



“Cholamandalam Investment and Finance Company
Limited Q2FY22 Earnings Conference Call”

November 01, 2021



MANAGEMENT: **MR. VELLAYAN SUBBIAH -- CHAIRMAN AND NON-EXECUTIVE DIRECTOR**
MR. RAVINDRA KUNDU -- EXECUTIVE DIRECTOR
MR. SHAJI VARGHESE – PRESIDENT, HOUSING FINANCE
MR. SURESH KUMAR S-- SENIOR VICE PRESIDENT AND BUSINESS HEAD, LAP AND SME
MR. ARUL SELVAN -- PRESIDENT AND CFO.
MODERATOR: **MR. NISCHINT CHAWATHE- KOTAK SECURITIES LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to Cholamandalam Investment and Finance Company Limited Q2 FY22 Earnings Conference Call hosted by Kotak Institutional Equities.

As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

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

Nischint Chawathe: Good morning, everyone. Welcome to the Earnings Conference Call of Cholamandalam Investment and Finance Company Limited. To discuss the 2QFY22 performance of Chola and share industry and business updates we have with us today, Mr. Vellayan Subbiah -- Chairman and Non-Executive Director, Mr. Ravindra Kundu -- Executive Director, Shaji Varghese -- President, Housing Finance, Mr. Suresh Kumar S-- Senior Vice President and Business Head, LAP and SME, and Arul Selvan -- President and CFO.

I would now like to hand over the call to Vellayan for his opening comments.

Vellayan Subbiah: Good morning, everybody. We just go through key financial results for the quarter and a half and then I will turn it over to you for questions.

Disbursements were at Rs. 8,706 crores for the quarter which is up by 35% and Rs. 12,341 for the half year which was up by 23% YoY. Total AUM has basically been more or less flat at Rs. 75,000 crores. And our NIM was up at Rs. 1,393 crores, which was up 11% year-on-year. And for the half year it's at Rs. 2,756 which is up 23%. PAT for the quarter was Rs. 607 crores, which is up 40%. And for the half year is at Rs. 933 crores which is up 8%.

So, the last quarter basically, we had several positives, first was the waning of the second wave, which I think has been the biggest effect. India is outpacing other countries in terms of increased vaccination and a good monsoon. So, these events basically led to expectations of a swift revival in the Indian economy. And those expectations have been supported by an uptrend in most economic indicators that we have seen like tax collections, power, vehicle registrations; highway toll and e-way bills. And this revival has basically helped a recovery in Chola's disbursements and collections during Q2FY22.

From an overlay perspective, we continue to hold the management overlay, additional overlay of Rs. 700 crores. And apart from this, we have created a 10% additional provision for all restructured accounts as per RBI guidelines.

So, as I said, we will just go through kind of quick numbers at an individual's business level.

- The Vehicle Finance disbursements was Rs. 6,161 crores as against Rs. 4,781 which is a growth of 29% for the quarter.
- The LAP business disburse Rs. 1,736 crores in Q2 as against Rs. 1,052 crores, that's a growth rate of 65%.
- And Home Loan disburse Rs. 494 crores as against Rs. 381 crores in the same quarter last year.
- AUM like we said is more or less been flat at Rs. 75,000 crores as compared to Rs. 74,471 last year.

And PBT ROA was at 3.5% for the half year. And the ROE was at 18.7% as against 20% for the half year in the previous year. So, our liquidity position continues to be strong with Rs. 5,401 crores as cash balance. And that's including Rs. 1,500 crores in GSec, with a total liquidity position of Rs. 9,800 crores we include undrawn sanctioned land.

The ALM is comfortable with no cumulative negative mismatches. And in terms of asset quality, at the end of September 2021, Stage-3 assets stood at 6.16%, with a provision coverage of 36.45 as against 6.79 at the end of June, with a provision coverage of 35.51. Total provisions currently carried against the overall book is 4% as against normal provision levels of 1.75%, carried prior to COVID. And total restructuring book with 1 and 2, Restructuring 1 and 2 stood at Rs. 4,756 representing 6.86% of the total book in Stage-2. And total Restructuring 1 was at 1.27%, and Restructuring 2 was at 5.58%, respectively.

And in terms of capital adequacy, the capital adequacy was 19.63% as against the 15%. Tier-1 is at 16.67%. And we also had an equity investment in a company called Paytail Commerce. And we invested Rs. 9.75 crores to get a holding of 16.29%.

So, with that I will stop the commentary. I will be happy to handover to questions.

Moderator: Thank you very much. We will now begin the Question-and-Answer session. The first question is from the line of Rikin Shah from Credit Suisse. Please go ahead.

Rikin Shah: I have three broad questions. First on the growth while the disbursements have overall recovered, if I compare the growth between the different segments, the LAP and the Home Equity is now growing faster and constitutes almost 30% of our total AUM versus 25% two years ago. So, just wanted to understand our strategy of growing this business faster, going ahead as well vis-à-vis the vehicle. And that is the first one.

The second one is on Asset quality. Our overall stress loan pool still remains relatively elevated at around 19%. Just want to understand the plans or expectations of how low we can bring it down in the coming quarters. And if you could also provide some data on the ECLGS incremental disbursements, during the quarter.

And the third question is on our consumer strategy few quarters ago, you had articulated that we would chalk out a plan on the consumer lending. Are there any updates on the same? Thank you. That's all from me.

Vellayan Subbiah: So, broadly on LAP and HE, yes, we do see those two businesses, disbursements will grow faster than vehicle. And the other thing obviously, is because they are longer tenure loans, they will increase the percentage of AUM. And we are quite comfortable with that. And so, we do see that trend continuing for the next few years.

Ravindra Kundu: Yes, so asset quality as on, I mean, if you see the collection efficiency, two way we actually calculate it. One is that is the billing or cash flow. So, our billing, cash flow against the billing for the month of September was like 149%, which has improved in October, which is the month, which is just completed now, it is one of 116%. And Stage-1, Roll Forward Rate of Vehicle Finance is actually further improved, and it has come down to 1.76%. So, we have collected 98.24%, and more or less across all businesses the numbers are similar. So, Stage-2 also overstay is September it has further come down. So, these are all tentative number when I say for the month of October. Up to September number all available in the presentation. So, things are improving. As against June we have improved in September and October is also looking better than September.

In terms of disbursement, we have done better in October further over September as well as last year. In spite of there is a slight scarcity in supply and demand. A lot of manufacturers are expecting their production and their supply will improve in next two-to-three-month time. In spite of that we have seen our disbursement is going up further over September, in October and also last year, so this year our disbursement has been pretty good. ECGLS we have not done much disbursement, very negligible amount of, Rs. 25 crores of disbursement we have done in this quarter.

Arul Selvan: And the 19% will include around 7% of restructure book. It does not, it is in Stage-1 but it is not.

Rikin Shah: Just a follow up clarification on the asset quality. September collection efficiency number, I missed that number. And second, just wanted to get a sense on how the NPA levels are for our Home Equity and Home Loan business as well.

Ravindra Kundu: Yes, September, I mentioned that September cash flow against the bidding was 115%, in October it has been 116% now. And in terms of roll rate also, roll rate has come down from 2% to 1.6%. So, both the sides we have improved. In terms of our LAP, it has come down from 8.86% to 8.17%. And Home Loan also has come down from 4.29% to 4.09%, so marginal decreases, but that's the way the movement is happening, because people have started paying one installment. But they will start paying more once the festival season is over.

Moderator: Thank you. The next question is from the line of Praful Kumar from Dymon Asia. Please go ahead.

Praful Kumar: Vellayan, what we are picking up from the ground that you are doing some path breaking work on the digital side. So, can you please outline your vision not contours in terms we are building, is it more like a Shriram Mall Or like of any other product? What are the broad timelines you are looking at? Any pilots, have you done? Any update that you can share on the digital journey that you have been drawing for last few quarters now?

Vellayan Subbiah: Yes, I think so there are a couple of things right, first I always want to warn that kind of, it's a transformation and transformations take time, right. So, I don't think that we should build expectations, because its impact on kind of numbers in the near term is going to be fairly minimal.

Praful Kumar: Sure. No, I am talking about a three-to-five-year vision, just to understand --

Vellayan Subbiah: What we said is that we will develop around three ecosystems, right, the Vehicle Finance Ecosystem or the Vehicle Ecosystem was one. The SME Ecosystem was the second. And the Consumer Ecosystem is the third, right. And so broadly, what we have said is, either through -- . So, there are two parts to it, kind of one is how to get acquire customers for these ecosystems. Second is, what products to sell them, right. So, from selling products perspective, obviously, we need to introduce new products, which is what we are beginning to do, that we can offer to these customer sets, right, whether it's kind of consumer loans, whether it's small business loans, and as such.

So, we are developing products there, and individual product teams that are experienced within Chola, we are also building up kind of new teams, but led by people who we feel very comfortable with, and who are experienced, from Chola to head those teams, that's on being able to offer them products.

On the acquisition side, we have to acquire, see the auto ecosystem, we have an acquisition mechanism, through our existing loans. But on the other Consumer and SME, we will look at both partnerships and potential acquisitions by the company to basically look at how we can acquire customers into those ecosystems over time. So, that again, our partnerships are hopefully over. And these partnerships and acquisitions will happen, I would say over the next 12 to 18 months, to either look at acquiring customers for the SME ecosystem or acquiring customers for the consumer ecosystem. So, broadly, that's kind of the strategy and then, like I said, as it gets more defined over time, we will continue to discuss it with you.

Praful Kumar: Do we have an in-house tech team already, how long have been, you have been building this, just a small understanding on how deep entrenched is the product suite already in terms of the phase of development, Yes.

Vellayan Subbiah: So, there are two things right, yes, we do have an in-house tech team, but we recognize that we need to significantly strengthen there. So, we are looking at alternative mechanisms of strengthening. By the way, we split it into two teams, right, one is the Tech team, one is the Analytics team. We have just now gotten somebody to head Analytics who is fairly experienced in the space. And then basically, he is going to build out a stronger team under him. So, that's something that he joined us this quarter. And so, he is going to help build that out.

On the Tech side, honestly, we do have an in-house team that has been developing some of the new products. But our traditional approach has been to outsource most of the development. We recognize we need to change that. And so there again, we are looking at alternative approaches in terms of how to build up much more Tech. The big challenge obviously and right now that's happening in Tech is that most guys are in incredible demand, even startups are having a tough time keeping people. So, basically, we do recognize that we need to build up there. And I would still say that that's a work in progress. We don't have any good answers, yet.

Praful Kumar: Looking forward to this phase of Chola.

Vellayan Subbiah: Yes, definitely. Thank you.

Moderator: Thank you. The next question is from the line Prashant Sridhar from SBI Mutual Fund. Please go ahead.

Prashant Sridhar: Just three questions from my side. On the Vehicle Finance, in terms of capacity utilization of the underlying customers, how far you would say we are from the FY18 levels, before the CV cycle sort of went bad. On the LAP, I missed out, if you have given the restructuring and Stage-2 numbers. And lastly, the new RBI Securitization Guidelines of not including Direct Assignment Profits in capital, what kind of impact could that have on the capital adequacy calculations?

Ravindra Kundu: Yes, capacity utilization as I have been telling that there are five segments in terms of the heavy commercial vehicle. If you see the top of the pyramid there is Large Fleet Operators are there. Their capacity utilization have been good and then replacement demand, whatever number you are seeing is driven by them. But the Medium Fleet Operator and Small Road Transport Operator, in the Tier-1 town, they are still having a lower capacity utilization, that is the main reason, the replacement demand which is likely to come up is getting delayed.

However, in Tier-2, Tier-3 towns where we are operating our heavy commercial vehicle customers are there, where the utilization is more depending on the transportation of the agricultural goods or the sand and transportation of the bricks and all, those are doing well. So, the capacity utilization in Tier-2 for the Small Road Transport Operator has gone up to 80% to 85% level. And it is still lower than 2018 because 2017, 2018 was the peak capacity utilization, we went up to 100%.

So, we are expecting that the capacity utilization will start picking up when the mining activity, road construction and infrastructure development across the country will pick up. And we are expecting that that will start happening immediately in the next quarter. We are also expecting that the Kharif crops will start coming to the market in November end or December. So, with that also in Tier-2, Tier-3 towns the capacity utilization will further improve. So, now coming to the restructure, around 4.38%.

Suresh Kumar:

So, last restructuring we have done 4.38% of AUM gross.

Arul Selvan:

With regard to the final question on the RBI 2.1, we have not been doing DA for quite some time now. And even when we were doing the two years back, we used to net it off against the capital and follow the way the RBI and all this thing, as now suggested we have been already following it from the capital adequacy.

Moderator:

Thank you. The next question is from line of Manan Tijoriwala from ICICI Prudential Asset Management. Please go ahead.

Manan Tijoriwala:

What would be split of restructure loan and what is the total restructuring across 1.0 and 2.0? And what has been the increment in this quarter over the previous?

Vellayan Subbiah:

Yes, I think we gave you the 1.0, 2.0 split so the total book is Rs. 4,756 crores. 1.0 was 1.27% and 2.0 is 5.58%.

Manan Tijoriwala:

In this quarter it was 0.3% incremental, if I am not wrong.

Arul Selvan:

No, 5.28 is a total earned restructuring which is predominantly in the 1st Quarter, in the current quarter it has been around 1.2% increase in the, out of the 5.5%.

Manan Tijoriwala:

Any ECLGS this quarter and last year's ECLGS in restructure loans will be coming up for repayment now, so any pattern in these two segments in repayment and how would you rate them?

Arul Selvan:

Well, the ECLGS, 20% was the amount of ECLGS loan. The predominant part of the loans still is carried in our book and the overall Stage-2, Stage-3 movements, reflect the overall position. We don't try to give this as separate independent numbers.

So, we have a larger exposure as secured with the underlying security and that is a reflection under Stage-2 and Stage-3 numbers.

Ravindra Kundu:

But to portfolio the ECLGS is doing very well, there is no problem in that. Actually, we have to understand that the ECLGS customer has already the original EMI, which is suppose the customer's EMI is Rs. 20,000; on account of the ECLGS the customer EMI would be another Rs. 4000 which is now going to get due. But this customer is already paying Rs. 20,000 for last 12 months. So, there is no problem in there.

- Manan Tijoriwala:** Last question, what will be the provisioning carries, especially on the restructured loan?
- Arul Selvan:** Around 10% as the provision percentage.
- Moderator:** Thank you. The next question is from the line of Zhixuan from Point72 Asset Management. Please go ahead.
- Zhixuan:** Just a couple of quick questions. Firstly, on the OPEX front, is there any one of this quarter because the cost of income and also the absolute OPEX seem to grow quite a bit Q on Q. And also, how should we look at OPEX for the second half? Will it continue to grow from here or the overall cost of income will bother it down from this quarter onwards?
- Arul Selvan:** So, there is no one-off revenue in the income line. And with regard to the OPEX, if you recall, we told that in a current, in every year 2nd Quarter, there will be salary increments given. And also, when you are comparing it with last year, it may not look so because last year we did not give the increment in 2nd Quarter, we gave it in 4th Quarter. We spoke about it over in the discussions in the 4th Quarter review, in the salary, cost looked very inflated at that point in time. Same way, the balanced score board or what we have as a variable pay it flex with regard to the profitability of the company, because we need to provide a large part of the variable pay is linked to the profits of the company.
- So, this quarter, as compared to 1st Quarters, the profits are much higher. So, the provision with regard to the variable pay will also be proportionately higher. These are the two reasons. So, going forward, the salary cost will be around the same numbers as what we see today in the Q2.
- Zhixuan:** And on the credit cost front, how should we think about second half credit costs, because we saw credit cost jump quite sharply in this quarter. It is safer to think about this quarter as kind of runways for the second half or second half, you expect some increase from here.
- Arul Selvan:** In the second half we expected to trend at similar levels. But for any, worsening on account of COVID-3 related issues. If there are no relapses of COVID-3, we should trend at the similar level as Q2.
- Moderator:** Thank you. The next question is from the line of Abhijit Tibrewal from Motilal Oswal. Please go ahead.
- Abhijit Tibrewal:** One question for Ravi Sir. I mean I think you have answered my question in bits and parts in the prior question, but what I was trying to understand is how is the demand in both the new and the vehicle financing side looking right now. I asked this because I mean, if I look at disbursements in 3Q and 4Q, and now in 2Q of this fiscal year, I mean it has been around that Rs. 6,000 crores mark. So, I mean, is it primarily driven by, I mean supply side issues, if the demand is also weak because I am sure that I mean, you kind of alluded to that in the past as well, wherein we keep comparing the demand to 2017 and 2018 level. So, if you can just spend some time and give us some color on how you are looking at demand in the new and used vehicle?

Ravindra Kundu: So, see for the month of October, which is an indicator that now the growth is actually kind of holding good. I mentioned that we have done well in October and industry also have done well, in spite of there is a constraint in supply side. And supply would have been 20% higher than what has happened in October, for my various manufacturer put together. So, that number will come at a normal level in the month of say December or January that is what we are hearing from the manufacturer. In spite of that we have grown 25% disbursement in October over sequentially. And from here used vehicle demand is looking very good and as well as the new vehicle also lots of orders pending across all the dealerships.

So, if we don't encounter the COVID-3, then this growth journey will continue to happen. And as I mentioned that in the month of November or December we will get the Kharif crop back into the market and after that mining and agricultural activity will be normal. So, from there heavy commercial vehicle, from this Small Road Transport Operator also will start picking up. So, disbursement from the replacement cycle, demand from the HCV will go up, and other product like cars and MUV, two-wheeler, tractor will be also good. In this month itself, tractor disbursement has gone up to the highest level, during the financial year. And industry also did well for the month of October. So, future is looking bright, provided we don't encounter any other problem, otherwise the moment supply side because of the semiconductors and whatever number is down if that started improving them you will see industry will growing and our numbers also will go up across the segment and used and new both will do better.

Abhijit Tibrewal: And maybe one last question is for Arul Sir, I am not sure if you have shared this data points because my line is not very good today. Out of the total restructuring, how much is it across vehicle, LAP and home loans?

Arul Selvan: Yes, Rs. 4,200 crores in vehicle and Rs. 600 crores in LAP and Rs. 300 crores in HL.

Moderator: Thank you. The next question is from the line of Vivek Ramakrishnan from DSP Mutual Fund. Please go ahead.

Vivek Ramakrishnan: You always taken a lot of trouble to extend the various subsequent of Vehicle Finance. You were also showing some optimism and disbursements. So, I think the same optimism and collection efficiency, has it become more broad-based because last time you had mentioned that people associated with urban hubs are facing a lot of trouble.

Ravindra Kundu: Obviously. So, if disbursement goes up in the market where we are operating, obviously because of the economy doing well, collection will further improve. The customers are able to pay one EMI, but they are not able to pay two or three EMI to roll back their account from Stage-3 to Stage-2 and Stage-2 to Stage-1. In spite of that we have seen in the month of October, why I am saying again and again October up to September data is available with you. And October number also Stage-2 has come down and a Stage-3 also little bit has come down. So, that's the reason the trend is good.

And going forward if you see the mining activity, road and infrastructural activity improves, that will further enable the customers to pay two EMI because their capacity utilization will go up significantly. As of now they are able to manage the current month EMI and that's the reason I mentioned that at Stage-1 collection efficiency has been 98.25%. And this can go up to 99% to 99.5%. It is the billing our cash flow is 115%, which is going to go further.

Moderator: Thank you. The next question is from line of Shubhranshu Mishra from Systematix Group. Please go ahead.

Shubhranshu Mishra: Couple of questions. If you can explain the client segmentation in Vehicle Finance, how many customers are dependent on cash crops versus rain trade crops versus mining, infrastructure activities, if you can differentiate that client segmentation in the Vehicle Finance?

And LAP and SMEs apart from the property that has been given to us, what are the kinds of properties or the amount of properties that the customers will have? That the second question.

And you mentioned any kind of write-backs are write-off for the quarter, that's the data keeping question. I want to know any write-backs or write-offs or if you could mentioned both of them.

Vellayan Subbiah So, the first question, we don't have that kind of data in terms of, how many customers. We don't give like when it comes to rain fed crops and all of that kind of stuff. We don't share that kind of data.

Arul Selvan: Yes, we will give, we don't share this data for the first. Rs. 145 crores is the loan losses on account of repo sales during the current quarter. This is the repo sale losses.

Shubhranshu Mishra: Any write-back, sir?

Arul Selvan: The recovery was Rs. 10 crores out of the bad debts. And these numbers which I gave you are after adjusting.

Moderator: Thank you. The next question is from Saurabh Dhole from Trivantage Capital. Please go ahead.

Saurabh Dhole: Couple of questions from my end. The first versions on the coverage ratios. So, if I look at the pre-COVID coverage issues, you were somewhere in the mid-40s. But right now, you are well below 40. So, could we have utilized a strong PPOP performance during the quarter, to kind of raise this coverage ratio and trend towards the mid-40s level?

Arul Selvan: It is pre-COVID, it is not 40's level, a pre-COVID was in the range of around 34% to 35% is the provision coverage. During COVID it went up to 40% plus because of the management overlay, which we created consciously for the COVID. So, we are back to partially around that levels of the pre-COVID levels, because I mean we have used to the Rs. 400 crores last quarter for the COVID-2. The balance we are still carrying Rs. 700 crores. As we had indicated even in the

earlier calls, part of the Rs. 700 crore, we will retain on a continuous basis, but some of it will get either adjusted towards losses arising out of the COVID book or will get reversed.

So, at a very broad level we should be carrying anywhere between Rs. 250 crores to Rs. 300 crores out of that Rs. 700 crores, balance will be utilized or reversed. But that will be done after we are clear there is no COVID-3 coming in.

Saurabh Dhole: But given that the Stage-2 assets are still elevated, do you think that the coverage ratios have to be raised as we go forward? Or do you think the mid-30s level is something that is you are fine with?

Arul Selvan: Stage-2 levels are looking elevated because the restructured book is part of Stage-2. So, if you remove the restructured book consciously we have kept that, we will be tracking the restructured book and as it moves up, we will create additional provisions for that, when it goes to Stage-3. If it moves back even in the current Rs. 700 crores, around Rs. 140 crores are assets which have been moved back to Stage-1, but we still carry it because there can be a possible COVID-3 etc. So, we are conscious about it and we are conservative about it.

Saurabh Dhole: The second question is on the Used CV part of the business. I think, Ravindra Sir was talking about how the outlook is pretty strong. But I fail to understand why the growth this quarter was so low, because when I compare it with the largest player in the segment, despite a very large base, they have grown very sharply during the quarter. So, any thoughts there?

Arul Selvan: It is also because of the base effect. Last year, in spite of COVID, we grew while many of the others did not grow. And that's where the growth in disbursement seems to be higher. But if you look at Used CVs, we have grown from normally around 24%, we have done around 27%.

Ravindra Kundu: We have grown to 27% and you are comparing with the industry, but industry data, authentic data is not available. What we can say that when we compare with the leading finance companies, our growth rates are almost with the top player is same, and the player who are actually below us there our growth rates have been higher than that. And in this quarter, for the July, August, September quarter, we were also focused more on collection. And when our collection efficiency and everything has come to the normal level up to March, then it is better to actually start driving the disbursement, which is going to be the strategy for the next coming quarter.

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

Bunty Chawla: As we have seen in the data front you have shared the vehicle financing; net interest margin and it seems to be one of the highest margin after reporting the numbers through Indus. So, it seems to be 8.6%. So, how we should see this number going forward with respect to two constituents, one as we see that in GSec yields are moving up so it's a chances that cost of funds might move

further going forward. And secondly, with the vehicle sales, it seems to be the passenger vehicle could get impacted through the chip, but CV cycle is turning very well. So, second half there are chances that CV disbursement much higher, which could result in lower yields. So, how one should see this net interest margin going forward?

Arul Selvan: Yes, we have always said that because we have a very wide portfolio where the yields are very different, from as low as 9.5% to 10% to 18%. The tracking of NIM alone may not be the right thing because it will change with the product mix. And of course, as you rightly pointed out, there can also be a cost of funding fee. But in relationship to the yield movement, OPEX and net credit losses will move. So, it's better to track in our case, the ROTA, which balances out the differences in the NIM and the OPEX and the NCI.

Moderator: Thank you. The next question is from Shreepal Doshi from Equirus. Please go ahead.

Shreepal Doshi: Just want to understand what is the nature of restructuring that we have done for each of the segments like what tenure extension or moratorium that we would have given to the customers for each of the segment?

Arul Selvan: Bulk of the restructuring is like a one-month moratorium and then a reduction in load of the EMI, to take care that they are able to pay. We have not given large amount of moratoriums. I would say around 50% to 60% would be one month moratorium. And then maybe another 20% would be like a two-month moratorium. And another 20% will be three-month moratorium. Beyond three months there are hardly any cases. So, that's the way we have done it. But like we have tried to make the EMI lighter by taking advantage of spreading it over the 24 months that has been given, which would be the max extension that is possible for any given customer. Does that answer your question?

Shreepal Doshi: Yes. Second question was, with respect to what would be the segment wise Stage-3 number, if you can give, like for VF or Home Loan and for LAP?

Arul Selvan: 5.73 for Vehicle Finance, 8.17 for Loans Against Property and 4.2 for HL.

Shreepal Doshi: One last question was with respect to OPEX. So, in the other OPEX also, we have seen very strong jump on consequential on year-on-year basis. So, what could explain that and this is the new run rate that we should work with?

Arul Selvan: When there is an increase in activity with regard to disbursements etc. there will also be corresponding increase in other OPEX. And we are also strengthening our IT side and there are other expenses that we are taking care of in the, build up towards the upcoming demand. So, those will be there. So, as we have said, at overall annual level, around 2.5 levels would be the numbers you should look at.

Moderator: Thank you. The next question is from the line of Kunal Shah from ICICI Securities. Please go ahead.

Kunal Shah: Last time you have highlighted that almost 80% to 85% of the customers in Stage-2, they were generally paying like the full dues, and some overdue as well. But in terms of the rollbacks, from Stage-2 to Stage-1, that has not been much. So, how should we read this, maybe when do we expect it to stabilize to the levels wherein we were earlier? And are we seeing that customers are now trying to meet up now more over dues more than a month or a couple of months over dues that it can be rolled back?

Ravindra Kundu: So, Stage-2 has come down, but Stage-2, there are two part in the Stage-2, one is a Normal Stage-2 and a Restructured Stage-2. So, that Restructured Stage-2, although customers are non-diligent, we have actually showed them in the Stage-2, because we have provided, creating the provision equal to Stage-2. So, the Normal Stage-2 is cutting down. And that has come down over June to September and the trend is good even in this current month also.

Kunal Shah: In terms of normalizing, it to the levels earlier, how long would it take?

Ravindra Kundu: If you see that with Stage-2, pre-COVID level was different and during the COVID was different. During the COVID, when moratorium given, customer did not have anything to pay and we were continuously collecting the arrears and we were reversing all the Stage-2, so in the month of August and September, we have seen the Stage-2 came down significantly lower level. So, that level may not come, but we will definitely come to the level where it was in FY'19, '20 and that means one year before. So, that should be the target.

Kunal Shah: And one last thing in terms of capacity utilizations you highlighted, but when we look at it in terms of the freight rates, and the diesel prices how are you seeing the moment across various segments of CV is it being passed on adequately across the Board and there is not too much of a pressure on the cash flows of the operator? How are you seeing the ground level impact?

Ravindra Kundu: Freights are going up, but it is, there is a land between the freight going up and diesel prices going up. Diesel prices are rapidly going up, so there is a problem as of now. That's the reason I mentioned that the people who are actually operating the vehicles, especially the Small Road Transport Operator in Tier-1 town. They are, and it is also pertaining to the long-haul operation, are under pressure. And that's the reason in spite of having 85% capacity utilization, they are not able to pay two EMI, they are able to serve only one EMI and that's the reason Stage-3 is not coming down. And going forward, when other activity will go up, then the capacity utilization will go up to 100% and then in spite of diesel prices going up, freight rates will continue to go up to cover up their income so that they can start paying more than one EMI.

Moderator: Thank you. The next question is from the line of Rahul from Lucky Investment Managers. Please go ahead.

Rahul: I just wanted to confirm the second part where you have you given a guidance on the provision that you see as, this quarter was very low at 0.3%, do guide for a similar number going ahead or should we look at a slightly higher number?

Vellayan Subbiah: We don't want to guide specifically, but obviously kind of this number was very low kind of because of what happened in the 1st Quarter. So, I think expecting it to stay at these levels is unlikely.

Arul Selvan: Say, over a period we have told it will be in the range of anywhere between 0.8% to 1.2%, 1.25% that would be a long range of numbers, you should look at it that way.

Rahul: And the cost to asset, you basically said expecting it at an annual run rate of about 2.5%, correct?

Arul Selvan: Yes.

Moderator: Thank you. The next question is from the line of Nidhesh Jain from Investec. Please go ahead.

Nidhesh Jain: Two question, one is, can you share the slippage from the OTR1 pool whatever slippage or whatever restructuring we have done in the OTR1? And second, if you think about from a longer term perspective, do you see the vehicle industry will remain, the structure of the vehicle industry will remain the same as it is today where large part of vehicles industry unorganized, very Small Road Transport Operators for over a period of time you see the share of large fleet operators to increase in the industry, and how do we plan to, what are your views on that and how do we plan to play, to change our business model, if it we believe that vehicle industry will move towards large fleet operators over a period of time?

Arul Selvan: We do not want to break and give these numbers, like restructuring one movement, restructuring two movements like that. We would want what is publicly available, being shared as a business wise numbers we have given, stage wise numbers we have given, I think we will restrict at that. Actually, we are giving beyond what many others are giving. So, I would request the demand for such information be restricted.

Ravi Kundu: The question what you are asking is actually the large fleet operators, medium fleet operators, RTOs, market load operators, is actually predominantly for the heavy commercial vehicle. For the light and small commercial vehicles, mostly the customers are the Small Road Transport Operator, very small amount of the customers are in large fleet operator. And if you see the TIV of the entire vehicle, commercial vehicle, which is a small commercial vehicle, light commercial vehicle and heavy commercial vehicle, close to 30% goes to heavy commercial vehicle, so that is 30% to 40%. Rest is basically the small and light.

So, within the heavy commercial vehicles, this is what you are talking about. Whereas the large fleet operator is driving the growth as of now because as I mentioned that they are able to get the load from the load provider depending on the market. And market loads are depending on the consumption and small activities which is happening, like construction, mining and other things. And that is likely to go up only in Q3.

And so therefore coming to the point that if you are asking that heavy commercial vehicle will move from small SRTOs to the large fleet operator more, slightly it has gone up in the recent times, but it will come to the normal as and when the haulage start selling to the SRTOs.

Moderator: Thank you. The next question is from the line of Kushan Parikh from HSBC Securities. Please go ahead.

Kushan Parikh: My question is on the operating front. Basically, just wanted some further color on this, if you could sort of breakup and let us know how much these incremental salary cost is coming from the increments that we have made. And how much would be from the variable portion of it due to the higher business activity. And also, on the digital spend front if you could sort of give us some guidance as to how these spends are ramping up and like how much spending are we expecting to do on an annual basis, on the digital front.

Arul Selvan: So, on the salary cost, the increments constitute around Rs. 20 crores to Rs. 22 crores and variable cost provisioning will constitute around Rs. 40 crores to Rs. 45 crores. And then there have been some new additions as Mr. Vellayan was talking we have added a few new positions etc. so those cost have got added. Broadly this is the number and then there is some amount of variable paid to the ground staff, because they have also improved the efficiencies during the current quarter with regard to collections as well as the disbursement. So, that would be their numbers.

Kushan Parikh: And sir, on the digital spent.

Vellayan Subbiah: Digital spent, I don't think we have increased that significantly yet right. So, if we do obviously start moving on that front then we will let you know. Like I said when it's a work in progress about how we are approaching it, so there has been nothing to increase in the spend, right now.

Arul Selvan: But it will be more OPEX than CAPEX that's for sure.

Moderator: Thank you. The next question is from the line of Chandrasekhar Sridhar from Fidelity International. Please go ahead.

Chandrasekhar Sridhar: Just wanted some color on the fee business this quarter, it seems that you used to do about 4% to 5% fee to total income which moved to about 7%. So, maybe just some color on that and what's driving this. And then just on the Home Equity business, there has been a gradual NIM expansion overtime you are now heading at close to about 4.8% NIM, just some color again on what's driving that?

Vellayan Subbiah: NIM expansion is primarily the cost of reduction and some amount of yield income also is reflecting over there.

Chandrasekhar Sridhar: Are you also doing maybe different customers now versus what you did earlier and able to get better gain --?

Arul Selvan: We are moving progressively into some amount of Tier-2 cities, so that would also give us a slightly better yield.

Chandrasekhar Sridhar: And then just on the free income because it seems have moved up pretty meaningfully, is that something specific which we need to note over there?

Arul Selvan: See that relates more with regard to the disbursement, etc. so you know actually what has happened is over the last few quarters are not being comparable at all, and so it is becoming a bit of, it looks like there is the spurt, but that's not the case.

Moderator: Thank you. The next question is from the line of Aditya Jain from Citi Group. Please go ahead.

Aditya Jain: Could you talk about the, as you mentioned you have classified a decent portion of restructured loans like Stage-2 despite they are paying. Could you talk about the policies for upgrade. So, what kind of performance could you look for? And how are they tracking again that performance now? And then secondly, on the LAP disbursements have been quite strong. And so, what is driving that? And on the tractor, QoQ we have seen a reasonable decline in disbursements, so what is that variable prima facie seems more than normal, those are my question.

Arul Selvan: Okay, see bulk of the Stage-2 is already in Stage-1 only but we have grouped them under Stage-2, so there is nothing, to make it better from where it is today. What will happen is as per RBI guidelines almost like 20% of the outstanding cost needs to be collected before we could reverse the provision. We are right now wanting to follow the same mechanism to look at the reversal, I mean the movement from Stage-2 to Stage-1 as we go along. So, that's on the Stage-2 to Stage-1 part. With regard to the tractor, I think that's more seasonal.

Ravi Kundu: Yes, so for tractor, last quarter, which is Q2, the industry was again, you know building the inventory for the festival season, October, November, December. And we have seen that October has been good for the industry. October, in this current month, last month, industry sold one lakh unit of truck, in long time. So, therefore the disbursement is aligned with the industry number, our disbursement is also in a similar pace only. We haven't lost market shares and it is actually remaining very strong, same level.

Moderator: Thank you. The next question is from the line of Shweta Daptardar from Prabhudas Lilladher. Please go ahead.

Shweta Daptardar: Repo loss are also being included in ECL evaluation besides normalize clauses, if you could throw light more there and also what has been the repossession scenario because one of your key peer has been seen meaningful uptake in repossession, what's your view out there on the ground?

Ravindra Kundu: Well, if you see that H1 number in terms of the repo sales, it remains flat. Q1, last year repo sale was the higher and Q2 was lower. This year, Q1 is lower and Q2 was higher, but if you add both

the number, they are coming to the same level. So, therefore repossessions are at the same, in terms of the repo to the overall asset is at the percentage of that on YTD basis is the same level.

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

Piran Engineer: I just have a couple of clarifications, in Vehicle Finance, last quarter, our restructured book was Rs. 2,250 crores and it's gone up to Rs. 4,200 crores, are my numbers correct?

And the next one is also on when Kundu Sir, mentioned about the role forward rates, he mentioned that rate was 2% in September and it has declined about 1.75% in October. But if I recall, last quarter in July all you have mentioned it was 1.5% so is it a seasonal thing that in September, October it increases or is there anything more to read into it?

Ravindra Kundu: Yes, correct, you are right. So, in the month of July it was 1.45%, in August 1.6%, in September because of the floods across the country and heavy rain it went up to 2% then again it has come down to 1.76%. So, for the quarter if you see that it is around 1.6% for the last quarter. And this month is actually again you can come back to the beginning itself is a very good, 1.76%.

Arul Selvan: Piran, it has been an increase of Rs. 900 crores in this quarter.

Moderator: Thank you. The next question is from the line of Harshvardhan Agarwal from IDFC Asset Management. Please go ahead.

Harshvardhan Agarwal: Just wanted to understand you said that restructured book is at Rs. 4,750 crores, but the breakup that you gave when I add that up the number comes to around Rs. 5,300 crores. So, just how do I reconcile the difference here.

Vellayan Subbiah: You are talking about overall Chola or Vehicle Finance?

Harshvardhan Agarwal: Overall Chola, the restructured what you mentioned?

Arul Selvan: Rs. 4,200 crores is Vehicle Finance, Rs. 600 crores is LAP and then Rs. 300 crores is Home Loan.

Harshvardhan Agarwal: If I want to add this number that you just shared, it is Rs. 5,300 crores but in the press release, the restructured book is at Rs. 4,750 crores.

Arul Selvan: That would be restructured book but then something would have also been paid back, run off would have happened, those are the numbers. That is, see the press release, RBI wants disclosure on what had been restructured. So, there is a various points in time, at the time of restructuring what is the book is the total of that.

Harshvardhan Agarwal: So, this repayments mostly would have come from the vehicle finance book, is that understanding correct?

Arul Selvan: It can be anything, I mean I can't point out. Predominantly, yes but it need not, I mean we can't say, I was not able to immediately draw conclusion.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I will now hand the conference over to Mr. Nischint Chawathe for closing comments.

Nischint Chawathe: Joining us today and thanks a lot to the management for giving us an opportunity to host the call. Happy Diwali to everybody. Thank you.

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