“Cholamandalam Investment and Finance Company Limited Q3 FY '24 Earnings Conference Call”

January 29, 2024

MANAGEMENT:	**MR. VELLAYAN SUBBIAH – CHAIRMAN AND NON-EXECUTIVE DIRECTOR, CHOLAMANDALAM INVESTMENT AND FINANCE COMPANY LIMITED** **MR. RAVINDRA KUNDU – EXECUTIVE DIRECTOR, CHOLAMANDALAM INVESTMENT AND FINANCE COMPANY LIMITED** **MR. ARUL SELVAN – PRESIDENT AND CHIEF FINANCIAL OFFICER – CHOLAMANDALAM INVESTMENT AND FINANCE COMPANY LIMITED**
MODERATOR:	**MR. NISCHINT CHAWATHE – KOTAK SECURITIES LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to Cholamandalam Investment and Financial Company Limited Q3 FY '24 Earning 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 question after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*", then "0" on your touchtone phone.

I will now hand the conference over to Mr. Nischint 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 Financial Company Limited.

To discuss the 3Q FY '24 performance of Chola and share Industry and Business Updates, we have with us the Senior Management today. The Senior Management is represented by Mr. Vellayan Subbiah – Chairman and Non-Executive Director; Mr. Ravindra Kundu – Executive Director; and Mr. Arul Selvan – President and CFO.

I would now like to hand over the call to Vellayan for his opening comments, after which we will have Q&A. Over to you, Vellayan.

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

So, we will just go through the Results for the Quarter and the Nine Months ending 31st December 2023:

The disbursements for Q3 were at Rs.22,383 crores for the quarter, up by 27%, and Rs.63,940 crores for year-to-date December, which is up by 40%. The total AUM stood at Rs.1,41,143 crores, which is up by 36% year-on-year.

Net income for the quarter was at Rs.2,580 crores, which is up 41% year-on-year, and Rs.7,073 crores for year-to-date December 2023, which is up by 37% year-on-year. The PAT for the quarter was at Rs.876 crores, which is up by 28%, and Rs.2,365 crores for year-to-date December, which is up by 30% year-on-year.

Just some Highlights:

So, like we said, we disbursed volume of Rs.22,383 crores in Q3FY24. Vehicle finance disbursements grew by 18%, aided by steady growth in used volumes. Loan against property grew by 51%, and home loans grew by 48%, driven by branch expansion into Tier-3 and Tier-4 locations. Disbursement growth in the three new businesses was 33%.

Like we said, aggregate disbursements in Q3 FY '24 were at Rs.22,383 crores, as against Rs.17,559 crores in Q3 FY '23 for a growth of 27%, and year-on-year, we were at Rs.63,940 crores, as against Rs.45,512 crores, which is a growth of 40%.

Vehicle Finance disbursements were at Rs.12,354 crores, as against Rs.10,446 crores, which is a growth of 18%. This is for the quarter, and for year-to-date, they are at Rs.35,385 crores versus Rs.27,509 crores in the previous year, which is a growth of 29%.

The loan against property business disbursed Rs.3,409 crores in Q3 FY '24, as against Rs.2,255 crores in Q3 FY '23, which is a growth rate of 51%. Disbursements for year-to-date December '23 were at Rs.9,281 crores, as against Rs.6,537 crores in the previous year, registering a growth of 42% year-on-year.

The home loan business disbursed Rs.1,587 crores in Q3 FY '24, as against Rs.1,072 crores in Q3 FY '23, registering a growth of 48%. Disbursements for year-to-date December 2023 were Rs.4,615 crores, as against Rs.2,425 crores, which is a growth of 90%.

The SME business disbursed Rs.1,981 crores in Q3 FY '24, which is a growth of 11%, over Rs.1,782 crores in Q3 FY '23. And year-to-date for SME disbursements were at Rs.5,971 crores, which is a 39% growth, over Rs.4,284 crores in year-to-date December 2022.

The consumer and small enterprise business disbursed Rs.2,773 crores in Q3 FY '24, as against Rs.1,868 crores in Q3 FY '23, which is a growth of 48%. Disbursements for year-to-date were at Rs.7,980 crores, which is a growth of 77% over the Rs.4,501 crores in year-to-date December 2022.

The secured business and personal loans disbursed Rs.280 crores and Rs.708 crores in Q3 FY '24 and the nine months ended for FY '24.

Total assets under management stood at Rs.141,143 crores as compared to Rs.103,789 crores as of December 31, 2023, which is a growth of 36%.

PBT growth in Q3 was at 26% and for year-to-date December '23 was at 29% as compared to overall asset growth of 36% year-on-year.

PBT ROA was at 3.3% for Q3 and for the nine months ended December '23.

ROE for year-to-date was at 19.8% as against 19.1% in the previous year.

The Company continues to hold a strong liquidity position with Rs.7,742 crores as cash balance at the end of December 2023 including Rs.3,765 crores invested in HQLA assets such as G-Sec, T-Bill and shown under investments. The total liquidity position including undrawn sanctioned lines was Rs.9,932 crores. The ALM position continues to be comfortable with no negative cumulative mismatches as per regulatory norms.

On the ratings front, we have had some encouraging news. ICRA has upgraded the long-term rating outlook for Chola from AA+/Stable to AA+/Positive.

Consolidated profit before tax for Q3 was at Rs.1,157 crores as against Rs.926 crores in Q3 FY '23, which is a growth of 25%.

In terms of asset quality, Stage-3 levels representing 90 plus dues reduced to 2.82% as of December 2023 from 2.96% as of end September 2023.

GNPA percent as per RBI norms reduced to 3.92% as of December '23 as against 4.07% in September '23. NNPA as per RBI norms also dropped to 2.56% as against 2.59% in September 2023. NNPA is below the threshold of 6% prescribed by RBI as the threshold for PCA.

In terms of capital adequacy, the CAR for the Company was at 19.37% as against a regulatory norm of 15% and Tier-1 capital was at 15.55% and Tier-2 was at 3.82%.

The Board of Directors also approved the payment of an interim dividend of 65% being Rs. 1.30 per share on the equity shares of the Company for the year ending March 31, 2024.

I will stop with that. Thank you, Nischint, and we will turn it over to the audience for questions.

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

Avinash Singh: A couple of questions. The first one is regarding your credit cost and provision cover. So, particularly if you look in Q3 versus Q2, the provision cover has come materially lower in the other segment. Now, one can understand there could be some sort of a change in the asset mix within that segment, but I mean, just in one quarter taking down provision cover to 45% from close to 64%, what explains this provision cover change in this other segment? That's one.

And second, if we see the fee and commission income has seen a material jump. You have noticed two accounts mentioned that you got the insurance broker license. But earlier also, you would have been sort of selling insurance and the income would have been recognizing some other lines. So, what has changed here? And is this higher fee and commission income sustainable or was it some sort of a one-time, some one-off?

Arul Selvan: Yes, with regard to the first question, the reduction is because we removed 100% provided items in the others segment. So, if you see the gross stage 3 has come down and so equally the ECL provision has come down. That's the reason that for fully provided book, you know, you write it down because for NBFCs you don't get tax benefit unless you write it down. If you just carry them as fully provided it does not work well from a cash flow perspective. And that's the reason we do this at frequent intervals. That's the reason. It's not a provision coverage drop. It is more a removal of 100% provision items both from the gross stage 3 as well as the provision.

With regard to the insurance income, yes, so far we have been receiving the insurance income through our subsidiaries over the first two quarters. You would have seen that and from the subsidiaries we have taken it back into the main Company by way of dividend. So, since we did not have the license till then, we got the license in this quarter. So, going forward, the insurance income will come straight into Chola's book.

Avinash Singh: So, this level of fee income is sustainable. And on this PCR again, so in other segment it's largely unsecured, I mean, personal loan and other unsecured. So, this 45% coverage, you think is sufficient?

Arul Selvan: Yes, it's a mix of SME business, which is a low credit cost as well as low SBPL is also doing well. They have very, very low NPA numbers and CSEL is the one where we are carrying higher provisions because of the unsecured nature. So, this will keep moving up and moving down as we build the provision, write it down, build the provision, write it down. That cycle will continue.

Moderator: Thank you. The next question is from the line of Suresh Ganapathy from Macquarie Research. Please go ahead.

Suresh Ganapathy: So, two questions. One is from the growth itself, right? I mean, we have had some slower disbursement growth in the personal loan segment and 4% Q-o-Q is the overall growth that we have seen on disbursement. Because in the base effect which has given you a 40% AUM growth, how do you look at growth for FY '25? Because we are hearing that banks are cutting down their credit lines to the NBFCs. We still have a large dependence on banks. So, have they increased rates? Have they withdrawn some credit lines or restricted and consequently, what is the outlook for growth for FY '25?

Vellayan Subbiah: Yes, Suresh, I don't think we are going to guide FY '25 in this call.

Suresh Ganapathy: Direction. Just the directions you can give. Yes.

Vellayan Subbiah: Yes. So, to your point, so I think definitely what we see at least, and you see even in the areas we are continuing to grow on, areas we feel quite comfortable about our book, which is basically home loans, LAP have both seen good growth and both the books are performing very well. Vehicle finance will also continue to do well. Whether the levels of growth sustain at these levels or drop slightly, we will get a better indication through this quarter. But we feel quite comfortable with the current levels of growth and like I said, it might drop a bit from here, but I don't think it's going to be too significant in terms of the drop.

What we have cut back on is our partnership business in CSEL, in our Consumer and Small Enterprise Loans. So, definitely we have reduced the amount of exposure to unsecured and we continue to do that in terms of our bias for disbursements. And so, broadly, I think that we don't see any trends that would cause us to get a lot more conservative going into next year.

Suresh Ganapathy: But is there a supply of funds restricted in banking system? I mean, have you seen the implications with your banking partners where they are trying to restrict credit lines, or they are funding as usual, because the problem there is, RBI is saying lending to NBFCs is going to go down the line, and down the line, we have to have credit lines to the NBFCs, right?

Vellayan Subbiah: Yes.

Suresh Ganapathy: You got the question, Vellayan?

Vellayan Subbiah: Yes. So, I think, Arul, why don't you provide a perspective, because you are closer in terms of, like, how the banks, I mean, so Suresh, again, right, I don't think availability of funds is going to be a challenge for the growth rates we are looking at. But, Arul, why don't you answer the question?

Arul Selvan: So, first of all, banks are happy to lend to us, and we are getting good lines of credit from them. Apart from banks, we are building other sources. For example, this quarter, we have taken a loan from IFC of around Rs.150 million at a very fine rate, and we are seeking similar loans from other multinationals, which we will see happening in the subsequent quarters. We are also building our retail book. We have done retail debentures of Rs.5,000 crores. We created IM during this financial year, and all of it has been subscribed, and we closed the last tranche of the issue on Friday, and then we will get the money in the day or two. So, Rs.1,500 crores is coming in from there. So, there are multiple sources of revenue with good credit, and thankfully, ICRA's credit rating would also help us, and hopefully, as we move forward, we should see better traction in the rating side also.

Suresh Ganapathy: That's one of the interesting questions. Your FinTech NPA last quarter was4.7%, is what you had disclosed. Do you know if that number comes down? Any number you can share that?

Arul Selvan: No, we cannot talk about those going forward numbers, Suresh, and I think we have been giving guidance on two questions per participant. Kindly stick to that, and we should come back in the queue.

Moderator: Thank you. Next question is from the line of Bhavesh Ratilal Kanani from ASK Investment Managers. Please go ahead.

Bhavesh Ratilal Kanani: This one is on the new lines of business. You said that there have been quite a few of write-offs in the lines of business that we have started recently. One, can you quantify the write-off there? And second, if you can share your thoughts on the writing off policies we are following for these new lines? And to add some color to the situation, if you can share what are the corrective steps we have taken a few months back on these lines, on sourcing and how to manage the quality and what has been the impact of same?

Arul Selvan: So, with regard to the CSEL business, the way we provide is on 90 plus we provide 50% and 180 plus we provide 100%. The moment it touches the 100% provisioning, we remove it from the books because we get an FLDG reimbursement on that to the extent of the FLDG cover, and so we do this on an ongoing basis.

What you are seeing as a removal this quarter is also with regard to those 100% book which have been provided. That's where you are seeing a drop in NPA as well as with regard to the provisions coming down. This is a cycle, as I answered somebody else earlier also. It's an ongoing cycle and you will see that continuously happening.

With regard to the rest of the businesses, depending on the tenure of those businesses, we have different write-off policies. Likewise, for example, in vehicle finance, we provide at the end of around 36 months in certain categories of assets and for 48 months for the rest of the categories, and in the case of loan against property and mortgage, it's a slightly longer tenure when we reach the 100% provisioning.

But in every case when the provision coverage reaches 100%, we remove them because, as I said earlier, we need to get the tax benefit on it, and we don't get it when we simply provide. Unless we write it off, we cannot get the tax benefit. So, it's a difference between our current tax and deferred tax. So, if we need to reduce this variance between these two.

Bhavesh Ratilal Kanani: And sir, on the corrective measures we have taken for these new lines and the impact of that?

Ravindra Kundu: In the CSEL business, as we clearly articulated in the past, we have two lines of business in the CSEL. One is the traditional, which is through our feet on the street, and one is through partner. So, through feet on the street there were no issues in terms of delinquency as low as 0.6%. And in the case of the partnership it went up to 4.7, which has come down to 2.7. So, that is because we have reduced the disbursement from four partners and earlier we used to do 550 crore to 600 crore disbursements, which is now we are capping it to 250 to 300 crore. The ROAs are good in this business. So, we will continue to do it, but we will do it with the good partner.

And we have also tightened our underwriting process with the existing partner. We started also providing them details of the roll-forward rate management, what we do it in our traditional book, as well as in the VF and LAP for many years. So, those partners are also getting benefited in terms of their collections of those cases. We are continuously focusing on reducing the roll-forward rate of non-delinquent to delinquent book in the partnership book as well along with that.

Bhavesh Ratilal Kanani: And lastly, sir, where do we book the FLDG-regulated inflows?

Arul Selvan: That comes under the other income line, fee and other income line.

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

Kunal Shah: So, a couple of questions. Firstly, in terms of the bank borrowing, how much has the rate gone up for us if you have to look at it in terms of banks trying to pass it on post the increase in the risk rates?

Arul Selvan: See, the bank borrowing rates have not moved up significantly because they are still under what we call the EBLR-linked loan. So, the EBLR-linked loans, their spreads have not increased. One or two banks which have tried to come with a request for a higher increase, where we are able to accommodate if it is minimal, we have accepted that spread increase, which is in the range of around 15 to 20 basis points and are much smaller numbers. And in case there are requests for a higher requirement on a spread, we are pre-closing those loans and moving on to get better loans from our resources.

Kunal Shah: So, overall increase will also be around about less than like 15-20 bps as such. We are not seeing much pressure out there.

Arul Selvan: Yes, I think you will not get more than that, correct.

Kunal Shah: And the second question is with respect to OPEX. So, while we are seeing some benefit with respect to the insurance income, any element which is there in the cost or this entire increase in the cost which has been there, say on a quarter-on-quarter basis, that is more related to the core business and now overall cost to assets will continue to be at the higher level?

Arul Selvan: Yes, overall cost to assets would be in the range of around 3%. Yes, it is trending a little higher because there have been some expansions as well as some additional costs, etc., we are incurring with regard to, on the IT side as well as on the branch expansion thing. So, we will endeavor to keep it around the 3% mark, which is what we have spoken about earlier also.

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

Abhijit Tibrewal: I have two questions. The first one is for Ravi sir. I just wanted to understand what is the view on the vehicle cycle now? You have in the past explained that it is only when push shelling starts to happen is where we start looking at maybe a downward trajectory in the vehicle cycle. Where are we in the cycle today? Whether we talk about passenger vehicles? I mean, we often keep hearing that the discounts are going up now, especially passenger vehicles. If you could just briefly elaborate on your view on both passenger vehicles and commercial vehicles?

Ravindra Kundu: So, in the passenger vehicle, the small entry-level cars are actually doing very well. Their discount levels are not under control and that is the area of focus for us. The mid segment and the premium segment, still the discounts have not started as it used to be in the past. Still there is a demand in that segment.

So, passenger vehicles if you see the growth for the quarter, went up by 8%. Between the commercial vehicle and passenger vehicle, the PV has been the highest. Commercial vehicle, in fact, is actually lower, it is 4% in terms of the news which was expected. So, for us the used vehicle in both PV and CV are the growth driver and in addition to that, we are also doing small ticket sized loan like two-wheeler, three-wheeler, tractor and other products.

So if you take entire vehicle industry including construction equipment, tractor, it went up by 18% and our growth has been 22% in the same period for the new vehicle segment and in addition to that, we have also done better job in terms of used vehicles. So, we are quite confident that these growth levels will continue next year although commercial vehicle growth will be in single digit this year and might be in the single digit in next two, three quarters.

Abhijit Tibrewal: Sir, my last question was on the margin trajectory in vehicle financing. I mean, having said that, we have already seen some rise in the cost of borings in this quarter. So, two sub parts to this question. One is, how do we look at the cost of borrowing spending for the next few quarters? And assuming the status quo on rates, how do we look at cost of borrowings for next year? And given that our vehicle book will kind of continue to reprice, how do we look at margins in the vehicle financing book?

Ravindra Kundu: What is the cost and what is the margin?

Arul Selvan: If you see the vehicle finance numbers which we have given, you would already see that the yields have been improving around 50 basis points and while the cost of any increase has been only 20 basis points in the case of vehicle finance per se if you refer to our presentation on page 47. Volumes have started improving. So, you will see the trend going forward. Unless something more differently happens in the environment we don't know. As we talk today, our cost of funds, I would say that we are at the cusp of the hike and unless something new happens, we should not see further rate increase other than the 10, 15 basis points we spoke about earlier.

Ravindra Kundu: The NIM trend is 7.2, 7.6, 7.8 for last three quarters and is going to go up and the difference between the NIM from the same period of last year is also coming down from 100 basis point to 80 basis point and now it is coming to 30 basis point and our marginal book yield is actually 1% higher than this book yield. So, that will start showing up in the next two to three quarters. So, I think from the NIM point of view, I don't think there is any problem. We will continue to increase our ROA if the situation continues as it is.

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

Piran Engineer: Just firstly a question on overall customer level indebtedness when you are talking about our LAP customers and there has been a lot of noise about rising leverage in the system and these are smaller customers who might take say a LAP loan for their business, personal loan elsewhere. Are we tracking that data? Can you share some information on what percentage of our LAP customers have taken PL from other lenders? And broadly, is there any merit given where the environment is in unsecured to slow down this business?

Ravindra Kundu: No, loan against property for Chola is actually coming from three things. One is that the expansion is happening continuously. You see that our number of branches in LAP is much lower than the vehicle finance branches. Second is that we are also having another product called Micro Lap which we have introduced it in the last year, last I think two years, which is actually catching up.

And the third important is that our east zone has also started adding numbers, which was not there actually. We were operating in three zones and the fourth zone also started adding value. And delinquency is coming down continuously. It has all-time lowest delinquency in loan against property because SARFAESI is helping us and our disbursement LTVs are always been 50%. So, that is also helping us.

Now, we have been doing the scrub of our portfolio and seeing how much our LAP customers are taking personal loan. In fact, it is much lower. And that is also reason for our existing penetration is also not high in the LAP. So, these are the scenario.

Now going forward, we are expecting that this will be much stronger than any portfolio in Chola as Chairman mentioned that we are quite confident and hoping that our LAP and HL will be growing faster among all.

Piran Engineer: So, just to clarify, very few customers have taken an additional personal loan from outside the system, like outside Chola?

Ravindra Kundu: Relatively.

Piran Engineer: And the second question just for Arul sir, just to clarify, are we seeing banks also move away from repo linked loans to MCLR-linked loans, given that there is tightness in liquidity at their end?

Arul Selvan: The point is that we go to the MCLR-linked loans for non-priority sector as well and EBLR-linked loans for priority sector., because still priority sector loans can be priced finely, and which will be always a shade lower than the MCLR-linked loans. So, since banks have a restriction that they cannot lend below MCLR, we opt for the EBLR-linked loans.

Piran Engineer: And that is a two third, one third mix, right? EBLR versus MCLR?

Arul Selvan: No, you have a few fixed rates also. So, we have around 15% of our borrowings in fixed rate. So, they don't change and then around 25-30% in MCLR-linked and the rest are EBLR-linked.

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

Dhaval: I just had one question relating to profitability. So, you know, if you look at the nine month PBT ROTA, that was about 3.3%. Directionally, would you agree that this is at the lower end of our sort of sustainable band, given where we are in the margin cycle and where we are in the investment of our OPEX cycle? So, as some of the new businesses scale up, would you agree that the PBT ROTA should be more like 3.6 to 4% kind of band on a sustainable basis compared to the 3.3 where we are today? Or if there is any other part which I am sort of missing to understand the sustainable profitability that you are targeting of the model?

Ravindra Kundu: All the business heads are laughing because that is the target we have given internally.

Arul Selvan: Dhaval, first of all, we never guided on any 4% level. Our guidance, if at all it can be called a guidance, that it will be in the 3.5% level. Yes, we should be there, maybe a shade less if in a worst case scenario for the full financial year. But this also is through a cycle. We will have to see how we get across in the next financial year. This financial year, it has been a hit a little bit because of the higher cost of funds and the vehicle finance being a fixed rate book. But it will keep changing.

Moderator: Thank you. The next question is from the line of the branch of Shubhranshu Mishra from Phillip Capital. Please go ahead.

Shubhranshu Mishra: Two questions. The first one is, what is the percentage of repeat customers in each of our businesses, vehicle finance, home loans and LAP? Second is, what is that percentage that we do over and above 5% mandated FLDG? Do we have some kind of soft claims on the fixed deposits of the FinTech partners which is beyond 5%?

Ravindra Kundu: So, repeat business in vehicle finance, we are actually tracking, you know, because this business is quite mature. So, 30% is actually we are getting from our existing customer month-on-month. Other businesses are lower, very lower because of long-term book. So, unless one customer completes the loan, it is difficult for that customer to go for the second loan. So, the top-ups are also much lower because of the stringent norms in the other businesses. So, vehicle finance is 30% repeat loan.

Arul Selvan: And there are no cross-sell between the businesses.

Arul Selvan: There are hardly any cross-sell between the businesses. The second question on the FLDG, we restricted to 5%. There is nothing new on that.

Shubhranshu Mishra: But in the last call, you said that you do it beyond 5%. So, that's on the transcript.

Arul Selvan: That was in the earlier scenario where we were getting higher and those things are being stopped post the RBI guidance.

Shubhranshu Mishra: So, we were doing it beyond 5%, beyond the mandated 5% by the regulator. Is that a fair understanding?

Arul Selvan: No, we are not. What I am saying within the RBI norm of 5%. The difference between the earlier norm, earlier FLDG level and the current FLDG level is adjusted in the rate which we get from the customer, from FinTech. So, earlier if we were getting only 15% of the hurdle rate, now we are getting higher to the extent of the sacrifice on the FLDG.

Moderator: Thank you. The next question is from the line of Abhishek Murarka from HSBC. Please go ahead.

Abhishek Murarka: I wanted to understand the yield, especially on home loans. So, when I look at your slide 64, it's gone up from 15.6 to 16.7 in one quarter. So, can you explain what that is and if there is any one-off or any of the incomes there can be segregated?

Arul Selvan: No, there is no one-off income. It is the mix of the new business, the new portfolio that is being built by the team in the new locations. That's what it's showing up, which is the Tier-3, Tier-4 locations in East. Also, you know the floating rate book which we repriced over the past year when the increase happened, that time we would not have repriced all of the books because some parts of the books would not have gone through the full tenure that is like a one year gap or something we leave because we don't want to reprice it immediately after issuing the book or issuing the loan. So, those things once that mandatory period of one-year crosses, we reprice them. So, such increases have also come into play because, as you know, the recent scale-up in home loan was helpful in repricing the new book as they matured into the one-year threshold, across the one year threshold.

Abhishek Murarka: So, what would be the incremental yield over there? So, marginal yield versus the book yield?

Ravindra Kundu: It is 1.5% actually across is what we have seen.

Abhishek Murarka: So, the marginal yield or disbursement yield would be 1.5% higher. So, we can still see some bit of catch-up in the overall yield in the quarters.

Arul Selvan: No, see, this happened like one time and now most of the books would have been repriced. So, there would be not much to scale-up from here. See, this is different from the vehicle finance book where the marginal yield of a new book consistently changes the color of the book because the old book remains at the old rate. Here the old book is getting repriced. So, please I don't want you to think this rate yield will go significantly beyond this. So, here, it will remain. The book yield and marginal yield is more or less same now. As such, as we move on, we will have to see how the yield will pan out in newer locations as they go and that they will build it. So, the vehicle finance book is a slightly different piece of game.

Abhishek Murarka: No, of course, of course. So, basically the re-pricing has happened and now incrementally the yield is around these levels.

Arul Selvan: It will be around this level is what you should think of.

Abhishek Murarka: That's what I wanted to check.

Moderator: Thank you. The next question is on the line of Shweta Daptardar from Elara Capital. Please go ahead.

Shweta Daptardar: I have a couple of questions. One, because I joined the call late, is it that the insurance distribution income has seen higher commission rates from say 5% to 15% last quarter? So, is this why there is one off element and that's why the other income is lower? That's question number one. Question number two, I am looking at Stage-2B as is. So, since the time we started reporting this number, we have never seen decline or at best does remain stable. So, which sort of business segment is contributing to this? And there is one more that I will come back to. Yes, so these two.

Arul Selvan: See, as I was saying earlier, the insurance income started accruing into Chola's book because this quarter, that quarter where we got the license in our name and till last quarter, we got it through the subsidiary because they used their license, and they could get it and we got it as dividend. That's why the line items are different. When you get it as dividend, you take it to the other income, and you get it as a fee and commission income. It comes into business income itself. But basically, both are business income and going forward, it will come in the fee and commission income as you see it now. Sorry, what was the second query? Stage 2B, Stage-2B.

Ravindra Kundu: Stage 2B.

Arul Selvan: No, as a percentage, it still remains much within the, you know, it's actually a drop also. Yes, it is a drop and as the thing grows, you will have these progressive increases. The other point is also we will be doing this correction. We have always been representing our restructured book in Stage-2B, which is where we will move them because most of the restructured book which have completed more than one year in, you know, presenting in Stage-2B. We can move it now into maybe Stage 1. We are in discussion with auditors. These are actually lower than 60 days or lower than 31 days, but still we are showing them in Stage-2B because they were restructured during the period of COVID restructuring, as a special thing, given by RBI and they are there and we consciously kept that as 2B to identify them as a restructured assets. But now they have been performing well and remaining below the 30 days overdue, we can move them into Stage-1, which is what we are discussing with.

Ravindra Kundu: But the numbers it does, percentage is 0.93. It's come down to 0.92.

Arul Selvan: Yes, it's come down. Percentage has come down.

Shweta Daptardar: So, one last question I am squeezing in. Should the new business contribution we were guiding earlier be around 15%-odd over the next few years. So, anything changes on that with the kind of systemic concerns arising? The new business share you guided last quarter will be around 15% over the next few years. So, anything changes on that with the kind of concerns we are seeing in the system?

Arul Selvan: No, it remains there.

Moderator: Thank you. The next question is from the line of Aravind R from Sundaram Alternate. Please go ahead.

Aravind R: So, I would like to understand, like, sorry if this question has been answered already, if this increase in yields on like home loan book is sustainable quarter-on-quarter? I mean, is this the yield it's going to be for the future quarters? That is my first question and second question on vehicle segments, like, how do you like, you know, a month-on-month vehicle sales data is showing signs of slowdown. Purely the growth is coming from the realization rather than the number of vehicles sold itself. And what is your view on the segment?

Ravindra Kundu: In the case of vehicle, as I mentioned, the growth from the industry part of it will be in single digits. And that is specific to the CV, but other vehicle like passenger vehicle or three wheeler, two wheeler are growing very well. Tractor is down. So, put together, you know, as of now for the quarter, it grew by 18% and our disbursement for the new segment was 22%. But if you include the used because, you know, growth that is actually giving us a positive number. This is going to be continued in terms of Q4 as well as next quarter. So, we are quite confident that we can grow for the vehicle finance at least for 10%-20% in next year as well.

Prashanth Kumar: As far as home loan is concerned, since we have expanded in new geographies and Tier-2, Tier-3 towns, where we are keeping rates slightly higher, and we want to operate at that price so that we can adequately price the risk going forward.

Moderator: Thank you. The next question is from the line of Vikram Subramanian from MWAM. Please go ahead.

Vikram Subramanian: I just had a follow-up on the PCR, especially in the other book. I think earlier in the call, you had mentioned the PCR and the other portfolio. There is a new business portfolio. We will keep moving up as you build up provisions with increasing delinquencies, and then we'll come off when write-offs happen, just like what happened between last quarter and this quarter. But as per LGD, isn't there a specified level of provision that we need to maintain? Could you please share some color on what that would be for the new business overall or specifically to CSEL?

Arul Selvan: See, the new businesses have not gone through enough cycle to build LGD. We have taken the provisioning basis, you know, what is happening in the industry and worked on it to conservatively build beyond that. So, as we were saying earlier, we provide, you know, while we provide at the Stage-1 level around 1%, and then 25% in Stage-2, and when it crosses 90 days, we provide 50%, and when it crosses 180 days, we provide 100%.

Vikram Subramanian: The CSEL.

Arul Selvan: This is only in the CSEL, yes. This is an unsecured business. I think the focus of your question is more on that side. So, this we will continue until we get like 3 to 4 years of LGD experience in this business, and then we will adopt it. If we calculate LGD in the current way we are performing, actually the provisioning requirement would be much lower. So, we don't want to adopt that, and we want to conservatively build a slightly higher provisioning. And this cycle I spoke about has nothing to do with LGD. It is more like what you create as a provision, and it write down when, you know, from a perspective of availing tax benefit on the write downs that you are less confident of collecting, but that does not rule out any collections there from. We will still pursue and collect if that is a possibility.

Ravindra Kundu: And just to clarify, the new business is including three businesses, SBPL, SME, and CSEL. So, CSEL portion is only 7%, and rest of the portions are 4%.

Vikram Subramanian: That's clear. Just one other follow-up question. Stage-1 and 2 provisions, through the past couple of years, this is specific to Stage-1 and 2 provisions. Cumulatively, it has reduced from about 1.8%, 180 bps a couple of years ago to about 75 bps right now. Again, I am assuming this is just going by the ECL PD into LGD calculation, and as the cycle improves, you have been reducing that. But is there any portion or probable contingent that we can provide here? Would that be something management to look at it because it seems like quite a low number for such a high growth rate of Stage-1, 2.

Ravindra Kundu: So, Stage-1 provision, if you see that it is actually 0.44, and this is higher than the pre-COVID level. And even for Stage-2 also, the provision is 10.33% for the Stage-2 book, which is much higher than the old provision.

Arul Selvan: So, see, you should not look at it in a combined way. Because in a combined way, if you look at it, because when you are growing the Stage-1, which is a lower loss requirement book, then your overall percentage will look like it is coming down because the denominator is a larger part of the Stage-1. So, you should always look at Stage-2 separately, which is slightly riskier than Stage-1, because it has trended to go into the 30 plus. Stage-3 is where we all review. All of us know what it is.

So, don't look at Stage-1 and 2 together. If that is the way you are looking at it, that is not the right approach, because when you are growing the book at 30% plus, you will always seem to be at a percentage also it is dropping, but in absolute terms if you look at Stage-2, while the asset has remained more or less at the same level, in spite of such a growth in book. For example, in September it was at 4,000 crores. Now we are at around 4,100 crores. So, as percentage, the proportion of Stage-2 asset has also come down and thereby the total provision thereon has actually increased from 10.24 to 10.33. So, it is actually the increase in book and the provision coverage both are being commensurate to what is happening there. So, kindly don't look at it together.

Moderator: The next question is from the line of Ashwani Kumar Agarwalla from Edelweiss Mutual Fund. Please go ahead.

Ashwani K. Agarwalla: In the last quarter, the tractor industry degrew, but whereas our disbursement grew 23% quarter-on-quarter. So, can you just throw some light on that?

Ravindra Kundu: No, tractor industry is down by 5% and tractor overall volume is actually up by 5%. That is because we are not only doing tractor new, we are also doing tractor used.

Ashwani K. Agarwalla: And in the last quarter, the liquidity became negative for the first time in many quarters and this quarter itself is likely to be negative. So, do we see an increase in cost of funds more in this quarter as compared to last quarter? And 4th Quarter is typically a tight liquidity situation.

Arul Selvan: See, this time we have seen some increase in cost of funds primarily because if I again recall you, let me speak about the term of loans we closed when there was an increase by banks which in our context was higher and not justified. So, we closed those loans. So, when you close such loans, you have such pre-closure expense that would also be out of loan. And as again I was saying earlier, cost of funds in our view has sort of peaked out here and until, unless something drastically different happens either by regulatory interference or any global incidences, we don't see cost of funds going up from here. We also don't subscribe any quick rate cuts, though there are talks about it, but even without factoring in rate cuts, cost of funds should hover around this level.

Ashwani K. Agarwalla: And the business loans have been flat quarter-on-quarter. Typically, Q3 is a strong quarter for business loans because of the festive season and whatever. Why were we flat on quarter-on-quarter basis?

Ravindra Kundu: This one you are talking about CSELbusiness. Do you have?

Ashwani K. Agarwalla: Yes. So, overall business loans, the business loans are Rs.6,620 crores. All the business loans put together, 6,620 crores.

Arul Selvan: You are talking about the growth in the AUM or disbursement?

Ashwani K. Agarwalla: Disbursement in the business loans.

Arul Selvan: Which line was it? You are talking about others you are talking about? I don't know which one is disbursement. Can you repeat? Which slide you are referring to?

Ashwani K. Agarwalla: No, I'm not coming with a particular slide, but I am talking about overall business loans. If you look at the business loans together.

Vellayan Subbiah: No, what are you referring to as business loans?

Arul Selvan: We have not given any such data. We have not given any such data where business loans remains...

Vellayan Subbiah: What is business loans? Is it vehicle financed? All of it is business loans in our view. I don't know.

Arul Selvan: What are you referring to as business loans?

Ashwani K. Agarwalla: Take this question offline. And secondly, what was the impact because of Tamil Nadu flood?

Arul Selvan: Tamil Nadu is a very small portfolio. We are well diversified from geography and the floods were only in Chennai. Not even in the entire Tamil Nadu.

Ravindra Kundu: Yes, Tamil Nadu flood has not impacted.

Arul Selvan: It is not impacted much. It might have impacted a few customers in Chennai, but I don't think that is significant.

Moderator: Thank you. The next question is from the line of Pranuj Shah from JP Morgan. Please go ahead.

Pranuj Shah: Just a couple of questions. The first one is on OPEX. Coming back to this quarter is alluded at 3.3. Now you did allude to that change in expansion phase and there is also IT cost coming in. So, can this continue for another few quarters also and then you normalize maybe sometime later in FY '25?

Ravindra Kundu: It is 3.1 versus 3.1 last year same period. It is not that it's gone up. What we are mentioning is that our OPEX will be at the 3% level because of the continuous improvement in efficiency as well as the expansion going up. So, it is not gone up first of all.

Arul Selvan: At YTD level, we are still lower.

Ravindra Kundu: Yes, YTD, it is lower.

Pranuj Shah: And last thing is on, like, you have had higher write-offs in the new business segment. So, the FLDG income for this has already been recognized or that would come in the upcoming quarters?

Arul Selvan: Yes, wherever we are writing off, to that extent, FLDG income would be recognized. I think this quarter we would have recognized around 6 to 7 crores as FLDG.

Pranuj Shah: Sorry, 6 to 7 crore FLDG. Is that what you mentioned?

Arul Selvan: Yes.

Arul Selvan: Sorry, it is 12 crores.

Pranuj Shah: 12 crores.

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

Nidhesh: Just on the housing finance and LAP? If you can tell, what is the average ticket size on books and incremental average ticket size on these two businesses?

Suresh Kumar: So, for the LAP business, the portfolio average ticket size is about 50 lakhs.

Prashanth Kumar: For Home Loan business, the ticket size is Rs.13,20,000 and the tenure is around 14 years tenure.

Suresh Kumar: . Both LAP as well as the HL, the LTV is about 50%

Nidhesh: Just a follow-up on home loan. On that the yield of 16.7% looks very high because the listed peers in the housing finance segment, on the pure housing the yields are more like 12-13% on the affordable housing finance side. So, does this portfolio also contain a LAP book or it is just pure housing book?

Ravindra Kundu: No, it is pure home loan only and self-construction housing loan. As we expanded into newer geography, we have expanded the disbursement for other than south. Like you mentioned that last 1.5 years we have been expanding non-south. So, non-south businesses actually started growing and as the south and all non-south will start actually doing the similar growth, then obviously the number will not be going further. So, this particular yield is actually because of two. One, the expansion and second is the reset of the pricing and after that, it will not be going up.

Moderator: Thank you so much. As that was the last question of the day, I now hand the conference to Mr. Nischint for closing comments.

Nischint Chawathe: Thank you for joining the call today. We thank the management for giving us an opportunity to host the call.

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