"Cholamandalam Investment and Finance Company Limited Q4 FY-21 Earnings Conference Call"

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MODERATOR:	**MR. NISCHINT CHAWATHE – KOTAK SECURITIES**

Moderator: Ladies and gentlemen, good day and welcome to the Q4 FY21 Earnings Conference Call of Cholamandalam Investment and Finance Company Limited hosted by Kotak Securities Limited. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. I now hand the conference over to Mr. Nischint Chawathe from Kotak Securities. Thank you and over to you sir.

Nischint Chawathe: Good morning everyone. Hope you are all safe. Welcome to the earnings conference call of Cholamandalam Investment and Finance Company Limited. To discuss the 4Q FY21 performance of Chola and share industry and business updates we have with us today, Mr. Vellayan Subbiah – Chairman and Non-Executive Director, Mr. Ravindra Kundu – Executive Director, Mr. Shaji Varghese – President, Housing Finance, Mr. Suresh Kumar S. – Senior Vice President and Business Head, LAP and SME and Mr. Arul Selvan – Executive Vice President and CFO. I would now like to hand over the call to Vellayan for his opening comments.

Vellayan Subbiah: Thank you Nischint and good morning everybody. Thanks for joining us for the quarter and year ended result.

Just a quick kind of summary on the quarter.

The PAT for the quarter was at 243 crores, which is a growth of 470% over the Q4 of FY20. The fully year PAT was at 1,515 crores which is a growth of 44%. Our AUM crossed 76,500 crores. We also took additional COVID provisions in the quarter about 350 crores and so the total COVID provision that we are carrying right now till March is 1,100 crores. The NIM, our Net Income Margin is basically at 1,342 crores, which is up 32% for the quarter and 4,944 crores which is up 22% for the year. PAT like I said is at 243 crores for the quarter and 1,515 for the year.

So basically, just a quick summary of performance highlights:

The disbursements in Q4 FY21 were at 8,071 crores as against 5,663 crores in Q4 FY20, which is a growth of 43% and disbursements for the year ended March 2021 at 26,043 crores as against 29,091 crores in the previous year which is a decline of 10%. Decline in full year is primarily due to lower disbursements in Q1 and Q2 during the lockdown.

Vehicle finance has clocked a volume of 6,153 crores as against, 4,703 crores at a growth of 31% and again it's a decline of 13% for the year. Loan Against Property disbursed 1,191 crores in Q4 as against 589 crores which is a growth of 102% and a marginal decline of 1% for the year. Home Loan disbursed 538 crores as against 271 crores which has grown up 99% and overall, for the year is 2% up in disbursements and AUM grew by 14% like I said earlier. The PBT-ROA was at 1.8% as against 0.4% in the previous year quarter while for the year ended March 2021 it was at 3% compared to the previous year of 2.7%. If we exclude the one-time provision the PBT-ROA would be 3.8% for the quarter as against 3.7% for the same quarter last year and full year ended ratio also would be 3.8% compared to 3.5% for FY20. The ROE for the year ended March 2021 was at 16.9% as against 15.2% and if we exclude onetime provision, the ROE would be 20.9 as against 19.7. We continue to hold a strong liquidity position 6,428 crores in cash balance at the end of March 2021. That includes 1,500 crores which we have invested in GSEC and it is shown under investments. And our total liquidity position is at 9,780 crores if we include undrawn lines. The ALM is comfortable with no cumulative negative mismatches across all time buckets. And the board of directors has recommended a dividend of 70 paise per share which is 35% dividend on the equity shares of the company subject to the approval of shareholders at the ensuing AGM. This is in addition to the interim dividend of 1.30 paise per share that was declared on 29th January 2021.

In terms of asset quality, at the end of March 2021, stage 3 was at 3.96% with a provision coverage of 44.27% as against 3.8% at the end of March 2020 with provision coverage of 41.52%. Company paid additional provisions as management overlay for 350 crores towards future contingencies and like I said we are carrying a total of 1,100 crores in terms of the total additional provisions. The total provision currently carried against the overall book is 3.58% as against our normal of 1.75%, carried prior to the COVID pandemic. In terms of capital adequacy, we are at 19.07% as against the regulatory requirement of 15%. And finally, one other point during the quarter we also invested in Vishwakarma Payments Private Ltd, a consortium of entities and jointly applied for a New Umbrella Entity license for Retail Payments with RBI.

So, let me stop with that commentary and the team and I will be happy to take any questions. Thank you Nischint.

Moderator: The first question is from the line of Mahrukh Adajania from Elara Capital.

Mahrukh Adajania: Could you give us some color on collection efficiency in April in the vehicle segment?

Vellayan Subbiah: Ravi, perhaps you can give some more color and talk a bit more about where we are at.

Ravindra Kundu: Hi, good morning. This is Ravindra Kundu. So, the collection efficiency, overall collection against the billing for the month of March against the 2,120 crores we collected 2,469 crores in vehicle finance. So that was 116% and cumulative collection efficiency against the current demand and debtor was at 62% level. As against that in the month of April we collected 1,979 crores against 2,125, so that is 93% of the current demand and cumulatively we have collected 50% of the total collectible pool. As per as the first bucket delinquency is concerned, in March our roll forward in the first bucket was 1.42%. In the month of April, the first bucket roll forward was 4.57%. So, in terms of collection efficiency of first bucket we did 99% in March and in the month of April 95%.

Mahrukh Adajania: I have another question on LAP that your growth in the LAP book has been very good when competitors are not growing their LAP portfolios. What explains the difference and what is the ECGLS given in the LAP segment?

Suresh Kumar S: This particular thing was even responded in the previous call as well that pre-COVID we prepared for ourselves for a growth trajectory and where we have hired manpower and expanded branches, that is contributing the disbursements now in the current quarter. That is point number one. And current year we have disbursed 800 crores in the ECGLS.

Mahrukh Adajania: What is the ticket size in LAP?

Suresh Kumar S: Average ticket size is about 50 lakhs.

Mahrukh Adajania: And any geographic bias?

Suresh Kumar S: We are significantly present in North, West, and South, these are our bigger markets, but currently during the year 2021, we have also forayed into East, and we have started putting branches, putting manpower and we want to be kind of all the zones in an equal position so that is what our objective is. We don't want to carry any bias in the zones.

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

Aditya Jain: Some information on the previous question. ECGLS is 800 crores in the current year, is that right? And the second thing, the collection efficiency in April got a response in vehicle finance, at the overall level what was said, sorry it wasn't audible?

Vellayan Subbiah: Sorry. I wasn't able to hear that clearly, was that for vehicle finance? Ravi, if you heard the question clearly, you can answer. I think it is for VF.

Aditya Jain My question was collection efficiency overall, got the response VF, but did not get for overall. The second part, the ECLGS disbursement in the current quarter, if you could confirm the number?

Ravindra Kundu: The vehicle finance is actually 72% of the overall portfolio and I said that our first bucket collection efficiency has been 95% and 5% of the roll forward against the 99% collection efficiency of the first bucket in the month of March and 1.42% of the roll forward. The entire other divisions also are in the similar line only.

Vellayan Subbiah: Maybe Suresh and Shaji you can give some color with any difference, otherwise Ravi you can answer.

Suresh Kumar S : No Sir**,** it remains the same, almost the same, a very marginal difference, but almost the same is the efficiency with all the buckets.

Shaji Varghese: Same as the home loan, there is no material difference and the overall what you talked about.

Aditya Jain: On the movement in GS2 in this quarter. One, could you tell the size of the restructured loan book now. And second, what is the amount of overlap between restructured loans and GS2?

Arul Selvan: Restructured loan is less than 2% of the overall book end of March. And there is no overlap between ECLGS and restructuring. Consciously we said wherever ECGLS have been offered there will be no restructuring.

Moderator: The next question is from the line of Abhijeet Tibrewal from Reliance Securities.

Abhijeet Tibrewal: My first question is to Ravi Sir. If we look at your disbursements in the quarter, would you say we have kind of lost some market share in tractors and used vehicles? And the reason I am asking this is at least in used vehicles we are one of the largest financiers, one of your other peers it is the largest used semi financier. I think they have put a very strong disbursement during the last quarter. Is there anything else that we need to kind of look into this or anything to read into?

Ravindra Kundu: As far as the market share is concerned, we maintained our market share at the same level in tractor, 2-wheeler and construction equipment and commercial vehicles are also in the same level, Q4 to Q4. If you see that, as far as the entire year is concerned, we gained little market share in tractor and construction equipment and other products remain same.

Abhijeet Tibrewal: Which OEM is that market share acquisition is coming from in tractors?

Ravindra Kundu: That we cannot disclose in this meeting, but we are working with all the manufacturers across the country. We have the concept of selecting the geography and selecting the manufacturer and their product segment and grade them into Grade A, Grade B and Grade C depending upon the probability of default and our portfolio behavior and based on that we focus some product in some markets more and some less, but as far as the focusing or working with all the manufacturers is concerned, we are equally treating all.

Abhijeet Tibrewal: My last question is to Vellayan Sir. In the last earnings call, you had suggested that we are working on a new strategy. In other words, you wanted to tell all the investors and analysts about the new strategy that you are working on. Is it a good time to ask about this new strategy or you would probably want to wait for the next earnings calls to update us on the new strategy that you are working on? Broader direction for Chola, I mean.

Vellayan Subbiah: That's what I am saying. You shouldn't look at it as kind of entering into new strategy because none of the current is going to change. It's basically how we build onto the current. That's the first thing. So, I am careful on that language on new strategy because you shouldn't think that we are suddenly headed off in some new direction somewhere. So that's the first part. The second is obviously we have been looking at how we broaden a bit is what I would say, and that strategy is evolving well. I think by the time we communicate it out to investors, especially because right now this quarter we need to stay much more focused on the core businesses. So, I would say by the time we communicate it out to investors, it will be next quarter.

Abhijeet Tibrewal: Just one last question for Arul Sir. Our total restructuring pool is about 1,460 crores. That is broadly split as 280 crores for individuals and about 1,180 crores for MSMEs. If we just do a back of the envelope calculation, the average ticket size actually works out to about 19 lakhs that's 1.9 million for individuals and about 9 lakhs for MSMEs. In which product segments have you done this restructuring? Because I don't think in vehicle financing, we will have anything like 18 or 19 lakh kind of a ticket size?

Arul Selvan: But much of it has been more in the LAP and generally you should not take the total and try and arrive at this sort of average, because it will take you completely down. In count-wise it is more on VF. In value terms it will be more on the LAP and that's what will make the difference.

Moderator: The next question is from the line of Umang Shah from HSBC Securities.

Umang Shah: Two questions from my end. One is the employee expenses this quarter look extremely high if I look at the first nine months, is there any one-off in that line item?

Arul Selvan : Yes. What generally happens is we have certain incentives schemes that run which we would normally provide through the year because these schemes will be floated at the beginning of the year and then we keep tracking the performance and providing as we move along. But this year because of the first two quarters, we did not announce the incentive schemes and subsequently when we announced in Q3, we wanted to see the Q4 performance and provide for it and then Q4 by end of the first year they have all met their targets, we needed to provide it. So, it is something similar to like when you are hit of these incentive provisions coming on into one quarter, around 50 to 60 crores. The second aspect is also that what we generally give as promotions and increments in the first quarter of every year, we deferred it because of COVID last year. But once the COVID impact subsided we gave these increments and the promotions and salary increase in Q4 from Jan 1st. So, it had the full quarter's impact in the current quarter. These two elements brought into a spike in the salary cost.

Umang Shah: Second question is on outlook on credit costs. Clearly, we are carrying extremely high provisions compared to what we have seen historically and if you look at our asset quality at the end of the first COVID wave, we are positioned reasonably alright, so how should one look at credit cost assuming that post first-quarter things come under control. Should we see some provisions reversals or we kind of continue to maintain higher level of provisions across buckets through FY 22 and maybe look at reversals only in FY 23?

Vellayan Subbiah: It is difficult to tell right now. I think we need to see how this thing plays out and how the thing kind of continues, because definitely April and May will be impacted. We are hoping and kind of expecting that it will begin to turn in June. But I think it's fairly indeterminate at this stage. So honestly, I don't think that we have or will be able to provide that perspective, beyond kind of our capability to look at April and May at this stage. Our belief is that because clearly the lockdowns affecting both earnings potential and our collections impact. I think we need to see kind of how this thing kind of goes beyond May and then see how we basically manage that.

Moderator: The next question is from the line of Kunal Shah from ICICI Securities.

Kunal Shah: Firstly, in terms of this COVID buffer 350 odd crores, so looking at 750 crores we had and last time you highlighted that we would be utilizing a part of it and would it be comfortable keeping only 250 odd crores. So, I think overall per se when we look at last four quarters, the way we have created the buffer and what has been created in Q4, that seems to be quite high. So, is it like you are more worried in terms of the second wave disruption to be higher that we have created almost like 50% of the buffer which was created during the first wave?

Vellayan Subbiah: I would just say in the first wave we were not sure at all what was going to happen. Yes, definitely I think in summary what you said is correct, which is we are more worried about the second wave than we were worried about the first wave.

Kunal Shah: Secondly, in terms of the M2M on the securitized pool was there any impact in this quarter?

Arul Selvan : No, not in Q4 there has been a small increase in the EIL because of one or two pools which were left out we also brought under new MCLR rates, but I think all of them are running in the current state with the banks. So, there will be no further impact of this.

Moderator: The next question is from the line of Varun Nabar from Nippon India Mutual Fund.

Varun Nabar: Could you give some color on the segmental break-up in the stage 3 number?

Arul Selvan: The Vehicle Finance is at 3.08% and Home Equity is at around 7.34%, Home Loan is at around 3.25%.

Moderator: The next question is from the line of Saurabh Dhole from Trivantage Capital.

Saurabh Dhole: I have a couple of questions. First is, could you just talk about little bit about the restructuring that you did for the bus operator and the employee bus operator segments, because as we can understand they are still possibly impacted. So, could you talk a little bit about that?

Ravindra Kundu: We have seen that our restructuring is close to 1,100 crores as per the vehicle finance is concerned and our portfolio of school bus and staff bus is very small to the overall size of the portfolio and last time also, we mentioned that. We focused on the heavy commercial vehicle customer and the buses where the people are impacted from the operation. So, majority of the pool is in commercial vehicle and around maybe 20%-25% of the 1,160 crores is actually pertaining to the buses.

Saurabh Dhole: You gave us the number for vehicle finance GNPAs, but could you also give GNPA number for Used CV both as on March 2021 and as on March 2020?

Arul Selvan : No, we don’t give segment-wise.

Saurabh Dhole: Any qualitative comment that you can add here?

Ravindra Kundu: Used CV is behaving better than the new CV.

Saurabh Dhole : Used CV GNPAs are better than the…

Ravindra Kundu: In terms of relative sense. The relative sense the HCV new for last even last to last financial year, across the industry new HCV last to last financial year started actually deteriorating and that is also impacted the new HCV although the portfolio size is very small, but in that line if you compare the Used CV is not deteriorated.

Saurabh Dhole: Lastly one more datapoint, what was the PMAY subsidy that you received during the quarter?

Shaji Varghese: For the year we have received 21 crores of that for the quarter has been, I will just come back.

Arul Selvan: Just to add this subsidy doesn't go into the income line and goes into the credit of the customer.

Moderator: The next question is from the line of Anita from HSBC Asset Management.

Anita: In the first remarks you said something about the cumulative collection efficiency being like 62%. Can you just give some more color on this? Can you elaborate quarter wise how this would match up and that how does that compare to the NPA numbers and the restructuring?

Ravindra Kundu: Cumulative collection efficiency is nothing but the collective whatever collectable pool, which is coming from the current month demand, suppose you take the March month current demand for vehicle finance was 2,120 crores and debtor was 1,888 crores. Put together there is a collectible pool. As against that we collected 2,469 crores which is 62%. Now this cumulative collection efficiency of 62% more or less remains as it is in the past also to take the, suppose January 2020 or say February 2020 that time also we were actually hovering at 63%. So that is one. Second is that you are asking that how it is impacting the GNPAs.

Anita: This number seems to be little low? I mean, just 62% collection efficiency means like 38% people have not paid, right?

Ravindra Kundu: No, that's what I'm saying. 62% is against the overall collectible pool, the collected amount divided by total collectible pool. So, when you take the total collectible pool, there are customers who are due for 6 EMI, 10 EMI. So, all dues are added in that, in the denominator and numerator is that what we have collected. That is not that 62% collection if you think, 38% is not paid.

Vellayan Subbiah: The number she's looking for is that 95% collection efficiency.

Ravindra Kundu: Yes, I am coming to that. So, the collection efficiency or the first bucket if you see how much GV have been collected and how much have been rolled forward, then you see that 99% of the overall gross effect of the zero bucket has paid and 1.42% have been rolled forward. That is for the month of March. Same number in the month of April is 95% and 4.57 rolled forward.

Anita: Can you also give some color as to this year COVID impact versus last year? Are the same kind of customers actually facing stress or is it like a different kind of customers we are seeing in this April? How are you seeing your trends?

Ravindra Kundu: As for as April is concerned till 10th of April things were looking very normal and very few places lockdown were there, so our collection was going on in a similar pace what we did in the month of March. From September onwards we were improving the collection month on month and it has continued till 10th of April. After that because of the lockdown imposed, our people are not able to go and meet the customers and whatever collection happened it is actually over phone. People have paid the money digitally or they have deposited into the collection center. As of now as far as April is concerned if you take the data of the petroleum companies who have actually declared the data, in the month of December the diesel consumption again 2019 pre-COVID, April 19th, it is actually dropped by 10%. So, capacity utilization in the month of April was actually normal. We need to see how May is impacted and when it comes to which customer impacted in COVID 1 and which is impacted wave 2, it is very difficult to say that the set of customers have not impacted who have been impacted in previous time. That we need to see and come back in detail in next time.

Shaji Varghese: I'll just confirm back the figure on the last quarter we received on PMAY. For the year 21.39 crore we had received PMAY subsidy, of that 16.5 has been received in Q4. I hope it clarifies.

Moderator: The next question is from the line of Vivek Ramakrishnan from DSP Mutual Fund.

Vivek Ramakrishnan: My question is on the interesting point that you made that the Used CV pool is giving better than the new pool. Is it because of the end-use or what is the color on that? I will ask all my questions in one go. The second question is, NBFCs tend to help their customers during periods of distress because they know that they are catering to a set of customers who go through that. When would you start repossessing vehicles given the fact that the economic stuff is out of such growth? And the last is related to the earlier question that was asked, in terms of the 62%, the credit losses despite there was a 62%, it's in-line with historical trends, that is after you repossess the vehicles, sell it and the customer dues are settled.

Ravindra Kundu: First question you ask that at what stage we repossess the vehicle. So, we repossess the vehicle only when the customer's intention to pay is completely not there and start actually dodging us and it comes because of their intention or it comes because of the business of the customer failed. At that point in time, only when we continue to do the follow-up and realize that it is not going to work further, then we either discuss with the customer to come forward and do some settlement or in case that amicably cannot be done, then only we go ahead and repossess the vehicle. That is one. Second is, can you just repeat what was your second and third question?

Vivek Ramakrishnan: The second was in terms of the Used CV pool behaving better than the new CV pool. Is it the end use segment or what is the characteristic which makes it perform better?

Ravindra Kundu: That is specific to us. In used vehicle we have been actually doing it across the country and in the new CV we focused on the middle of the pyramid or the customer who are SRTO in nature. SRTO customer deploy their vehicle for transporting the goods from the co-provider which are OEM type or manufacturer type. So, during the last two years, if you see the industrial production has got hit and the GDP comes down. As and when the macro condition deteriorates it actually impacts the heavy commercial vehicle and their EMI affordability get impacted. And that's the reason it is not only for us, but all heavy commercial vehicle during 2019-2020 and 2020-2021 got impacted. As far as the used commercial vehicle customers are concerned, they are utilizing their feet or they have one or two weeks which is actually started in Tier-2, Tier-3 town and also deployed into the transportation or agricultural goods, transportation of sand or bricks or they are deployed for hardware. So, that segment is not impacted during last two years. If you see the rural demand has been good and therefore used commercial vehicle, as of now, the portfolio quality is better just because of the macro.

Vivek Ramakrishnan: My last question was on the credit losses. You might have a cumulative collection of 62%, but that is okay because they might pay after three months, four months, five months, six months. But the credit losses are still in the plan that you had historically, or do you expect that to go up? But I presume the vehicle prices have also gone up, so that's why I am asking the question.

Ravindra Kundu: Credit loss and overall provision, these are two different things. When we are saying that overall net credit losses include the provision plus loss on sale of vehicle. Loss on sale of vehicle or repossession rate remains as it is. What we are doing is that we are creating more provision on account of certain type of customer, or we are creating more provision on account of COVID. That’s the reason our net credit cost is looking higher, otherwise the rate of repossession or loss on sale are remain as it is pre-COVID level.

Vellayan Subbiah: Just to clarify that, the credit losses component is higher. It's not driven by the Repo, but it's because of kind of the movement from state to state we have. Because of the two-component drivers, and the movement from state to state has gone higher and we are seeing that it will be higher in the current times.

Moderator: The next question is from the line of Anand Bhavnani from White Oak Capital.

Anand Bhavnani: My first question is about stage 2 collection efficiency, if you can share the number of what was it in the month of March and then for April?

Ravindra Kundu: We don't disclose stage-wise collection efficiency. Just to give you the direction that how the market is impacted I told you that as against March there are two parameters. One is the absolute collection efficiency and first bucket collection efficiency which talks about how it is impacted in April versus March. Up till March things were improving month on month, but in the month of April we have got impacted.

Anand Bhavnani: Second question is, on the outlook for the year. So, in response to one of the earlier questions you mentioned, you are worried about stage 2, the company is worried about stage 2 a lot more than round 1 of COVID. So, how do you see the prospects for disbursement growth for the financial year as you assess the situation today?

Vellayan Subbiah: I think to your question we had answered that broadly in the first statement, which is, I think it's very difficult to predict what will the prospects be for the year. Our current thinking and belief is that April and May will be bad and then hopefully things will turn around in June. And that's predominantly driven by the lockdown across the country which is affecting both earnings potential and also affecting kind of our collections capability. But are we able to predict kind of how this whole year is going to shape out? I think in general we are kind of averse to giving guidance for the full year, but definitely in environments like this, I think it's very difficult for us to tell. There are too many uncertainties in this environment.

Anand Bhavnani: In terms of your overall longer-term trajectory of branch openings, do you see that getting affected this year?

Vellayan Subbiah: Our branch expansion will continue this year.

Moderator: The next question is from the line of Sunil Kothari from Unique CMS.

Sunil Kothari: This is not a question, just broad thought process I would like to listen from Mr. Vellayan. During the last 10-12 years you have created this situation from difficult phases. You have faced so many challenges. There were some weaknesses we have removed. Which are further in this your again active role you would like to improve on and which area you will be focusing on for the growth? You rightly said that current growth area will remain, but any further thought process on any other areas of growth where you may be thinking of? And the weaknesses or the places where you would like to see improvement as an organization.

Vellayan Subbiah: I think that's a good question. See, broadly the areas that we are looking at is kind of an improvement as an organization first is, I said three broad areas. One is frontline productivity which is both for the salesforce and for the collections force on the front line. Second is, talent management. Because obviously our numbers now are large in terms of people. The second component was talent management and obviously that is something that we are putting significant emphasis on both looking at the talent we attract into our system and then the amount of training we give them and how we nurture them within the system and then what we do to excite and develop them. That's a fairly broad area. And the third is that in terms of process improvement we are going to embark and unfortunately this has been slowed down due to COVID, we are going to engage on looking at lean implementation in our processes. So, this is something that's traditionally done more on the manufacturing environments, but there are a lot of applicability here. So, lean implementation of processes is something we are going to do. So, those I would say at three broad areas that we are kind of looking at in terms of improvement across the system. And in terms of the broader strategy like we articulated we are looking at different models regarding the more successful models in India we have seen have been HDFC, Bajaj Finserv, and one of them clearly is that it requires further broadening of the portfolio in terms of what we offer, and which is what all of the successful guys have done. And the second is taking a more, what we would call an ecosystem view to things. So that's where I think somebody had asked a question earlier and we are evolving that kind of approach and we will come back to you with some kind of clarity in the upcoming quarter.

Moderator: The next question is from the line of Chandrasekhar Sridhar from Fidelity International.

Chandrasekhar Sridhar: Just a few questions from my side. One is the restructured book in the stage 2 numbers. Question one. Second is, what are your LGD assumptions as of now versus March of last year? Third, could you just share what is your stage 2 in vehicles finance and stage 2 in LAP, if you could just split that up? And lastly, what was the write-off number for the quarter?

Arul Selvan: We will give you the stage two numbers. The stage two number for the current quarter is 4,231 which includes 1,500 crores of assets which had been restructured. Though there could be growth under stage 1, we consciously have kept it under stage 2, primarily because we wanted to provide it at a higher level as well as to treat it as slightly of a different category of risk. So, that is on the stage 2. The LGD numbers is very difficult to give because we split the pool of assets into multiple categories depending on, in the case of vehicle finance it will be based on some products and in the case of LAP it will be based on geography, etc. So, the LGDs differ for each of these subcategories within that and we will not be able to disclose this. Even if we do it, it will not make sense because then I have to give you the relative asset sizes, etc., and that's a long discussion by itself. Did I miss anything else which you asked?

Chandrasekhar Sridhar: A follow up on this was just trying to understand how much it this additional provisioning is largely because of your LGD assumptions changing and how much is the buffer. I am just trying to understand.

Arul Selvan: See, the LGD assumptions actually it is done on a three-year average. So, we have been so far, as I told, it is conveyed in the past also we have kept a COVID impact outside the LGD assumptions because COVID is treated as a sort of a one-time phenomenon. So, we have been using the LGDs of the previous years which is the last three years basis which we have been showing the LGD for each of these asset groups. So, that is why we are separately creating this COVID and on top of it, management overlay. So, this is the way we had approached right from last March and we continue this approach.

Chandrasekhar Sridhar: I just had pending was what are the right off number? And if you could just break-up the stage 2 into vehicle financing and the LAP?

Arul Selvan : Stage 2 of vehicle finance is 3,561 crores and LAP is around 440 crores.

Chandrasekhar Sridhar: And what was the write off number?

Arul Selvan : Write off number is around 60 crores.

Moderator: The next question is from the line of Sonal from Nirmal Bang Institutional Research.

Sonal: I just wanted to understand a little bit more on your LAP portfolio. What is the underwriting process that we follow, who is the end user? And what is generally the tenor of the loan for LAP portfolio? My second question is on employee cost. Was there any one-off in terms of job expense that was recognized this quarter. And third one was, on the investments that we had done for NUE license, what is the thought process over there and how do we see this evolving going ahead?

Suresh Kumar S: On the LAP portfolio the customers are basically SME customers who are basically traders or small pharma distributors, restaurant, hotels, and small service industry people. Typically, these are underwritten through their financials, bank statement, repayment track record. And support by a collateral of theirs, either residential property or a commercial property, it could be even rented or self-occupied. And typically, these tenors are about 15 years, but generally the book stays at about 7 to 9 years in the book, generally tenor what we offer is about 15 years and our ticket is about, in fact to be very precise, it is about 46 lakhs and LTV is about 50% is the book LTV.

Vellayan Subbiah: In terms of the NUE question and rationale for it, I think there have been a couple of questions that are asked and a bit of strategy and direction. And broadly like I have discussed, the thing that we see in this next phase, we talked about this last decade for us has been to kind of develop a fairly solid loan book and create platform so growth around these three or four sets of businesses predominantly vehicle finance, home equity, home loans and SME. Going forward, like I articulated we see a necessity and a requirement to kind of broaden the service offering. And though NUE broadly is a financial service that I think is going to be required at a country level, but effectively NUE we will be servicing more on the B2B side. What it does allow us though, is to get a greater involvement in where the fundamental pipes are going to be in the future on the payment side and I think all of it is headed in that direction. And so, that allows us to build more services based on the understanding around those fundamental pipes. If we think of what we could do because those pipes will be dealing with different people over time, it allows us to build more services around that. And if you see globally payments has become a fairly co-area that everybody begins to look at. If you look at financial services companies itself, 4 of the 10 largest financial services companies in the world are basically involved with payments in some form or shape. So, we see that as a very core fundamental platform on top of which other things are built. And therefore, we see it's important that we at least have the opportunity to participate in that platform. So, I don't know if that answers your question on that.

Moderator: The next question is from the line of Nidesh Jain from Investec.

Nidesh Jain: Can you share the interest income reversal or the impact of interest and interest reversal for this quarter, if any?

Arul Selvan: 35 crores is the number which has been charged in October.

Nidesh Jain: And it is charged to interest income?

Arul Selvan: Yes. It is a reversal because this interest income had been recognized earlier so we are now reversing.

Nidesh Jain: Second, on the housing loan segment, if I look at the asset quality and if I compare it with some of the listed companies in the affordable housing segments, our asset quality is a bit inferior to them. So, any reason why we are lagging behind in the home loan side? And any update on the house finance company license that we have got from the regulator?

Shaji Varghese: The first part let me take. On a year-on-year basis we have, of course, made a bit of progress on March of 20th, 3.5% of stage 3 we have now come down to 3.25% on an asset on book basis. And then AUM level the managed asset level it is now come down to around 2.71 in the securitized book. Now there are some markets we had a bit of learning of the past. We are definitely working on it and we also wish to see as time passing this improves. We are also internally kind of taking the bit around some of the vectors, some of the learnings we had, for example, we have now focused only on self-conception and very re-sale. We catered the space of early stage and the conception and properties at play. And we have also internally built the capability to own the property and writing as well, specifically beyond the financial and writing through in-house legal and technical managers too. Yes, we are working in this direction and the early signs are visible and we are also looking forward to making an improvement in that direction. This is we are only talking about our where do stand and what improvement we would like to make than probably the other players where do they stand, I have no comment on that. But Yes, we are also seeing opportunity for some improvement. We are at it.

Vellayan Subbiah: And on HFC we have renewed, we have re-engaged with the RBI, but I would still say going fairly slowly.

Moderator: The next question is from the line of Rikin Shah from Credit Suisse.

Rikin Shah: Just one clarificatory data keeping question. The ECGLS under LAP I understand is around 800 crores. But what would it be for the total book including the vehicle finance?

Arul Selvan: Its around 2000 crores.

Moderator: The next question is from the line of Bunty Chawla from IDBI Capital.

Bunty Chawla: One question on the cost of funds, as we have seen, we have reported almost last many quarters 6.3% cost of funds. So, how we should see this moving in next year? And if you can share the data what was the incremental cost of funds for us during this quarter?

Arul Selvan: The incremental cost is around the same level of what you see, around 6.3% but this keeps moving a bit because of availability of priority sector as a lending opportunities or securitization opportunities and also to some extent on the mix of the borrowing. As you would have seen we have moved down on our CP exposures to very meager amount of 2%, where in the coming we can re-capitalize the CP levels also to take it up to a slightly higher levels which would help us to keep the cost of funds lower in the coming quarters. And I don't see because of this COVID, etc., that the home loans RBI increasing repo rate, etc., in the near future. Liquidity is surplus. But having said, that we need to again look at how this whole COVID 2 is going to pan out with regard to offerings from the banks and other borrowing opportunities.

Bunty Chawla: And write-offs, 60 crores you said it is for Q4. So, full year number?

Arul Selvan: Right now, I don’t have the full year number. It will be approximately around the similar level, 60-70 crores per quarter.

Moderator: The next question is from the line of Piran Engineer from Motilal Oswal Financial Services.

Piran Engineer: I have a couple of questions. Firstly, I have noticed that our HCV and construction equipment disbursements have picked up quite meaningfully and are higher than pre-COVID levels. And what I understood earlier was that we were going slow in this segment because it was really competitive, and we weren't getting adequate yields. So, what is the competitive scenario now? Are we able to price our products at the rate we want or are we gaining market share at the cost of yields?

Ravindra Kundu: Heavy commercial vehicle disbursement as against the previous year is down by 51%. And even the market share in heavy commercial vehicle is also dropped to 1.74% in the last financial year.

Piran Engineer: I meant only 4th Quarter separately, not full 2021, only in the 4th Quarter.

Ravindra Kundu: If you compare quarter on quarter, if you see that Q4 of last year, the BS4 to BS6 transition was happening and that’s the reason the disbursement went up. As far as the market share is concerned, it is at the same level. It was 2% last year Q4. It is at 1.93% in this Q4. So, the disbursement went up because of the industry expanded and supply went up and purchases had gone up. So, there is no increase in terms of the share. As far as the construction equipment is concerned, in terms of market share slightly improvement is there, it went up from 5.82% to 6.55% just because we have now started catering some more market like construction equipment or tractor or two-wheelers, these products have been developed during last 5 to 10 years. And we have been moving towards the different-different geographies and different-different OEMs and different-different customer segments, slowly cautiously one-by-one. So, the addressable market goes up and therefore my overall market share went up. So, the strategy as per CV and HCV is concerned remains same because it is actually quite rate sensitive, we are doing it cautiously.

Piran Engineer: Sorry to harp on this again, but if I talk about employee expenses for the full year, now in FY19 and FY20 employee expenses were up despite adding 10%-15% to our workforce. But this year we haven't added to our workforce and the expenses are still up 15% and especially given that it's a COVID year. So, is there anything more to read into this and how do we think of employee expense growth in the coming years given that we will start adding to our head count incrementally.

Ravindra Kundu: One important thing is that we have added collection manpower in last financial year also because of the collectible pool has gone up during this financial year, in spite of keeping the salesforce remain same, but the collectible pool went up, so to that extent to manage the ACR we increased the collection executives, that is one. Second is that the increment which was not given were also released in Q4 because the performance has been very good in spite of the impact in the industry if you have seen that our performance has been good, so we need to release the incentives, we need to release the increments. Those things have happened in Q4. And that's the reason the employee cost has gone up. Now going forward, we are going to add manpower, definitely will add manpower just because, as I mentioned, we are moving towards the new OEM, new manufacturers, new geographies in 3-4 products which we have launched in the last 5 to 10 years. Therefore, to that extent head count needs to go up. And also, again collection team members in terms of count also will go up because collectible pool in the COVID phase two is also going up. So, to that extent, it'll go up. But at the same time, the asset and disbursement also will be aligned with that. That's the reason Mr. Vellayan mentioned that we are also going to focus, first thing is the productivity. So, we will try to keep the employee costs or overall OPEX to the average asset within the range.

Moderator: We would request the management to give any closing remarks.

Vellayan Subbiah: I think broadly Ravi summarized it. So overall, like you saw last quarter's performance has been but obviously we have to see how this is going to play out. And I think that our current thinking on this is that April and May will be slightly tough and then things should turn around in June. But that will obviously depend on how COVID second wave plays out. But otherwise, things continue to kind of be on track for us. I think that's our broad commentary. Thank you so much for joining us.

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