



“Cholamandalam Investment and Finance Company
Limited Q2 FY21 Results Conference Call”

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

Moderator: Ladies and gentlemen, good day and welcome to the Cholamandalam Investment & Finance Company Limited Q2 FY21 Earnings Conference Call hosted by Kotak Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nischint Chawathe from Kotak Securities Limited. Thank you, and over to you, sir.

Nischint Chawathe: Hello everyone. Welcome to earnings conference call of Cholamandalam Investment and Finance Company Limited. To discuss the 2Q FY21 performance of Chola and share industry and business updates, we have with us today Mr. Arun Alagappan – Managing Director, Mr. Arul Selvan – Executive Vice President and CFO, Mr. Ravindra Kundu – Executive Director, Mr. Shaji Varghese - President (Housing Finance) and Mr. Suresh Kumar S – Senior Vice President and Business Head (LAP & SME). I would now like to hand over the call to Arun for his opening comments.

Arun Alagappan: Thank you. A very good morning to everyone. I take pleasure in presenting to you the Q2 performance of the company for the financial year FY21.

At the beginning of the financial year FY21, the moratorium and a generic slowdown in economic activity post COVID-19 were causes of uncertainties in the banking sector. As you might recollect, Chola had outlined the broad strokes of its strategies to mitigate risks from these uncertainties when we last met. The quarter gone by, Q1 FY21 was one where the company needed to walk the talk and implement the near-term strategies that were laid out in the beginning of the year. I am happy to convey that we have successfully managed to do so, during the quarter gone by.

One of the imperatives as we ended Q2 was to have a high focus on collection efforts. While the broader economy is still recovering, we have witnessed a better than expected collections in Q2 FY21 with the trend seeming to be on a positive trajectory during the current month as well. In Q3, we expect to reach pre-COVID field collection numbers. We have seen a significant uptick in disbursements as well over the past couple of months despite being very prudent on the credit quality front. The pent-up demand and the festive season, economic activities are expected to help sustain and further improve the prospects in the coming months for Vehicle Finance, LAP and Home Loan businesses. Sustaining the benefits of cost reduction efforts initiated in Q1 and a favorable cost of borrowing has helped in improving the company's overall profitability as well.

On the provisioning front, we have maintained a 1:1 ratio on the normal versus COVID provisions on the books as of September 20, in line with best practices and continuing with the strategy to be abundantly cautious.

On the company's Q2 & H1 FY21 performances, key items from the company's financial performance in the quarter and financial year after is as follows. Profit after tax was at Rs. 432 crores for the Q2 FY21 as against 307 crores in Q2 FY20, registering a growth of 41%. PAT for H1 FY21 was at Rs. 863 crores as against Rs. 621 crores in H1 FY20, registering a growth of 39%. Interest income was at Rs. 2,319 crores for Q2 FY21 as against Rs. 2,009 crores for Q2 FY20, registering a growth of 15%.

Ratio of cost of funds to average assets saw a reduction as well and was at 6.9% for Q2 FY21 as against 7.7% in Q2 FY20. Overall, NIM improved from 6.7% in Q2 of FY20 to 7.3% in Q2 of FY21. Thanks to the several cost reduction measures undertaken post the COVID impact. The company was able to improve the efficiencies and as a result has reduced its operating expenses to average asset ratio to 2.06% for Q2 FY21 against last quarter 2.16% in Q1 FY21. PBT ROA for Q2 FY21 was at 3.4% and for the half year, it was at 3.5% as against 3.4% in the half year of FY20. ROE for the half H1 FY21 was at 20% as against 19.2% in H1 FY20.

Aggregate disbursements in Q2 FY21 were at Rs. 6,457 crores as against Rs. 7,381 crores in Q2 FY20, which is a decline of 13%. Disbursements in H1 FY21 were at Rs. 10,046 crores as against 15,954 crores in H1 FY20 registering a decline of 37% year-on-year. The drop was primarily due to the lockdown on account of COVID-19.

Assets under management grew by 16% year-on-year to Rs. 74,471 crores at the end of Q2 FY21 as compared to Rs. 64,409 crores in Q2 FY20. Asset quality as on September 20 for Stage-3 assets has stood at 2.75% with adequate provision coverage at 42.65% as against 3.18% in H1 of FY20 with the provision coverage ratio of 34.43%. Stage-3 assets have improved from 3.8% in March 20 to 2.75% in September 20. Apart from the provision coverage mentioned above, additional provision of Rs. 585 crores created towards Stage-1 and Stage-2 to cover any contingencies arising out of the COVID-19 pandemic fallout has been done. Total provision currently carried against the overall book is 2.64% against the normal pre COVID level of 1.75%.

The honorable Supreme Court has directed that the accounts which were not in NPA as of 31st August 2020 shall not be declared as NPA till further orders. Accordingly, the company has not classified any new accounts as NPA after 31st August 2020. However, if the company had classified new accounts as NPA, then the gross Stage-3 and net Stage-3 would have been 2.98% and 1.7% respectively. Pursuant to the moratorium getting over in August 20, the company has over 95% of the moratorium customers started repaying their installments till date.

Coming to Vehicle Finance, following are the key pointers from the performance of Vehicle Finance business in Q2 FY21:

The assets under management of our Vehicle Finance business grew by 12% to Rs. 49,264 crores in Q2 FY21 compared to Rs. 43,901 crores in Q2 FY20. Vehicle Finance business has clocked a volume of Rs. 4,781 crores for Q2 FY21 as against Rs. 5,796 crores in Q2 FY20.

Disbursements in H1 FY21 were at Rs. 8,012 crores as against Rs. 12,736 crores in H1 FY20 reporting a decline of 37% year-on-year. The Vehicle Finance PBT was at Rs. 359 crores in Q2 FY21 as against Rs. 318 crores in Q2 FY20, registering a growth of 13%. PBT in H1 FY21 was at Rs. 798 crores as against Rs. 637 crores in the previous year, registering a growth of 25%.

On the loan against property business, AUM for the LAP business managed to grow by 10% year-on-year from 12,612 crores in Q2 FY20 to Rs. 13,866 crores in Q2 FY21. Disbursements in Q2 FY20 was at Rs. 1,052 crores as against 1,064 crores in Q2 FY20. The disbursements in H1 FY21 were at Rs. 1,171 crores as against Rs. 2,165 crores in H1 FY20, registering a decline of 46% year-on-year. The LAP PBT was at Rs. 65 crores in Q1 FY21 as against Rs. 88 crores in Q1 FY20, registering a decline of 26%. PBT in H1 FY21 was at Rs. 152 crores as against Rs. 172 crores in H1 FY20, which is a decline of 12%. Decline is purely due to additional provision created of Rs. 10 crores and Rs. 31 crores in Q1 and Q2 of FY21 respectively, which otherwise would be 9% growth and 12% growth over Q2 and H1 in previous year.

Moving onto the Home Loans business:

The AUM for the Home Loans business managed to grow by 40% year-on-year from Rs. 2,591 crores in Q2 FY20 to Rs. 3,630 crores in Q2 FY21. Disbursements for Q2 FY21 were at 381 crores against 414 crores in Q2 FY20. The disbursements in H1 FY21 were at Rs. 571 crores as against Rs. 834 crores in H1 FY20, registering a decline of 32% year-on-year. The PBT was at Rs. 29 crores in Q2 FY21 as against Rs. 20 crores in Q2 FY20, registering a growth of 47%. PBT in H1 FY21 was at Rs. 57 crores as against 32 crores in H1 FY20, registering a growth of 76%.

The capital adequacy ratio of the company as on 30th September 2020 was at 19.5% as against the regulatory requirement of 15%. On the liquidity position, the company continues to hold the strong liquidity position with Rs. 6,802 crores as cash balance as of September 20 with a total liquidity position of Rs. 9,797 crores including undrawn sanction lines. The ALM is comfortable with no negative cumulative mismatches across all time buckets.

I would like to thank you all for listening patiently. My colleagues and I would now be happy to answer your queries.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Darpin Shah from HDFC Securities. Please go ahead.

Darpin Shah: So, my first question is how should we look at restructuring now because only 5% of the borrowers have not paid any EMI. So, any guidance or expectations from your side how should we look at the restructuring both in the Vehicle Finance and the LAP portfolio?

Arul Selvan: So, restructuring will be done in a very minimal way. What we are looking at is as against moratorium, restructuring will be given to customers who have a longer issue of rebounding in

their cash flows. So, for example, bus operators or school bus operators or employee bus operators and such similar category of customers only will be considered for restructuring. Right now, we have identified less than 1% of the portfolio to be restructured. However, we will still be evaluating. There may be a slightly higher requirements in the LAP portfolio where MSME customers have still longer impact of their cash flows because of restricted hours of operations etc. So, in our view, overall, it won't be going beyond 5% of the overall book, the restructurers.

Darpin Shah: So, overall, 5% and this 1% which you mentioned was largely towards vehicle financing?

Arul Selvan: Yes. And as of today, it is less than 1%, but we may entertain some customers who may come up and then we are also reevaluating the requirements. I am telling the outer limit at the 5%, but certainly we would not be even going there.

Darpin Shah: And secondly on provisioning that now that our coverage ratios are relatively much healthier. We have created additional provisioning of 800 crores as well. So, do we expect normalizing provisioning from next quarter onwards or will continue to make additional provisions to cushion the balance sheet over the longer run?

Arul Selvan: The view we are taking is next quarter, we will be little early to take a call about reversing the provision, but by end of March or in the coming year, certainly we will relook at carrying the COVID related provision, but most part of the macro provision we may carry because we will like to have some cushion buildup. So, there are two parts. The management overlay part we may carry continuously.

Darpin Shah: I was asking will you further increase the macro related provisioning or?

Arul Selvan: No, that would be dependent on the need. I do not think at this juncture we can say about that.

Moderator: Thank you. The next question is from the line of Dhaval Gada from DSP Investment Managers. Please go ahead.

Dhaval Gada: I had three questions. First is if you could comment a little bit around the potential increase that you see in the stage 2 assets through the third quarter and broadly, what kind of number should we expecting in this bucket given the fact that we have the last 10 days of collection in vehicle financing is much higher. So, maybe the stage 2 clarity will emerge this week, next week. So, just some comments as to what kind of number should we prepare? So, that is the first question. The second question is related to market share in the vehicle finance business. Could you comment a little bit around how market share would have moved in the first half of the year across major products and the sustainability and the momentum, how do you see that going into the next second half as well as the next year? The third question is related to provisioning. So, you followed the template which you given us since March and you have been consistently following that, do you based on the current collection data that you are seeing and I am saying including October, do you see a need to make any additional provisioning overlay or any other

additional provisioning or based on where the template is today and the answer that is coming from the template, you are broadly okay. So, those are the three questions. Thanks.

Arul Selvan:

I will answer the last question and I will give Ravi to answer the market share. Maybe I will also touch upon the first question on the stage 2. Frankly, what will happen is end of Q3, even if something moves into stage-2, it already would move to stage 3 out of the moratorium pending. So, I think it will be only a temporary sales because in the 3 months, it will cross over into the stage 3 something is continuing to be on the default. On the last question, as of September, yes, this provision is more than adequate in our view. We have conservatively built it. As we move on, we will see whether we have to reverse it, or we need to provide it in case if there are some higher levels of lockdowns and relapses etc. But for that circumstances, I do not see this provision being a need to enhance this further. Ravi, can you respond on the market share please?

Ravindra Kundu:

Sure. As far as the market share is concerned, as I mentioned that in the past also some of the products which we are not focusing more and that is the reason deliberate call has been taken especially in the big ticket size of heavy commercial vehicle, ICV and in big ticket size of construction equipment. So, there, we lost our market share deliberately. But at an overall level, if you see that commercial vehicle, we are actually slightly better than the last year and we would like to continue to do this with the help of the product mix and also would like to mix the customer segment and also the geography. And therefore, we are confident that the market share what we are at this point in time and also at the last year time, almost at the same level. It has not gone up significantly and the other product line like two-wheeler, three-wheeler, we are slowly improving every year and that journey is on and we do it like that only. We do not increase our market share significantly in one-year time and it is a continuous process. So, there also we have maintained. So, as of now, our market share for each and every product line, the commercial vehicle, passenger vehicle or two-wheeler or three-wheeler is at almost same level, slightly higher than the last year and we will continue to do so.

Dhaval Gada:

Understood sir. And just one data-keeping question. If you could provide the loans from the first half disbursement for Vehicle Finance as well as Home Equity, what would be the disbursement to existing customers, if you could provide that data that would be useful.

Ravindra Kundu:

See, first half disbursement to the existing customer has gone down significantly because the 75%-76% customers have taken the moratorium. However, in the LAP business, after the introduction of GECL, we have given some GECL, those if you consider that, then little bit disbursement has been done to the existing customers on account of the GECL. Otherwise, the normal trend of the financing to existing customer, our overall disbursement to the extent of 25%-30% used to be coming from the existing customers has come down during the first half because the number of customers were in the moratorium and we have not given that. However, that data if you consider GECL, only for the month of September is slightly improved.

Moderator:

Thank you. The next question is from the line of Chirag Sureka from DSP Mutual Fund. Please go ahead.

Chirag Sureka: My questions have to do with the Home Loan business. In particular, you have highlighted both risks that you have made additional provisions and risks. On the other hand, you are saying business transfers that also happened. How do you see this business going forward given the fact that you are in tier 2, tier 3 cities where the income streams may not be as stable in terms of salaried versus self-employed mix. So, if you could give a little more flavor on your Home Loan business that will be useful.

Shaji Varghese: This is Shaji Varghese here. Since we identified for home loan semi-formal single group spread across two three as you rightly said. The customers whom we serve today are more those who are into retail in consumption led businesses which is less impacted because of the largest trend it may have happened in various sectors. The type of transactions we are predominantly focusing are self-construction and induce-driven and also ready property. So, we are expecting a reasonable demand to continue this space because even while there is an uncertainty, many of the family in that feeling of that security, they will always look at how this an important vector. We are expecting a decent demand continued and to be a little better than the past. We have now reached out almost 9 states in 167 branches. We have an internal capacity of around 200 crores to reach in a month. Currently, the peak we have reached is only around 130-140 crores. We are hoping between Q3 and Q4 somewhere we should reach out to this capacity.

Chirag Sureka: Just one follow-up question. Given the fact that you have banks that are very aggressive on home loans especially for public sector banks. Do you expect business transfer of good customers to happen and leaving you with some amount of adverse selection or you do not see that trend at all?

Shaji Varghese: See, the balance transfer is part and parcel of this trade because in a floating rate, there is no exit barrier. That is where the ability to serve the certain segments and also to understand well in advance the customer is looking for a balance transfer. We have internally set out the retention team at the country office where at the stage where our any of our existing customers when they look out for a transfer in early stage even while a Credit Bureau figure is triggered, we are able to reach out to them quickly and engage with them. And even if there is a bit of pricing consideration to be done, we are able to retain. So, to that extent, we are hoping we should be able to manage the attrition. When it comes to whether we will have to go down in the segment quality, we do not think So, because the segment which we serve averages around 15 lakhs of loan with a reasonably good equity. Even if there is a competition from the bank which is always there, we are hoping that we should be able to kind of get the numbers to the capacity we have built. So, we do not expect the current competition should impact to us because the segment which these banks serve, and we serve is slightly different. So, to get our volume, there is no reason for us to go towards segment below where we currently serve. And the average ticket size currently we serve around 14 lakhs with an LTV of around 60%, predominantly in the end-use driven market. So, there will be large opportunity in such a large market in India. So, we do not expect this will hit our volume at this point in time. Both in terms of attrition, there will be, but we will be able to contain it. We are aware of it. We have the needful capacity built for that and we should be able to kind of continue with our volume.

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

Kunal Shah: Firstly in terms of the margin, So, what are the vectors that have moved up margins significantly and is it anything in terms of this spreads on this securitized portfolio which would have helped in terms of margins and was this margin expansion the reason to create some further buffer because last time we clearly highlighted that there is not much of a need and trends have been better than what we have been expecting. So, then what was the reason to create the buffer actually?

Arul Selvan: See, the margin movement is because of the change in the product mix. As you know, we have been progressively moving into higher yielding products over the few quarters and the burden of the heavy commercial vehicle which was larger part of our portfolio has been also running down. So, this has resulted in an improvement in the margins. Also, the fact that in an absolute value because of the moratorium, the book has not run down, So, disbursement has been lower. Our asset growth is on the range of around 16% primarily because much of the asset has not run off. So, this is the reason why the income is more and of course the margin is also higher. The reason why we did is actually we took the feedback from all of you that you are all worried whether our provision is adequate and So, we create that additional provision. Yes, we see that the provisioning is more than adequate from our angle as a conservative measure and taking the views of many of the participants, we said okay, we will create some more additional provisions. It is not because I have more interest income, I create provision our profits do not fluctuate like that.

Kunal Shah: So, in terms of the margin sustainability, how sustainable would this be once we see the collections now? Collections are already 95, So, how should we see the sustainability of margins? And maybe on the off-balance sheet, was there any other income which would have boosted margins during the quarter or there was no element at all of the off balance sheet?

Arul Selvan: No, there are no off balance sheet items as you can see, we did not do any assignment or any other deals within the current quarter. Of course, there is one small benefit that accrues on the whole assignment cases because of the MCLR movement, whatever you would have that time you will get a small bump up because of the change in MCLR only for those deals where the MCLR has changed, but I do not think that...

Kunal Shah: But was that high in terms of the number? This change in MCLR spreads....

Arul Selvan: I do not have the number right now, but I do not think that will be a big game changer.

Kunal Shah: Maybe in terms of the 200 crores delta that is not bigger one within that.

Moderator: Thank you. The next question is from the line of Roshan Chutkey from ICICI Prudential Mutual Fund. Please go ahead.

Roshan Chutkey: If you can talk a little bit about how the collection efficiency trends are shaping up in the month of October particularly only one EMI paying set of customers.

Ravindra Kundu: No, see collection efficiency against the billing was 87% in September which is actually lower than normal collection efficiency of 100-105% we do it like last year September, we did 108 which has come down to 87%. However, in the month of October, we are expecting that this will go up to 105% again. And only one month, it actually had taken this level that is because most of the billing in our case is getting skewed towards the month end. So, we have a different-different billing cycle. First with 10, 15, 20, 25, 28 cycle and 60% of the cases are getting billed during the 20th, 25th, and 28th cycle. And as you know that we have lot of customers who are actually on the NPDC mode because of the commercial vehicle. So, we have to go and collect, So, those customer normally they pay within 10 to 15 days' time during the due dates and they keep as a nondelinquent customer, So, therefore majority of the billing is getting booked in the month end and therefore the collection efficiency will go up to 105% to 110% in the month of October. Till August during the moratorium period like May, June, July, August, our collection efficiency against the billing used to be higher than 100% because the moratorium was there and we were collecting more than those customer also who were in moratorium, So, that is the same. In terms of cumulative collection efficiency, even in the month of September, we have done 60% as against the 64% of the September 2019, So, at the cumulative efficiency front, because the overdue has come down during September by collecting the dues from those customer who were in moratorium, our overdue have come down, the debtor has come down as on 31st August, So, therefore we did better collection in terms of September and cumulative collection also in the month of October is likely to go up further.

Roshan Chutkey: Sir, how are the freight rates trending? How are these trending for your customers?

Ravindra Kundu: Freight rates have gone up because the diesel prices have also gone up.

Roshan Chutkey: And utilization level?

Ravindra Kundu: Utilization levels are actually fluctuating, it is actually in a different market and different scene, wherever like the harvesting is happening now and it is an agricultural belt like rice bowl, take the example of some of the market where the production is very good this time, So, there the capacity utilization has improved significantly during the October second half and it is likely to improve further in the month of November when the government will start buying the paddy from the farmer. So, our heavy commercial vehicle customers are mainly into the agricultural belt tier 3, tier 4 town, So, there the capacity utilization are between 60% to 80% and that depends on if the market is having agricultural goods transportation, building material transportation, cement transportation, iron ore transportation put together, then their capacity utilization has gone up to 80%. In some of the market, it is purely depending on agriculture and allied goods, there it has actually gone up to 60%-65% and likely to further move in the month of November, but the trend is very good because post September, the rains have come down and then South West monsoon has also gone completed, So, therefore we are expecting that in the

month of November, the freight availability and capacity utilization post harvesting season will significantly improve and that is going to benefit our customers.

Moderator: Thank you. The next question is from the line of Antariksha Banerjee from ICICI Prudential Asset Management. Please go ahead.

Antariksha Banerjee: My question is actually on the home equity portfolio, So, if I see the disbursements, it is actually quite healthy that you have done this quarter, it is almost equal to the run rate of last year, you have done some 1000 crores. So, my question is, is there any component of the credit guarantee scheme that is helping the disbursements and if so, what are the deals there and how comfortable do you feel about growing the home equity portfolio from here on and which segments are showing promising time?

Ravindra Kundu: This is Ravi again, So, definitely during the Q2, we have got the benefit on account of the GECL and that has actually given us benefit in terms of the overall disbursement growth. As per the yield is concerned, yield is basically as per the rules have been said that either it has to be maximum up to 14% or the yield which is basically customer has taken in the past, So, in the case of LAP, it is actually lower, it is difficult to take up to that level, So, we are trying to do it in the same level and or in some customer, the customers are very good excellent customer, they are slightly given the benefit also.

Antariksha Banerjee: Sir, this run rate after the credit guarantee scheme, and whatever the scheme details are done or is it an aberration?

Ravindra Kundu: No, now from the month of November when the GECL policy is over, we have to get back to the normal disbursement with the normal growth and that is what is basically going to be challenging because the market has not opened up completely 100% and we are expecting that the overall market will actually take another 1 month or may be 2 months post Diwali, it will come back to the normalcy and we will try to do the same disbursement. That is what...

Antariksha Banerjee: Can you tell us how much was the disbursement related to the credit guarantee? You have that number?

Ravindra Kundu: No, I don't have the number, we can give it to you as and when you want. So, later we will provide you that.

Antariksha Banerjee: The collection efficiency, was it the same in home equity and vehicle finance or one is better than the other?

Ravindra Kundu: In terms of the collection efficiency, LAP is actually more than the vehicle finance. Even in home loan also it is slightly better, because in their case, their billing is happening on 5th of every month, So, they have a one cycle, So, they got.

Antariksha Banerjee: So, October, you would have had an idea about what has happened?

- Ravindra Kundu:** Yes, that is what I am saying. So, for the month of October.
- Arul Selvan:** Ravi, it is 90% collection efficiency on LAP and ACGL loan it is 390 crores.
- Antariksha Banerjee:** 390 and 90%.
- Ravindra Kundu:** Yes, slightly better.
- Moderator:** Thank you. The next question is from the line of Piran Engineer from Motilal Oswal Financial Services. Please go ahead.
- Piran Engineer:** I kind of want to go back to the provisioning question, So, we have standard asset provisioning of about 150-160 bps and the customers who haven't paid us at all is about 5%, I am guessing even out of those who have paid us may be another 2-3% might be stressed. So, if we say that 7-8% of your book might have some problem, do you foresee that this standard asset provisioning of 1.5% should actually be improved to may be 2.5-3% over the next may be 2-3 quarters?
- Arul Selvan:** Piran, I think you should leave that decision to us, like it is always views can be taken. We are doing it at a much granular level, at an agreement level evaluation and it is audited and we have done it and you are seeing that our provisions have always been substantially better than what we need. Just to take a view that should it be better, it is getting the view you can take where it can be better. There is no end to this.
- Piran Engineer:** And sir, just over the last 6 months in this post-COVID period, what sort of changes have you made in our underwriting metrics, both in vehicle and in LAP, if you could just give us some examples of how you tighten the screws a bit, if at all?
- Ravindra Kundu:** Piran, this is Ravi Kundu again. As far as the underwriting procedure is concerned, we have, there are two different ways to handle it, one is that the traditional way of cutting down the LTV and increasing the documentation, but in the contemporary way, we need to look into the product and geography where those product and geography, even more granular at OEM level and also make model and variant level and with respect to the customer category, with respect to the geography which is favorable in terms of probability of default, So, we have been practicing this business design model for quite some time and we are using that very efficiently to found out which market, which product, which OEM, which make model with respect to new and used are favorable in terms of the probability of default and we can actually calculate the expected credit loss before going to the market, So, define that first and then go to the market and then consider the macros also for example, just give you the example, in the current scenario we know that the heavy commercial vehicle or the ICV or the big ticket size construction equipment are not earning, So, in that segment we need not do anything, we expect the customer is good and bad, we have to be away from that product and then we apply the BDM, So, we have two fold design making, one is the upfront which we call it that before going to the market, we know what we

need to do and what is my MMV level strategy and second is that underwriting model also aligned with that and during this period, during the lockdown period we have calibrated our underwriting engine to reduce our bad rate and that has also improved further. So, with that business decision-making model and underwriting model, we are able to do better decision in the uncertainty what we are going through and that is improving our portfolio quality in terms of reduction of early default and nonstarter and as on 31st August, moratorium was actually there, we have achieved lowest Stage-2 and Stage-3 and that is again continued now also and we will try our level best to do best collection in the field to ensure that our portfolios are better, So, underwriting business design model and robos collection mechanism put together are basically driving our portfolio quality.

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

Nidhesh Jain: Just one clarification on the freight guarantee scheme, the disbursement that we have done is correspondent to what percentage of portfolio and we have done that only in home equity segment, right?

Ravindra Kundu: No, we have done for vehicle finance, but as on September, mostly we have done into the LAP and vehicle finance we have done it which is going to come in the Q3, So, 400 crores whatever disbursement we have done as against the say, 1000 crores of Q2, So, that is 40% of the overall disbursement in the LAP has gone in the credit guarantee scheme. As far as the vehicle finance is concerned, we have not done much in significant number, but in the month of October, the numbers are better.

Nidhesh Jain: But our portfolio as on which we have given this disbursement, what percentage of our existing customers we have disbursed these loans?

Arul Selvan: It is on the 12,000 crores portfolio, right, on that you had only 400 crores. In the vehicle finance, it was only 15 crores.

Ravindra Kundu: Only thing is that 400 crores is the 20% of the eligible customer, GV, So, then you need to multiply that, So, 2000 crore out of 12,000 crores.

Moderator: Thank you. The next question is from the line of Sunil Kothari from Unique Asset Management. Please go ahead.

Sunil Kothari: Sir, my question is a little bit larger outlook. Sir, presentation in slide number 15, which gives financial steps not of 10 years, I am trying to understand is our asset under management during this last 10 years and 5 years, the net income and pre-provisioning operating profit, those numbers during last 3-4, particularly if we remove even 19-20 also we are little bit slowing down in terms of all these growth, So, just your observation and your experience, how you see these changing or the learning on this and second point is on Mr. Arun's statement as an MD about

technologies usage and its benefit, So, little bit qualitative of somewhat ahead you see, what type of investment and benefits you are seeing because of technology and digitization, these two larger thing if you can talk about that?

Arun Alagappan:

I will talk on digitization a bit and then I will let Arul talk on the numbers. Basically, on the digitization bit, we have spend a lot of our efforts to look at building out new kind of a digital data center which is going to give a lot of predictive analytics to the teams on the field and lot of work has been done and we have got a huge analytics team now that is working to build, So, that when you look at it on a long-term basis, we feel that data already has been looked at, but the way we are trying to look at data and things like that we thought we will follow model and more like, lot of other large companies like Bajaj and all have done and worked a lot with data that is something that we are building out, So, once that goes live and you see that and even currency that is feeling a lot of the system and lot of our predictive analysis is being done there and So, even the field is getting as to what they need to do, which accounts they need to go after, which accounts that may go delinquent, So, we can quickly address those kind of things and even on the sales front we have got things happening in terms of both LAP as well as the home loans business moving onto the newer tools which are introduced in the digital front. Earlier, it was privilege now all of them tab based. Tabs were used in the vehicle finance business, now we have also got them to go in news, all the new fintechs that have come in and are giving data for better decision making. We used in both of the business as well, So, that is something that we are working on and that hopefully will help us going forward. Arul, you want to take?

Arul Selvan:

I am not sure what you mean by that in the last 5 years it has come down, our performance has come down?

Sunil Kothari:

Compared to sir our last first 10 years sales, I understand it is a larger base, but just broadly any thought process on this?

Arul Selvan:

Please allow me to answer, you can't take the 10 year number because the base is small as you rightly pointed out and last 5 years, the measure we go by is the return on asset. If you see the return on asset, it has been consistent at 3.7% on the assets. Only in FY20, it rocked a bit into 2.7 primarily because we provided the COVID provision at the end of the year and this would add back to the COVID provision, it would again be at the same 3.7% limit. The growth had been good, I would request you not to consider the 10-year basis, we have given the 10-year basis, we went sustaining 10 years of CAGR across in a shorter tenure. We have to factor in multiple issues. During the last 5 years, the NPA recognition norms are being changed, the markets have gone in that cycle and if the last year which is FY20 had pulled it down because of the COVID, So, we need to factor in these things to draw conclusions from. So, if you could, may be later connect with me, I can give me more granular data on how we have been performing across all the parameters.

Moderator:

Thank you. The next question is from the line of Umang Shah from HSBC Securities. Please go ahead.

- Umang Shah:** I just have one question on OpEx given the fact that first half we have really kind of slightly consoled it, but now that the business volumes are kind of fully normalizing, how should we look at OpEx going forward from here on and what should be like a more steady pay cost-to-income ratio?
- Arul Selvan:** The OpEx will marginally go up, you are right because one end, we will have to once we start to disbursing at a higher volumes, the sourcing cause and the related collection cost and the infrastructure cost will go up, but however, lot of efforts have been done to have sustained reduction across various OpEx spend, So, these things are more permanent in nature. I would say that what we are right now talking at 2.1% on the assets, it can hover between 2.1 to 2.3, 2.4%, but I think we used to be in the range of around 3% plus on the OpEx ratios, I think those periods have come up and we will be significantly lesser than those numbers.
- Umang Shah:** And just one last one, given the fact that clearly we are now very well positioned both on liquidity capital and the asset quality picture is also getting much more clearer now, what sort of growth are we looking in the second half, So, what sort of AUM growth are you expecting in FY21?
- Arul Selvan:** Normally, we don't give any forward-looking statement, I would rather say the first half, the AUM growth is more also because of the moratorium assets being on the book, I spoke about it in the initial part of this conversation. So, you will see this may be at the similar levels of growth or may be even slightly lower, but I think in absolute value, it will slow sustain.
- Moderator:** Thank you. The next question is from the line of Udit Kariwala from Ambit Capital. Please go ahead.
- Udit Kariwala:** Sir, I joined in a little late, So, please excuse me if this is a repetition, just wanted to get some sense around the operating performance and the increase in the NII for this quarter?
- Arul Selvan:** If you see across the board, whether it is on the yield, the cost of funds, NIMs, expense ratios and even on the loan losses, but for the additional provision, we have shown improvements both quarter-on-quarter as well as last year versus current year, I think the numbers are there. If you want more details, please connect with me on the more detailed version and of course the press release is also there which gives you more granular data. So, we had created an incremental provision of around 250 crores to additional buffer in case any further expected losses crop up, but for this or in spite of this, we have shown growth both on profits before tax as well as in all our ratios whether it is return on assets or return on equity, etc. I will stop here and if you have any specific point on operations, you want to understand, I can respond, or we can take it offline.
- Moderator:** Thank you. The next question is from the line of Bhavik Dave from Nippon India. Please go ahead.

Bhavik Dave: Just one question from my end, sir you spoke briefly about the predictive analysis and the technology spends that you are doing, if you could just throw some more light on how this is helping either in being more efficient on the throughput side or may be reducing cost or guiding our risk management somewhat better because we have always been on the better end of the asset quality, how do we intend to use technology for risk management and if you could give a little more flavor on this predictive thoughts that you have?

Arul Selvan: This is used across the board, to measure customer's performance, to measure cash flows, to measure the delinquency ratios, etc. It is not like and that is team actually is the one which uses this quite abundantly and they are the prime users of this particular features which we are building on, So, there is a large analytics team and the risk team work together on this to advice the businesses as well as other functions including treasury etc., to take advanced warning or advanced corrective measures.

Bhavik Dave: What I want to understand is how many people team do we have? How much do we spend on a yearly basis on building these predictive model or this team on the digital front, how do we think about it, like what is the investment that you are putting in and how many people are there in this team?

Arul Selvan: Those are pretty confidential information. We would not like to share.

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

Sanjay Shah: Sir, I would like to know that we have created a very good presence in rural economy and especially our focus is on tier 3+ towns and the semi-urban is also growing equally very good, that is what the data shows. There is a huge opportunity lying that side, So, do we have any directional thought process on that side? Can you share with us, please?

Ravindra Kundu: Ravi here, So, as you mentioned rightly that we have 1100 branches and majority of the branches are in the rural market, rural means this is semi-urban and rural all put together, tier 2, tier 3, tier 4 town. See, we have presence in tier 1 also but our majority of the businesses are happening in tier 2, tier 3, tier 4 towns, that is because of our presence in the middle of the pyramid with respect to vehicle finance, LAP and home loan. Now, vehicle finance has completely gone into the middle of the pyramid of all 1100 branches wherein the LAP and home loan, they are progressing, So, out of 1100 branches, LAP has reached to 250 branches and home loan is also following, they have also gone closer to 200 branches, So, as we move further as far as the LAP is concerned and home loan is concerned, our penetration in the rural market with respect to all the product will improve further. That is one. Second is that at a product level, if you take the vehicle finance, we have been doing middle of the pyramid customer like light commercial vehicle or used vehicle or two wheeler to tractor or entry level car customer, as you rightly mentioned that because of the rural demand because of the semi-urban demand picking up, the customers are inclined towards purchasing these product what we are focusing more and that

segment we have been doing very well because we have very good collection that is what is also supporting, but we need to create a proper model, business decision model in order to plan where to go and how to do disbursement with respect to product and customer and then increase it, So, this is a continuous process and we are doing it slowly and we have done it always slowly like, for example, we took 10 years to reach to the level of disbursement what we do it in tractor today. So, directionally, what we are doing is that we are getting more penetrated towards the rural and semi-urban, but it will take time.

Moderator: Thank you. The next question is from the line of Rikin Shah from Credit Suisse. Please go ahead.

Rikin Shah: Sir, given that even moratorium has ended, I wanted to understand how the rule powered metrics are moving because that becomes more relevant versus the NRRB that we used to refer earlier?

Arul Selvan: NRRB is basically, now coming to the level of February level, So, if you are asking that what has been the NRRB of July-August, obviously July-August NRRB was higher than the February because we were collecting customers from those who were actually having moratorium and having the dues, So, those customers were continuously coming down from 1 EMI due to 0 EMI due and that is the reason we have achieved the lowest Stage-2 as on 31st August. Now, September is the full month and as I mentioned that our majority of the customers are with respect to vehicle finance especially, 60% customers, their dues are from 20th to 25th and 28 days, So, therefore majority of the customer will pay in the month of October and that is the reason, NRRB is slightly lower, but it is not much lower. For example, I am just giving you the data point of bucket one to two, NRRB for the month of February was 11% and this is purely moratorium customer I am talking about. All those moratorium customer in the month of February was 11%, in the month of July and August, it went up to 25% has improved, wherein the month of September it is at 6% level, why 6% level because as I mentioned in the collection efficiency term also our collection efficiency in the month of September has been 87% as against the last year September of 108%, So, in the month of October we are likely to achieve 110%, So, that increase from 87 to 110% is going to increase the NRRB in the month of October, getting my point?

Rikin Shah: Yes, but I was also asking about the role forward?

Arul Selvan: Role forward, So, role forward in the case of it is actually for the 1 to 2 bucket was 6%, in the September it is actually 7%, So, hardly 1%.

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

Aditya: Just on the growth, disbursements were obviously quite strong given the circumstances, but they could have ramped up through the course of the quarter, could you give us the sense of the disbursement growth in September and in October So, far if that is relevant?

Ravindra Kundu: September disbursement is actually aligned to whatever we have shown the disbursement like in the Q2 to Q2, our disbursement has been last year to this year Q2 has been down by 13%, So, for the month of September, the trend is same, it is not much. So, for July and the September, we have done the similar way of disbursement. Slightly, in the LAP it has gone up in the month of September due to the GECL, otherwise if you take the 6000 odd disbursement, whatever we have done in Q2, it is equally distributed in the last 3 months, So, September to September or Q2 to Q2, the disbursement trend is the same that is -13% and as far as the H1 is concerned, we are down by 37%. Now, moving towards the second half, October, November, December, January, February, October last year was a big month because Diwali and Dussehra, two festivals were there. As against that this month October is actually Dussehra and November is going to be Diwali, So, therefore October month disbursement will be lower than last year October and November month disbursement will be likely to go up. That is what my expectation, but we have to see what is in reality coming, but if you take the last year number, H2 because of the BS4 to BS6 transition, because of the lockdown imposed in March month, the disbursement were down in Q4 and Q3. In fact, our Q4 disbursement have been achieved in Q2 itself now, So, therefore in the second half, our disbursement will be higher than the last year second half, obviously and for the industry also it will be better.

Moderator: Thank you. The next question is from the line of Aswin Kumar Balasubramanian from HSBC Asset Management. Please go ahead.

AK Balasubramanian: On the Slide #25, you have given the stable that given this moratorium months and the number of EMIs paid, So, just had one query there, if I look at the table where the moratorium months is one or two months, where the number of customers paying more than let us say 2 or 3 EMIs kind of sharp drops whereas if the moratorium month is 3 or 4, then you see an increase which kind of seems counted in Q2, right because if they have opted out the moratorium, wouldn't?

Arul Selvan: I will explain that. So, these are customers who are not having monthly EMIs, these are customers who have quarterly EMIs, So, the one month moratorium customers are those who are having, who might have paid March and So, during the subsequent moratorium period, they had only one month EMI coming up which they would have availed. That is one set of customers in this one and two and the two months are those who availed two quarterly EMIs during the moratorium period. Also there are set of customers whose EMIs have got over and their last EMI, it would have been one or two EMIs which are in the last leg of the period and they would have availed the moratorium and that is the factor, So, only the monthly EMI and consistently increasing numbers are in the 3+ months.

AK Balasubramanian: And if I can add one more question, this Supreme Court benefit which you have taken on the gross Stage-3, that is about 0.2%, 0.3%, now these would be the Stage-2 number as of June which would have otherwise slipped, So, you had about 1600 crores at that point of time in Stage-2?

Arul Selvan: It would have been in Stage-2 at that point in time and it still remains in Stage-2 in the current presentation also because we have not moved it up and we have given you the details of what it would have been if we had moved also you can work on that.

Moderator: Thank you. The next question is from the line of Ashwani Agarwalla from Baroda Mutual Fund. Please go ahead.

Ashwani Agarwalla: Sir, just wanted to know whether in this quarter, we disbursed about Rs. 65 billion and in the last quarter it was 36, So, I think 65 billion would contain a lot of pent-up demand on the first quarter, So, how do we see this disbursement number going forward?

Arul Selvan: It is not like trouble. In the first quarter, we lost two months, because of lockdown.

Ravindra Kundu: Actually, what he is saying is right, Arul sir you are saying is right. See, the disbursement what we have done is starting from May 15 till now is at same rate, you can say that for example, in vehicle finance, we have been doing close to 1500 crores per month and that is July, August, September, even in the month of June and half of that we have done in May, So, the April, May, June disbursement which is Q1 is 3588 crores and which is going up to 6457 crores. It is because of the 1.5 more month we have got benefited in the Q2 and there is no pent-up demand. The demand has to be there, then only you can sell the customer vehicle. Every month, there is some reason for that the demand will be there and it cannot be there for many months, otherwise we will have to have more disbursement in a particular month, it is related to the months like festival months, you will have a normal disbursement going up in the month of October and November, then December we will go down, then January, February, March, Q4 will be always high. Like that it happens. So, therefore we are expecting that in the coming months, disbursement will be better than what we have done So, far.

Moderator: Thank you. As there are no further questions, I now hand the conference over to Mr. Nischint Chawathe from Kotak Securities Limited. Thank you and over to you, sir.

Nischint Chawathe: Thank you everybody for joining us in this call today and thanks to the management of Cholamandalam.

Moderator: Thank you. Ladies and gentlemen, on behalf of Kotak Securities Limited, that concludes this conference. Thank you all for joining us and you may now disconnect your lines.