"Cholamandalam Investment and Finance Company Limited's Q3 FY'22 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to Cholamandalam Investment and Finance Company Limited's Q3 FY'22 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 would now like to hand the conference over to Mr. Nischint Chawathe from Kotak Securities Limited. Thank you. And over to you, sir.

Nischint Chawathe: Good morning, everyone. Welcome to the Earnings Conference Call of Cholamandalam Investment and Finance Company Limited to Discuss the 3Q FY'22 performance of Chola and Share Industry and Business Updates. We have with us today, Mr. Vellayan Subbiah -- Chairman and Non-Executive Director; Mr. Ravindra Kundu -- Executive Director; Mr. Shaji Varghese -- President, Housing Finance, Mr. Suresh Kumar S -- Vice President and Business Head, LAP and SME, and Mr. Arul Selvan -- President and CFO. I would now like to hand over the call to Mr. Vellayan for his opening comments.

Vellayan Subbiah: Thank you, Nischint. Good morning, everybody and welcome to the earnings call for the third quarter. Just some key financial results and highlights: Disbursements for the quarter were Rs.10,430 crores which is up by 32% and year-to-date they are at Rs.22,772 crores which is up by 27%. The total AUM is at Rs.79,161 crores which is up 4% year-on-year. The NIM is up at Rs.1,484 crores for the quarter, which is up 9% year-on-year and Rs.4,240 crores for year-to-date 2021 which is up 18% year-on-year. The profit after tax is at Rs.524 crores for the quarter which is up 28% year-on-year and Rs.1,457 crores for year-to-date, which is up 15%.

Some quick highlights: Post the second wave of COVID, we've seen that economic activity has steadily been improving, especially in contact-intensive service industries which were hard hit by the pandemic, pent up demand and the monsoon has further aided a swift revival of the economy in Q3. And we've seen uptrend in basic economic indicators; tax collections, power, vehicle registration, highway tolls and e-Way bills. And that all gives us a sense that this is going to be more broad-based in terms of the recovery. This in turn has led to a sharp recovery in both our disbursements and collections during Q3. The positive momentum seen in Q2 further accelerated during Q3 basically on account of healthy demand during the festive season and boosted auto sales and improved customer center sentiment overall and that led to a healthier demand for mortgage loans as well.

In the last quarter, we also announced new Digital Business Divisions and Digital Partnerships. So, the three new business divisions are targeted at the consumer and SME ecosystem. One is Consumer and Small Enterprise Loans, and this division will offer personal, professional loans and micro and small enterprise loans through traditional direct-to-customer and digital partnership channel.

To that end, we've entered into three strategic partnerships with leading fintech companies, BankBazaar, Kreditbee and Paytail to scale up this business vertical.

Second is the Secured Business and Personal loan. So this division will offer loans to self-employed non-professionals through traditional channels for their day-to-day operations and capital investments.

And the third is the SME loans which will offer Term Loans, Working Capital Finance, Equipment Finance and Supply Chain finance to SME customers through both traditional and digital channels.

We also made an equity investment in Payswiff where we have entered into a strategic arrangement to acquire up to about 72% of the equity capital of Payswiff Technologies Private Limited for a sum not exceeding Rs.450 crores and Payswiff will consequently become a subsidiary of the company. Payswiff is engaged in the business of enabling online payment gateway services for eCommerce and provides eCommerce solutions. Payswiff is an omni-channel payment transaction solution provider that lets business owners accept payments from their customers in-store at home deliveries online and on the go using their product offerings. The relationship is expected to add value to the existing Chola ecosystem by providing a platform to build new age SME offering at scale, access to the SME network across the country, and an opportunity to be one of the preferred SME financiers.

Next, I want to talk a little bit about the changes to RBI regulatory regulation on asset classification and provisioning under IRAC which basically as per their circular dated November 12, 2021, this is probably the most significant change from RBI in this last quarter.

And based on this the following are the key changes brought into scope and into immediate effect. NPA evaluation will be based on daily DPD runs after the end of the day process in the system.

Agreements which cross 90-days DPD should continue to be classified as NPA until all dues towards principal and interest are completed. While these changes are regarding evaluation of NPA as per income recognition and asset classification and provisioning, (IRACP), as defined by RBI and has no bearing directly on the ECL model. We have made suitable changes in presenting the stage wise asset categorization to bring in more transparency in our reporting to enable all stakeholders relate to figures both under the IRAC model and the IND AS ECL model.

Accordingly, we have subcategorized the stages as follows: We now have Stage-I, Stage-IA, Stage-IB and Stage-II, Stage-IIA and IIB. So, Stage-I total is a summation of those three: Stage-I, Stage-IA, Stage-IB. Stage-II is IIA and IIB combined. Then we have Stage-III and Stage-III Legal.

I'll just talk a bit about what some of these sub classifications are: Stage-I represents assets which had never touched NPA and currently is within zero to 30 days and hence not an NPA as per RBI norms. Stage-IA represents assets which had been an NPA in the past but subsequently normalized and currently in the zero to 30-day buckets. So, hence no more an NPA and as per RBI norms. Stage-IB represents assets which have been an NPA in the past, but are yet to be fully normalized, though it has moved to Stage-I currently and hence this will be an NPA as per current RBI norms. Similarly, with Stage-II, IIA and IIB, Stage II will be assets that have never touched NPA and have always been in zero to 90, so, therefore, there will not be an NPA as per current RBI norms. IIA will be assets which had been an NPA in the past but have been normalized post but are now in the 31 to 90 day bucket and hence no more an NPA as per RBI norms and Stage-IIB will be assets that had been NPA in the past and yet to be fully normalized, though it's moved to Stage-II currently and hence, these will be treated as an NPA as per current RBI norms. And Stage-III will represent assets which continued to be an NPA as in the closing dates and these are obviously an NPA under RBI norms.

So, I think most of you have received the press release by now, but we've got detailed figures as to what the totals are in each of those stages, and that will give you a much better and more transparent view as to what the overall implications for NPA.

During the quarter, the company also made additional provisions of Rs.136 crores towards management overlay taking the total management overlay to Rs.836 crores. I've been through the overall performance highlights. In aggregate disbursements in Q3 we're at Rs.10,430 crores which is a growth of 32%.

I'll just go through the individual businesses; Vehicle Finance disbursements were Rs.7,647 crores as against Rs.6,084 crores in Q3 FY'21, which is a growth of 26% and year-to-date December 2021, they were at Rs.16,654 crores as against Rs.14,096 crores in the previous year, which is a growth of 18% year-on-year.

LAP disbursed Rs.1,763 crores in Q3 as against Rs.1,265 crores in the same quarter last year, which is a growth of 39% and Disbursements year-to-date were at Rs.3,884 crores which is a growth of 59%. Home Loans disbursed were Rs.437 crores in Q3 as against Rs.434 crores and Disbursements year-to-date were at Rs.1,129 crores, which is a growth of 12%. The total AUM is at 79,161 crores versus Rs.75,813 crores. And the PAT year-to-date is at Rs.1,457 crores and for the quarter is at Rs.524 crores. PBT ROA was at 3.8% and for year-to-date for the quarter and year-to-date is at 3.6%, and that's against 3.1% and 3.4%. And ROE is at 19.3% against 17.6%.

The company continues to hold a strong liquidity position with Rs.6,317 crores in cash at the end of December 21, that's including Rs.1,500 crores invested in GSec. And has total liquidity position of Rs.10,671 crores including undrawn sanction lines. ALM is comfortable, we have no negative cumulative mismatches.

The Board of Directors has approved the payment of an interim dividend of 65%, which is Rs.1.30 per share.

Asset Quality: As I talked about earlier, Stage-III assets were at 5.8% with a provision coverage of 38.8% as against 6.16% at the end of September 2021 with a provision coverage of 36.45%. The total provision currently carried against the overall book is 4% against the normal overall provisions levels of 1.75% which we carried pre-COVID. And as per the RBI norms for the November 12th circular, our GNPA will be at 8.53% and our NNPA will be at 5.76%. And we carry Rs.746 crores higher provisions under IND AS over IRAC.

The capital adequacy of the company is 19.8% as against regulatory requirement of 15%. And our tier-one capital was at 16.8%.

So, let me stop with that, and then we'd be happy to turn it over to you for Q&A. Thank you.

Moderator: Ladies and gentlemen, we will now begin the question-answer session. The first question is from the line of Rikin Shah from Credit Suisse. Please go ahead.

Rikin Shah: I have four questions. The first one is on the new business vertical launched recently. Would you please elaborate a bit more in detail about the typical customer profile, yield tenure and medium term growth aspiration for each of these new business divisions that we have launched recently? Second, the strong vehicle disbursements that we saw also finally pick up in the growth, given the demand outlook from here, do you expect this strong momentum to continue over the medium term as well? Third is on the asset quality norms. Regarding the RBI circular, wanted to check whether it was applied retrospectively or prospectively from 12th November onwards. And going ahead, how should one thing about the credit cost? Would it require further management overlays every quarter? And the last one is some data-keeping questions. Wanted the total outstanding restructured loan book split between the GS-I and II, total ECLGS disbursements made until now and the collection efficiencies for last three months?

Ravindra K Kundu: So, as Chairman mentioned some time back that we want to basically address this ecosystem of consumer and the SME, , I will try to basically explain the business line what we launched in line with that, based on our past commitment to the public. So, with respect to SME ecosystem, we are now starting from bottom of the pyramid, which is a small grocery shop, general kirana stores, restaurant, and it will be a secured business loan and will be based on the informal collateral and that can be given to a smaller stationery shop, medical shops or electrical appliances services, all those stuff. It will be purely the tier-two, tier-three town, the small ticket size will be about Rs.1 lakh to Rs.5 lakhs, small people who are starting their business, they have residents stability, they have business stability, that kind of business and this is going to be good ROA, That's the starting point of SME The second point is going to be the professional and non-professional business loans which is going to be given to the small self-employed customers who are running little bigger than the customer who are going to be served by the secured business loan category. And third category is SME which is a medium enterprises where we will be giving a term loan. So under the secured business line, the loan will be a plain term loan type where EMI will be collected month-on-month and it can be two to four years' time. And in the case of business loan, there are three types of business loan as of now in the market; one is the term loan, then there is a flexi loan and within the flexi loan, we have a simple flexi, hybrid flexi, dropline flexi. So, those all the loans and then subsequently we will start the credit line also. Whatever basically being offered in the business category in the market by the various players, all will be done by us and this will be done in three channels; D2C, direct to customer and secondly, the traditional channel which is DSA/ franchisee channel and third is the DST channel which will be generated and served by the team member. So, in the SME which is starting from bottom of the pyramid to the middle of the pyramid and slightly upper segment of the loan, not the large ones, but this is the medium. So, we will basically cover entire SME spectrum. In the case of consumer we're starting both professional loan and salaried loan, but the salary loan will be very small in terms of the percentage of the overall book, but professional loan which is going to be catering to the doctors, engineers and chartered accountants and those professionals will be more, around 70% to 80% will be coming from there. Now, coming to the SME, SME we will be giving three type of loans and which is going to be a term loan, working capital, equipment loan which is industrial equipment and supply chain channel, both forward integration and backward integration of the anchor sitting in the center and giving the channel funding and discounting of the bill of the vendors. So, these are the products which we have as of now thought about and based on marketing dynamics, we will have to review that from time-to-time. Whatever is going to be suitable for us, we will be doing it, as chairman said that it is important for leveraging the 1,100 branches and going forward whatever new locations are going to come, it will be easy for us to expand across the country very fast and use the traditional channel and then move to the partnership channel where the three partners have already been onboarded and around 10 partners are under discussion. Mostly we are getting into digital lending being done on the market and then those partners both of us will be working in three types of tie-ups; one is being collected by them or loan originated by then, collected by us and end-to-end collection and underwriting will be done and they will be doing origination. So, this is what is the new business. As far as disbursements of vehicle finance is concerned, you have seen that we have been doing very well because tier-two, tier-three towns, small commercial vehicles, light commercial vehicles, heavy commercial vehicles and cars and MUV have started doing well. The higher growth has come from used vehicles business. It just continues to grow. We are expecting that the growth momentum began in Q3 is going to be continued now, because we are seeing that the impact of wave-three is slowing down now, a little impact what we had in the month of January, is also slowing down now, and we will start getting benefit from February. Hope I addresssed your business growth question.

Rikin Shah: Just on this, if you could also share any ballpark or typical yield profile for the new business verticals that we have launched, and what would be our medium-term growth aspiration for this?

Ravindra K Kundu: Yield, we will not be able to disclose, but the ROA will be higher than the current ROA. And yield, we don't disclose for the existing business as well. It looks like the ROA which we are going to target from the new business lines will significantly be higher than what current levels are? And second is that, from Q4 itself, We have done Rs.10000 Cr from existing 3 businesses and we are expecting around Rs.600 Cr to Rs.700 Cr from three new business lines. So 7%, 8% increase can come from the Q4 itself. And then subsequently, as we expand it across the country, then the disbursement can be anything.

Arul Selvan: This is on the question of IRAC. We started using the daily DPD from November 1st because we had that data from November 1st. Though the circular came from November 12, because we could do it from the 1st of November we had started from November 1st. Credit provisions, as of now, we don't see anything further going up. And as a matter of fact, there should be reversals because we have to look out how the COVID-III pans out, shutdowns pans out, etc., that we will have to see. You had other question on the restructuring. Currently, the total book is around Rs.4,600 crores. Almost Rs.4,300 crores of that is in stage-II itself which is where we have grouped whole of this restructured book. Around Rs.300 crores has moved to Stage-III, because some of them having some delinquency starting to come in. On the ECGLS during the current year, we have done around Rs.35 crores of disbursements, the opening book is around Rs.2,000 crores, that's the status on the ECGLS.

Rikin Shah: Just a clarification, on the restructured, nothing is in the stage-I book, right?

Arul Selvan: Stage-I is grouped as Stage-II because though it is Stage-I, we have grouped all of the 3,000 as Stage-II only, they are not having delinquencies of even 30-plus. Because they are restructured we have considered them as a slightly higher risk and providing them with the higher levels of PD and LGD. That is why they're grouped under stage-II, even though RBI does not mandate us to group them there.

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

Dhaval Gada: I had two questions. First was on the new vertical that we have announced. So, the question is, we've opened these three new verticals, is there any gap that is still to bridge either via organic or inorganic strategy? And overall, I think Ravi mentioned about 7%, 8% of disbursement coming from this vertical. In the next couple of years would it be like 20% or more in terms of disbursement, would that be the sort of momentum that we will look for, I mean, some color beyond one year if you could provide? And the cost associated with these, is it already loaded, how much more can we expect from this?

Ravindra K Kundu: First question is what we're talking about to fill up the gap. As of now, we have already invested in the basic and ecosystem of basic will make us access to MSME wherein we can actually go to straightaway 3.3 lakh customers we have. So we can actually talk to them what are their needs and we can actually serve them from the lending point of view. And market is dynamic as of now. We have not thought about the investment in retail and for giving opportunity to kind of expand our business from this level definitely, but it's just based on any opportunities that we think about it. But when comes to the disbursement, as I mentioned that, within say six months' time, the run rate per quarter can be more than 1,000 crores from these businesses. As of now, we are doing Rs. 10,000 crores from the three business line which we have been doing for quite some time and this Rs.1,000 crores within next two years' time can actually go up to more than Rs.5,000 crores also. So, it depends on how fast we expand. Opportunity is humongous. As you have seen that in the past also, we do not jump into growing very fast, but then it looks like these three businesses in terms of execution, and in terms of increasing the volumes are faster, because we have opportunity coming from the partnership, opportunity coming from the traditional channel, and opportunity coming from the B2C channel. Three are not available in in case of vehicle finance or LAP or home loan. So definitely, the growth will be faster, but I don't want to give you a mix as of now, let us actually wait, quarter-on-quarter we'll see, like I'm expecting that these three businesses can start growing Rs.1,000 per quarter crores within three to six months and then we will discuss. But the opportunities are humongous and it is going to be very fast as compared to the previous businesses.

Dhaval Gada: And on cost, any color?

Ravindra K Kundu: Cost is part and parcel of the business. As of now, like technologically whatever investments have been done, we have already incorporated and most of the cost in the technology side is basically getting the technology companies for using their system elements on SAS model. So, it is not CAPEX, but OPEX more. So, therefore, the cost from the technology point is not, this is the people cost. We have already incorporated the existing business plan itself. It will be in line with the business plan. As we grow the businesses and the businesses will see that. One important thing is that we need not worry about the infrastructure costs for expanding the business. We just need to recruit people and depute in the branches which are there on the vehicle finance. So, in a way, it will actually leverage on our existing branch network and it will improve the utilization of the branches. So there, we don't have any problem. The people cost only going to be one cost and second is the OPEX of using the loan origination system or loan management system or even collection system of the technology partner which we are going to use it. So it will not be a very humongous cost.

Moderator: The next question is from the line of Harsha from L&T Mutual Fund. Please go ahead.

Harsha: I just have two questions. Firstly on that stage wise ECL summary slide of yours, between IA and IB, you have written that IA is normalized and IB is yet to be normalized. So, can you just help me understand how do you define normalized?

Arul Selvan:: What we mean as Normalized, is that it becomes zero, that is all dues are being repaid. So, as per the RBI norms, you will have to collect everything due from them with regard to the interest and principal before you can reclassify them as standard asset. So, I'm trying to follow the same thing in the ECL model or under the IND AS also. Under ECL model, you have to classify based on number of days. So, Stage-I is less than 30-days and Stage-II is 30 to 90 days and Stage-III is 90 plus. The others which have touched 90 and have moved back to Stage-I and become completely normalized, that gets classified as Stage-IA. Stage-IB is those which have gone to 90 but have moved back, but still not that come to completely zero, that is they have not completely extinguished all the overdues. Then they are classified as Stage-IB. So, IB under the new norms is NPA, IA is not NPA.

Harsha: Just a follow up on that, let us say in IA, the account was 90 days plus, you have recovered some dues and it has moved back to stage-I, but as per RBI, you have recovered each and every penny from that account, then how it still continues to remain under stage-I or II, should be a fully normalized account assuming you have recovered everything?

Arul Selvan:: No, between the time it became an NPA and now, there are further EMIs falling due. All that also got to get recovered.

Harsha: So, IA is basically that has moved back from 90 days to stage-I, but has also cleared all his dues, whereas in IB, it is also moved back from 90 days to stage-I, but he has not cleared all the dues.

Arul Selvan:: Yes, yes. What we are doing is IA is still perceived at slightly more riskier because he has touched NPA and come back. IB is those who have touched NPA and come back but not yet cleared as per RBI. That is the thing we are trying to bring and that is why you see the provision percentage also slightly higher for each of these categories.

Harsha: We have seen general economic trend right now. We are seeing cost of funds more or less stabilized, whereas for Chola, the cost of fund has also declined very sharply this quarter. Just a two subsection question. Number one is how much of your cost of funds you can leverage further on the yields and eventual NIM to existing business to drive NIMs from here? And secondly, in these new verticals that you will grow over the next few years, how those NIMs of those businesses will be as compared to the existing businesses?

Arul Selvan:: What we do is we don't play with the price to boost our disbursements or otherwise, it is more from an underwriting principle to see that we lend to people who could pay back in time. So price is secondary. I'm not saying it is unimportant, but it is secondary. So the price will not be the determining factor. So the cost of funds reduction need not necessarily always be passed on. Sometimes it is possible, sometimes it is held back. So we are in a situation where we are right now holding back. At some point when we see we may pass it off to on the yield benefit, but that will be more market determined. The second question on the new businesses. It is evolving. We need to see. But I'm sure there the NIM levels are very high, but there you will also have on the flip side more OPEX and slightly higher credit costs. So overall, ROTA will be better than our traditional businesses, but it will have differential NIMs and differential OPEX in the credit costs.

Moderator: The next question is from the line of Prashant Sridhar from SBI Mutual Fund.

Prashant Sridhar: You were just talking about some type of flexi loans on the business side. The general confusion we have is when the customer does not have to pay a principal every month, how do you figure out the repayment trends and credit costs and how does that differ from a normal term loan to the same SME or is there a difference?

Ravindra K Kundu: There are two types of flexi loan. One is a simple flexi loan wherein you can actually give the opportunity to customer to pay only interest and at the end customer can pay the bullet. We are talking about the OD, dropline flexi wherein every month the OD limit will keep coming down. So, to that extent, customer has to repay that principal. So, the interest also will be served and in fact in the market, there is a hybrid flexi loan is also there wherein for two years, suppose there is a total tenor of five years, two years will be simple, that is when the customer will serve the interest and then after that dropline will start. So, we are focusing more on the dropline flexi loan and simple flexi loan we are not at all encouraging as of now. That is the reason what you mentioned about it. And hybrid flexi loans, we have not launched so far.

Prashant Sridhar: You would have done some study on the credit costs for these flexi loan dropline or hybrid whatever. How is that different from normal credit costs to the SME sector, what should we sort of expect when we compare it with that?

Ravindra K Kundu: There are different, different players and the mix of the dropline versus term loans are varying because term loan, ROA or ROTA is lower and dropline flexi basically, from the vehicle finance point of view it is new and used. So, in the used what we have higher NCL and high risk, high reward type. It depends on how best you do the collection. So, there are players like some who are doing very good collection and therefore they have a higher NCL but they are able to manage it within the threshold and they are able to deliver higher ROTA. So, in the case of the dropline flexi and term loan, slightly, the yield will be high and NCL will be high and at the end the ROA is high.

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

Abhijit Tibrewal: I have three questions. One each for Vellayan, Ravi and Arul. Firstly, if I heard you right, that we're looking to partner with our 10 fintechs. So just wanted to understand that there are so many other NBFCs who would have entered into such co-origination and co-lending partnerships with fintechs. So are these partnerships exclusive in nature? We already have done a JV with DBS in the past. That experience was not good. So what will be the right to win in this newer ecosystems and product segments? Have you already done hiring for these newer segments? Who will be leading this? This is more ecosystems and products. And lastly, what measures have you taken to ensure that this time around, there are no lapses, I mean, like we had about a decade back when we entered **Consumer loans?**

Vellayan Subbiah: First off, I think we should understand the nature of what happened with DBS and what is happening now is very different, right. In that case, DBS came in and played a very significant role in the management of the company day-to-day, right. Here, in the case of these partnerships, it's very much kind of Chola culture. And honestly, I think kind of one of the big reasons why kind of the relationship with DBS failed is because we had two different cultures under the same roof. It's kind of the classic NBFC culture, which is what Chola came from and is very different from kind of what I would call DBS which is much more a bank-led culture. And also when they were approaching it, then we got to recognize that there was no data available on Indian consumers, right, there was no CIBIL or was at very, very early stages. And pretty much all of the data we have used is that kind of get any information from any of the credit rating agencies. So first of all, India was a very different point then. I think that's the first thing. The second is, like I said, the role of DBS as a partner was different where they were involved in the management. Here, the role is totally different, because it's Chola managing with our culture, with our way of approaching things, with our underwriting capabilities where we basically using partners like this who can help on origination, right. So if we talk about the BankBazaar and Paytail, for example, there right now, we're pretty much the primary partner. BankBazaar has kind of partnered with somebody else on the card side, but in terms of this product that we're going after, we're the only partner initially. And also, the format of the structure is different from kind of the classic kind of FLDG format, exactly structured like a co-sharing relationship, the loan still sits on our balance sheet, but basically it's a very different structure from an FLDG structure. So there were two questions. Why is this approach different from DBS? Hopefully, I've answered that. Second is why do we need to partner with these fintechs? Honestly, what we are looking at it right now is, we see it as kind of as a different mode of acquisition, right. I mean, basically, I think gone are the times where only one mode of acquisition will work. And so whilst we have the core business, and the core underwriting skills, hosted under a key person, just for that person, there's a traditional mode of origination that he or she is managing and in addition, we're also trying these digital modes. So like Ravi said, we're going to be cautious and early scale, the modes that we will believe are scalable, that's always been Chola's approach and that will continue to be Chola approach now. Your question in terms of why will we not fail like we failed last time? I don't know, I think I'm paraphrasing, it may be kind of it was asked in a different way. Obvious, I think it's the approach. I mean, basically, right now, even on these loans we are predominantly still looking at it. Our whole mindset at Chola is first is collections, second, underwriting, third origination, right. And so we still are looking at will we be able to collect on these loans, how will we be able to collect if there's non-performance, and then looking at underwriting standards, where we now have a lot more access to data on these customers than we did before. The last time we did consumer loans, we had very little data. And therefore, it was a very different approach at that point in time. So I don't know if that answers your question.

Abhijit Tibrewal: Sir, it does. Lastly, we have already done the hiring for the newer segments. Who will be leading the segment?

Ravindra K Kundu: No, we have not shared who is leading. So all three businesses are being now headed by the people who have been with Chola for many years. And after that, the people who have been working in this industry, and they have been hired from the market, and still hiring is going on as of now. But all those three businesses heads who are working in Chola for more than 15-years.

Vellayan Subbiah: I think that should give you comfort. The business heads have been in the company for over 15-years.

Moderator: The next question is from the line of Abhinav Anchal from SBI Life Insurance. Please go ahead.

Abhinav Anchal: I have a couple of questions. First, can you throw some light on the collection trend seen in January? And how do you see this IIB bucket moving forward, do you think it is going to normalize in subsequent quarters or this is the natural outcome of our business model? And the second one is that our net NPA is currently very close to that 6% threshold target. So, what's our thought process on net NPA? And do you think collection alone can drive it let's say take it to a safer number of around 4% or we have to make some additional provisions also?

Ravindra K Kundu: I will just talk about the collection efficiency on vehicle finance and this is almost similar in rest of the two businesses also. And since this portfolio of vehicle finance is 70% of the overall portfolio, it matter most actually. So, in the vehicle finance, we have seen the highest efficiency in terms of cash flow against the billing and which has gone up to 123% in December, in October and November it was 116%, in January also it was 123% against the billing. In terms of collection efficiency of the non-delinquent book, in the month of October and November, it was more than 98.5%, in the month of December it reached 99%, so roll over was 1.07%, in the month of January, again 99% but the rollover was 1.13%. So, the collections have improved and it is significantly better than the past and it has reached the level where we used to do it in the past. Now coming to the NPA, like at Chola's level we are at 5.85% in terms of IND AS, and as per the RBI it is 8.53%. In this quarter, I think we will try to reduce it by 2% over and above RBI, whatever we are at. And if you take the net NPA, from 5.75%, it can go down to 4% level within say six months' time. I'm just trying to keep three more months extra. But we are moving in the direction. Already, improvement started seeing in the month of January as against December. It's just a matter of six months' time, because this is the new RBI norm wherein ever 90 customer who were basically touching 90 and being there in the Stage-II for longer periods and which has gone up during last six months post wave-one that will be taken care because we will go to the customer to educate them and try to basically collect money from them because it is kind of their bureau score is getting impacted and if they want to take a loan that will also get impacted. So, by that we can actually convince those customers who are in the bottom low hanging fruit like those who are in Stage-I and Stage-II customers.

Moderator: The next question is from the line of Mahrukh Adajania from Elara. Please go ahead.

Mahrukh Adajania: The previous person also asked this question. So the other transport financiers want to move to 4% net NPA. Is there any such plan for you?

Arul Selvan:: There is a need by some of the other players who have to move to 4% is because of the dividend policy announced by RBI where if they had crossed 6% NPA in the past, in the current year unless they become 4%, they cannot declare dividend. That is why the threshold of 4% is being targeted by them. Not that we don't want to go down to the 4% level, but in our case since we have never touched a 6% NPA in the last three years, we are not constrained by that regulation to declare a dividend even if we are above 4% as long as we are below 6%. So, we are below 6% and we will certainly be driving it to bring it down to 4%. But that constraint of having to necessarily touch 4% is not a mandatory or a regulatory requirement as we speak.

Mahrukh Adajania: What is your outlook on margin given that bond yields are firming up? The reset on bank borrowing is what -- one year, six months?

Arul Selvan: It is different for different borrowings. We have borrowings which have got three months reset, six months reset, one year reset, we have borrowing linked to various benchmark, indices like repo or treasury bill, etc., And some of them we have also hedged against these by having floating to fixed sort of an arrangement. So it's not like we have one single mode. It's mixed and we do it and we manage it depending on what we see as the outlook for the coming period.

Moderator: The next question is from the line of Piran Engineer from CLSA. Please go ahead.

Piran Engineer: Some of my questions have been answered. Just on the previous question itself, just wanted to understand that during COVID, we got bank sanctions at pretty low rate by linking to external benchmarks and now that priority sector thing has gone, how do we see this repricing upwards next year? And just the other clarification to Kundu sir, thing about 600, 700 crores of quarterly disbursement from the new business. Run off of this business will also be pretty high. Is that a fair assumption?

Arul Selvan: I will take the first question. So we will see repricing when we have MCLR repricing happening in case of bank loans. And in some of the cases what we have done is we have moved away from MCLR into benchmark currency even for bank loans. Today, banks are offering benchmarked indices very fairly low rate even for non-PSL assets. Earlier they were only restricting it to PSL assets. Now, today, they are offering because banks are also in need to grow that book. So we are capitalizing on that. We have reprised a lot of our loans during Q3 which is why you see a further improvement in cost of funds in Q3. We see that continuing for some more time. Yes, at some point, the trend will change and at that point in time, we have to take necessary actions to protect our NIM and we will be doing so.

Moderator: The next question is from the line of Aditya Jain from Citigroup. Please go ahead.

Aditya Jain: If you could talk about a little bit about the fintech partnership. So, if the Kreditbee say for example has multiple NBFC partners, how does the allocation that happened to Chola work and where does your underwriting model feature into the process, how automated is it, if you could give some color along this thing?

Ravindra K Kundu: The allocation is based on the underwriting norm decided and the commercials discussed. So, therefore, that is one. And underwriting is fairly automated, nothing has to be done manually, we need to cross check and see that in case there is a problem, we can recalibrate time-to-time which we have opportunity to do every month. In terms of other partners, they are preferring us because we have a huge network. And in case of these fallback, we can support them in collection. So, the branch network, collection efficiency and collection strength of the companies are preferred more than anything, and definitely there is a bit of underwriting norm and commercials are also important. So commercial is the starting point, but the ending point is how we can support them in order to basically serve their customers in a larger way. And they see that Chola is one of the largest players in the market industry network and having a very robust collection mechanism which can support them.

Moderator: The next question is from the line of Harshvardhan Agarwal from IDFC MF. Please go ahead.

Harshvardhan Agarwal: Just two very quick questions. One is the restructured book number that you give. Does it have any overlap with this to what stage IIB book?

Arul Selvan: Shyam, do you have that data? I got to check that out. There will be some maybe, but it would be very miniscule because it would not have had the time to move and come back. So that would not be the case at least for now.

Harshvardhan Agarwal: During the start of the year we typically guided that we intend to take up Stage-II plus Stage-III back to 10% by the end of this fiscal. So do we expect that Stage-II plus Stage-III to come down to 10% in the next quarter?

Arul Selvan: To some extent, because the restructured book will continue to be in Stage-II irrespective of whether they are in zero bucket or otherwise, then Stage-II will look inflated because unlike the earlier restructuring norms where RBI allowed us to revert back from NPA status which was assigned to the restructured book after one year. In the case of the new norm they have asked us to hold restructured and carry additional provision for a period until 50% of the loan is repaid. So, until then we can't reverse this back into Stage-I as we have opted to keep it in Stage-II because of the higher provision, etc., So, till that time we will continue to keep it in Stage-II, as and when they reach the 50% threshold, then we will move them to Stage-I. So, it may take a little longer time, but that does not mean that the book is bad. That's what I'm trying to convey.

Ravindra K Kundu: Stage 2 has come down to 10.37% now already.

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

Shweta Daptardar: My question is pertaining to home equity GNPA. So they have been sticky for some time now whereas things are actually picking up on the growth traction front. Also, how is it panning out in terms of SARFAESI resolution. Could you throw some light there?

Suresh Kumar S: Our Stage-II and Stage-III from quarter-on-quarter both coming down. And we see a lot of traction happening on the SARFAESI now because the DRT started issuing order. We still see some of the orders not coming from the DRT but we expect that things will ease out now with most of the lockdowns have been released. Now, we see it is to be only increasing from this point on.

Moderator: The next question is from the line on Nischint Chawathe from Kotak Securities.

Nischint Chawathe: Probably this just got slipped off, but there was one question that in the new businesses, while the disbursements would be high, your rundown probably also remains higher, right, because some of these will be short tenure loans. Maybe if you could just comment on that?

Ravindra K Kundu: The mix of the small tenor and longer tenor is as similar to vehicle finance as of now, in fact, small tenor is very less . So the rundown will be also similar to vehicle finance, it will not be aggressive.

Nischint Chawathe: That was the last question. Thank you, everybody, for joining us today. And thank you very much to the management for giving us an opportunity to host the call.

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