"Cholamandalam Investment & Finance Company Limited Q4 FY-22 Earnings Conference Call"

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Moderator: Ladies and gentlemen good day and welcome to Cholamandalam Investment & Finance Company Limited Q4 FY22 Earnings Conference Call hosted by Kotak Securities Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nischint Chawathe from Kotak Securities. Thank you and over to you sir.

Nischint Chawathe: Thanks. Good morning, everyone. Welcome to the earnings conference call of Cholamandalam Investment & Finance Company Limited. To discuss the 4Q FY22 performance of Chola and share industry and business updates, we have with us the senior management today, represented by Mr. Vellayan Subbiah – Chairman and Non-Executive Director, Mr. Ravindra Kundu – Executive Director and Mr. Arul Selvan – President and CFO. I would now like to hand over the call to Vellayan for his opening comments, after which we'll take the Q&A.

Vellayan Subbiah: Thanks Nischint. Good morning, everybody. We will just go through key results for both the quarter and for the financial year, for the last fiscal year; the disbursements for the quarter were at Rs.12,718 crores, which was up at 58%. For the year it was at Rs.35,490 crores which is up by 36% year-on-year. The total AUM stood at Rs.82,904 crores, up by 8% year-on-year. That's basically due to fairly higher runoff post the moratorium. Net income margin was up at Rs.1,516 crores, up 13% year-on-year and Rs.5,757 crores for the year, up 16% year-on-year. PAT for the quarter with Rs.690 crores which is up 184% and Rs.2,147 crores for the year, up at 42%. The impact of the third wave on the economy turned out to be muted and much more muted than the previous two waves. Nationwide rapid vaccination obviously contributed to planting the impact of Omicron and boosting consumer confidence. The company has delivered its best disbursals, collections and profitability in Q4. The performance was aided by strong signs of recovery in both auto and the mortgage industry. All major city OEMs reported double digit growth in March '22, aided by a pickup in infra projects, growth in logistics and e-commerce and coupled with easing of finance options. There was a strong rebound in our residential housing sales in the current quarter. This was aided by demand from customers after a lot of deferrals on home buying due to COVID.

We will just go through, like I said the disbursements have just kind of broadly went through what the numbers were on disbursements. So that's basically a growth of 58% for the quarter and 36% year-on-year. If we take the individual businesses, the vehicle finance business disbursement is at Rs.8,785 crores for the quarter as against Rs.6,153 crores which is the growth of 43%. For the year Rs.25,239 crores which is a growth of 26%. LAP including affordable LAP disbursed Rs.1,978 crores for the quarter as against 1,191 which is a growth of 66%. The year was at Rs.5,862 crores, a growth rate of 62%. Home loans disbursed Rs.441 crores as against Rs.538 for the quarter, so it was less than Q4 last year. Disbursements for the whole year was at Rs.1,571 crores as against Rs.1,542 the previous year.

We've had three new businesses launched this year which is Consumer and Small Enterprise Loans, Secured Business and Personal Loans and the smaller medium enterprise loan businesses. We've combined made disbursals of Rs.1,515 crores in Q4 and Rs.2619 crores in the full year.

AUM stood at Rs.82,904 crores as compared to Rs.76,518. We talked about PAT which for the quarter was at Rs.690 Crores compared to Rs243 Crores. PBT ROA was at 4.8% and for the year was at 3.9%, both significant growth over the previous year. ROE was at 24.6% as against 10.4% in the previous year.

We continue to have a strong liquidity position. Rs.5,341 crores of cash including Rs.1,500 crores invested in GSEC. The total liquidity position of Rs.13,246 crores including undrawn sanctioned line. Our ALM is comfortable, and we've got no negative cumulative mismatches across any time buckets.

The Board of Directors has also recommended a dividend of Rs.0.70 paise share which is 35% of the equity shares of the company. This is an addition to the interim dividend of Rs. 1.30 for a total of Rs. 2.

Asset Quality:

We'll just talk a bit about the adoption of the RBI circular and revised NPA norms. We discussed this in December; RBI issued a circular in November '21 directing NBFCs to adopt a **tighter** provisioning norm and accordingly from November 1st we have started tracking daily DPD and for agreements which has crossed 90 DPD and we continued to classify them as NPA until all dues towards principal and interest are collected in full. RBI also issued a clarificatory circular on February 15th deferring the implementation date to September 30th, 2022. On a conservative note, we propose to early adopt these norms under IRAC. The ECL model provisions this year is stress tested and the impact of COVID being built into the PD and LGD computations and hence the ECL model provisions across stages had increased over December '21. Apart from this we also factored write off of Rs.190 crores for long overdue accounts where further recovery is expected to be minimal. Towards these a part of the management overlay amounting to Rs.336 crores were utilized, and the management overlay provisions carried in the books as of March '22 stands at Rs.500 crores and asset quality at end of March '22 represented by Stage-3 stood at 4.37% with a provision coverage of 39.67% as against 5.85% as of December 2021. The total provisions currently carried against the overall book of 3.04% as against the normal overall provision levels of 1.75% carried prior to COVID. As per revised RBI norms the GNPA is at 6.82% and NNPA is at 4.75%. We carry Rs.564 crores higher provisions under Ind-AS over IRAC. The details of the stagewise assets and provisions also we have shared.

The capital adequacy of the company was at 19.6% as against a regulatory requirement of 15% and Tier I was 16.5%. In terms of Subsidiaries and Associates and JVs, Cholamandalam Securities had Rs.40.12 crores in revenue and Cholamandalam Home Finance had Rs.55 crores revenue and two new investments, Payswiff Technologies Private Limited and Paytail

Commerce Private Limited had Rs.49.3 crores and Rs.1.5 crores respectively for the FY22. With that let me stop with the commentary and we'll be happy to turn it over to all of you for questions.

Moderator: Thank you very much. We now begin the question-and-answer session. The first question is from the Dhaval Gada from DSP.

Dhaval Gada: First is on the new business; so, I understand this quarter we did about Rs.1500 crores kind of disbursement. Just if you could give some perspective in terms of various vertical what contributed to this and for next year should we just think about annualized run rate as the expectation for next year in terms of new vertical disbursement? So that's the first one.

Ravindra Kundu: First of all, whatever we expected it has come in that line as far as the new business is concerned, if you remember the last earning call. However, to project the whole year number for next year, is going to be difficult. As you know that under the new business line, we have three businesses. One is the Consumer and Small Enterprises Loan, wherein we are focusing on customers who are taking the business loan or professional loan majorly and little bit of personal loan. And then the other one is secured business and personal loan, which we are giving it to the small enterprises, mini enterprises being a shopkeeper or taking the loan for the businesses. So that's the second one. Third one is SME which was there for quite some time. Now we have started growing that business. All these businesses put together has contributed Rs.1500 crores., The numbers are better because we have now started expanding in the country and the CSEL is started doing good numbers. We have four partners also available. The partnership business is 33% of the overall business and the traditional business is almost 66%. So, we are getting good traction. The SBPL is a business which is being done directly by the field team internally and which is going to be taking time to scale as we wanted to have knowledge on the market dynamics and the behavior of mini or micro-SMEs. That growth will be slightly slow, but the CSEL and SMEs started picking up and we are expecting that the run rate will improve from the next quarter.

Dhaval Gada: The second question was on that slide #21. Just question was, next year in terms of maintaining the PBT ROTA at about 3.9% which we did in FY22. Just how the moving parts would be since there would be some pressure on margin and also on credit costs there is some scope for improvement. I just wanted to hear your thoughts of how you think about maintaining the current level of PBT ROTA. Last is the data point on restructured loans at the end of 4Q and the overlap with the Stage-2.

Ravindra Kundu: If you go by the history of Chola, we have been maintaining close to 3.5% PBT ROTA between 3% to 3.5%, 3.9% is the highest because now we’ve started getting the reversal of the NPL. That is going to be continued over the period at the same time obviously the cost of funds goes up which is going to impact little bit NIM. At the ROTA front we always internally target 3.5%. If it comes more than that which is going to be a slightly optimistic number which we are trying also. Though between 3.5% to 3.9% going to be any number, so NIM impact will kind of offsetted by the reduction in the NPL. And restructured can you repeat your question?

Dhaval Gada: This talk of standard restructured loan at the end of 4Q and how much of that is already in Stage-2? I think last quarter it was…

Arul Selvan: **Rs.**3,800 crore was the total restructured book as of end of March 2022 and we have Rs.3,362 in Stage-2 but as u know Stage-2 represents both Stage-1 as well as Stage-2 because we present all the restructured books in Stage-2 only. Only Rs.444 crores are in Stage-3.

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

Rikin Shah: I have three questions. First one, the OPEX came in higher this quarter and yield also marginally declined sequentially. Just wanted to understand the reasons behind that and as the new businesses scale up what would be the outlook for both of that? That's question number one. Second on the bank borrowings, just wanted to check what is it benchmark to? Is it MCLR or repo rate linked and how often it gets repriced? And third one is just a data keeping question. What would it be the total amount of ECLGS disbursements as of today?

Ravindra Kundu: ECLGS, we have not done any disbursement.

Arul Selvan: We have not done any disbursement. Out of the bank if you look at the total borrowings, almost 55% is bank borrowing, the rest of all are market borrowings as well as securitization. These are fixed rates, so they don't change. Regarding the bank borrowing almost 30% would be benchmark and the 15% would be the MCLR and the balance 5% would be fixed rate. These benchmark rates as well as MCLR tend to be repriced either quarterly, half yearly or annually depending on mostly MCLRs would be annual. The benchmarks would be quarterly and half yearly. The first question was on…

Ravindra Kundu: OPEX is high, inspite of the disbursements being higher our AUM growth is slower. If you see that there is a denominator effect. We are growing faster because we need to cover it up. For example, in the financial statement it is shown 43% but the AUM growth is significantly lower. Unless we get back to the AUM or OPEX will not be apple to apple comparison. That is one reason for OPEX. We also started investing on the new businesses wherein the growth will come within this financial year. So, if you see once the AUM come back to the normal level of growth of 15% to 20% obviously OPEX will start slowing down. In terms of percentage, it will become better.

Rikin Shah: On this particular point of OPEX, we have added around 7,500 to 8,000 employees in last one year. Are we largely done in terms of employee head count addition, or we would be still adding strategically and also any comment on the yield, it declined modestly this quarter sequentially, so, any specific reason?

Ravindra Kundu: Manpower is going to be continuous process of hiring and expanding because three new businesses now just started, they just started one quarter. Within the one quarter we have done only 15%-20% of the total number of branches which is available in Chola Vehicle Finance.

Obviously, the growth will not come in one year time. It will continue to come. As they grow, they will continue to have the manpower. So, the manpower count will go up. Also, we recruited manpower for collections to make it more intensive in the last six months. That is also a reason. But from the collection side now we have completed the hiring in terms of manpower because going forward the collections becoming little easy as compared to the past. The ACR (Account per collector Ratio) is not going to be increased. Therefore, requirement of collection executive will be less but the branch manager and sales executive for the new businesses at a new market will definitely be the requirement as and we start expanding further.

Arul Selvan: Also, on NIM there was Rs.50 crores adjustment towards the written-off assets and that's where you've seen a slight drop. I think that will get corrected as we move on.

Rikin Shah: Just as a follow-up on the OPEX, the collection agents that we hired because now the collection will be normalizing. Would you be re-channelizing them as sales executives or they will continue to focus only on collections?

Ravindra Kundu: They will continue to focus on collection because we need to now start working on significantly on the higher bucket where people were busy in ensuring that the soft bucket collection efficiency is higher. Since, we have achieved that now they need to go to those accounts in higher buckets, which is now going to be target and we will continue to do the collection with those people.

Moderator: The next question is from the line of Abhijit Tibrewal from Motilal Oswal Financial Service.

Abhijit Tibrewal: I have two questions. First one was being on the newer lines of businesses, while Ravi Sir earlier in his comments suggested that disbursements are now going to improve given that not standing to other branches, other locations as well. Is it possible to give some kind of a guidance on how you are thinking of growing this because in terms of growth, in terms of disbursements, so like really sky is the limit? How are you thinking about growing it in the calibrated manner that's the first question? And secondly if you can comment on what is the ROA and ROE that this newer product lines can make for you?

Ravindra Kundu: As I mentioned the Consumer and Small Enterprises Loan has got three product lines, personal, business and professional loan. So, in that we are focusing more professional and business, less personal and it is being done in two channels. One is a traditional channel and partnership channel. Traditional channel is almost 70% and partnership channel is 30% and we are expanding into all our hub, almost 275 hubs out there and 1100 branches. Almost 70% we would like to cover in this year and 30% in next financial year. To that extent the volume will keep growing from this particular business. Now coming to the SME, we have three product lines. One is the supply chain finance and term loan and working capital and third is equipment finance. Supply chain finance mainly we are doing in partnership with the FinTech and also a partnership with the anchor. That is growing in terms of disbursement but doesn't support to the AUM growth because that churn fast. But the term loan which is a secured business, and the corporate finance is secured business where we have tied up with the manufacturer OEM who produce maybe specific equipment, has got better resale value and recourse is available from the OEM. We are focusing that to increase the disbursement. That will be a growth engine for the SME. The small business and secured business and personal loan which is actually being done as a secure product to the small grocery, general kirana, restaurant, eateries, tea and Petty Cash and all those people is a slow business which we need to learn the business because that is done only based on the cashflow and the footfall of the customer where we need to evaluate physically which is going to be slow. But it is going to be long lasting product once we learn that, and ROA is going to be the highest from this product. So put together all three if you make it, then the overall ROA from the SME ecosystem which we have given in the investor presentation, that we are not present in the bottom of the pyramid and top of the pyramid rest of the area, we are actually representing the SME. We are there in the SME ecosystem, either with the SBPL or CSEL or LAP or affordable housing and the SME. We will continue to grow, and the ROA will be equal or higher than the vehicle finance ROAs.

Abhijit Tibrewal: I had a follow-up question on these new lines of business and then one last question for Arul sir. You suggested that about 30%-33% of the disbursements in the new lines of businesses are coming from the four partnerships. It is also important to understand here that while all these partnerships can attach your digital DA sheet and help you in sourcing and help you in growing disbursements. How have you addressed the collections' part when it comes to loans which are disbursed through these partnerships? That's my follow-up question. For Arul sir, understandably we have been very conservative when it has come to provisioning even in the past or through COVID. What was the rational in this quarter for utilizing the management overlay and maybe a related question also is the liquidity on your balance sheet has come down to about 5,000 -5,500 crores? It's now kind of normalized completely or is there still room for it to be optimized for them?

Ravindra Kundu: In order to basically build our B2C digital platform we need to understand that how the FinTech's are working and how is the platform and how is the portfolio quality. In order to learn that we have done the partnership and we are committed to them, but the credit standard or underwriting norms given by us is very stringent. Therefore, the volumes are not high. In the beginning when the overall business is expanding physically or traditionally, traditional channel it looked like it is higher in terms of proportion. Over the period traditional business will be much higher than the partnership business that is what is the one point. Second is that the collection is very closely monitored. Our collection team working with their collection team to ensure that 100% collection comes month-on-month basis. As of now our collection, our performance of these partnerships or experience with all four partners is very good. It's a hybrid collection, not that everybody's doing 100% collection. Both the parties, our collection team and their collection team working together to ensure that the collection is done. We are ensuring that the portfolio quality of the partnership is as equal to our own internal portfolio. That is what is the partnership portfolio, and the collection performances is concerned.

Arul Selvan: With regard to the provision. I think even in the earlier calls I had articulated that we would be revisiting this provision number because under Ind-AS you cannot carry a management overlay without any justification for a large sum. Now COVID is largely behind us so we needed to revisit this, and we needed to bring down and again as articulated we have only taken back some part of it and retained around Rs.500 crores still for contingencies that may happen. Progressively we keep evaluating this and we will take a call with regard to how long and how far we need to hold this provision. The other question is with regard to the liquidity. So, the current way of approach is to keep two months of maturity, collect two months of treasury maturities and fixed obligations of cash and the plan for disbursement has undrawn lines. In that context with this number, we'll keep reading at every point in time depending on the maturities that are going to come up in the subsequent two months. But it will be in the range of anywhere between Rs.3,000 to Rs.5,000 crores in my view because that is how the maturities will see the pattern right now.

Moderator: The next question is from the line of Umang Shah from Kotak Mutual Fund.

Umang Shah: Two questions from my end, firstly given the kind of current situation both from the inflationary environment standpoint and the way interest rate cycle is kind of turning, would we like to guide that what AUM growth are we looking at? Over the next 12 to 24 months how the AUM mix will change vis-à-vis our core businesses and new business? That's the first one.

Vellayan Subbiah: I said broadly where we are starting at this Stage-kind of optimistic on an AUM growth. But I would also say that there's enough kind of volatility out there. It's very difficult to predict I would say this year how much real growth is going to be there especially in kind of our core products and segments. I think that in turn general we do feel confident that we will get good growth. We're a bit kind of concerned about giving numbers because the environment is kind of really getting a bit volatile by the day.

Ravindra Kundu: In the month of April industry did very well because first two months of last year, April-May was very bad. So commercial vehicle grew by 66% and even tractor, two-wheeler, construction equipment also did very well as against the last year number. Car only has been the flat number. Our disbursement obviously going to be aligned with the industry and if industry is going to sustain at this level you will see better AUM growth in this year.

Umang Shah: My second question is pertaining to our asset quality, and do we have any particular net NPA target in mind for NPLs as per the revised RBI norms? So, which is currently at about 4.75 and some of our peers have been targeting to keep the number below 4%, so do we have any net NPA number in mind so to say?

Arul Selvan: I would say we would like to keep it below 4% considering the new norms. That would certainly be, at least for the current year that will be the target. We are not too far away from that. We should be comfortable in reaching there.

Umang Shah: Just one data point, what did the total write off during the quarter?

Arul Selvan: It's around Rs.380 crores has been the write-off, of which we already carried Rs.180 crores as the normal retail provision and we have the carve out from the management overlay for another Rs.190 crores for the incremental provision. That's also had Rs.50 crores impact on the interest line.

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

Aditya Jain: In your opening remarks you talked about affordable LAP being included within the LAP, the affordable LAP, are you referring to SBPL, is that being called as affordable LAP?

Ravindra Kundu: Affordable LAP is part of the one LAP division and little bit part of the Affordable Housing; both are actually doing the LAP. This is especially smaller ticket and smaller town product done at a much better rate than the normal LAP. We started focusing that product on the last year. SBPL will start showing up after some time because we've started doing this last quarter only. That will take little more time to show up.

Aditya Jain: On the OPEX you mentioned that disbursements were high and there are investments in new business which gets higher OPEX. I'm wondering is there also could be some sort of one-off impact of the higher collections in this quarter or is it only those two factors which you spoke about? The reason I'm asking is that vehicle finance cost to asset is also quite up QOQ and then new businesses might not be affected that it what it should be. But is there any collection sort of one-off impact as well?

Arul Selvan: Naturally when collections are good, there will be performance driven incentives to the field teams which would have an impact on the cost that have been factored in. Again, apart from that even at the salary cost etc. for the on-roll employees we have factored in a higher incentive level considering the higher disbursements and the high performance. As you know even last year, we had a similar approach and last year it was more skewed because we had not factored in the increments. also, and it was factored into Q4. But this year the increments had already been factored in, only the incentives and based on performance it will happen. Every time in any quarter if the performance is low, you will see a drop in the salary cost and then you will see when the performance is good you see some spike in the salary cost because this fluctuates with the results of that quarter.

Aditya Jain: If we look at Stage-1B and Stage-2B, they are stable QOQ, should we see this as a normal level because there will always be some people who delay and then come back and therefore the decline in Stage-2B will come from other assets. Is that the right way to think of it or these the Stage-2B and Stage-1B itself you would expect to fall going forward?

Arul Selvan: No, you can take, they are not too high level. Stage-1B will be at similar levels. It will keep moving and the Stage-1B is the intermediary Stage where it is moving from Stage-3 to Stage-

1A. It has one more installment to get collected from the customers before it gets normalized. To that extent it's a good thing that if 1B is a slightly higher number because it's transitionary. It indicates that an account which had been an NPA has been more or less collected.

Moderator: The next question is from the line of Shubranshu Mishra from Systematix Group.

Shubranshu Mishra: Just wanted to understand have we made any representations to the regulator to become a bank in any dispensation, whether a small finance bank or universal bank or regulator has been nudging us to apply for a license or maybe acquire a bank license, is there that kind of a thought going on or this kind of a discussion going on between the management and the Board and the regulator or any bilateral discussions as well? And the second question is on the cost of collections, how do we look at the cost of collections in FY23 and what should be it as a proportion of the total OPEX?

Vellayan Subbiah: On the bank, we've been clear on this from the beginning which is till the RBI indicates in some way that they are open to inviting players like us to become bank, we are not going to initiate anything and so we have not had any discussions either at a Board level or anywhere else, till the RBI sets some direction on that front. This was answer to the first question. On the cost of collections, we think we will remain at the same levels in FY23 as it has because we will keep that collections intensity up to ensure that we basically push the NPA levels down like Arul said to below 4%.

Shubhranshu Mishra: What would be it as a proportion of the OPEX?

Arul Selvan: It keeps fluctuating because it will depend on the Stage-in which it is because the incentives will keep moving and I think that the more granular data which we would prefer to keep to ourselves.

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

Piran Engineer: Just wanted to understand regarding your Small Business and Enterprise Loan in a steady state may be 2-3 years down the line? How many branches will you all be doing this business out of? Is it from the same 350-400 branches of LAP or from the overall branch pool that you all will have and also how should we think about per branch disbursements on a steady state basis? And if I may squeeze in another question, the performance incentives that you spoke about does that come only in the fourth quarter every year or is it paid out quarterly? These are my two questions.

Arul Selvan: The performance incentive is provided every quarter, but it will reflect that quarter's performance largely. For example, in the current year if you see Q1 we did not have a large amount of profit actually we had a very marginal profit. So, in that quarter the incentive provisioning would be minimal. In quarter where the PBT achievement, that NPA achievement, the disbursement achievements are higher, in those quarters we tend to take a higher hit on this. This is to go with the results of the company and in the pattern in which the teams are rewarded. That's one part of it. The field teams are getting rewarded on a month-on-month basis and the performance incentive is more of provision which is carried and translated and given at the end of the year.

Ravindra Kundu: Secured Business and Personal Loan we have given our pyramid of MSME ecosystem in page #12, and you will see that we are in the top of the bottom of the pyramid where this particular business is happening along with the affordable housing division. So, both are actually addressing the similar type of customer they just help us with the non-professional customers having the property book they can offer us as a mortgage. These guys typically do small business-like salon, electrical appliance, eateries, groceries and stationery shops and their cash flows are calculated in someone is visiting them to understand how the footfall and all is. So, these customers are not available in the town where the LAP is performing. LAP is mainly in Tier I-Tier II-Tier III, and they are addressing little, larger bigger customers where the credit history is available, banking habit of the customer is very clearly established and CIBIL score is also available. So, therefore the SBPL will be focusing more on Tier II-III-IV-V-VI and small business which is what top of the bottom of the pyramid of the customer. 3 to 4 years' time we will be on definitely covering almost 70% to 80% of the Tier II, Tier III, Tier IV branches of the vehicle finance and total Chola we have today. And our disbursement will start delivering the good numbers by the time. As of now in the Affordable Housing we are doing almost Rs. 200 crores per month. This number has come after 5 years. So Affordable Housing took 5 years to reach to this Rs. 200 crores. I'm not saying that we will take 5 years to do because now we are more learning with respect to the similar type of the customers. So, we will do much better than that in terms of learning curve.

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

Shweta Daptardar: Is there any seasonality element in the Home Equity growth front because the disbursement happening sluggish, and the AUM growth has been slightly modest. I also remember you had mentioned last time, you are also scaling up on the branches side so any opinion there? And just one bookkeeping question. In restructured asset you mentioned Stage-1, Stage-2 around Rs. 3,300 crores odd. How much ballpark number would be putting in Stage-1?

Ravindra Kundu: The LAP business or heavy commercial business strongly correlated with GDP growth, industrial production and also to large extent it is also depending on the urban economic growth. But LAP we have also understood that if we can approach small ticket size LAP like Rs. 20-22-30 lakhs of LAP which is available in smaller towns. That's the reason we have started expanding and we are getting benefit out of it and Suresh why don't you talk about it.

Suresh Kumar S: From of course LAP business, we in fact have spoken about this history of my earlier calls as well. From 125 we moved to 250 branches. Currently we are at 400 branches so our 20 lakhs to 50 lakhs ticket size also have increased significantly in the last few quarters and our investment on both branch side as well as on the employee side has started giving us that kind of a flow. Coupled with the confidence in the SME sector now that the things are improving, COVID behind us and the overall confidence in the SME sector is improving. We are seeing a good traction from our disbursements side.

Arul Selvan: I would say out of the Rs. 2,800 crores are the number which is in Stage-1 and the rest almost Rs. Rs.500 crores is in Stage-2.

Moderator: Next question is from the line of Shalini from DSP Mutual Fund.

Vivek Ramakrishnan: This is Vivek Ramakrishnan. My question was on the various CV businesses where we had nuance in terms of where some collections were lagging especially those associated with Hubs. Given the economic improvement, has the collection efficiency improved across the board for the CV business or do you still see this lead-lag in various businesses?

Ravindra Kundu: You are talking about the market wise collection of the commercial vehicles?

Vivek Ramakrishnan: Yes.

Ravindra Kundu: In the last quarter across the country, we saw that the collection efficiency is improved across all the markets. There are markets which are affected due to the poor mining or mining got impacted in Orissa or Bihar because of the sand transportation. In Kerala also it is impacted because of the economy, it is not do well in the past. Those things significantly improved in Q4, and we are hoping that that will continue for the next financial year.

Moderator: The next question is from the line of Alpesh Mehta from IIFL Securities.

Alpesh Mehta: First to Arul sir. There have been quite a few restatements in the individual line items between the P&L; between the total income and the provisions. So, what is it regarding?

Arul Selvan: This is based on the advice of the auditors because it would help get a better tax claim or on the assets written-off. Whatever we are writing off most and sometimes we recover some things, which is shortfall recovery, which was getting adjusted earlier in the credit losses. They said that may be challenged so that's why it is better to show it as an income as a shortfall recovery and we have now adopted that and that's the restatement. That's actually I think that's our only restatement in the financials So, it affects in two places so otherwise there are no restatements.

Alpesh Mehta: Are these recoveries from written-off accounts or the?

Arul Selvan: Yes, when you are getting a recovery from a written-off account, we used to adjust that under the NPL itself because that's where the earlier the provision or the write-off has been happening. Earlier IGAAP that is the normal process, Ind-AS allows you and it is also suggested that it gives them more clarity and more clear view to the tax officials and it clearly becomes a different line item for them to track so that's what.

Alpesh Mehta: This goes under the other income line item, if I'm not wrong, it does not impact our interest income.

Arul Selvan: Correct. It won't get into interest.

Alpesh Mehta: It won't go to the interest income?

Arul Selvan: Yes.

Alpesh Mehta: Large part of this will be related to the vehicle financing front if I am not wrong because the restatements are higher on that front?

Arul Selvan: Yes, large part of it is vehicle finance. There will be maybe some of them in the LAP, others are very small categories.

Alpesh Mehta: During the quarter, the write-offs have been higher. I can see it in the notes to account that you did some accelerated write-off around Rs. 190 crores but even adjusted for that the write-offs which used to be around Rs. 200-250 crores that run rate has increased to Rs. 350 crores. Any idea related to that, and will this continue? Secondly, related to this, our pre- COVID ECL was around 1.9%. Currently we are sitting at around 3%. Since we are moving towards the normalization by when do you see this number moving back to around 2%?

Arul Selvan: Last year we had not done any write-off. So, to that extent, there is an accumulation because of last year, the COVID was there. That's the reason today this year, you're seeing a slight build up on that. Of course, there has also been a higher level of settlements, etc. So, but I don't see this will at this percentage, it will not be at this level but in absolute terms, it can be because as we move forward when the book becomes larger, you will see a slight impact on that. Regarding the other part, on the ECL provisioning, see we have built the PDLGD, the COVID impact into PDLGDs current year and so to that extent the current year PDLGDs are little bit inflated though this is more like a one-off event. This, we take a 5-year average. It will take some time for this to sort of rundown when you consider a 5-year average. To that extent, the impact of this may carry for some time, but it won't be significant as if the subsequent years also trend to be of normal or pre-COVID levels.

Moderator: The next question is from the line of Param Subramanian from Macquarie Group.

Param Subramanian: First question was on the Payswiff subsidiary. Now you've reported that the revenues were Rs. 45 crores for FY22. I just wanted to cross check that because I think in FY21, it was at Rs. 200 crores. So, what is the reason for the reduction? If you could talk about, profitability for this business and how it's going to contribute to the lending business going forward? So that's my first question. Secondly, you also mentioned on supply chain finance and FinTech partnerships aiding the supply chain finance. What FinTech partnerships are we talking about over here? Is it the TReDS platform or is there something else apart from that? You said one-third of the new businesses are coming from FinTech partnerships. How is it split between SMEs and consumer business? Those are my two questions.

Vellayan Subbiah: I think your first question one is gross revenue versus net. Now we are reporting net revenue. So, it's not a drop. We reached; we are already showing net revenue. The second question was supply chain partnerships. The question was which FinTech's do we supply?

Param Subramanian: You mentioned FinTech's in supply chain partnerships. Is it largely a TReDS platform or is there some other partnership or is Payswiff already contributing?

Vellayan Subbiah: We're exploring multiple, including a lot of these, there are a lot of these FinTech's now that are getting into the whole B2B supply chain. We are talking to a lot of those FinTech's to try and see if we can do something over there.

Ravindra Kundu: The partnership business, which is coming from the supply chain, finances keeping the anchor in the center, doing the forward integration with the channel and backward integration will be vendor. It is a bill discounting and channel funding. That's a different type of business partnering with the SME, but the CSEL is partnering with the partners to re-do the personal loan which is multi-kit small tenure loan and also one form of, offline BNPL. Third is that the traditional PL done in the lead generation happen and we do the conversion. There are three- four type of partnership within the CSEL of 30%.

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

Varun Nabar: Just one clarification from my side, which I wanted. There was a question earlier that we spoke about the repricing of the liabilities. I just wanted to understand how our asset side gets repriced depending on market factors or do we do just fixed sort of lending? And if that then before the cross-product?

Arul Selvan: Vehicle finance is fixed straight book. It doesn't get repriced. The LAP and HL is repriced. Then we review it every quarter and we do it depending on market situation.

Varun Nabar: So, with the LAPs your longer tenures would get repriced quarterly. To that effect, if the liability side does start going up, the risk of a compressing NIM would not be there at least on the longer timeline?

Ravindra Kundu: Small ticket size, small tenure under vehicle finance is fixed. See that the yield is also significantly higher.

Varun Nabar: I missed you there.

Ravindra Kundu: You are right. We're saying that you're right, whatever you were saying.

Moderator: Next question is from the line of Abhishek Murarka from HSBC Securities.

Abhishek Murarka: So, two questions, one on NIM. Now, if you look at a slightly longer-term trends, NIMs are at a high in every business. Incrementally cost of funds are likely to go up. So, what do you think about the NIMs from here? Can you predict it at current levels and how does that look and just squeezing in another one on OPEX? Again, if I look at slightly longer-term trends before COVID, OPEX was at 39% to 40%. I mean cost to income ratio was 39%- 40%. Now we're seeing, set up cost for new businesses and disbursement going up. Do you think from this year 35%, we are like you go up from here in terms of trajectory?

Arul Selvan: The NIM will be in range of around upwards of 7.5, I would say. Given rate has been trending even if you look at the last 10 years. It has got element both from a cost of fund side, as well as on the yield pattern. As we grow our portfolio or diversify our portfolio into multiple products with the different yield levels, you will see the impact of NIM fluctuating which product we focus on. We will focus the products based on market etc. but the impact of such shift in focus is also would be visible in the OPEX and the NCL because a lower yield product will have a lower OPEX and lower NCL while the high yield products like two-wheeler or tractors will also have a higher OPEX and NCL. In a wide diversified portfolio, it is a little difficult to stay, give a particular range even a range for a NIM level because it's better to track the ROTA which factors in both the OPEX-NCL and the NIM.

Moderator: Next question is from the line of Pranuj Shah from JP Morgan Chase.

Pranuj Shah: Based on your current disbursements between the used vehicles and new vehicles, particularly on the CV side and against the current backdrop. Could you an outlook on how do you see the two books moving ahead?

Ravindra Kundu: So, this year, as I mentioned that already in the month of April industry has started behaving very better and if this is continued obviously new vehicles will be higher disbursement significantly higher than the last year. Last year, the used component was high because the new were low, and as and when new goes up, then obviously the used disbursement in terms of the proportion, in terms of the absolute value it will be high but then proportion would be new and used; the new will be higher.

Moderator: The next question is from the line of Vidhi Shah from Antique Stock Broking,

Vidhi Shah: In Q4 the yields have come down compared to the last 3-4 years which were ranging around 14%-15% and has come down now to 13%. So how do we see this going ahead specially while new business that we are growing that shows I am guessing is a high yielding product. That's my first question and on the restructured book, if you can give some color on that and also the provisioning that we are carrying on the Stage-2 or Stage-1 of the restructured book? What will be your credit cost guidance for '23 and '24?

Arul Selvan: On the NIM, you are seeing that it is coming down. It is like this, like I just know, explained to another participant, you have seen that the vehicle finance book is coming down marginally in proportion to the overall book and the LAP is moving up, LAP has a lower rate. It will have its impact on the NIM. As I again told in some part of this conversation, we also had a Rs. 50 crores impact on the interest reversal on the write-off coming into the interest line there. So, these were the factors. You will see while in the LAP, you will see the OPEX is a much lower number and NCL is a much lower number so it will get compensated and that would, that's where it's always better for you to track the ROTA business where there are multiple products with different yield structure. Regarding the second question. On the restructured I think we have given enough data already in this call. I think that we can't go get more granular on the credit cost of restructured. Frankly, we don't really track that as a separate cost because the restructured book, at the ground level is treated at par with the books and all efforts go on the same parallel basis.

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

Prashanth Sridhar: One doubt on the vehicle finance, how much would mature every quarter because that also would in affect get repriced at a newer rate, right?

Arul Selvan: Vehicle finance there's is no repricing. I told vehicle finance is an asset fixed book.

Prashanth Sridhar: But there would be some part of the vehicle finance that's maturing in a quarter and then the new loans would anyway be at the new rate, right?

Arul Selvan: Maturing you are saying. Okay, yes.

Prashanth Sridhar: What proportion is that that matures every quarter because that also would be?

Arul Selvan: Like one-third it should mature in a year. But this would again change regarding the mix of the book. For example, the coming year I mean the assumption of the market intelligence Heavies will grow. With Heavies growth, then it becomes a higher book. Then the proportion of Heavies will run down only once and that too in the initial year it will be lower and then for the lag years, it will be higher. So, whenever there has been, if there is a steady disbursement trend and the steady AUM growth, then you can predict this more accurately. But when you have got like lull like last year, one whole quarter was lost etc. and there has been shift in disbursements. It's a little difficult to predict, but at that at a very broad fronts, you can take one-third of the book will written-off.

Moderator: The next question is from the line of Bhaskar Basu from Jefferies India.

Bhaskar Basu: Firstly, just on the broader CV vehicle financing business. While till March, of course the fuel price headwinds were not really seen and my understanding is that so far, at least the larger freight operators have been passing on the fuel price. How do you see that kind of flowing down to the smaller medium who are kind of price takers from their larger retail finances? That's my first question. Secondly, just wanted to understand how is the new book really behaving? Even in December, we had an NPAs of almost like 6%, which has come down because the base has increased even though NPL levels are kind of flattish. Though these are very small numbers but just wanted to understand how the quality of the book is holding up. These are the two questions.

Ravindra Kundu: In the case of commercial vehicle or heavy commercial vehicles, there are three segments of the product, which is the tractor then haulage and then tractor trailer. In the haulage, long haul customer, especially the large fleet operators, they can pass on the rates and the small route transport operators who are basically having a small lead for transportation, they don't worry about the freight charges because they are attaching their vehicle as and when the freight is available, and the freight is adequate to that. Only for the long-haul customer, these diesel prices are very critical because they consume the maximum one. We are not into that segment. We are into the SRTO because they are transporting within the city and within the state only. For them it is easy for transferring the price and passing the prices to the customer. For the tractor customer and tractor trailer customers, the diesel prices have not been a problem because as and when the mining operation goes up or the industry production goes up; obviously they deploy their vehicle depend upon the rates which is comfortable to them. Coming to the point what you are asking that whether going forward the increased diesel prices will impact the long-haul transportation or overall sales of the transport or commercial vehicle or the profitability of the customers? Yes, it can but it will impact to those operators who are having a long-haul transportation and having a fixed contract and escalation matrix is tight and it is not in favor of the customer whom we are not financing. The small commercial vehicle, the tractor trailer and construction equipment and then SRDO segment in Tier II, Tier III can pass on and they purchase only when there is an ability to buy the vehicle and deploy the vehicle in the market. So that's the commercial vehicles scenario. What we are expecting is that in during the time the construction side, lot of mining side we have a lot of projects are coming up. Therefore, sale of this tipper and tractor trailer is going to go up. Last 6 months, the rural economy was down. It has started improving now. The small commercial vehicle, light commercial vehicle which is strongly correlated with the agricultural growth and consumption is going to go up. So, put together we are hoping that this segment we are focused on is going to increase and that's the reason our disbursement will also work.

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

Nischint Chawate: Arul, just one data keeping question. If you could give us the breakup of restructured loans between Stage-1 and Stage-2 for the previous quarter?

Arul Selvan: If you have, I am not right now having it. I can share it with you.

Nischint Chawate: Sure, perfect. Thank you. That was the last question of today's call. We have more than run out of time. Thank you everybody for joining us today. We thank management for giving us an opportunity to host the call. Thank you very much.

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