"Cholamandalam Investment and Finance Company Limited

Q4 FY '23 Earnings Conference Call"

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

Moderator: Ladies and gentlemen, good day and welcome to Q4 FY '23 Earnings Conference Call of Cholamandalam Investment and Finance Company Limited, hosted by Kotak Securities. 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 star than zero, on your touchtone phone. I now hand the conference over to Mr. Nischint Chawathe from Kotak Securities. Thank you and over to you.

Nischint Chawathe: Good morning, everyone. Welcome to the earnings conference call of Cholamandalam Investment and Finance Company Limited. To discuss Q4 FY '23 performance of Chola, industry, and business updates, we have the senior management with us. Senior management is 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 can take Q&A.

Vellayan Subbiah: Thank you, Nischint, and good morning, everybody, and welcome to the call. We are pleased to report results for the quarter and for the year. Disbursements were at INR21,020 crores for the quarter, up by 65%, and INR66,532 crores for the year, up by 87% year-on-year. The total AUM stood at INR1,12,782 crores, which is up by 36% year-on-year, and the net income margin is up at INR2,060 crores, for the quarter, up 32% year-on-year, and INR7,229 crores for the year, up 24% year-on-year. The PBT for the quarter is at INR1,159 crores, which is up by 25%, and INR3,600 crores for the year, which is also up by 25%.

The Chola delivered the best-ever disbursals, collections, and profitability in Q4. We have gained market share across the product segments in vehicle finance and other business units. The overall Passenger Vehicle industry sales in FY '23 rose to 38.89 lakh units, an increase of 27%. LAP and SME also witnessed strong growth in the current fiscal, on the back of lower growth during the pandemic, amidst a revival in demand from smaller businesses. Leveraging the industry growth, Chola has improved market share across product segments. The retail AUM of NBFCs is expected to grow at a healthy 12% to 14% in FY '24, after a strong rebound in 2023.

In terms of performance highlights, aggregate disbursements in Q4FY '23, we just talked about were at INR21,020 crores, which is a growth of 65%. Vehicle finance disbursements were at INR12,190 crores in the quarter, as against INR8,785 crores, that's a growth of 39% and disbursement for the year were INR39,699 Cr, which is a growth of 56% year-on-year. LAP disbursed INR2,762 Cr in the quarter, as against Rs.1,870 Cr in the quarter for FY '22, which is a growth of 48%. For the year, disbursements were at INR9,299 crores, which is a growth of 68% year-on-year. Home loan, and that includes both Affordable Home Loan and Affordable LAP in addition, disbursed INR1,405 crores for the quarter, as against INR549 crores, which is a growth of 156%.

And for the year, they disbursed INR3,830 crores, which is a growth of 102%. The SME business disbursed INR2,104 crores for the quarter, registering a growth of 127%. And for the year, the disbursement was INR6,388 crores, which is a growth of 232%. Consumer and small enterprise business disbursed INR2,364 crores for the quarter and INR6,865 crores, for the year. And secured business and personal loans disbursed INR196 crores, for the quarter and INR451 crores for the year. Total AUM stood at INR1,12,782, which is a growth of 36%. So, the encouraging news, as you can see, is that we've grown across businesses. So, Vehicle Finance growth has been bolstered by growth in Loan Against Property, Home Loans, SME, CSEL and SBPL.

So that's very encouraging to see the secular growth across all of our business lines. And that's actually contributed to what, we believe will be a reduction in cyclicality over time. The PBT, ROA for the quarter was at 4.4%. And for the year, it was at 3.8%. ROE was at 20.6%, as against 20.4%, in the previous year. The company continues to hold a strong liquidity position with INR5,042 crores as cash balance at the end of March 2023 (including INR1,500 crores, invested in G-Sec and INR1,600 crores invested in T-Bills which are shown under investments) and a total liquidity position of INR9,119 crores, which includes undrawn sanction lines The ALM position is comfortable with no cumulative negative mismatches across any time bucket. The consolidated Profit Before Tax for the quarter was INR1,163 crores, as against INR927 crores in the previous year, same quarter. And for the year, INR3,615 crores, as against INR2,902 crores. The Board has recommended a final dividend of INR0.70 per share, on the equity shares of the company, subject to the approval of the members of the company, at the ensuing Annual General Meeting. This is in addition to the interim dividend of INR1.30 per share, which was declared on 31, January 2023.

In terms of asset quality, our Stage 3 levels have improved from 3.51% on December 2022 to 3.01% on March 2023.GNPA as per RBI norms has come down to 4.63% in March 2023, as against 5.37% in December 2022 and NNPA, as per RBI norms, has come to 3.11%, as against 3.76%, in December 2022. In terms of capital adequacy, as of March 31, 2023, we were at 17.13%, against the regulatory requirement of 15%, and Tier I was at 14.78%, which then implies that Tier II was at 2.35%. We also successfully initiated our maiden public NCD issue of secured, rated, redeemable NCDs. The prospectus was filed in Q4, amounting to INR1,000 crores, and it was oversubscribed by 2.6x, within the first 3 days of issue. So, with that, I'll bring to a conclusion kind of our opening commentary, and Nischint, we'll be happy to turn it over to you for Q&A, thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press star and 1 on their touchtone telephone. If you wish to remove yourself from the question queue, you may press star and 2. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment, while the question queue assembles. We have our first question from the line of Suresh Ganapathy from Macquarie Capital. Please go ahead.

Suresh Ganapathy: Yes, thanks. Yes, so Vellayan, these are, of course, good numbers. When everybody's talking about slowdown and consumption-related issues and stuff, where are you getting this growth from, and how do you think, this is going to be sustainable heading into FY '24, when you have already a lakh crores kind of an AUM base? That's my first question, Vellayan.

Vellayan Subbiah: Yes. So, Suresh, thanks, broadly, what we have to look at is, in no segment do we have, a significantly large market share. That's the first thing. And the second thing is, if you notice, most of our growth and most of our expansion is coming from Tier 3, Tier 4 cities. So, all of the businesses are going deeper into Tier 3, Tier 4 cities and geographies that, we don't see, have as deep financial service penetration as Tier 1 and Tier 2.

So, a combination of that, the fact that, in, so, first of all, Suresh, like you can see, one of the reasons of driving the growth is that it's not just Vehicle Finance anymore. There is, 6 businesses, all that are growing, right? And that secular growth across the 6 businesses is what's helping our overall CAGR levels. So, it used to be kind of predominantly we were seen as a Vehicle Finance shop. That image of Chola will begin to change and is already beginning to change as we observe it in the market.

Suresh Ganapathy: So, you're still agreeing on the under-penetration of financial services in each of these markets and you are saying organically, you still see on the ground a lot of demand. Is that the right interpretation?

Vellayan Subbiah: Yes, Suresh, and like I said, previously, when we had growth numbers earlier, it was predominantly driven by Vehicle. Now, you can see, how much the other businesses are also supporting that growth. So, it is moving from one product to now 6 products.

Suresh Ganapathy: Another two quick questions. Can you assure us that, there is absolutely no adverse selection of assets, when growth is happening in such breakneck speed? Because just some of the newer segments, are you overconfident that, that is not something, which is compromised, when you are chasing growth at this pace and especially, when you are penetrating into some of these unknown Tier 3, Tier 4, centres?

Vellayan Subbiah: So, Suresh, again, that all of these Tier 3, Tier 4 centres are, centres that, we have been present in with Vehicle Finance. So, they are not new geographies to us. The second thing is, the philosophy of the company, we always tend to be more collections-led in everything, we do. So, even for the new businesses, the first thing we did was build out that collections infrastructure and that continues to be, I would say central to the DNA of the way, we think in Chola that, it is first collections, then underwriting, then sales. Now, given that, we do see significant opportunity in these new businesses. But, definitely, the thing in all of our internal reviews kind of the focus continues to be predominantly in that sequence on collections, then underwriting, then sales.

Suresh Ganapathy: Okay. And final question is on capital. What is your plan? You are already around that 15% levels, right?

Vellayan Subbiah: Yes, we are at 17 predominantly because we have not used a lot of Tier 2. It is a fair ask that, we will kind of, we will obviously something that again, we tend to be conservative on. So, it is something that, we will kind of review in this upcoming financial year.

Suresh Ganapathy: This is Tier 2 or equity capital, you will review?

Vellayan Subbiah: Obviously, yes, we will review equity capital and its requirements in the current financial year.

Suresh Ganapathy: Okay. Thanks, Vellayan. All the best.

Vellayan Subbiah: Thank you, Suresh.

Moderator: Thank you. Ladies and gentlemen, in order to ensure management is able to answer queries from all participants, kindly restrict your questions to 2 at a time. You may join back the queue for follow-up questions. We have our next question from the line of Umang Shah from Kotak Mutual Fund. Please go ahead.

Umang Shah: Yes, hi. Good morning. Thank you for taking my questions and congratulations on yet another good quarter. Just two questions from mine. First is, let us say, two years out, how should we look at the overall AUM mix? According to you, how will it look like? And are we looking at introducing any other new products, if at all?

Arul Selvan: We will be, I would say that the Vehicle Finance should be in the range of around 50% levels and the Loan Against Property and the Home Loan should be in the range of around 30%, 35%, and the new businesses should be in the range of around 15%. This is what, we would try to work on.

Umang Shah: Understood. And the second question is on the yield part. So, let's say if this is how the mix looks like, probably there is still a little bit of room for our yields to expand from here on, assuming that, some of the newer businesses are relatively into the higher yield category. Will that be a fair assumption, or the current margin profile is something, which is more or less sort of a stable margin profile that, we would like to hold on to?

Vellayan Subbiah: So, see, the better way to look at it is that we want to focus on keeping NIMS kind of at least current levels. So, because always, yield expansions are then kind of tempered with, compression, either due to kind of a competitive intensity or due to, kind of usually, what we've seen is rising interest rate cycles, do kind of put, increase the level of competitive intensity and therefore reduce the spread. So, our attempt will be, and our kind of focus will be, to keep the NIM levels at least constant, which we believe at this stage, should be achievable.

Umang Shah: Perfect. Thank you, so much and good luck. Thank you.

Vellayan Subbiah: Thank you. Thanks, Umang.

Moderator: Thank you. We have our next question from the line of Shalini Vasanta from DSP Mutual Fund. Please go ahead.

Kunal Yes. Hi, this is Kunal from DSP Mutual Fund. So, my question is again related to that, capital raise only, although you answered that. So, my question is, if you look at your debt-to-equity ratio, it's currently at around 6.8x, 6.81x. So, what is the level you are comfortable with? And at what level, basically, you would seriously consider raising capital? Yes, that was my first question.

Vellayan Subbiah: So, again, right, our steer has always been that we strive to keep capital adequacy at about 18%. Now, one of the reasons, we've dropped is because we are using much less Tier 2, than we've traditionally used. And so, we will do both. Suresh's specific question was on equity. So, we will do both, to push that number up. We will basically look at equity in this financial year, but we'll also look at pushing back Tier 2 again, which will be a combination of RPDI and sub, as well. So, that gives you an answer to the overall question, which is that 18% number is usually, what we strive to hold over the cycle.

Kunal: Sure. Thanks a lot, and all the best.

Vellayan Subbiah: Thank you.

Moderator: Thank you. We have our next question from the line of Bhavesh Kanani from ASK. Please go ahead.

Bhavesh Kanani: Thank you for taking my questions and congratulations for a great set of numbers. With this great set of numbers also comes the challenge of sustaining them in next year and thereafter. And given the adverse trends on cost of fund and potential upward normalization of credit cost, how do you plan to sustain, what has been delivered in this fiscal? That's my first question. And second is related to opex, where Q4 opex sequential growth is appearing out of sync with the kind of business volumes, we have done. So, if you can help us break up the opex for full year, as in, how much of it was targeted towards new lines and may not be repeated incrementally, and some sense of how opex can pan out in next one or two years. Another question on opex?

Arul Selvan: Mr. Bhavesh, the opex is in the range of around 3% to average assets. And this is a number which, we sort of work with and sort of indicated over the cycles also. We will keep it in the range of the 3%, 3.1% level on average assets. That's the number we will work with. And we are confident of holding it there.

Vellayan Subbiah: To your question on sustainability, the way, we have to look at it is Vehicle Finance, we continue to be very strong and continue to grow. But the new segments are also beginning to kick in and deliver significantly to bolster the Vehicle Finance growth. And so, a combination of those two is basically, what's going to allow us to continue to deliver these numbers. And obviously, we have to see if rates continue to go up. But if we don't see too much more of an increase on the rate front, then we do feel that we should be able to maintain NIM as well. So that is what, we will strive to. Could there be a little bit of NIM compression? It is possible. But it's not something that we can rule out. But what we will work towards is that. And obviously, kind of the other part of the solution from our perspective is to continue to see, what we can do to improve the quality of the book, which the teams have done a great job on and continue to do a great job on. But there's still headroom for improvement on that front as well.

Bhavesh Kanani: Wonderful. All the best.

Vellayan Subbiah: Thank you.

Moderator: We have our next question from the line of Sadeev Singh from Whiteoak Capital. Please go ahead.

Parag: Hi, this is Parag here. Am I audible?

Vellayan Subbiah: Hi, Parag. Yes.

Parag: Yes, See, my question is most so from the liability side. Well, let's see, now we are an INR1 lakh crores book. How important do you think is to have a more diversified source of funding? And I think you've done one public NCD, but it is one part of the sourcing could be deposits as well. It gives you a lot of diversity in that sense. So, any plans there, and how difficult or easy it is to convert ourselves into deposit taking NBFCs? Because as we grow more and more, I think, we become more and more systematically important NBFC.

Arul Selvan: Yes, I accept it, but RBI have stopped giving deposit accepting licenses. And today, the trend of investing in the public is to move towards more de-mat and more liquid assets like the public, the debt market. And that's what we are trying to tap into. And I think the overwhelming success that we saw in the first issue, we should scale up the issue and we will do that in the days to come. And by the end of this year, we are targeting to have at least 5% to 10% of the borrowing coming from this. Apart from this, the way to look at other funding sources or to look overseas, we are also initiating action towards that, and we will work towards that subject to the total overall hedged cost being competitive to participate there.

Vellayan Subbiah: But probably, I do think that given our relationship with both the banking segment and kind of money market, we do feel fairly confident about our ability to rise at these levels and for the foreseeable future. And with the priority sector asset generation, it continues to be a significant demand for that, which we tap into through both securitization and kind of directly.

Parag: Okay. Thank you.

Vellayan Subbiah: Thank you.

Moderator: Thank you. We have our next question from the line of Gaurav Kochar from Mirae Asset. Please go ahead.

Gaurav Kochar: Yes. Hi. Good morning. Congratulations to the team for a great quarter. A couple of questions from my side. Firstly, if I just look at the cost of funds, alluding to the margin point that you made, the cost of funds for Chola is roughly 100 basis point lower than the FY '19, - FY '20 levels. If I look at the headline rates, repo or G-sec or the bank MCLRs, almost all of them are near to that FY '19, - FY '20 levels. So, in your opinion, based on your sort of liability mix, how much of this 100-basis point gap will you be able to sustain over the next 12 months? So that was one on liabilities, and maybe I'll ask one more later.

Arul Selvan: As we said earlier, we are doing renegotiation with the banks as well as capitalizing on the priority sector asset demand. So, because of these factors, we have been keeping the cost lower. And I feel that we should be able to be in line with the numbers you have quoted, and we are confident to hold it there. If you recall, we have stated that this year we will not see an increase beyond 30 basis points, 40 basis points, and that's where we are as compared to full year on the cost of funds compared to last year.

Next year you will see similar levels of increase, but that should be compensated for by the yield increases that the teams have brought in play, both on the LAP and HL, and in the way to finance on the new book.

Gaurav Kochar: Understood. And my second question is with respect to the new book, the new businesses that we've done. I mean, stellar performance there, if I look at the disbursement, they are well ahead of some mature businesses combined. So, LAP and HL disbursement put together, the new businesses are much ahead of that. So just to understand what could be the peak run rate, or let's say over the next four quarters, if I were to look at it, what is the kind of run rate that we're looking at on this disbursement? And just wanted to understand how the sourcing of these loans is done, how much of it is in-house and how much of it is through the partnerships? Just a bit more color on the new business.

Arul Selvan: There are three different businesses. Each follows different paths in outsourcing. And it's a little short time to explain this in detail. But it's a mix of in-house as well as outsource model. But right now, it's very difficult to give a very indicative number also, because we are experiencing this product, and we will be looking at various factors to understand how much to scale up and grow in the next two years to three years. So, let's go through another year of performance on these products before we look at starting to look at giving committed numbers.

Gaurav Kochar: Sure, and is it fair to assume that a large part of these would be in-house sourced through branches, or a large part of this is through the DSAs or the Fintech partnerships?

Ravindra Kundu: Yes, see, we have five businesses other than Vehicle Finance. And in the case of new businesses, what we are doing in CSEL, they have 2/3 of the business coming from the traditional, wherein DSA, DSTs are there. And 1/3rd of business is coming from the partnerships with the Fintech companies. In the case of SBPL, 100% of businesses come from their in-house team. In the case of HL, their mix is like 60%-40%. 60% is in-house, 40% is there, depending on outside. Loan Against Property, predominantlyis 65% outside and 35% is in-house, this is what is the mix. In the case of Vehicle Finance, we do everything in-house.

Gaurav Kochar: Right.

Moderator: Thank you. I request you to come back in the queue for follow-up questions. We have a next question from the line of Avinash Singh from Emkay Global. Please go ahead.

Avinash Singh: Yes, hi. Good morning. Couple of questions. Yes. Am I audible?

Arul Selvan: Yes.

Avinash Singh: Yes. So, the first one is, I mean, particularly you have been growing very strongly into your new business, largely consumers, any kind of, unsecure and secured. Now, this is an area which has been seeing a lot of, attraction, just not for you, for your peers, competitors, that retail unsecured and SMEs. That is where perhaps the case or argument for the formalization of credit and democratization of credit leads to a strong growth. Now, the question here is that do you see this kind of strong growth momentum in this segment continuing for a longer duration? Or, in terms of, credit was being abnormal and growth to moderate. And how do you see sort of a, competitive intensity and sort of a credit cost in this segment going forward?

Ravindra Kundu: So, in the new business segment, first of all, we are present in only 25% to 30% of the branches of Vehicle Finance. And we are testing the product as of now. And from the product perspective, our offerings are not being launched as equal to all. So, on the one side, we have, you're saying whether the market is slowing down or not. As of now, the market is not slowing down.

Second is that we need to also expand across the country and also expand in terms of geography, and product offering as well. So, what do we feel that these new businesses, which are driven by consumer, which is being done by CSEL, and also, we are doing the shopkeeper financing, right? This is for business loans. As we deal with that, and SMEs also, term loan and equipment finance, they are doing it all secured. This is likely to grow over the next two years to three years.

And in addition to that, we have Housing Finance and in housing finance, we are doing Affordable Housing. And affordable housing was concentrated in the south. Last year, we started expanding in the North, East, and West. And we have just gone to a few branches in the North, East, and West. We have a lot of other markets left out to be covered. During the next two years to three years, HL will expand to all the branches of Vehicle Finance.

In the case of Loan Against Property, maybe we are present with 50% of the vehicle finance and wherever there is scope to further go to those branches. And tier 2, tier 3 towns are doing better with respect to affordable housing and loan against property. So those branches will slowly expand in the next two years to three years. So, on one side, there is growth coming for the industry. And on the other side, the growth will come from tapping off the market, which is untapped as well.

Avinash Singh: And you expect your kind of opex and credit cost to remain stable despite sort of a mix changing a bit more away from vehicle towards this new segment?

Ravindra Kundu: As of now, opex is a little higher because we started investing in new businesses. As we start, stabilizing in these new businesses, ideally opex has to come down so that we can leverage on the branches and the people who have been recruited and invested in the technology. As far as the net credit cost is concerned, as of now, net credit cost is almost negligible.

So, over the period, net credit cost will start coming up. But that gets compensated by opex, opex reduction will be higher than NCL. As far as the delinquency measurement is concerned, all these new businesses are tightly controlled. So, in the new, within one year time, it's too early to talk about the delinquency. But it is significantly better than the competition.

Avinash Singh: Okay. Thank you very much.

Moderator: Thank you. We have a next question from the line of Abhijit Tibrewal from Motilal Oswal. Please go ahead.

Abhijit Tibrewal: Yes. Thank you for taking my questions and congratulations on a very good quarter. Sir there are just two things I kind of wanted to understand. We partly addressed some of those questions, but I just wanted to understand these two things better. One is, if we look at our own commentary, we talked about our efforts to bring down cyclicality.

But I think we'll also acknowledge one thing that has helped us in the last couple of years is the very strong vehicle cycle. And it is anyone's guess, I would say, how long this vehicle cycle will last, whether two years, three years, it's anyone's guess. So, I understand we've not put out a vision or a mission statement, but internally, when you look at this franchise over a three year or a five-year kind of a CAGR, what is the AUM growth that we aspire for internally?

Vellayan Subbiah: I think the AUM growth generally that we've guided in the range of about 22% to 25%. And so that is what we will continue to maintain. In terms of how we will do it, I think Arul also answered that question. So, you asked about mix, because we definitely see the mix changing and vehicle as a percentage of that mix coming down as the other businesses grow.

So, again, I think Arul had guided that, you know, by FY '26 you could see vehicle becoming like 50% of our overall AUM. And that is a significant shift. Because in FY '23, it was about 61%. So that just gives you a sense of kind of the growth. A lot of that growth like you saw is coming from businesses like Housing Loans, which is growing, like CSEL, like LAP, and the newer businesses, basically, that we've been getting.

Abhijit Tibrewal: Okay, just one last question, maybe one question for you and one for Arul, sir. So, in terms of credit costs, I think somewhere, I mean, Ravi sir was also acknowledging that we understand that the newer businesses that we are building, specifically the three newer businesses, will have higher credit costs, maybe going forward?

So, do you think there is merit given the kind of ROEs that we are making in building some kind of a provisioning buffer for the newer businesses, which will come at higher credit costs going forward? And a question for Arul, sir. Sir when we look at this interest rate trajectory, given that now there are fair expectations that there could be a 25-basis point hike, just wanted to understand how are you looking at margins in FY '24 now?

Ravindra Kundu: So just to clarify, these credit costs between SBPL, CSEL, and SME, as of now, it is almost at a negligible level. So, from there, it will slightly go up, but the reduction in the opex will be significant, because the opex is very high, and that will come down. So, what will be gain from the opex will be much bigger than what cost will go up in NCL.

And as far as the provision is concerned, in the case of CSEL, obviously the unsecured lending provision is very aggressive. And we are almost making 100% at 180+ DPD So therefore, the provision has been kept very high. But as of now, the delinquency levels are low. So therefore, we don't have any problem. And we are expecting that the ROA from these new businesses will start going up, which will further increase the overall ROA of the company.

Arul Selvan: With regard to increase in rate, we will have to see what is going to happen. And if that is the sustained increase that is coming, then we will also follow suit of what we did earlier, that in the floating rate book, we will have to increase the yields. And already in the Vehicle Finance book, we have started increasing yields. And as I was saying in the morning, the mix will progressively change. And that would also give us the benefit of that being able to sustain the NIM.

We will wait and watch. And this is something we have to see what is happening on the ground. Because there are differing views on the hike.

Ravindra Kundu: And just to add, in terms of yield, if you see that, the last year, the new vehicle sale was much higher than the used vehicle, because the industry was coming back to the normal in terms of vehicle finance. So, the disbursement mix of the vehicle finance is skew towards the New versus Used.

And in the past, we used to do almost 50-50, high yield versus low yield. But in the last year, that has come down, because the new vehicle sales have picked up. So now this year, the vehicle sale will come to the normal level, what it used to be, 10% to 15%. That will give us bigger opportunity to play in the high yield segment, which is like two-wheeler, three-wheeler, tractor, and used businesses. And then the yield will go up. And we have seen that in the quarter 4, the yield has started to pick up. And if we continue to do this, then we will come back to the normal level of the yield, what it used to be.

Abhijit Tibrewal: Thank you so much, sir. This is very, very useful. Congratulations once again, and all the very best to you and your team.

Vellayan Subbiah: Thank you.

Moderator: Thank you. Ladies and gentlemen, we request you to restrict your question to one at a time. You may join back the queue for follow-up questions. We'll move on to the next question from the line of Piran Engineer from CLSA. Please go ahead.

Piran Engineer: Yes, hi. Congrats on the quarter. Just on CSEL, a couple of questions. So, I believe you also had 2/3 is small enterprises, 1/3 is consumer. Just wanted to understand on the consumer part, do our Fintech partners give us FLDG? And on small enterprises part, how many of these clients already have a loan from a bank or another NBFC?

Arul Selvan: Wherever it is regulatory permitted, we follow the route. But otherwise, we do not have an FLDG. But that is compensated by taking a higher yield on that. So, we work partner-by-partner, the economics of it, and then work out the pricing model around that. The underwriting guidance is also given by us. So, considering both aspects, we control the performance of the book as well as the profitability of the respective partnership.

Piran Engineer: Perfect. And on Small Enterprises?

Arul Selvan: Small Enterprises is done entirely in-house.

Vellayan Subbiah: What was the question on Small Enterprises?

Piran Engineer: No, I just wanted to understand those clients. These are INR18lakhs INR20 lakhs loans. These clients have they taken loans from other banks or NBFCs? I just want to understand if they are banked customers or not from a lending point of view?

Balraj Menon: Our average ticket size and the traditional business in the small enterprise lending is around INR8 lakhs.

Vellayan Subbiah: Yes, so I don't know where you got the INR18lakhs INR20 lakhs number from.

Piran Engineer: Okay, it's misinformed.

Vellayan Subbiah: Sorry. Go ahead.

Balraj Menon: Average ticket size is around INR7 lakhs to INR8 lakhs. So, to that extent, it is taken care. And we also have a policy, stringent credit policy, wherein even at the sourcing stage and the credits approval stage, we look at the number of inquiries, number of live loans. We have kept a lot of tight policy measures and we have taken all the precautions on that side.

Ravindra Kundu: No, CSEL business is actually, they are doing a consumer and business loan. So, they have two channels. One is a traditional channel and a partnership channel. So, 2/3 traditional channel is doing both business loan and personal loan. And this business loan is given to the self-employed customer and the professional like doctor and engineer. And the personal loan is very low. Between the personal and business loans, personal loan is given to the salaried class. So, all these traditional businesses, what we do in it, it is similar to what others are doing at DSA, DST, which is INR8 lakhs to INR10 lakhs.

Piran Engineer: No, sorry, I may have miscommunicated. My simple question is, in the Small Enterprise loan segment, what percentage of customers are new to credit and what percentage already have a loan from another bank or NBFC?

Ravindra Kundu: All of them have a credit history. Without a credit history, we don't find it in the CSEL department. There are two businesses, we are doing it. One business is SBPL, Secured Business and Personal Loan. In the SBPL, there are some customers, who are coming for the first time, coming to the NBFC or the credit, but that is a secure business. So, we are actually giving them a loan against their shop or their house and giving them a loan up to INR5,00,000. That's a small ticket size, INR2,00,000 to INR5,00,000.

In this case, and that's a secure business. In the case of CSEL which is a Consumer and Small Enterprise Loan, we are giving businesses, business loan and personal loan to the self-employed and salaried class people up to INR8,00,000 ticket size and which is done in a traditional way.

Ravindra Kundu: And all of these customers have credit history, and we are not funding less than 700 credit crores.

Balraj Menon: 96% of our customers have a credit score of more than 700 plus. In the business, 4% of customers are between 675 to 700, nobody is below 675 and 83% of the customers have a credit score more than 725. This is on personal loan, which is the major book as which, we have created as of now.

Ravindra Kundu: And the rejection rate is 70.

Balraj Menon: We have a rejection rate of almost 72% in our CSEL business.

Moderator: I request you to join back to queue-Sir. We have a question from the line of Preethi Rs from Uti Amc. Please go ahead.

Preethi Rs: Hi, thanks again. My question is on the Home Loans business. So, we have seen disbursement in the quarter for this quarter to be higher than the whole of last year. So, could you help us understand what's the long-term strategy here, given intense competition in both trying mortgages and in affordable housing? What is the segment we want to be in, as we grow? And what are the kind of ROAs that we will be targeting?

Prashant Kumar: So, we are in an affordable segment. And right now, what we have done, we were present in the south. So major portfolio was in south. So, during the current financial year, we have expanded across geos. And the contribution of these businesses is coming from north, eastern states and west. So right now, what we are doing is, we are expanding the footprints to all the vehicle Finance branches and then addressing their customer need. Going forward, we are going to see numbers doubling every financial year.

Ravindra Kundu: So just to add, actually, as we have done more in the south, the same success, we want to replicate in east and west and north. We selected some good markets, where Vehicle Finance have done very well in terms of portfolio quality to start with, to see that, is getting replicated. Last year, our experience was good. So, with the good experience, now we are going to go further to the other branches. As I mentioned in the earlier question also, the Home Loan as of now is covering 1/3 of the country and has started covering to the rest of the country. So, expansion will be happening over the period. And since we are going to new geography, the disbursement growth will continue.

Preethi Rs: Okay. And what is the ticket segment that we would operate in and the target in the steady state ROA?

Prashant Kumar: Our average ticket size will be around INR15,00,000. We are operating in that segment. And the self-construction will be the addressable segment, where we are going to scale our number.

Preethi Rs: Sorry. And the ROA?

Ravindra Kundu: ROA guidelines are not there. You have seen our number. As we have mentioned that we will continue to maintain our NIMs and the credit cost. And opex is something which we want to improve by increasing productivity and expanding. So therefore, we would like to maintain the ROA, where we are.

Preethi Rs: So just the last question on the same. So, would we be keen to pursue an inorganic strategy in this business to build for the scale?

Vellayan Subbiah: No.

Preethi Rs: So, this is something we will continue to do in-house?

Vellayan Subbiah: Yes.

Preethi Rs: Okay. Thank you. That's all. Thank you.

Moderator: We have our next question from the line of Nidhesh Jain from Investec. Please go ahead.

Nidhesh Jain: Thanks for the opportunity. Just a couple of data-keeping questions. Firstly, sir, can you share the absolute loan book in CSEL and SBPL and SME as of March '23? And secondly, the interest rate hike that we have taken in our Home Loan book and the LAP book, home equity book in FY '23?

Arul Selvan: We have given the percentage of the new business. And actually, you can work out. May be, we will have some decimal point differences. I think it's a reasonable number for you.

Vellayan Subbiah: What is your second question?

Nitesh Jain: Interest rate hike that we have taken for the existing customers in home loan and LAP book, home equity book in FY '23?

Arul Selvan: We have taken around 200 bps in LAP and around 150 bps in Home Loan.

Moderator: Thank you. We have our next question from the line of Kunal Shah from Citigroup. Please go ahead.

Kunal Shah: Yes. So firstly, in terms of the credit cost, if you look at it, in terms of the recovery benefit, which would have come in from the payment recognized during pandemic, are we almost done with that? And now, credit cost on an overall book should normalize. And with respect to the new business segments, what is the kind of rate through and credit cost, which we are looking at once it matures or it settles out?

Arul Selvan: So, the credit cost, we have always said that the credit cost will range between 0.75% to 1.2%, over a cycle. And we stick to that. And on average, it should be in the range of 1%. But for events like a pandemic and such widespread and continued impact areas, we are back to that level. I think this is around 0.9%. And we should hold around that. And in a good cycle, we should drop it to 0.7%, 0.75%. And maybe during some stress period, it should go up to 1.2%.

Ravindra Kundu: New businesses, actually, it's very early to talk about it. But how the stalwarts are performing in the same space. We would like to basically do better than industry. That is what is the aspiration. Let's see that.

Moderator: Thank you. We have a next question from the line of Sunil Kothari from Unique Pms Please go ahead.

Sunil Kothari: Thanks for the opportunity, sir. Mr. Vellayan, you joined Chola in 2010. It was INR7,000 crores. We crossed INR1,00,000 crores now. Very commendable achievement, sir. My question is, you are now a key person from the management group, Murugappa group. And you are busy with so many other organizations, which are also expanding very high. So, I would like to understand, what is your task for Chola for the next three years, five years? What do you want to achieve? What do you want to prepare for the next 10 years timely, if you can talk a little bit more?

Vellayan Subbiah: Sunil, thanks for the question. So firstly, I have no work at Chola, because these guys already know everything to do. And the team is a very strong team. As a team, like you talked about 2010, the entire team that's sitting here with me has been there since that time. And they've actually been instrumental in driving this level of growth, for the company. So, the good thing about that is, it gives me very little work to do.

Broadly, what we focus on is this broad direction setting. Suresh asked the question earlier. And the two big focus areas for us continue to be, what kind of a long-term direction can we set for the company? You asked what the 10-year view. I'll talk about that in a minute. And the second is, how do we begin to look at technology in quite a different way? Because what technology is opening up in India, is quite phenomenal. And the implications for a business like ours are very significant. So that's an area we continue to invest in very significantly.

On the 10-year view, our view on India is that we've delivered a certain level of compounding over the past decade. And honestly, the kind of opportunity that's offering itself up in India and the strength and capabilities that Chola has now developed, we see the same opportunities and that level of compounding being achievable over the next decade, as well. And so, we continue to be very bullish. Some of the steps, we've taken in terms of the diversification into new lines of businesses, there will be other steps that, we take, in that direction.

Some will be technology-led, and some will be growing out in traditional businesses and basically moving from, to a multi-product view, each of the products of which can be sustainable for us in the long term. So, a combination of those two areas is really, where the key focus is at Chola, as far as, I'm concerned now. And I do think that, over the next decade, we do see significant opportunity to maintain kind of a high level of profitable growth. So, it's something that here, as a team, the entire team, we're all very excited about and we'll continue to deliver.

Moderator: Thank you. We have our next question from the line of Pranuj Shah from J.P. Morgan. Please go ahead.

Pranuj Shah: Hi. Thank you, for the opportunity, sir, and congrats on a good set of numbers. You had earlier alluded to building a robust collection infrastructure before moving into new lines of businesses. Would it be possible to elaborate more on this and what, because this is primarily giving you the confidence of sustaining this high growth going ahead. And on that, since most of the primary investments would be done, so do we expect opex efficiency, what we've seen in the fourth quarter, to continue going ahead too?

Ravindra Kundu: Yes. So, for the Vehicle Finance, that we've been discussing about, what the collection strategy is and how robust our collection system is that. First is that those who understand how we have done collection in Vehicle Finance should be involved in the new businesses. So, we have actually transferred four of our zonal VF business heads to head New Businesses and our Loan Against Property business head was National Collection Manager before that and he has handled the credit also.

So, all the business heads are from Chola. For the last 20 years, they are all within Chola. We understand that, how much important, we give it to the collection. Then come to the collection strategy, and then collection strategy varies from product to product and the bounce rates of the segment. For example, as of now, in the case of CSEL, the bounce rates are as low as possible and their job is to ensure that, how can they keep the bounce rate at low and then collect it more digitally than physically.

And in the case of Affordable Housing, they have an entire collection system, which is completely working along with the sales team, Before disbursement, they are also involved in and doing the field investigation, of the properties and also ensuring that, the collaterals are in place immediately after they're doing the lending, they're going.

So different strategies are there, but without having the collection platform ready, we don't expand. So first, we recruit collection managers in the market and then understand that what is going to collect and then we start doing it. And obviously, if you want to understand the entire collection strategy for each business, it will be taking a lot of time.

But just to mention that, in the Secured Business loan, which we are giving it to shopkeeper, they are doing the lending, a collection by their sales team only. But in the case of Affordable Housing, they have a collection dedicated vertical and all the collection vertical within the businesses are completely unique and independent to them and they are working with a different strategy with respect to the product behaviour and the market behaviour.

Moderator: Thank you. We have our next question from the line of Shreepal Doshi from Equirus. Please go ahead.

Shreepal Doshi: Hi, sir. Thank you for giving me the opportunity and congrats on a great quarter. So, I just wanted to understand, what is the incremental lending rate for Vehicle loans, LAP, HL and new business? And you also alluded that, we would want to maintain margins at current levels. So, what are the levels for the same?

Vellayan Subbiah: The broad levels for NIM, we have indicated.

Shreepal Doshi: Sir, what are the levels as in, what is it that gives you the comfort or the strategy?

Vellayan Subbiah: So, the levels by business obviously will change. So, vehicle is a fixed loan product. So once, we've originated there, then kind of that rate sticks. So there, it's a question of kind of obviously one lever is the business mix. So how much we do of between used and so, we obviously by product segment and by customer segment, we have a pretty good idea of, what is the effective down to the ROA level itself, we have pretty good data.

So even at the NIM level, that's one of the controls, we have. Where each of the geographies then have to maintain a particular NIM based on the mix that, we would steer them towards. That will force them to move towards high yield product, which would mean the used versus new mix, the mini-LCV versus LCV, two-wheeler versus three-wheeler mix. So, each of those mixes are kind of, it's all kind of obviously, it's done at a fairly granular level.

So, each geography, whether it's a zone and a region, an area, or a branch, understands and the heads at those levels understand, what they need to do, to maintain the overall NIM, which is how we basically control it at a national level. And that, is an example in Vehicle Finance. And then obviously, you've got the mix between businesses themselves, where certain businesses have higher NIM, and therefore, we mix manage that, as well to control the overall level of NIM for the company.

Moderator: Thank you. We have our next question from the line of Sanket Chheda from DAM Capital. Please go ahead.

Sanket Chheda: Yes, hi, sir. Supreme execution, we are falling short of adjectives to describe your result every quarter. So, two questions from my side, sir. One is that the capital burn in this quarter has been relatively lower. So last couple of quarters, we were burning about 50 bps to 60 bps of tier 1. This quarter, the burn is just 34 bps. So other than the high profit, is there anything else?

Arul Selvan: No, we use multiple levers to manage our capital adequacy, like securitization is a road, where we did last quarter, and even in this quarter, we'll see a large amount of securitization happening. So, these are mechanisms, to ensure that, your capital adequacy stays on board. And this is something, we've worked on. Of course, the profitability accretion to the bottom line also helps in. So that would be the primary reason.

Sanket Chheda: Sure. And sir, the other question has been on the liability side that, we talked about on deposits and maybe overseas lending. But is there any interaction with rating agencies, where we can get one notch more of rating upgrade? Because once HDFC moves out, maybe there, will be a lot of supply on the NCD side, which being AAA rated NBFC, one could fetch better up rating. So, any light there, would be helpful?

Arul Selvan: We are in touch with the rating agencies. Even Mr. Vellayan had interacted with all the rating agencies with whom, we have relationship over the last two quarters or three quarters, we've been talking to them. They have their own set of processes and procedures, to stick to. And I presume going by their internal norms, they will keep evaluating and looking at, what's good and what should be done. Our work is to keep doing, what we are good at, and we will continue to do our best to keep our NIMs at targeted levels.

Moderator: Thank you. We have our next question from the line of Bunty Chawla from IDBI. Please go ahead.

Bunty Chawla: Thank you, sir. Thank you for giving me the opportunity and congrats on a set of numbers. Just a data point, if you can share, what were the write-offs during the quarter and similarly for the full year number?

Arul Selvan: Can you just give me a minute? Write-off for the quarter would be around INR89 crores, INR90 crores and for the full year, will be around INR550 crores.

Bunty Chawla: INR550 crores?

Arul Selvan: These are on the repo sales and the write-offs are around INR40 crores bad debts and INR270 crores, as a settlements and write-offs. I told the repo sale number earlier.

Bunty Chawla: Okay. Thank you.

Moderator: Thank you. Ladies and gentlemen, which was the last question for today. I now hand the conference over to Mr Nischint Chawathe from Kotak Securities for closing comments. Over to you.

Nischint Chawathe: Thank you very much to all the participants for coming in such overwhelming numbers. Thank you very much to the management for giving us an opportunity to host a call. Thank you.

Vellayan Subbiah: Thank you.

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