to go up and during this period the replacement cycle goes up or start playing we normally play during the first two, three years. So, we will try to see good SRT0 customer not depending on the industry production into tier 2, tier 3 town. We will be focusing that. So, with that our HCV number also will start picking up. That is and then we have been discussing about the co-lending so the co-lending also is going to play. It is going to start from any time. So, put together disbursement from heavy commercial vehicle will be better than now.

Sanket Chheda: Okay. Sure.

Nischint Chawathe: The next question comes in from the line of Kaushik Agrawal. Kaushik you can ask your question.

Kaushik Agrawal: Hi sir. Thank you for taking the question.

Nischint Chawathe: We can't hear you?

Kaushik Agrawal : Am I audible now? Hello?

Nischint Chawathe: No, your voice is very weak.

Kaushik Agrawal : Am I audible?

Nischint Chawathe: It's very very weak.

Kaushik Agrawal : Sir can you hear me now?

Kaushik Agrawal: It's slightly better.

Kaushik Agrawal: Yeah. So, my question I just have one question

Nischint Chawathe: Kaushik we can't hear you. We can barely hear you. Can I request you to kind of use another internet connection and maybe join back?

Nischint Chawathe: We move on to the next participant. This is Rikin Shah, your line is unmuted. You can ask your question.

Rikin Shah: Thank you this is Rikin from Credit Suisse. Two questions. The first one on the collection efficiency number so how are they looking up for the different months in October, November, December and moving into the 4Q it is also seasonally good, what's the outlook on the same. And the second question is on clarification on ECLGS scheme. I didn't understand clearly why the ECLGS take up is higher for our customers? If you can repeat that? Thank you.

Ravindra Kundu: Hi Rikin, Ravi Kundu here. The collection efficiency measurement we can do them in many ways. There are two ways actually we are following. One is that what is the collection efficiency against the billing. So, the areas of billing as we mentioned last time 2001 crore was the billing in the month of September and we did 1749, I am talking of vehicle finance. So, we did 87% of the collection against the billing. So, 87% of collection against the billing in the month of September has gone up to 103% in October and 105% in November and 103% in December. And going forward it will be at the same level because now we got the momentum. That is one way of doing the measurements in terms of the collection efficiency and we call it a billing collection efficiency. Now billing plus plus arrears so cumulative collection it is, if you want to see then it was 59%. It went up to 61% in October and then 61% in November and December 62%. Now if you want to see the stage one loan book collection efficiency it was 93% of the loan book of stage one collected fully. Stage one moved up in October 95% collected fully and stage one move up November 97% collected fully. In December it is 98% for the stage one.

As per as the ECLGS is concerned what I mentioned that we have done 20% of our overall disbursement in that majority of the customers are new and heavy commercial vehicle customer who are depending on the industrial production the vehicles are attached to the industry or the factory where the outputs have not reached to the normalcy or the customers who are school bus operator their vehicles are not operating during this period. The used vehicle ECLGS is significantly lower. That is the reason I said that if you are comparing with the company who has got higher used book and then it is not apple to apple comparison.

Rikin Shah: Thank you.

Nischint Chawathe: Sure. Next question comes in from the line of Mr. Chintan Shah. Chintan your line is unmuted. You can ask your question.

Nischint Chawathe: Chintan we can't hear you.

Kunal Shah: Yeah hi, this is Kunal over here. Can you hear me now?

Ravindra Kundu: Yeah Kunal. Go ahead.

Kunal Shah: Yeah. So just in terms of the stage two if you can highlight collection efficiency so how is the pool in the stage two behaving?

Ravindra Kundu: Stage two is basically one to two and two to three bucket. The customers who are 30 to 59 and 60 to 89, so there are two buckets are involved. So we have to...Below 90% has started picking up above 90%.

Kuna Shah: Okay. It's about 90% and okay, so maybe in terms of flow through into stage three should be relatively lower then?

Ravindra Kundu: Yes. So, from one to two bucket the roll forward is 8.20 in December.

Kunal Shah: Okay. Cool and secondly so this was on the stage two and finally in terms of the overall stress pool if you look at it so almost like say stage two plus stage three at 9 odd percent plus another 1.6% of restructuring in stage one.

Ravindra Kundu: If you are asking for the overall company stage two is 5.25% and stage three is 3.75%.

Kunal Shah: Yeah. So just wanted to understand maybe in terms of the overall stress pool if you have to look at it including the restructuring and including the stage two then that seems to be somewhere around 10.6 odd percent against which we are carrying the provisioning of 3 odd percent so this seems to be sufficient enough or would there be a need for higher provisioning maybe currently on restructure it is

but what is the texture of restructuring? Is it because most of the guys highlighted that in terms of restructuring what they are doing is they are asking plans for three to five months and then afterward there was no need to going for the restructuring and they were allowed into this stage two also. But what is the quality of our restructuring if have to look at it in terms of what is the kind of expansion which you have thought or maybe cost deduction you can comment.

Ravindra Kundu: Yeah stage one, stage two, stage three plus restructuring book is close to 9.9 and if you see the restructuring is mainly in vehicle finance we have given it to the school bus operator those who are actually have been paying absolutely fine during last so many years. So, they are our existing customers. Because the schools have not took under they wanted 30 to 90 days time and few customer who are basically having a plan to open up school only by June they have taken 180 days also. But that is very few. So mainly the schools are actually the customer who have been taken this thing and in addition to that as we mentioned that with the heavy commercial vehicle attached to a cement plant or factories where industrial productions are not come to the fullest capacity then their transportation is affected to the extent of the load provided by the manufacturer which is likely to improve from January and already we have seen that it has started improving. So both, so heavy commercial vehicle customers who have taken it for 30 to 60 days and the school bus operator have taken it slightly for the longer period.

Nischint Chawathe: We move on to the next participant. The next question comes in from the line of Bunty Chawla.

Bunty Chawla: Thank you sir. Thank you very much for giving the opportunity and congrats on the set of numbers. My two queries are first we have seen very strongly 120 bps improvement in the margins in Q2 and 650 bps again continuously improving in Q3 as well. So, what is the going ahead outlook for that if you can share that number, if you can share that outlook. Secondly, what we observed in the home loan business specifically this quarter there has been a huge credit cost of 2.8% which you highlight in the presentation. If you compare with the other HFCs who already have declared this numbers it is slightly higher. Is it due to the customer base which you are focusing which you have shared earlier or is it we are very much conservative in terms of provisioning in terms of home loan business.

Arul Selvan: Yeah. See with regard to the margins that as I said earlier also, cost of funds are being beneficial and then we have been improving. Right now we can't give any forward looking number on this as we move into the subsequent quarters.

Shaji Varghese: Yeah. See as far as home loan is concerned we just want to tell you that we have actually gone back to the portfolio performance to the pre-COVID in fact stage one and two I will just come to the provision specifically after that. Stage one and two in fact it is actually performing even better. Just to throw some numbers here and in stage one was 93.2 pre-COVID it has come to 94 now. Sorry stage one sorry and stage two it was 2.95 now it has come down to 2.06 and stage three 3.77. So it's stable there. Then when it comes to the incremental provision is it mostly driven by the restructuring because even though it is stage one it attracts 10% in the provisioning. So, we have around 177 crores in our total being done in restructuring hence the provisioning had to be done higher. That's why this quarter provision has been higher than the corresponding previous quarter and the corresponding year. So this features not moved because, there is restructuring as per regulations, we have to do 10%. That attracted this.

Bunty Chawla: Thank you sir. And best of luck for the future. Thanks

Nischint Chawathe: The last question comes in from the line of Mayank. Mayank you can ask your question.

Mayank Bukrediwala: Hi, this is Mayank from Franklin Templeton. Just a question on operating profitability I think already asked this question. But if I look at your OpEx given that you had 6% YoY increase in disbursement. Sir, there is just too much disturbance.

Nischint Chawathe: Yeah Mayank you are unmuted. You can ask your question.

Mayank Bukrediwala: Sure sir. Again, the question is that despite the 6% increase in disbursements and I am sure there would have been a lot of collection intensity going on right now. The OpEx declined. How is that happening and is that sustainable? And if you could just talk about what you think medium term trends on operating profitability could be like?

Vellayan Subbiah: OpEx so I think your question on OpEx decline obviously kind of there are couple of factors that, which is kind of, there is a real kind of because of COVID kind of there was no I mean like a lot of cost were not there. Some of those costs will also start coming back next year. So, I think we would see a slight uptick next year from current levels but it will be kind of manageable and control. So, I don't think it will be huge but it will be slight uptick from current levels. And your second question in terms of operating profitability I think we kind of indicated some of that earlier which is we see current levels kind of, improved levels basically kind of sustaining, but we don't have any guidance and we will see what happens next quarter.

Mayank Bukrediwala: Alright. Perfect. Thanks. Yeah.

Vellayan Subbiah: Thank you.

Nischint Chawathe: Yes. Thank you very much. That was the last question for today. I thank you everybody for attending this call and we thanks the management for providing the opportunity to host this call.

Management: Thank you.