"Cholamandalam Investment & Finance Company Limited Q4 FY24 Earnings Call"

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

Moderator: Ladies and gentlemen, good day, and welcome to Cholamandalam Investment and Finance Company Limited Q4 FY '24 Earning Conference Call 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 the operator by pressing "*", then "0" on your touchtone phone. Please note that this conference is being recorded.

I will now hand the conference over to Mr. Nischint Chawathe from Kotak Securities. Thank you, and over to you, sir.

Nischint Chawathe: Thank you. Good morning, everyone. Welcome to the Earnings Conference Call of Cholamandalam Investment & Finance Company Limited.

To discuss the 4Q performance of Chola and share industry and business updates, we have with us the senior management today. I welcome 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 will take the Q&A.

Vellayan Subbiah: Nischint, thank you, and good morning, everybody.

So, we just go through the key financial results for the Quarter and for the Year Ended March 31st, 2024:

The disbursements were at Rs. 24,784 crores for the quarter, which is up by 18%, and Rs. 88,725 crores for the year, which is up by 33%.

The total AUM stood at Rs. 1,53,718 crores, which is up by 36% year-on-year. The net income for the quarter was Rs. 2,913 crores, which is up by 41%, and Rs. 9,986 crores for the year, which is up by 38%.

The PAT was at Rs. 1,058 crores for the quarter, which is up by 24%, and Rs. 3,423 crores for the year, which is up by 28%.

So, in terms of our performance, we have delivered the best-ever dispersals, collections and profitability in Q4 FY '24. Vehicle Finance grew by 6%, aided by steady growth. LAP grew by 55%, and Home Loans grew by 24%, driven by geographical expansion into Tier 3 and Tier 4 locations.

Disbursement growth in the other businesses was at 24%. Aggregate disbursements were at Rs. 24,784 crores as against Rs. 21,020 crores in Q4 FY '23, which is a growth of 18%. And like I said for the year, the growth has been 33%.

Vehicle Finance disbursements were at Rs. 12,962 in Q4 FY '24, as against Rs. 12,190, which is a growth of 6%, and disbursements for the year were at Rs. 48,348 crores, as against Rs. 39,699, which is a growth of 22%.

The Loan Against Property business disbursed Rs. 4,273 crores in the quarter, as against Rs. 2,762 in Q4 FY '23, which is a growth of 55%, and disbursements for the year were at Rs. 13,554, as against Rs. 9,299, which is a growth of 46%.

Home Loans disbursed Rs. 1,747 crores in Q4, as against Rs. 1,405 crores, which is a growth of 24%, and for the year, disbursements were at Rs. 6,362, as against Rs. 3,830, which is a growth of 66%.

SME disbursed Rs. 2,136 in the quarter, which is a 2% growth, and disbursements for the year were at Rs. 8,106 crores, which is 27% growth.

Consumer and small enterprise loans disbursed Rs. 3,301 crores in the quarter, as against Rs. 2,364 in the same quarter last year, which is a growth of 40%, and disbursements for FY '23-'24 were at Rs. 11,281 crores, which is a growth of 64%, over the Rs. 6,865 in FY '23-'24.

Secured Business and Personal Loans have disbursed Rs. 366 crores in the quarter, as against Rs. 196, which is a growth of 87%, and for the year, disbursements were Rs. 1,074, which is a growth of 138%, over Rs. 451 crores in FY '23-'24.

The AUM as of March 31, 2024, stood at Rs. 1,53,718 crores, and that's a growth of 36%. PBT growth in Q4 was 24% and for the year PBT growth was at 27%. PBT ROA for the quarter was at 3.9% and PBT ROA for the year was at 3.4%. ROE for the year was maintained at 20.6%.

So, the Company continues to hold a strong liquidity position with Rs.7,899 crores of cash balance as of the end of March 2024, including Rs.1,500 crores each invested in G-Sec/ T-Bill and Rs.765 crores invested in strips shown under investments, with a total liquidity position of Rs.8,315 crores including undrawn sanction lines. ALM is comfortable with no negative cumulative mismatches across all time buckets as per regulatory norm.

The consolidated PBT for the quarter was at Rs.1,428 crores as against Rs.1,163 crores, which is a growth of 23% and for the year Rs.4,605 crores as against Rs.3,615, which is a growth of 27%.

In terms of Asset Quality:

Stage-3 reduced to 2.48% as of March '24 from 2.82% at the end of December '23. So, we have continued our improving trajectory here. GNPA as per RBI norms reduced to 3.54% as of March '24 as against 3.92% in December '23 and NNPA as per RBI norms dropped to 2.32% as against 2.56% on December '23. NNPA is below the threshold of 6% prescribed by RBI as a threshold for PCA.

In terms of Capital Adequacy:

The CAR of the Company as of March 31, 2024, was at 18.57% as against the regulatory requirement of 15% and Tier-1 capital was at 15.1%.

The Board of Directors of the Company has recommended a final dividend of Rs. 0.70 per share, which is 35% of 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 Rs. 1.30 per share for the financial year '23-'24 declared by the Company on January 25, 2024.

The Board of Directors of Cholamandalam Home Finance have also approved an equity infusion of Rs. 25 crores in Cholamandalam Securities, both of which are wholly owned subsidies, subject to the approval of the regulators.

Nischint, we will stop with this comment, and we will be happy to turn it over to you for questions. Thank you.

Nischint Chawathe: Yes, let's start the Q&A session.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Avinash Singh from Emkay Global. Please go ahead.

Avinash Singh: Two questions. First, on the disbursement and AUM growth outlook for FY '25, can you just please help with some sort of a breakdown among the different segments? That's one. And second, if you can also help with the balance transfer trends across your different products, that would be helpful.

Ravindra Kundu: So, disbursement growth will be 20% to 25% and the AUM will be 25% to 30%. In the best-case scenario, 30%, but in worst case scenario, we will do 25%. The balance transfer is only pertaining to LAP and maybe Home Loan, but Home Loan, we don't do much balance transfer.

Suresh Kumar: So, 45% generally of our disbursement, he is asking more about the disbursement. So, 45% of our disbursement comes from balance transfers, yes.

Avinash Singh: And what sort of a transfer, you are seeing, I mean, the loan going out of your portfolio maybe because of...

Suresh Kumar: Interestingly, out of the closures, about 40% are balance transfers. Out of the total closures.

Ravindra Kundu: You are asking the segmental growth for the businesses. We are giving cumulative for the Chola in terms of disbursement and AUM growth. As of now, segmental disbursement and AUM growth, we are not talking.

Avinash Singh: Yes, I ask that because on the CV side, there is kind of a bit of a slowdown that's sort of expected. Of course, now, incrementally, I mean, over the years, your non-vehicle portfolio also has gained size. And that is where we are trying to get an idea that, okay, if the vehicles were to slow down, and then, of course, on a larger basis, how much this can pull off, the non-vehicle. And that is why any color on that LAP or any sort of a new product you are thinking of, that should be helpful.

Ravindra Kundu: See, on the contrary, the vehicle number, CV number for the month of April, we got a cumulative number published or data from the manufacturer for April is actually looking better. So, if you take that number, the industry number, obviously, what we are committing or talking about 20% disbursement, including the new business growth and the mix of the disbursement and our spread in the country, because today, we are present in 1,300 plus branches and 600 RLS, so put together 1,900 touch points are available for us. And we are not only focusing on commercial vehicles, but we are also focusing on passenger vehicles, construction equipment, tractor, two-wheeler, three-wheeler, all used vehicle in commercial vehicle, passenger vehicle, tractor, and construction equipment. So, therefore, we are quite comfortable that we can deliver 20% growth in Vehicle Finance.

Avinash Singh: Quickly, last one, I mean, because you are now recently into passenger vehicles, and a lot of your passenger vehicles typically will be entry-level one. So, what kind of trend you are seeing in the passenger vehicle's entry-level segment? Because that has been under stress for quite some time.

Ravindra Kundu: It's been good only. For last year, it was actually a double-digit growth in passenger cars, and entry level cars, especially Tier-four, Tier-five towns also started seeing the sales. So, that is helping us to get the number at our rate, because we are not into salary class, which is being funded by banks mostly. The self-employed customers are buying entry-level cars in Tier-two, Tier-three, Tier-four towns are actually our customers. We are doing that.

Moderator: Thank you. Next question is from the line of Dhaval from DSP. Please go ahead.

Dhaval: I just had two questions. First is on slide 67. Thanks for this additional disclosure on new business profitability. The question is, on each of these sub-segments, CSEL, SME and SBPL, how do you see the normalized PBT ROA over the next couple of years, and specifically on CSEL, if you could talk about the net credit loss after the FLDG, how does that stabilize in the next couple of years? So, that is the first question, the profitability of each of these businesses.

The second is on slide 18, you have given this new disc, I mean, color-coded your last 15-year trajectory and given this idea of new growth over the last couple of years. Should we expect on a more medium-term basis the current growth trajectory where we are? You know, over a period of time, that's the CAGR that one should think of, somewhere around 25 to 30 odd percent over the next few years. And just if you could give some perspective on that, that would be useful, medium-term growth.

Ravindra Kundu: Yes, so let's start with CSEL. CSEL is at 2.9. You asked a good question, actually. I am also asking Balraj to deliver more and more in terms of ROA. He is also committing to increasing it. We don't want to disclose what target we have given to Balraj, but definitely we will go from 2.9, it will definitely go up. And in two years' time, we will reach the peak. So, the opportunity to grow ROA will not be over in this year only. Next year also, we will further grow.

In SME, the ROA growth opportunity is slightly less than CSEL, but Pankaj is also committing that in the next two years he will be taking it up slowly. And SBPL is a great opportunity for us. From 3.9, I mean huge number we can take it. I mean that is going to be one of the highest ROTA divisions in Chola. So, that's what we are committing, or Ashish is committing to me. I am not committing to you. We are expecting that we will be touching good number in two years' time.

Coming to the NCL line, NCL line 4.4 of CSEL is actually 3.4 or less than 3.4. And as we basically, we also said that we have already decided, defined what would be our strategy in partnership. We have defined profile partners who are doing very well. So, including that, the performance of this CSEL partnership will further improve and NCL will go down. So, the ROA increase expected from two line. When the expenses go down, the losses will improve. And that is applicable for all SME and SBPL also.

Vellayan Subbiah: And your second question broadly, yes, is the answer to your second question.

Moderator: Thank you. Next question is from the line of Umang Shah from Kotak Mutual Fund. Please go ahead.

Umang Shah: I just have one question. Is there any one-off in the OPEX line item? And also going forward, if you could just give us some color as to buy, when can we expect the operating leverage to kick in, given that we are anticipating good asset growth, how should we look at this OPEX line item going forward?

Arul Selvan: Yes, see, in Q4 generally, a lot of catching up have plans with regard to CSR expense, etc. So, in Q4, and then we also, Q4 being best of best quarters, I mean, you need to provide incremental incentives, etc. So, such one-off expenses happen every Q4, likewise this time also. And we stick to our original plan that we should be at the 3% to AUM as the OPEX line. We are working towards that. Yes, for the full year, we missed it by 10 basis points this year, but I think next year we should be there. We still work at 3% of keeping it below 3%.

Moderator: Thank you. Next question is from the line of Abhijit Tibrewal from Motilal Oswal. Please go ahead.

Abhijit Tibrewal: And again, thank you for providing the enhanced disclosures on that to your businesses. So, I just wanted to kind of take forward what you commented on OPEX. Sir, very clearly, I mean, if I look at the fourth quarter, employee expenses are almost 100% year-over-year. You just explained there are some annual incentives also. So, I just wanted to understand whether the annual incentives are always there in the fourth quarter, or if we kind of keep providing for it in all the four quarters.

And maybe a related question here on OPEX is, I mean, very clearly some of the newer businesses, because we were in investment mode over the last two years, were a drag, I would say. But now, how do you see economies of scale in the newer businesses, especially on the OPEX? Arul sir, you have already guided that you want to stick to that 3% OPEX to AUM, but just some more color there will be helpful.

Vellayan Subbiah: So, we will respond to your question.

Arul Selvan: Abhijit, can you repeat the question?

Abhijit Tibrewal: Sir, I think, it was more on the OPEX again. Arul sir, you already guided that there were some annual incentives and CSR expenses, and that for the next year also we want to stick to a 3% OPEX to AUM. Just wanted to understand a lot of the drag on the OPEX, especially in employee expenses, could also have been coming from the newer businesses, given that we are expanding it to a greater number of branches. Just wanted to understand, I mean, for how long will remain in this investment mode in the newer businesses? What is the thought process there? Do we want to offer these three products, CSEL, SMEL, SBPL, across all our branches, is what I was just trying to understand. Just some more color there on the OPEX.

Ravindra Kundu: Abhijit, I have mentioned that the ROA expansion for CSEL, SME, SBPL is going to come majorly from the OPEX reduction, because their now base is going up, and the productivity of the people who have been recruited in last two years have started delivering more, and we have seen that Q4 that they have delivered little better ROA than annual ROA and this is going to be continued because the branches are set. I am talking more from the traditional point of view because in the traditional they opened up branches and now they are delivering close to Rs.600 crore per month. That is going to go up with the same manpower.

They are going to increase definitely some more branches, but those branches will have the similar concept of Vehicle Finance where we are opening up RLS with the lesser manpower and then expanding it after achieving the threshold of the volume. So, that way expenses will be controlled, and they will go down from 5.1 for CSEL to, I mean, we are expecting reduction in a phased manner. Two years, it should come down to at least a good number.

And same SME, actually we see that SME, their expenses are 2.3%, which is higher than the LAP, but their customers are finer than the LAP customers. So, obviously, they should deliver lower OPEX than LAP. That is what their target is. So, they are doing it. SBPL also, if you see that 13.4%, it will come down. So, in spite of we are expanding in all three divisions, we will be reducing our OPEX as well. And that's the most important thing for increasing the ROA in these businesses.

Abhijit Tibrewal: Just one last question, sorry, two questions that I had. One is, sir, I mean, you have been hearing that the last two, three months, right, elections have had some slowdown particularly in the vehicles segment in terms of demand and activity. So, do you expect that post elections, post project presentation, maybe by August, September, when we kind of start the festive period, demand can start recovering? That's the first question. Maybe the second question that I have. And the third question I had was, or to Arul sir again, sir, cost of borrowings looks like they are peaking out. Margins are stable for the last couple of quarters. How are we thinking about the cost of borrowings and margins now?

Ravindra Kundu: So, from the demand side, as you said is right. There are two things happening. One is the elections are happening till May end and June only, we will get a full month to start working in fullest capacity across the country.

Second is that it is Q1. So, both put together, there will be a slight slowdown in the first quarter. But as far as the vehicle industry is concerned, in the first month, in the month of April, we see that they delivered better numbers than last year. So, last year their growth was negative. This year they started with 80% growth. Across the other products put together, the growth has been actually (+20%) in April month. So, that is 26% growth over the previous April.

That is good news, because if at all it is a wholesale number, if the wholesale number is good, the retail number will be better in the months of May and June and our numbers are also in line with that. And this is only a new vehicle we are talking about. In addition to new vehicles, we have 34% used vehicles, we are doing it, and new vehicle means new commercial vehicle where the growth is 13%. New vehicles put together all other segments is 26%.

It looks like it is actually moving in the right direction and as we mentioned that the demand in terms of commercial vehicles has been on the lower side even in this last financial year also and we did better last year. That is because our used vehicle business has gone up from 27% disbursement portfolio mix to 34% disbursement mix and high yield businesses like two-wheeler, three-wheeler also we have done better. We will continue to do that and that is the reason we are comfortable in delivering 20% disbursement growth and 25% AUM growth in Vehicle Finance and the growth will start looking better in the Q3 onwards.

Arul Selvan: With regard to cost of funds, see the cost of funds we will endeavor to hold it at this level but as we widen the borrower profile from banks to other sources like ECBs, there can be a slight increase but we will continue our negotiations to keep it at this level and hopefully by H2 as predicted or as expected, if there are reductions in the market, that should also flow through.

Abhijit Tibrewal: So, this essentially means that it's still that's good for a margin expansion given that cost of borrowings that you are suggesting could stabilize?

Arul Selvan: Right now, we don't want to comment or commit anything on margin expansion. We are back to the pre-Covid levels. I would say we should be happy there. As portfolio mix changes, as cost of funds benefits come through or not come through, accordingly there will be marginal changes in the margin. But I don't see any large shifts happening.

Ravindra Kundu: But ROA level, we are expecting that from 3.4, it can go up to 3.5.

Arul Selvan: 3.5. Overall,

Ravindra Kundu: And if you see that we have given 15 years data where the pre-COVID level, we were at 3.7 peak. But the cost of funds used to be 6.9 to 7.1 and at that time our income was 14.7. So, we are at 14.4. So, that income line has to go up. The income line will go up with the help of Vehicle Finance, which is actually a fixed rate, and we have been continuously doing higher yield business for the last one year. And this year, we will see that the income will go up.

Moderator: Thank you. Next question is from the line of Sandeep Jain from Baroda BNP Paribas Mutual Fund. Please go ahead.

Sandeep Jain: Just to, you know, addition to what Dhaval has asked about the new business, what kind of credit cost we are building in when we are kind of pricing, especially the SBPL and SME product? Because it looks like the majority of them, apart from the yield improvement, you see the year-on-year credit cost is declined. And as a thought process, how provision coverage will look like for this new business? It would be lower than the Company overall provision coverage business, or you would like to have higher provision coverage on these two, three new businesses.

Arul Selvan: Yes, see these loan losses in the new businesses, you know, in SBPL, if you are asking, it will increase the rate over the years, but that would be more than offset by the savings in OPEX as Ravi was saying earlier. So, SBPL is a slightly riskier business where the loan losses will be slightly higher. But this is the trend of the industry, but we will try to keep it lower.

But with regard to the provision coverage, we are now adopting a provisioning percentage, which is not really driven on the ECL model, because we do not have adequate data, past data to prove it, we have taken industry norms and built sufficient incremental provisions over that to make sure that they are conservative. As we reach three years of full running of these businesses, we will start creating PD/LGDs for this based on our own experience.

Sandeep Jain: So, just to elaborate it more, if I look at the current provision coverage ratio of all these two, three new business, it is somewhere around range of 33% for SME or 25% for SBPL kind of thing, right? The Slide #29, which shows. Yes, so, in terms of going ahead, probably when the ECL model has not developed, so just to understand the thought process, whether we would like it to somewhere around 50%, 60%, and then the ECL model will develop, then we will see the what is the current thing which is happening, because currently also ECL model has not been developed, right?

Arul Selvan: Right, see, but that is why you see a difference in the provisioning for CSEL, which is an unsecured business where we have taken to 50%. And within Stage-3, different provisioning numbers prevail with regard to the aging of the book even in CSEL. And SME is actually the most diverse business. Still, we are providing almost 39-40% out there, which is as good as LAP or HL where we are creating similar provision coverage. It's actually better than LAP and HL, because the customer profile is different.

If you see the pyramid in slide #14, you will see that it is the best quality customers out there in that segment. SBPL, it will increase a bit. Right now, because it is a very small number, and right now the portfolio which is in Stage-3 is very small, it is reflecting like that, but as it moves up, it will increase as I said earlier.

Moderator: Thank you. Next question is from the line of Alpesh Jatin Mehta from 360 One Asset Management Company, IIFL Asset Management Company. Please go ahead.

Alpesh Jatin Mehta: Sir, just one clarification. There is a lot of confusion related to these growth numbers. So, I think we are talking about overall AUM growth of around 25% to 30%, disbursement growth of 20% to 25%, the lactose within the growth rate will change. Is that right?

Ravindra Kundu: Yes.

Arul Selvan: Yes, AUM growth around 25%, keep it simple. Let's not have any band and all. Let's say, 25%, right? Because as we go into Q1, Q2, and we know more clarity emerges on the monsoon and post elections, we can come up with a little bit more specific number. We better, we are always conservative. Yes.

Alpesh Jatin Mehta: Okay. So, looking at the current thing, are you, at least you are confident about 25% overall AUM growth?

Vellayan Subbiah: Yes, correct.

Alpesh Jatin Mehta: And secondly, sir, I see the reason we have done during the course of the large investments into a corporate office. So, any rational related to that if you can provide?

Ravindra Kundu: Purchase land.

Arul Selvan: Yes, we purchased the land to build our own corporate office. We are actually, right now we are working out of more than four or five centers within Chennai itself. So, we needed to bring all of them together. And we thought it would be better, and it was a general consensus among the management and the Board to look for a big corporate office and build it up. It will take two, three years to complete the whole construction, et cetera, but this is the first step towards that.

Alpesh Jatin Mehta: But at least it will not have any immediate benefit on the P&L per se. Whatever benefit that will occur, that will come after two or three years.

Arul Selvan: Yes, correct. It will happen once we move in, we will save some rent, but that would be the way.

Alpesh Jatin Mehta: And just lastly on the repayment rate. Since we are talking about 20% disbursement and 25% AUM, that means the longer duration product concentration within the overall mix is increasing. And that is where you are confident that the repayment rate at the overall level will come down. Something like that.

Arul Selvan: The LAP and HL are slightly longer tenure book. SBPL will also be a longer tenure book. CSEL is a much shorter tenure book. So, amongst them, there will be some carry forward of the longer tenure book in Q4.

Moderator: Thank you. Next question is from the line of Viral Shah from IIFL Securities. Please go ahead.

Viral Shah: Actually, I have two questions and if the operator permits, I will add one more. But to begin with, you mentioned that the new business profitability will improve, right? But will it still be higher than the overall Company level ROAs? So, right now we have a PBT ROA for FY ‘24 of 3.6%, whereas the new businesses are at 2.4%.

Arul Selvan: Yes, it will improve. It will improve. Again, as Ravi was saying, their OPEX should come down and so there will be a reasonable shift in that year.

Vellayan Subbiah: Yes, but on a weighted average basis across the new businesses, it will be higher than the ROA of the overall Company.

Viral Shah: And Vellayan, do you want to give that number? Like what could that ROAs look like steady state?

Vellayan Subbiah: You already asked Ravi for that number. We said we won’t give that number. So, I think we have given you enough guidance and you know that we don’t get too particular in guidance at a segment level. But there is enough guidance to give you an indication, obviously, and we have indicated at a weighted average level overall, it will be higher for those three businesses.

Viral Shah: Fair enough. And so on, basically the LAP segment, over there, the credit costs for the last two years have been fairly, I would say, closer to nil. And of course, we have seen a tremendous improvement in the asset quality also over there, but how long can this say a nil kind of credit costs continue in that segment? And consequently, if say it normalizes over there, how would our overall credit costs look like given the mix change also in the picture?

Ravindra Kundu: We are pushing Suresh to continue.

Suresh Kumar: So, yes, I think if you can see the Stage 3 numbers, it has significantly kind of we have resolved it. That's why in the current year you look at such a loan losses reversal. But yes, I think that reversal is kind of coming down. On a steady state, anything between 20 paise at about 25 paise will be v good. And I think that's our target NCL that we will range between that number between 20 paise and 25 paise.

Vellayan Subbiah: Then the question is whether any increase in losses or normalization will be offset by a reduction in OPEX.

Ravindra Kundu: One is it OPEX reduction they are planning and then they are also planning to do income increase through their micro-LAP income they have created.

Ravindra Kundu: So, yield improve.

Suresh Kumar: So, overall, the ROTA will still be maintained minimum at this level. Yes, Ravi is just sitting next to me, so definitely it will be more than that. We will maintain that.

Viral Shah: Fair enough. And sir, last question. Can you give us a sense of what is the average tenure of the CSEL and the SME book? The reason I am asking that is to get a sense of how seasoned right now the portfolio is and the numbers that we are seeing, and how can it be relatively when it further seasons?

Balraj Menon: Average tenure is around for CSEL book is on the traditional book is around 44 to 48 months.

Vellayan Subbiah: And the weighted average will come down because the other products are much lower.

Ravindra Kundu: Yes, this is only traditional.

Balraj Menon: 48 is total book.

Balraj Menon: Average is 44. Only traditional I talked about.

Vellayan Subbiah: Only traditional. So, if you bring it everything combined, it will come down to a bit under 3 years.

Arul Selvan: Some of them are door to door, so the average will be in the range of around 3 years for CSEL and in SME it will be around 5 to 6 years.

Pankaj Murpani: Three products. Equipment finance we do, that is close to 5 years in equipment finance. Term loan would be close to 10 years and supply chain is only 90 days bill discounting. So, there are 3 major products in SME. So, this is the tenure.

Viral Shah: In the weighted average tenure, do you want to give out that for SME?

Arul Selvan: It will depend on the mix as we keep moving between the products because as we keep, we have to look at what products we are focusing on. So, we will work out with that as we move and develop each of these products.

Moderator: Thank you. Next question is from the line of Pranuj Shah from J.P. Morgan. Please go ahead.

Pranuj Shah: Just two questions on my side. One is your standard cover on stage 1 and Stage-2 are reduced. I am assuming your PGD and LGD assumptions have improved. So, in that context, do you have or lowering your guidance for credit cost for FY '25?

Arul Selvan: So, see, what happens is every year we have to include the current year PD/LGD and build on that. So, as you know, it was a little higher during the COVID period. Now as we are performing better this year's contribution comes into place. So, that will be going like that. If we continue to maintain this trend, it should, but right now don't count your chickens right now.

Pranuj Shah: No as such credit cost guidance that you would want to provide as of now?

Arul Selvan: **No**

Pranuj Shah: And sir, just one last question was on the SRTO profitability. Like we have seen new vehicle and also used vehicle prices rise about 25-50% over the last one year. So, could you just make a comment on how you are seeing SRTO profitability move about on the overall EMI repayments?

Ravindra Kundu: So, I was talking about the SRTO profitability. Yes, SRTO profitability is mainly depending on fuel consumption and that is actually the fuel prices have little gone down a little. Second is that SRTO also decided not to go into the heavy commercial vehicle segment of new. And they decided to basically stay in the intermediate commercial vehicle or the used commercial vehicle.

That is the reason we are also focusing on used commercial vehicles. But we are not focusing more on heavy commercial vehicles. Because the heavy commercial vehicle is more beneficial to the captive users and large fleet operator who are getting the GST benefit also. The SRTOs are not getting benefit but the prices of the vehicles are much lower there. EMI affordability is also good. So, that is the difference in the SRTO and the other segment of the customer who are operating in the commercial vehicle used segment.

Pranuj Shah: So, also the previous SRTOs were used to go for new vehicles are more preferring used. Is that the understanding?

Ravindra Kundu: Yes, that is correct.

Moderator: Thank you. Next question is from the line of Sunil M. Kothari from Unique PMS. Please go ahead.

Sunil M. Kothari: Sir, congratulations for such a wonderful performance during last year and then 5, 10, 15-year, commendable job you are doing. Sir, your view, macro view on the competition intensity by banks, private, public, they are moving inside the country from Tier-2 to 3, 4, 5, then other small NBFCs and small finance banks. If you can throw some light and your understanding about the intensity of competition will be really helpful.

Ravindra Kundu: Yes, so as we maintained and mentioned in the past also, the banks are more into the top of the pyramid and in the urban market, salaried class and with financial class category of the customers. We are in the self-employed category of the customer and Tier-2, Tier-3, Tier-4 town and as we see the growth coming in the country, economy is growing, the bottom of the pyramid of the category of the cities are also doing better. And small commercial vehicle, light commercial vehicle, used, loan against property, smaller ticket size loan or affordable housing or SME smaller ticket size loan or equipment finance or business loan, consumer loan, those things are growing better where which is basically being funded still by the NBFC in the smaller finance companies and is going to be continued because we are a developing country and this developing to developed country will take another 20 years for reaching to that level and we will be definitely growing because of the opportunity available in the country.

SBPL is another product which provides funding to the SME segment, small micro-SME segment and if India has to grow, the small SME has to grow. There are so many grocery shops or small, small merchants are there who are now increasing their sales, but they need capital. They need funding which we are providing and those are actually with collateral secured funding and doing well in the market. We need to identify such customers, such markets, and also ensure that our processes are very clear, and we don't get into any kind of wrong processes in the process of lending customers.

So, evaluation of the property, evaluation of the customer, the evaluation should be absolutely right. Then you can even be self-employed customer who are not in position to produce income proof, but they are doing better.

Sunil M. Kothari: Sir, your view on intensity of competition compared to say last year or two. Do you see now people are realizing that there should be some sanity in terms of pricing because we heard a lot about the mortgage business getting like this like competition. So, what's your view?

Ravindra Kundu: There are three situations. One is that if the newcomer comes, then they try to basically do higher LTV and lower pricing and give higher payout incentive to the person who is actually sourcing. So, we are not into that game and that is happening more in the urban market, not in the rural market. The rural market challenges are collection, evaluation, process, and people. So, our reach is basically helping us to avoid that competition in the urban market.

As far as the competition is concerned, we don't see in our segment, competition is that intensive because we are more into the middle of the pyramid into a smaller town with a smaller customer where our people who are actually working with us for many years are consistently working. And here, the main challenge is how can you retain and how can you train and how can you get the job done without deviating processes, which we are doing.

Moderator: Thank you. Next question is from the line of Kunal Shah from Citi Group. Please go ahead.

Kunal Shah: So, firstly on yield side, if we purely look at it in terms of the interest income trend and at the AUM, then it seems there is some maybe the moderation out there in Q4. Last quarter, you indicated that we should see some benefit as marginal book yield is higher, marginal yields are higher than the book yield and we should see some repricing benefit. If you can just help, maybe how should we look at the yield trends?

Ravindra Kundu: So, you are talking from the Vehicle Finance side or from the overall Company side?

Kunal Shah: No, from overall perspective if you look at it, because interest income, that number is broadly overall. And so that's where it is.

Ravindra Kundu: So, it is better to see page number 18, which is the 15 years sheet, which we have given. Total income to assets is actually 14.4 and ROA is 3.4. Our peak ROA was 3.7 in 2018, FY '18 when the income was 14.7, the cost of fund was 7.1, now it is 6.9. So, similar situation. ROA was 3.7. So, our target is to take 3.4 to 3.5 and 3.7 by increasing the income from 14.4 to 14.7 and improving the OPEX line. So, we are more or less very close to the peak number is just the OPEX is 10 bps high, and our income is 30 basis point lower. This 30-basis point income, which is lower, is going to come back because we have two types of books.

One is fixed and the others are floating. The SME, LAP and HL are the floating book where the reset has been done, but Vehicle Finance is actually the fixed rate book where it takes two years to basically come back to the peak level of the income line, which is actually now this year we are going to get back. So, that's the next what is the plan, like how to reach out to 14.7 and deliver 3.7 in next two years' time.

Kunal Shah: Absolutely. Sir, I agree on the overall income side, but there is an element of fee income led by more of insurance also, which we reclassified last time. So, maybe the income seems to be slightly elevated because of this fee income stream, but if we adjust for that then the only thing was maybe overall on the pure interest income that seems to be moderating. So, that was the question. I agree completely on the overall income side because of the fee income pool.

Arul Selvan: Fee income now gets amortized. It is not like you get bulk when you do more disbursement etc. Under Ind AS, it has to be amortized. Similarly, the cost element of that vehicle also gets amortized. A long time back when we were in IGAAP, we used to upfront both, that is the fee income was up fronted and the cost also was fully charged up. So, it won't make a big difference. There have been no visible shifts in those numbers. So, they will run as per the normal process.

Kunal Shah: And between fee income and the OPEX, would there be any overlap or reclassification which is leading to both the line items slightly higher this quarter?

Arul Selvan: Yes, that is the OPEX relating to the insurance income generation comes to us also, no? Because earlier that fee and...

Kunal Shah: Yes, so last quarter that was 160 odd crores. I don't know, maybe the exact amount, but what would be that quantum this quarter if we have to look at it?

Arul Selvan: I cannot disclose the individual numbers, because sometimes it all depends on various factors like some businesses, some locations, people will be multitasking, some there will be specific people. So, accordingly the cost gets allocated, but we can't go too nitty-gritty into that right now.

Moderator: Thank you. Next question is from the line of Raghav Garg from Ambit Capital. Please go ahead.

Raghav Garg: I just had a few questions. The first one is just to harp a little bit more on the OPEX line item, your employee cost growth is about 100%, whereas your employee base has increased only by 20%, which implies steep escalation in salaries. Now I understand that you would have given incentives as well, but I have been looking at this trend for the last three quarters at least, where the cost for employees has been increasing at some 9,200, sorry 50% to 70%. So, how should one read that? That's my first question.

Arul Selvan: No, see we have also during the year, I think somewhere in the middle of second quarter or fag end of second quarter, we shifted the large part of our outsourced employees which was in a separate Company, catering only to us on to our payroll. So, from an outsourcing cost, it moved to salary. So, that is one large reason. Of course, the expansion of the various businesses in newer geographies and the growth in those divisions have also increased the cost there. This is why the salary cost looks a little inflated.

The other part which I said earlier, the insurance part of the cost also comes into the salary cost now, because these employees are also now working under Chola for generating the insurance income.

Raghav Garg: My second question is on the write-offs. So, as per my estimates, I think that comes to about 370 or 380 crores for the quarter, which if I look at as percentage of the opening GNPA, that's about 9%. It's trending higher in the last two quarters versus, you know, what we have seen in several quarters previously, a run rate of around 5%, 6%. So, why is that? Which segment are these write-offs coming from? Would this primarily be the new business segments?

Arul Selvan: No, as the business grows, these things will also in absolute terms look inflated, but as percentages, they are within the numbers which we are targeting. See, we have always indicated or given a sort of guidance that NCL as a percentage would be in the range of around anywhere between 0.8 to 1.2. We are at 1.1 right now at the Company level. So, we are comfortable with these levels.

Ravindra Kundu: Another thing is that it was actually consistent from the last quarter itself. The write-off number is actually same as Q3 actually. It is that same level. And we mentioned that no, from Q3 or Q2 level, the write-off in the case of partnership is now coming in our book. So, that is the reason to that extent, the write-off is slightly higher, but it is same level as Q2, Q3, Q4.

Raghav Garg: Just one last question from my side on the Home Loan portfolio. So, you know, when I look at the last several quarters, your disbursement growth has been pretty high in the quarters where you expanded the HL branch network pretty significantly. But if I look at the last two quarters, the HL network has expanded only by 3% to 4% quarter-on-quarter. Does that also mean that your disbursement growth will slow down from, say, the current run rate of 24% in the coming quarters or over the next two years? Some color on that would be very useful. Thank you. That's all from myself.

Prashanth Kumar: For the HL, we see that we will be better than the expected market growth. Generally, the trend is 14% to 17%, the industry average. We will be at least at 25% growth for the Q1. We are expanding the network. The current plan is to sustain and increase efficiency because this is the year I want OPEX has to come down because as a Company, we are focused on increasing efficiency.

So, we will be focused on productivity and ensure all the collection team members are in place in every branch. The second part of the year, you will see the growth towards, we are experimenting the Taluka level explorations. That's Tier-three, Tier-four rural market. So, we are piloting that project, and we will see the expansion of that during the second half of the year.

Moderator: Thank you. Next question is from the line of Anurag Mantry from Oxbow. Please go ahead.

Anurag Mantry: Two questions. One is on the SBPL. So, if I heard correctly, I think you mentioned that the cost of this can probably inch up a bit and that it can be offset by OPEX. Just wanted to understand if you compare say your credit cost of, I think 60 bps in FY '24 versus say a Five Star, which is even the others large listed there in this case. I think their FY '24 credit cost is like 30 bps. So, just wanted to understand the comment of why do you think that this credit cost in this segment can inch up a bit? And if you can indicate any range, you think there it can inch up.

And the second question is on the used credit side. So, over the last few years, a lot of players have basically been focusing on the used segment post-COVID, including some of the larger banks. So, do you see that putting any pressure on the yields overall or do you think that the overall pie has expanded as you said SRTO….

Ravindra Kundu: So, the first question is the SBPL whereas of now, the net credit cost is 0.6%. So, we are going to try, we are going to keep it at this level or slightly it will go up and at the industry level, one Company who is basically similar, you know that, and you have mentioned that their credit cost and we will do better than that. That is for sure.

Second is that in the case of used business, as we mentioned that our reach is much bigger than the new companies who have started doing it. And all those new companies are actually experimenting mainly in the urban market where the rates are slightly lower, but the majority of the business is happening in the smaller towns and there the yields are better and that is the reason at an overall level, we have not seen our used business yields are coming down as of now.

Moderator: Thank you. Next question is from the line of Rajiv Mehta from YES Securities. Please go ahead.

Rajiv Mehta: I just have one question left. What will be the recent trends in bounce rate and forward-flow in CSEL and is the Stage-2 level there coming down or stabilizing? Just wanted more visibility on the future NTF?

Ravindra Kundu: Bounce rate is at around 9% CSEL traditional business.

Rajiv Mehta: And is Stage-2 coming off there?

Ravindra Kundu: No, both bounce rate and Stage-2 are maintained at the same level. There has been no increase in the last three quarters.

Rajiv Mehta: And just one data. This micro-LAP, we are low-ticket better yielding LAP product within the overall AUM and in overall disbursement, what has been the trend there?

Suresh Kumar: So, micro-LAP is part of the LAP product. So, what is the trend you are asking for? Sorry.

Rajiv Mehta: Share in disbursement in AUM.

Suresh Kumar: So, it's about currently, on a monthly disbursement level, that's about 10-12% of our LAP disbursement is our micro-LAP disbursement.

Moderator: Thank you. Next question is from the line of Bunty Chawla from IDBI. Please go ahead.

Bunty Chawla: Most of the questions have been answered. Just one point. On the slide, you have given the margins improvement on a quarter-on-quarter basis, which is approximately 40 bps. So, if we see that has been given by the yield increment. Have we taken any price hike during the quarter or is it just due to the business mix change? If you can just throw some light on that?

Ravindra Kundu: So, in the case of Vehicle Finance, we have increased the prices in the month of December across all product segments and that has helped us to increase the yield further. But that is on the marginal book hold.

Suresh Kumar: So, on the LAP side, we have done both increase in the marginal yield as well as we have done a price reset of 40 paise. But that's only in the month of March. So, we cannot have much effect on that. But the primary reason is the marginal yield increase.

Bunty Chawla: So, can we say as previously we have shared that cost of funds seems to be peaked out and if there is no rate hike or stability in repo rate, there should be further improvement in the margin because incremental yield should go ahead because of the rate hike taken?

Arul Selvan: No, it is possible. But I would right now hold. As I said, that's all that is put together is what is the improvement in the ROTA we are talking about. Let's see as we progress into the year where the cost of funds settles down. Because there are other things, we have to look at it. As we widen the base for borrowing, that can be an incremental cost like ECBs or public debt, etc. But we will watch it and right now we don't want to over promise on those numbers.

Bunty Chawla: So, as you given the 15-year data, what we have observed in last three years, there has been a decline in the margin. So, just need to say that at least we can sustain this 7.5% level on a full-year basis at least.

Arul Selvan: Yes, you can say it like pre-COVID levels, we will be back to pre-COVID levels.

Moderator: Thank you. The next question is from the line of Bhavya Sanghvi from Fortress Group. Please go ahead.

Bhavya Sanghvi: First of all, many congratulations and we appreciate the disclosure on the different businesses. My question is actually on geographical expansion. So, we have seen that the new businesses have been co-located with the Vehicle Finance branches. So, what are we doing to enhance the capacity in the branches going ahead, so geographical expansion itself?

And the second question would be on the fee income. So, we have seen continuous improvement in the fee to assets as a percentage. So, what is the management's outlook and things that you are doing to improve the fee mix?

Ravindra Kundu: So, good one that the all the branches are co-located and whenever the branches are having a constraint in terms of the place, we are actually relocating. So, every year we are doing two things. One, the new branch opening and as well as the relocation of the branches. So, almost

20% of the branches are getting relocated because they need more space. We have done that in this last financial year also.

Almost 300 branches basically expanded. That means we have opened up in new premises, which are larger than the existing ones, and at the same time we have opened up the new branches close to 300. We have 545 RLH operational for Vehicle Finance where they are going to convert them into branches in time to come once they start hitting the threshold. But now as and when they start hitting the threshold, we are creating provision for other business lines also because within a year or two years' time, the other business will also start coming. So, from the beginning itself we are trying to basically get bigger premises for the new branches as well.

Bhavya Sanghvi: Sir, on the fee front, what are the management taking efforts to enhance this?

Ravindra Kundu: We have been continuously working on the fee side whether it is a disbursement fee or it is an insurance cross sell or it is a collection fee. All we are working with is a part and parcel of the business because the business is growing. Obviously, the fee part is in terms of percentage it is maintained. And as we mentioned that it is not that at all bases, we are taking the interest. It is not upfront income we are booking it. It is an amortized fee income which is coming in our book.

Moderator: Thank you. Next question is from the line of Vikram Subramanian from Marshall Wace. Please go ahead.

Vikram Subramanian: I just wanted to get some clarification on the overall ECL cover. So, there is something that we have been noticing has been steadily dropping. So, now the overall ECL cover is at about 170 bps on the total portfolio. I understand the portfolio quality has been improving steadily and is at a very good stage right now, but is there any plans to create some macro prudential provisioning given we are at a very good credit cycle and this is a good time to create some buffers for some time later when cycle could turn bad and also given the fact that 170 bps seems a bit low? I just want to know at what point you might consider creating such a provision. Is it based on a timeframe or is it based on any early warning signals?

Arul Selvan: See the provision coverage is a derived number based on the PD/LGDs of the respective products. Now, on top of it, we are also building a macro-based provision requirement. Actually, this time the macro projections are also done by an external consultant and the macro projections because the GDP growth and all other factors are positive.

So, the macro provisions also we could not make any large incremental provisions on that because we are constrained with making provisions within the model. We cannot on our own increase it to 2% or 2.5%. If the portfolio is behaving well, then that is reflected in the PD/LGDs and accordingly provision needs to be made. Only in the period of COVID, we made a management overlay because of the uncertainty in the environment. Unfortunately, Ind AS does not allow us to create incremental provision.

Having said that, I want to mention that as compared to RBI provisioning norm, we are almost Rs.700 crores above the norm. So, the portfolio quality is good. The NPA numbers are lower. So, accordingly, these numbers will come. If you are looking at it on an overall basis, because stage 1 and Stage-2 numbers will drive down, because they are the denominators, it will drive down this ratio. My stage 1 is good. So, it shouldn't be that we should penalize when my stage 1 is larger and make it like, no, no, my provision coverage is not adequate. The provision coverage is to be looked at on the NPA numbers, which we have maintained at the 45% numbers, which we have increased to 46% or so, which is around 45-46% numbers, which is where the risk lies, and we are having adequate coverage.

Vikram Subramanian: That's clear. I also ask because on stage 1 as well there seems to be some reduction in coverage, but thanks for that answer. That's clear. If I may just, can you give some color on what the current PD and LGDs are for?

Arul Selvan: No, no, we cannot give those numbers. These are not one single number per se. Even for every product, there is so much in sub-segment wise classifications. The break-up of the segments, we have covered it in the presentation. I think it's there in the ECL policy note, which is on the website.

Moderator: Thank you. Next question is from the line of Piran Engineer from CLSA. Please go ahead.

Piran Engineer: Just one question on the funding side. Just wanted to understand how is the incremental cost of funds, not just from banks, but across all types of creditors moved over the past quarter with the risk-weight guidelines? And secondly, is there any cost difference, or rather how much is the cost difference between securitization and pure bank borrowings?

Arul Selvan: See, it all depends on the nature of asset that gets securitized vis-a-vis, you know, bank borrowings and where we give underlying assets. In both cases, we leverage priority sectors. So, if there is a priority sector segment, then there is a benefit of around 25 to 40 bps, depending on what sort of priority sector assets we provide. Like, there is a larger benefit on Agri assets and a smaller benefit on M1 category or M2 category of MSME. All this needs to be supported by documents like land documents for Agri, as well as Udyam certificates for others. So, there will be differences between each of these lending or borrowing profiles. Independently, I cannot discuss the pricing of each vertical because that by itself is sensitive information, as well as not publicly available information.

Piran Engineer: And just on how incremental cost of funds have trended, say, since November?

Arul Selvan: No, that's already given We have held, we have brought it down marginally. If you look at the full year, we are at the 6.9% levels, which we have talked about on an AUM basis. And on a borrowing level basis, it should be in the range of around 8%.

Piran Engineer: So, that has not moved up? Like, that's not changed really.

Arul Selvan: Piran, it will keep moving depending on mix. It's not like if I keep doing more of short-term, long-term securitization, it will move. I mean, you have to look at it. I think the number of discussions we are giving itself is quite exhaustive. So, I think we can't extend this beyond this.

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

Nischint Chawathe: Thank you for giving us an opportunity to host the call. Thank you very much and have a nice day.

Arul Selvan: Thank you.

Vellayan Subbiah: Thanks everyone.

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